

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 firm leaders communicate public stances on overtly political issues unrelated to their core business, is a nascent and emerging, and thus understudied, phenomenon. We first propose a parsimonious formal model of stakeholder responses to firm political communication, and then test the 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, and saying nothing. Experimentally, we manipulate communication of political stances with respect to the November 2020 US presidential election in one study, and with respect to the January 6th storming of the US Capitol in the second. Theoretically and empirically, we find that, when stakeholder opinion on an issue is highly asymmetric, the firm can benefit from taking the position in line with the majority. However, when stakeholder opinion is divided on a political issue, communicating a stance elicits a negative average response amongst stakeholders. Our model and empirics shed light on a number of contingencies under which it can be more or less beneficial for firms to communicate stances on political issues. This includes contingencies under which firms can benefit from communicating a stance which is incongruent with expectations - an interesting finding given the more commonly identified incongruent penalty in other contexts. We discuss individual-level heterogeneous effects discovered in our experimental data, and conclude with additional strategic considerations. This paper sheds light on the circumstances under which, and mechanisms through which, it is more or less beneficial for firm leaders to talk politics in business.

1 Introduction

CEO social-political activism, wherein firm leaders communicate public stances on social and political issues unrelated to their core business, has increased in recent years (Chatterji and Toffel, 2016; 2017; 2019). Yet we know relatively little about the strategic implications of this practice. Scholars have only recently begun to consider why firms take stances on such issues (Hambrick and Wowak, 2021) and how they respond to other firms' positioning on such issues (Mohliver et al., 2021). 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) and Bhagwat et al. (2020)).¹ More work is clearly needed, then, to consider the conditions under which such stances can be beneficial to the firm. Furthermore, the issues examined in extant empirical work to date have been social or environmental and, while such stances could be interpreted as potentially indicative of a CEO's or company's partisan leanings, they have not been overtly political in nature.

In the past few years, CEO's have begun to communicate public stances on overtly political issues unrelated to their core business. That is, to engage in what could be considered to be a type of CEO activism: CEO political activism. This includes CEO's public endorsement of US political candidates, such as the CEO of Expensify's dissemination of a company-wide email which endorsed Joe Biden in October 2020, and the CEO of MyPillow tweeting in January 2021 that the US presidential election was rigged, and that Donald Trump won. At the same time, some firm leaders, either independently or when prodded by media, have made public statements indicating that they will not take a stance (in either ideological direction) on a given political issue. For example, Coinbase's CEO sent a letter to employees communicating an apolitical stance. He wrote, "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 Extant work examining the effects of CEO activism more broadly has not considered the strategic implications of CEO's or companies actively communicating that the company will not take a stance on a given

¹Chatterji and Toffel (2019) and Dodd and Supa (2014) show 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' stated 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 downside to communicating such stances.

²<https://blog.coinbase.com/coinbase-is-a-mission-focused-company-af882df8804>

issue, which is distinct from passively staying silent about the issue.

In this paper we seek to answer the question "When should firm (leader)s 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 firms' stakeholders respond to such communications; indeed, it is well-established that to understand the strategic implications of firm 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 fairly general theoretical framework to analyze the effects of a firm's communication of a stance on a political issue on stakeholder perceptions in response to the firm. Second, we test the main predictions resulting from the model with a series of survey-based experiments. Because we find empirical support for the main tenets outlined in our formal model, we next discuss extensions and additional strategic implications of the model.

In our model, firms are heterogeneous in their ex-ante expected position on a given, divisive political issue, and stakeholders are split, possibly unequally, between the two camps of opinion on the issue. We stress a subtle but important difference between firms having a certain political position on an issue and communicating a certain political position on an issue. Firms decide whether to stay silent or to speak out. If a firm speaks out, it can decide whether to do so by communicating an explicitly apolitical stance, a partisan and congruent one (that is, one that is directionally aligned with the expected stance) or a partisan and an incongruent one (one that is directionally misaligned with the expected stance - for example, communication of a democrat-leaning stance from a firm expected to be conservative). If a firm stays silent, stakeholders simply assume a firm's prior or expected position has not changed. In particular, if the expected position is partisan, silence (but not communication of an apolitical stance) by the firm is interpreted as the firm holding the same stance as that which was expected.

What do firms stand to gain or lose from communicating a political stance? We model two separate, complementary mechanisms that are supported by existing 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 the firm's expected stance are perceived as insincere or not credible (the "expectations distance effect"). Thus, communication of the exact same stance can elicit different stakeholder responses depending on the firm communicating it.

The values distance effect in our model is consistent with work which has shown that stakeholders have a preference for perceptions of values congruence - compatibility between values and norms (Chatman, 1989) - with a firm more broadly. Amongst employees, for example, perceptions of value congruence with the 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 values 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)) for example. Likewise, social-political and political values congruence with managers and firms more specifically has been shown to influence employee behavior and outcomes (Bermiss and R., 2018; Burbano, 2021a; Carnahan and Greenwood, 2018) and to matter to investors (Mohliver and Hawn, 2019).

The expectations distance effect is consistent with extant work which has shown that congruence or consistency in claims and firm attributes is generally viewed positively, while incongruence or inconsistency in claims and attributes is generally 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 gender of leadership has been shown to result in more (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 the incentive to make claims which are untrue signals of a company's true values. (Cuypers et al., 2016; Delmas and Burbano, 2011; Farrell and Rabin, 1996) or which are decoupled from actuality (Crilly et al., 2012; 2016). Thus, stakeholders are likely to consider consistency with the firm's expected political stance in assessing the sincerity of the firm's current stance.

We model both of these mechanisms - the values distance effect and expectations distance effect - as quadratic loss functions in a Hotelling-type framework. The convexity of these loss functions, while fairly standard, is furthermore consistent with nascent empirical behavioral research on the topic. Indeed, stakeholders appear to pay more (negative) attention to firms whose stances they dislike, than positive attention to firms whose causes they like (Burbano, 2021a; Hou and Poliquin, 2021; Jungblut and Johnen, 2021). Likewise, individuals have been shown to pay greater attention to and react

more strongly to information that is surprising and unexpected, than unsurprising and expected (Brockner et al., 1990; Skowronski and Carlston, 1989; Wong and Weiner, 1981).

Our model generates the following main predictions. We start from the case in which stakeholders are equally split on the issue. Since individuals' social-political attitudes are becoming more polarized (Iyengar and Westwood, 2015; Mouw and Sobel, 2001; DiMaggio and Bryson, 1996), this scenario is becoming increasingly prevalent. Under this assumption, partisan political communication, on average, hurts average stakeholder perceptions of a firm. Theoretically, this results from the fact that partisan communication pleases one camp while displeasing another; and the latter negative effect is stronger. Moreover, we predict that, when a firm communicates an ideological stance on a political issue, stakeholder reactions to a stance that is congruent with the expected stance of the firm are more positive than reactions to a political stance that is incongruent with the expected stance of the firm. If a firm chooses not to communicate an ideological stance, the effects of staying silent on the issue versus communicating an apolitical stance regarding the issue depend on the firm's expected positioning. If firms are expected to lean to the left (right) on an issue, Republicans (Democrats) prefer explicitly apolitical stances to silence, and the opposite for Democrats (Republicans). Which of these two effects is stronger in aggregate thus depends on the firm's expected positioning.

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. This provides a first – if obvious, and somewhat uncommon due to partisan divides on issues – instance in which political communication by firm (leader)s is optimal.

Is political communication optimal only when it endorses causes of widespread popularity? Not necessarily. To see this, we argue that examination of average stakeholder perceptions in response to a firm communicating a stance tells a partial story of the effects, and that it is important to consider the whole distribution of resulting stakeholder perceptions as well. To illustrate this, consider two firms, one mildly liked by everyone, and one (due to its extreme political positioning) loved by some and hated by others. It could easily be the case that the average stakeholder perception of the former is more positive, but that perceptions among a subset of stakeholders are even more positive for the latter – and that these extreme positive perceptions are more likely to translate into the stakeholder behavior that the firm seeks to encourage (e.g., consumer demand, prospective employee interest, etc.). In line with this, we examine

effects of a polarization of perceptions about the firm, which results in firms communicating political stances obtaining higher shares of very high stakeholder perceptions. Thus, even in scenarios in which stakeholders are evenly split on an issue (opinion is symmetric), firms can benefit from communication of an ideological political stance if they are trying to appeal to one camp of stakeholders (even when this implies being strongly disliked by the other).

In Section 6.2, we also present a more complex model extension in which stakeholders vary not only in their political opinions but also hold different valuations of the firm based on all non-political-stance factors which influence their perceptions of a firm. Moreover, stakeholder views of firm's political opinions and their non-political-valuations of firms are often positively correlated. Interestingly, in this case, our model predicts that it can be optimal for dominant firms (those which enjoy high non-political stakeholder valuations) to communicate a stance which is incongruent with that which is expected by the stakeholder. This enables the firm to align politically with the camp that would otherwise value them *less*, while not giving up their existing stakeholder base. Given extant work which has highlighted the general benefits of congruence and costs of incongruence in firm claims and characteristics, it is notable that there is a scenario in which communicating an incongruent stance can be beneficial for firms. The recent Goya endorsement of Donald Trump in 2020 was an example of this; given Goya's strongly dominant position amongst hispanic and black consumers, its political communication (which was on average liked by white, and disliked by hispanic and black, consumers) succeeded in increasing consumer demand amongst white consumers without eroding demand amongst its hispanic and black consumers (Liaukonyte et al. (2022)).

For related concurrent theoretical work, see Melloni et al. (2019). They model CEO communication as a game of cheap talk with multiple audiences (Crawford and Sobel (1982); Farrell and Gibbons (1989)). Like us, they recognize a trade-off between the strategic use of communication and the potential lack of credibility of such stances. Despite these important similarities, the two models differ in a variety of crucial dimensions which, in turn, lead to different predictions and strategic implications for firms. In Melloni et al. (2019), CEOs are homogeneous in terms of expected positioning, whereas in our model such expected positioning is an important determinant of the firm's optimal communication strategy. Moreover, because of the heterogeneity of expected political positioning that we introduce in our model, we treat firm (leader)'s choice between remaining silent and expressing an explicitly apolitical stance as distinct strategies, whereas the two are not differentiated in the Melloni et al. (2019) model formulation. Our experimental studies suggest that stakeholders indeed respond

differently to these two strategies, in line with our theorizing. Furthermore, they model firms as homogenous in terms of stakeholders' opinions about a firm's non-political characteristics and attributes, and thus, there is no link between non-political quality perceptions and political communication. On the contrary, we stress the link between a firm's existing strategic position (whether or not it dominates in terms of stakeholder opinions about its non-political characteristics) and the optimality of expressing different political stances. Lastly, [Melloni et al. \(2019\)](#) conclude based on their formal model that political communication is always a niche strategy: the CEO chooses to please one camp of consumers while displeasing the other, instead of trying to please everyone. In contrast, our model elucidates that, in some instances (e.g., when a firm holds a dominant position in a given stakeholder market), taking an ideological stance can be interpreted as part of a broad strategy of trying to capture value from all (or a wide range of) of stakeholders); a political stance can be aimed at obtaining new stakeholders (without losing existing ones who may oppose the stance). As such, ideological political communication can potentially be optimal for dominant brands. This is in contrast to [Hydock et al. \(2020\)](#), who argue that the boycott-buycott asymmetry is more beneficial to less-dominant brands (which have more to gain and less to lose from communication than dominant brands). Given that, in practice, very dominant brands — such as Goya, Nike and Microsoft, for instance — have communicated clear ideological stances on political issues in recent years, it is important to consider this theoretically.³

Importantly, we not only generate predictions about the circumstances under which stakeholders are more likely to respond positively to firm (leader)s communication about political issues, we also test these predictions empirically. To do this, we implemented two pre-registered, randomized experiments on Prolific in which we examine individual-level responses to (hypothetical) firm leaders' communication of political stances.⁴ The experiments took place during two time periods in which company CEO's were actively communicating stances on political issues: November 2020 (Study 1 – right before the US presidential election) and January 2021 (Study 2 – soon 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 thus allows us to examine responses

³The differences between the two models go further. We highlight more of them as we present our results in Section ??.

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).

to a political issue about which opinion was evenly divided in Study 1 (since opinion was split along partisan lines, with Democrats supporting Biden and Republicans supporting Trump), and about which public opinion was asymmetric and not evenly divided in Study 2 (since practically all Democrats, most Independents and half of the Republicans denounced the storming of the Capitol building). Thus, examination of these two cases enables us to test our model's distinct predictions under cases of symmetric vs. asymmetric stakeholder opinions on an issue.

In Study 1, we manipulated both 1) the political stance communicated regarding the presidential election and 2) the type and location of the described company (to vary firm characteristics likely to inform individuals' expectations about the stance of the company). Regarding political stance, we varied whether the hypothetical CEO communicated a pro-Biden stance, a pro-Trump stance, an explicitly apolitical stance (such as Coinbase's at the time), or a "silence" control (no mention of a political stance). To vary expected stance of the company, we manipulated company type and location; specifically, whether the company was described as a tech company headquartered in California (more likely to be expected to be Democrat-leaning), an oil company headquartered in Alaska (more likely to be expected to be Republican-leaning), or a food and beverage company headquartered in Pennsylvania (more likely to be expected to be politically neutral).

In Study 2, we manipulated communication of stances with respect to the January 6th storming of the US Capitol. We varied whether the CEO denounced members of Congress who voted against certifying the results of the 2020 presidential election, did not denounce them, communicated an apolitical stance on the issue, or a silence control (no mention of the political issue). The company type/location manipulation used as a proxy for expected political leaning was the same as that of Study 1.

The results of Study 1 (the case of symmetric stakeholder opinion on an issue) reflect that, in line with our theoretical predictions, companies are on average perceived more negatively when they communicate a stance in favor of either partisan political candidate than when they say nothing. Also, as predicted, there was significant heterogeneity in responses to political statements based on the political affiliation of the individual, with individuals who share (oppose) the party affiliation of the communicated stance viewing the company more positively (negatively).

We document that taking an apolitical stance - that is, actively communicating that the firm will not take a political stance on an issue - is on average perceived more positively than communicating a political stance in either direction (though on average not different from the control). Apolitical stances in particular are favored by Republicans and Independents, while Democrats dislike them compared to a control.

This lines up well with the model's hypotheses, if we believe the companies are on average expected to lean to the left. That is, when stakeholders find out companies are actually apolitical, they discover these companies to be more right-wing than expected. This is appreciated by Republicans and disliked by Democrats.

In Study 2, the average effects differed, given that the breakdown of opinions on the issue of certification of the results of the 2020 presidential was unevenly balanced and not simply split by party affiliation. Subjects were recruited to be evenly split by party affiliation, and the majority of respondents reported that they had confidence in the election results. Specifically, we observed a positive average response to companies denouncing members of Congress who voted against certifying the results of the 2020 presidential election and a negative average response to companies not denouncing those members of Congress, compared to those who remained silent. This confirms our model predictions in cases of asymmetric stakeholder opinion; that is beneficial for companies to take political stances that are broadly popular amongst their stakeholders.

We also show in both studies that firms that make political statements experience an increase in the variance of stakeholder perceptions. In line with our model's prediction, firms increase the shares of very high stakeholder perceptions ("enthusiastic" stakeholders) after taking extreme political stances.

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. 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 whether and when communication on political issues can be optimal for firms. We find that it depends on stakeholders opinions regarding the issue of focus (e.g., whether opinion about the issue is symmetric vs. asymmetric), as well as on characteristics of the firm. This includes any firm characteristics which influence stakeholder expectations about a firm's political stance, as well as the extent to which the firm is in a dominant position. It thus contributes to the nascent literature on the strategic implications of CEO activism ([Burbano, 2021a](#); [Chatterji and Toffel, 2016; 2019](#); [Dodd and Supa, 2014](#); [Panagopoulos et al., 2020](#)), and to a small set of concurrent working papers applying formal modeling to elucidate how firms are likely to respond to other firms' polarizing CSR activities ([Mohliver et al., 2021](#)) and when they are likely to generate consumer demand ([Melloni et al., 2019](#)), by theorizing and providing empirical evidence of conditions under which firms can benefit from engaging in a related but distinct type of activism: CEO political activism.

2 Model

We start by proposing a stylized model of political communication. We focus on the case of one issue, and we let positioning on the issue range between 0 (strongly against) and 1 (strongly in favor). We denote the firm's expected positioning by $\mu \in [0, 1]$. μ is determined by the set of the firm's characteristics which 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.⁵

There is a continuum set of stakeholders, \mathcal{J} . We denote each stakeholder's position on the issue by $\mu_j \in [0, 1]$. For simplicity, for most of our analysis 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, 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.

The firm chooses an action, $a \in [0, 1]$, with respect to its communication (or lack thereof) regarding the political issue. While we let a vary continuously, it is useful to consider four salient potential choices for it:

- **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 positioning⁶.
- **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 unaligned 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.

⁵In Melloni et al. (2019), every CEO has the same ex-ante probability of being a democrat and a republican. As such, *i*) staying silent or expressing an explicitly apolitical stance are equivalent (unlike in our formulation, as we will see in what follows), and *ii*) their model can 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?

⁶We break the tie at 1/2 by assuming the firm would pick 0. This is inconsequential since in this case congruence and incongruence are equivalent.

- **Silence:** $a_{sil} = \mu$. The firm does not say anything about the issue, and thus stakeholders 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 liked when the stated position, a , is aligned with stakeholder’s prior expectations about the firm. This is consistent with existing work which highlights 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 and Gray, 2009).

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 two mechanisms through which a firm’s choice with respect to taking a stance influences stakeholder perceptions, plus a preference for higher quality, we have that for a stakeholder of political ideology $\mu_j \in \{0, 1\}$, her perception of a firm 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 will refer to as the “values difference”), as well as 2) the distance between the firm’s chosen positioning and its expected one (which we will 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 firms’ communications is always assumed). When $r \approx 0$, stakeholders simply reward firms that maintain positions in line with their prior/ expected ones, 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, $r \geq 1/2$). We test this empirically in Section 5.

The convexity of the loss functions – and thus concavity of $V^\mu(\cdot, \mu_j)$ – is an important feature of the model, and, while fairly standard, requires some explanation in this context. First, we believe that convexity of the “values difference” is in line with nascent empirical behavioral research on the topic: stakeholders appear to pay more (negative) attention to firms endorsing causes they hate, than positive attention to firms endorsing causes they love (Burbano, 2021a; Jungblut and Johnen, 2021). Likewise, for the convexity of the “expectations difference” to hold, we simply posit that more surprising positions receive disproportionately more attention. This assumption is consistent with existing work which has shown that individuals allocate greater attentional resources and react more strongly to information that is surprising and unexpected, than unsurprising and expected (Brockner et al., 1990; Skowronski and Carlston, 1989; Wong and Weiner, 1981). We also test and find support for the validity of these assumptions in our experimental data (see Section 5).

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. This is especially true since, for parsimony, we do not model that stakeholders have an innate preference for communication on political issues by firms. That is, in our model, silence on an issue is not *a priori* disliked by (any) stakeholders. For this reason, silence has no costs *per se*. In an Extension (Section 6), we discuss how our predictions might be altered if (some sets of) stakeholders do indeed have a preference for communication and a dislike for silence, and explore in our experimental data whether this appears to be the case for some groups of stakeholders (e.g., individuals in Gen-Z).

Define by $V^\mu(a)$ the average perception of a firm of prior position μ , taking action a . Aggregating across all stakeholders, we have that

$$V^\mu(a) = \int_0^1 V^\mu(a, \mu_j) d\mu_j,$$

which, under the assumptions that stakeholders are split between a $\mu_j = 0$ camp (in proportion p) and a $\mu_j = 1$ camp (in proportion $1 - p$), simplifies to

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

Thus,

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

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 $V^\mu(a, 1)$:

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

It is immediate to 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 out.

While we will mostly focus on characterizing properties of $V^\mu(a)$ as a function of both a and μ for the remainder of Section 2, we will get back to the costs and benefits of polarizing stakeholders' opinions about the firm later in this Section (as well as in an extension of the baseline model, introduced in 6), in which we discuss whether, and when, it can be optimal for firms to express ideological positions, including ones incongruent with expectations, as a function of the distribution of stakeholder opinions on an issue.

2.1 Preliminaries

While most of our analysis revolves around the comparison between the four salient strategies highlighted above (congruent, incongruent, apolitical, silent), we briefly start by introducing the normative optimum. This will provide us with a useful benchmark. How should firms choose a stance that maximizes stakeholders' average perception, $V^\mu(a)$? We have the following:

Lemma 1 (Average-Perception-Maximizing Political Positioning). *The stakeholder-perception-maximizing action a^* is a weighted average of the expected positioning μ and the*

average stakeholder position, $1 - p$:

$$a^* = (1 - r)\mu + r(1 - p).$$

The formal proof for this and all other model results can be found in the Appendix.

This result suggests that the firm should be responsive to its stakeholders' position on the issue, but only up to a point. The weights are given by the relative importance of the “values” and “expectations” differences. Note that, no matter the weights, a^* lies between 0 and 1, because both $1 - p$ and μ do. Moreover, $a^* > \mu$ if and only if $1 - p > \mu$: the firm will move its positioning to the right only if its prior positioning was, on average, to the left of that of the average (median) firm stakeholder.

It follows that silence is optimal ($a^* = \mu$) only when $\mu = 1 - p$ or $r = 0$. The former corresponds to the firm being perfectly aligned with the average stakeholder; the latter to the case in which stakeholders only value honesty from the firm (the expectations difference) and not their ideological distance from its position (the values difference), making it optimal for the firm to simply stay silent ($a = \mu$).

Although μ is not a choice variable in our model, it is interesting to examine which firms are ideally positioned in terms of μ (stakeholder's expectations about the firm's positioning), given optimal choice a^* . We have the following.

Lemma 2. *Given optimal choice a^* and quality Q , firms whose expected positioning align with the positioning of the mean stakeholder enjoy the highest average stakeholder perceptions :*

$$\mu^* := \operatorname{argmax}_{\mu \in [0,1]} V^\mu(a^*) = 1 - p.$$

Moreover, given r , $V^{1-p}(a^*)$ reaches its maximum for $p = 0$ or $p = 1$, and given p , it reaches its maximum at $r = 0$.

Lemma 2 formalizes the notion that the “luckiest” firms are those whose expected/prior positioning, μ , coincides with that of the average stakeholder, $1 - p$. Moreover, given this fact, stakeholder perception of these firms is maximized whenever either all stakeholders are of one opinion ($p = 0$ or $p = 1$), or stakeholders purely value honesty ($r = 0$).

2.2 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 the issue. Symmetric issues are of particular interest in that they are “zero-sum” in nature, as

pleasing a 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 $p = \frac{1}{2}$ and $r \geq 1/2$. Then, we have that when stakeholder opinion about the issue is symmetrically distributed for and against the issue,*

- **1.A:** *Average perception of the firm when taking a political stance is always lower than in the case of either silence or communicating an apolitical stance.*
- **1.B:** *The average perception of the firm associated with the political stance which is congruent with stakeholders' expectations about the firm's political stance is always higher than that of a political stance which is incongruent with expectations.*

Formally, we have:

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

and

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

These are central results, and we find strong empirical support for these predictions in Study 1. The result comes 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 the firm 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, thus performing worse overall when stakeholder opinions about an issue are symmetric.

Why do we need the $r \geq 1/2$ condition for the above? When r is very small, the “expectations difference” becomes more important than the “values difference”. If this is the case, firms have an obvious dominant strategy: staying silent. Thus, firms whose μ is close to 1 are better off taking the extreme stance ($a = 1$) than the explicitly apolitical one ($a = 1/2$), since the latter is considered much less credible. That is, $V^\mu(\mu) > V^\mu(1) > V^\mu(1/2)$.⁷

⁷One can show – as we do in the Proof in Appendix A – that the condition $r \geq 1/2$ is in fact not needed whenever $\mu \leq 3/4$. That is, if firms' expected positioning is not too partisan, then both congruent and incongruent stances are strictly dominated by either silence or apolitical stances, irrespectively of $r \in [0, 1]$.

This is an interesting finding in itself, since it is suggestive of the fact that, in environments in which the “values difference” becomes more salient than the “expectations difference”, we might observe increased variance in firm’s positioning: the centrist ones stay centrist, whereas the partisan ones do not, and potentially become more partisan if other incentives for communication (e.g., the presence of Gen-Z consumers, who might have a strong distaste for silence - as we uncover in our experimental data) are present.

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 (Section 5), suggesting that the required assumptions were met. This could be due to the fact that consumers care more about the “expectations difference” than the “values difference” (which we believe to be plausible), that no firm is perceived to be *ex-ante* very partisan, or both. The fact that no firm is perceived to be very partisan is in line with the fact that we don’t explicitly prime the firm’s priors (that is, while our subjects believe that an oil company in Alaska is more likely to be Republican than a tech firm in California, these beliefs are not extreme), to avoid experimenter demand effects. We discuss this in greater detail in Section 5.

2.3 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 large enough.*

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

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

This result guarantees that, however strong the 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 is best off doing 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.

Next, we consider the effect of communication on perceptions amongst the two camps of stakeholders as a function of the expected positioning of the firm. We state this hypothesis in the case of $\mu \rightarrow 1$; of course, the case of $\mu \rightarrow 0$ can be stated similarly.

Hypothesis 2. *If a firm is expected to lean to the left on an issue, Republicans prefer explicitly apolitical stances to silence, and Democrats prefer silence to explicitly apolitical stances.*

Formally, when $\mu \rightarrow 1$, we have

$$V^\mu(1/2, 1) - V^\mu(\mu, 1) < 0 < V^\mu(1/2, 0) - V^\mu(\mu, 0),$$

2.4 The Effect on the Distribution of Stakeholder Perceptions about the Firm

So far, we have highlighted that average stakeholder perceptions of a firm are improved by partisan communication if it 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,

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

and, for k large enough,

$$\operatorname{argmax}_a \left(\operatorname{Prob}_{\mu_j} \left(V^\mu(a, \mu_j) \geq k \right) \right) \subseteq \{0, 1\}$$

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 likely a much more telling indicator of stakeholders behaving in a firm-benefiting manner. In other words, it might be optimal to both sacrifice average perception and increase the left tail of perception (thus losing at least some stakeholders) to maximize the right tail of perception, given that, in competitive markets, the right tail of perception is likely a good proxy for the stakeholder behavior that firms want to foster (product demand from consumers, interest in working at a firm for employees, investment in a firm for investors, etc).

To sum up, the model presents two separate, orthogonal conditions under which communicating a 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 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 (and, in fact, potentially minimizes) average perception, firms might find it optimal to communicate strong political positions in the hope to attract at least a camp of "enthusiastic" stakeholders, even if this implies becoming more disliked by the opposite camp. In Section 6.2, we discuss a slightly more complicated model in which firms are horizontally differentiated (on top of being, potentially, politically differentiated), and highlight additional circumstances under which firms can benefit from communication which is incongruent with expectations.

3 Experimental Design

We test our model's main predictions using two experiments. 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).⁸ 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.

Only U.S.-based participants were eligible to complete the survey, and using Prolific's screening option by political affiliation of participants, we targeted 1/3 Democrats, 1/3 Republicans, 1/3 Independents (based on Prolific's political affiliation

⁸They were recruited to answer a 20-minute survey, implemented on an external survey site.

information on participants) for each study. This equally split distribution of political ideology across participants enabled 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 2.⁹ 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), practically all Democrats and a vast majority of Independents denounced the action, while Republicans were evenly split on whether to support or denounce the action.¹⁰

3.1 Study 1: Effects of Communicating a Stance Re: 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 expected political leaning of the firm (without using a heavy-handed statement about expected political leaning in the vignette which could lead to 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, 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 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 Food & Beverage relatively evenly split.¹¹ According to election forecasts at the time, California was a solid Democrat

⁹This 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](#)

¹⁰A [YouGov](#) poll taken immediately after the attack found that among voters who heard about the attack 21% supported it, while 71% opposed it. For Democrats these numbers were 2% support and 96% oppose, for Independents 21% and 67%, while Republicans were evenly split at 45% and 43%.

¹¹[Opensecrets.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](#).

state, Alaska a solid Republican state, and Pennsylvania a battleground state.¹²

Participants were asked to indicate their opinion about the company after this description to gauge baseline reactions to the company type and location. They then were given information about a communication from the CEO of the company, which varied by political stance condition. 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.¹³ 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 and demographic questions.

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

Study 2 followed the design of Study 1. 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 headquartered in California, an Oil & Gas company headquartered in Alaska, or a Food & Beverage company headquartered in Pennsylvania). They then were given information about a communication from the CEO of the company, which varied by political stance condition. 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 randomly assigned. After each description, participants were asked to indicate their opinions about the company. At

¹²According to election forecast website 538, Alaska was a solid pro-Trump state (85% likelihood of winning the state), California a solid pro-Biden state (99% likelihood of winning the state) and Pennsylvania was 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%), Trump a clear victory in Alaska (10%), while in Pennsylvania there was a 1.17% margin.

¹³The pro-Biden, pro-Trump, and apolitical stance wording was constructed using real-world stance communications as a guide.

the end of the survey, participants were asked a series of opinion and demographic questions.

In contrast to the Study 2 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. 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.” Likewise, 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 U.S. capital”; and the Control condition made no mention of a political stance. Figure 2 shows the exact wording, by condition.

4 Samples and Measures

1205 and 1801 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 4 present 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 (since 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 U.S.¹⁴ 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 4 across conditions for each of the experiments and report in bold those that are significantly different (at 5%) from a control. Our results are robust to including as covariates in our regression specifications any observable variables that were statistically different across conditions (none in Study 1; political affiliation in Study 2).

4.1 Measures

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

4.1.2 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*.

¹⁴According to Gallup, the breakdown in the US is 49 percent Democrat or Democrat leaning, and 40 percent Republican or Republican-leaning.<https://news.gallup.com/poll/343976/quarterly-gap-party-affiliation-largest-2012.aspx>Gallup

4.1.3 Moderating variables

To examine how effects vary by individuals' ideological leaning and opinion on the issue, we use responses to the question "What political party do you identify with?", administered with a series of demographi 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. We use respondents' self-reported political affiliation.¹⁵ In Study 2, we additionally asked subjects, "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" or "Quite a bit", and 0 otherwise. The variable *NoConfidence* is a binary indicator takes the value 1 if subjects responded, "Only a little", "Not sure", or "None at all", and 0 otherwise.

In addition to examining how effects vary by political leaning of the individual, we also considered how effects vary by age cohort in exploratory analyses in Section 6.3. In particular, we examined whether companies' statements had a differential effect on a younger generation, specifically Generation Z ("Gen Z"). Much anecdotal evidence describes Gen Z (usually defined as people born from 1997 onwards¹⁶) as an activist generation on political and social issues. Recent increases in activism on university campuses and in the workplace have been associated with this cohort. Gen Z has entered the workforce in recent years, and current college graduates are now overwhelmingly members of this generation. Thus, responses of the Gen Z cohort are particularly relevant for companies looking to recruit or sell to college graduates. Furthermore, a differential impact of CEO political statements on younger, versus older, generations would have implications for how reactions to CEO activism are likely to change as the demographics of the workforce shift. *GenZ* is a binary variable equal to 1 if respondents reported that they were born on or after 1997, and 0 otherwise.

5 Results

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. We report between-subject comparisons in all analyses. While our experimental design allows for within-subject comparisons, such comparisons are more likely to be subject to demand characteristics, due to participants

¹⁵As opposed to the political affiliation recorded by Prolific, since it is possible that individuals' political affiliation may have shifted since Prolific gathered that information, as was mentioned earlier

¹⁶[Pew Research Center](#)

being able to guess the general hypotheses being tested. Between-subjects designs avoid this issue (Rubin and Badea, 2010). Our results are robust, and generally stronger, when using within-subject comparisons. All regression tables reflect OLS regressions with robust standard errors.

Table 2, in columns 1 and 2, illustrates results for Study 1 for the whole sample, with and without inclusion of political affiliation in the regressions. Both *Biden* and *Trump* have negative and statistically significant coefficients, illustrating a negative baseline effect for companies communicating a political stance in either ideological direction. This confirms our Hypothesis 1 from the model.

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. These findings suggest that it is beneficial for a company to communicate a stance when its stakeholders are ideologically aligned with that stance; however, if its stakeholders are not ideologically aligned with the stance, there is a stronger negative reaction from those who ideologically oppose the stance. This finding is consistent with our model; the negative effect coming from opponents outweighs the positive effect coming from supporters.

Table 3 reports the results of the effect of a company expressing a political stance about the events at the US Capitol on individuals' overall opinion about the company (Study 2). Column 1 shows that denouncing the members of Congress who would not certify the election results had a positive effect on perceptions of the company on average, while openly not denouncing them had a negative effect. In this instance, taking one political stance (i.e., denounce) which is in line with the stance held by the vast majority of the sample was more beneficial to companies than taking an apolitical stance.

In line with our Corollary 1, Table 3 average effects differ from those of those of Table 2 in the direction we would expect given the distribution of opinions with respect to the political issue of focus. In fact, the "Denounce" stance was the more popular one: 63.1% 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 was not split in opinion on this issue in the same way that it was regarding the issue in Study 1. Column 2 shows 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. When we include *Confidence* and *NoConfidence* and their interactions in the regression specification, the main effect of denounce disappears. For

this issue, communicating an apolitical stance was no different from a control group which saw no mention of the issue at all.

In order to evaluate Hypothesis 2, we can compare the coefficients of *Apolitical* with those of a silence *Control*. We find that taking an apolitical stance has a directionally positive effect, though it is not statistically different from the control, on average (Column 1). In particular, we see a positive coefficient of *Apolitical* among Republicans and Independents, but a negative, and statistically significant, coefficient among Democrats. This is consistent with our model, if we believe subjects expected firms to lean to the left, and thus finding out they were apolitical was positively received by Republicans and Independents, but negatively received by Democrats.

We are also able to explore Hypothesis 3 by looking at the summary statistics before and after our treatments. Table 4 displays the means and the standard deviations for the *Pos Opinion* variable divided by treatment assignments for both Study 1 (Panel A) and Study 2 (Panel B). Additionally, it shows the percentage of stakeholders (that we can define “enthusiastic” stakeholders) who reported maximum appreciation for the company (7/7 on a Likert scale). The top three rows in each panel display these values before the treatment, while the bottom three rows display the same values after the treatments. Each column reports values for one of the treatments. The first column displays the mean, standard deviation, and percentage of enthusiastic stakeholders for subjects exposed to the pro-Biden political statements, before and after the treatment. The other columns follow the same structure.

Table 4 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). Additionally, these firms increase the shares 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.

Panel B reports consistent results for Study 2. Taking a political stance for “Denounce” leads to a slight increase in the firm’s average perception, while a “Not Denounce” stance leads to a marked decrease. In both cases variance increases, and shares of very high stakeholder perceptions also increase both after taking Denounce (from 7.2% to 13%) and even Not Denounce (from 5.2% to 6.9%) stances.

6 Extensions: Strategic Considerations

Given that our experimental results provide empirical evidence in support of our model's main predictions, we now discuss potential extensions of, and implications of, our model.

6.1 Political and Non-Political Fit

An important underlying assumption in our theoretical analysis in Section 2 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.

This would have important implications for firms' political communication strategies. To consider these implications 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 valuations for the firm – even absent political expression – which we denote by Q_0 and Q_1 .

The empirically realistic case of 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 firms more highly ($Q_1 > Q_0$) are the same as those who are more closely aligned with it ($\mu > 1/2$ implies $|\mu - 1| < |\mu - 0|$).

In this setting, how should the firm use its political communication to complement its non-political positioning on the market? In particular, can political communication aid the firm's average 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 for both of the last two scenarios. For instance, a firm's which is 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 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 com-

munication 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.

First notice that the introduction of asymmetric Q 's does not influence any of our results regarding perception: the levels of Q simply shift perceptions for the two camps of stakeholders up or down, but do not affect optimal strategies.

Our conclusions change considerably when thinking about demand: in this case, the firm can choose whether to further polarize perceptions (by appealing even more to camp 1 while further displeasing camp 0) or, on the contrary, to use political communication to try and appeal to camp 0 (while not giving up camp 1).

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 4 (Incongruent Political Stance to Attract New Stakeholders). *Incongruent political communication can maximize desired stakeholder behavior (e.g., consumer demand) whenever it helps high quality firms align with the stakeholder camp with the lower valuation for it.*

Formally, let $\mu > 1/2$. If Q_1 is high enough and Q_0 not too low, then the firm is best off choosing $a = 0$. This is true independently on p .

Given our broad interpretation of stakeholders of relevance to the firm, we include more than just consumers in the set of stakeholders to which our models' predictions apply. So, though we use the term (consumer) demand, this can be thought of as desired stakeholder behavior towards the firm more broadly. In Appendix ?? we formalize the notion of demand in a little greater detail, and offer some additional comments to the proof of this result.

In contemporary research, [Liukonyte et al. \(2022\)](#) quantify the demand consequences of Goya's endorsement of Donald Trump in 2020. Such endorsement constitutes a stance likely incongruent with expectations, since 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), and relatively weaker with 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 boycott effect in heavily Democratic counties. In particular, and again highlighting the incon-

gruence 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.

Equally strikingly, they show how this demand boost occurred *despite* the fact that boycott-related social media posts and media coverage – arguably a good proxy for average firm perception – dominated boycott ones. Again, this is in line with Hypothesis 4 predictions, and further highlights the importance of considering the distribution – and not just the average – of effects on stakeholder perception, as we have discussed in Hypothesis 3.

6.2 The (Surprising) Benefits of Communicating an Incongruent Stance

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). Gender (in)congruence between social claims and gender of leadership has been shown to result in more (negative) positive assessments by stakeholders, for example (Abraham and Burbano, 2022; Bode et al., 2017; Lee and Huang, 2018). Nevertheless, 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 these?

Our theoretical model and experiment help illuminating the potential benefits of incongruent communication. In particular, we see two conceptually distinct types of effective incongruent communication, with different drivers and implications.

The first reason is perhaps the more obvious one: firms should accept the costs of incongruent communication when their expected/prior positioning is far from the average stakeholders. 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 use of incongruent communication is more subtle. As we show in Hypothesis 4, a dominant firm can optimally engage in incongruent communication whenever stakeholders' taste for it is positively correlated with their ideological proximity to its expected/prior positioning.

Whenever this is the case, the firm can choose to displease its original stakeholders base (but not enough to give up market shares) in order to please the opposite camp of stakeholders (so to attract it, and thus increasing its total market shares). When the

firm was dominant enough with one camp to begin with (and not too disliked by the opposite camp), it can obtain full demand by doing this.

Notice that, contrary to the case illustrated in Corollary 1, incongruent communication here *minimizes* the average of perception, at least in the symmetric case. This follows from Hypothesis 1. However, it maximizes the share of stakeholders whose perception is above a (high enough) threshold, so to maximize demand.

6.3 Gen-Z and the Shifting Preferences for Firms' Political Expression

Finally, we explore heterogeneous effects that we observe in our experimental data. In particular, we are interested in whether there are any differences in reactions across generations. Table 5 reports the effects shown in Table 2 broken down by Gen-Z and non-Gen-Z. The negative average effects discussed in Table 2 hold for non-Gen Zers (Columns 1-2). Instead, for Gen-Zers (Column 3-4) we observe that the pro-Trump stance remains negative and statistically significant, while the pro-Biden stance is no longer statistically different from zero. This may be explained by the fact that Gen-Zers tend to lean more Democrat than the average US population, and by the fact that, given their more activist attitudes, they may be more comfortable with companies taking political stances.

Importantly, we observe that non-Gen Zers and Gen Zers reactions to apolitical stances are opposing. For non-Gen Zers, communication of an apolitical stance clearly improves perceptions of companies compared to saying nothing. In contrast, Gen Zers react negatively to apolitical stances compared to the control. This result is mostly driven by Gen Z Democrats who react very negatively to communication of an apolitical stance.

When addressing more popular cases, such as that of Study 2, we see that differences between Gen-Z and non-Gen-Z respondents are minimal. Table 6 reports the effects shown in Table 3 broken down by generation. We find these are consistent across Gen Zers and non-Gen Zers.

7 Discussion and Conclusion

This paper presents a formal model and empirical evidence of stakeholders' response to firm 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: whether opinion is symmetrically or asymmetrically divided. 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 firm characteristics in any prior communications by the firm on social and/or political issues.

Given that opinions about political issues are becoming increasingly polarized over time (Iyengar and Westwood, 2015; Mouw and Sobel, 2001; DiMaggio and Bryson, 1996), environments in which stakeholder opinions are split in their opinions on political issues is also likely to increase in prevalence. It is thus critical to consider the strategic implications of firms speaking out about political issues about which stakeholders disagree. We provide theory and evidence that, in this environment, 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. This finding suggests that companies whose stakeholders are divided on a given political issue are generally better off taking an apolitical stance or saying nothing at all, and thus contributes to the emerging work which has begun to shed light on the risks faced by firms in communicating social-political stances. Burbano (2021a); Hou and Poliquin (2021).

If a firm does choose to communicate an ideological stance on a political issue in a context in which stakeholder opinion about the issue is divided (perhaps because the CEO or firm feels that doing so is a moral, rather than a strategic, imperative), we find that stakeholder reaction to a stance that is consistent with the expected stance of the firm is more positive than to a stance which is incongruent with the expected stance of a firm. Our theory and empirical evidence of this is consistent with extant work that has shown benefits of congruent socially-oriented messaging and characteristics by firms in other contexts (Abraham and Burbano, 2022; Bode et al., 2017; Lee and Huang, 2018). Our paper shows that politically-oriented messaging which is congruent and consistent with expectations resulting from other firm characteristics is also better received. If a firm leader chooses to speak out, then, she should be aware that other characteristics of the firm and prior statements are likely to influence expectations about the firm's political positioning; and that messaging which is congruent with such expectations will be better received.

Existing work 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 an ideological stance on a political issue. We provide theory and evidence of 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 lean to the left (right) on an issue, stakeholder who lean left (right) prefer explicitly apolitical stances to silence, while stakeholders who lean left(right) prefer silence to an apolitical stance on the issue.

If a firm's target stakeholders' opinions on a political issue are asymmetrically divided, our model and empirical evidence suggests that 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 (Republican). This contingency is more likely 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.

We additionally consider whether political communication is optimal only when it endorses causes of widespread popularity amongst stakeholders, or whether there is a more nuanced story regarding conditions under which communication could be optimal even if the stance is not shared by all stakeholders. We argue that considering effects on not just average perception, but also the distribution of 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 "enthusiastic" stakeholders. Depending on whether the firm faces extreme competition and how "locked in" its and its competitors' stakeholders are, some firms could benefit from taking an ideological stance if the benefits of generating enthusiastic stakeholders outweighs the costs of alienating some stakeholders.

Lastly, we consider a number of more complex model extensions and explore heterogeneity in our experimental data. Interestingly, if we assume stakeholder 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 which that which is expected by the stakeholder. We find empirical evidence of this "incongruence benefit" as well, which is otably 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](#)). There is quite a bit of empirical

work showing that congruence and consistency across various firm characteristics is generally preferred by external firm stakeholders (Abraham and Burbano, 2022; Herbig and Milewicz, 1993; Lee and Huang, 2018), and our findings are consistent with this, as we discussed earlier. However, to our knowledge this one of the first papers to show evidence of an incongruence benefit. Our model extension sheds light on the mechanism behind the incongruence benefit. Essentially, dominant firms can align politically with the camp that would otherwise value them less, while (because they are dominant enough) 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 illustrating an example of this incongruence benefit. Future work could examine the incongruence-sincerity paradox in other contexts to explore whether such effects persist in other (non-political) domains.

Our empirical findings suggest that the age range of a company's target stakeholders is an important stakeholder characteristic to consider when deciding whether or not to take a stance. Whereas older, non-Gen-Zers in our sample preferred the apolitical stance to a control, younger, Gen-Zers disliked the apolitical stance. This finding is consistent with the notion that this generation is a more politically and socially active generation¹⁷; our paper suggests that this translates into distinct expectations of companies as well. To the extent that this generation makes up the majority of a given company's workforce, potential recruits, and or consumer base, the benefits of communicating an overtly political stance on an issue may outweigh the costs. Likewise, given that over time Gen-Z is likely to become a greater proportion of the workforce and consumer base more broadly, this suggests that the risks of communicating apolitical stances and benefits of communicating overtly political stances may change over time.

Certainly, our paper is not without limitations. 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 (corporate political activism), however, 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 CEO's had communicated stances on the issues. Additionally, given that individual stakeholders' responses are often key to the mechanisms which

¹⁷<https://www.latimes.com/california/story/2020-11-01/gen-z-voters-sync-climate-change-split-trump>

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, 2016; 2017; Dodd and Supa, 2014), 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 examination of 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. The first one is competition: our model analyzes a monopolistic setting. How does competition influence our results? Is there peer pressure to speak on more and more issues so as to not be left behind? Or, conversely, do some firms have incentives to stay silent given that their competitors speak out? Does staying silent "make noise" in such circumstances? Mohliver et al. (2021) consider a formal model in which a firm can decide to emulate, ignore, or oppose a competitor's stance, and characterize situations in which each of these occurs.

A second 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. ¹⁸

We contribute to an understanding of stakeholder responses to a recent and under-explored type of CEO activism - CEO political activism. This paper thus 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 (Burbano, 2021a; Chatterji and Toffel, 2016; 2017; Dodd and Supa, 2014). Our paper makes an important step in moving forward our understanding of the circumstances under which it is more or less beneficial to "talk politics" in business.

¹⁸For instance, Nike shifted from the Michael Jordan's "*Republicans buy sneakers, too*" in 1990 ¹⁹ to centering much of its advertising around progressive social and political issues, such as the Colin Kaepernick "*Dream crazy*" campaign in 2019.

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A Proofs

Proof of Lemma 1

Taking the first order condition – which is both necessary and sufficient by concavity of $V^\mu(\cdot)$ – we get

$$\frac{\partial V^\mu(a)}{\partial a} = -2(1-r)(a-\mu) - 2pra + 2(1-p)r(1-a).$$

This equals 0 whenever

$$a(1-r+pr+r-pr) = (1-r)\mu + (1-p)r.$$

Simplifying the left hand side to a yields the result, $a^* = (1-r)\mu + r(1-p)$.

Proof of Lemma 2

Substituting $a = a^* = (1-r)\mu + r(1-p)$ into $V^\mu(a)$, we have

$$V^\mu(a^*) = Q - (1-r)(-r\mu + r(1-p))^2 - pr((1-r)\mu + r(1-p))^2 - (1-p)r((1-r)\mu + r(1-p))^2.$$

Again, given concavity in μ first order conditions suffice.

$$\begin{aligned} \frac{\partial V^\mu(a^*)}{\partial \mu} &= -2(1-r)r(r\mu - r(1-p)) - 2pr(1-r)((1-r)\mu + r(1-p)) \\ &\quad - 2(1-p)r(1-r)((1-r)\mu + r(1-p)) \end{aligned}$$

Grouping all μ terms and moving all non- μ terms to the right hand side, we obtain

$$\mu(r+p-pr+1-p-r+pr) = r-rp+rp+rp^2-r-rp^2+2rp+1-p,$$

which, after simplifying both sides, yields $\mu^* = 1-p$.

For the second part, notice that

$$V^{1-p}(a^*) = Q - pr(1-p)^2 - (1-p)rp^2 = Q - pr(1-p).$$

This is maximized when $pr(1-p) = 0$, that is, when $r = 0$ or $p \in \{0, 1\}$. This concludes the proof.

Proof of Hypothesis 1

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

We have the following:

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

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

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

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

We want to show that $V^\mu(1) < V^\mu(\mu)$, $V^\mu(1) < V^\mu(1/2)$, and $V^\mu(1) > V^\mu(0)$.

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

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

But 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 RHS is positive whenever $\mu < 3/4$: for these values, the equality holds for every r , since the LHS is always negative.

What happens when $\mu > 3/4$? We have that the RHS is minimized at $\mu = 1$, which gives $1/2 \cdot (3/2 - 2) = -1/4$. The LHS is below $-1/4$ whenever $r \geq 1/2$, which concludes the proof.

condition always fails when $r \geq 1/2$, since the LHS is above $1/4$, and the RHS

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 get

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

Last, we show that $V^\mu(1) > V^\mu(0)$. We have

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

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 that

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

whenever $r = 1, p = 1$.

By continuity, there exist a $\bar{p} < 1$ such that, for every $p^* \in (\bar{p}, 1)$, there exist 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 3

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

Proof of Proposition 4

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 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 exactly the opposite of the previous condition. Intuitively, from camp 1 point of view, the values difference is more damaging than the expectation difference (since 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 high enough so as 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 that $Q_0 - ra^2 - (1 - r) \cdot (a - \mu)^2 \geq 0$ for a small enough.

Table 1: Descriptive Statistics

Panel A: Study 1

	Biden	Trump	NoPolitics	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	0.39	0.39	0.42	0.39	0.39	0.41	0.40
Independent	0.30	0.25	0.31	0.28	0.30	0.27	0.29	0.29
Female	0.44	0.49	0.42	0.43	0.46	0.42	0.45	0.44
Mean Age	32.67	34.09	33.39	32.53	33.78	32.75	33.00	33.18
Education	0.46	0.51	0.48	0.45	0.51	0.44	0.48	0.48
Total	313	293	279	268	384	398	371	1153

Panel B: Study 2

	Denoun	NotDenoun	NoPolitics	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	0.41	0.38	0.40	0.40
Independent	0.26	0.28	0.29	0.33	0.28	0.29	0.28	0.28
Confidence	0.63	0.64	0.65	0.61	0.65	0.63	0.61	0.63
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	0.51	0.52	0.50	0.51
Total	583	579	295	297	611	570	573	1754

Notes: This table displays descriptive statistics for our sample. 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 Table 1 and 2 across conditions for each of the experiments and report in bold those that are significantly different (at 5%) from a control.

Table 2: Impact on firm's perception - Study 1

	(1) Pos Opinion <i>All</i>	(2) Pos Opinion <i>All</i>
<i>Political stances</i>		
Biden	-0.634*** (0.136)	-0.444** (0.207)
Trump	-1.410*** (0.131)	-1.541*** (0.236)
Apolitical	0.078 (0.098)	0.331* (0.173)
<i>Other variables</i>		
Republican	0.007 (0.138)	0.064 (0.147)
Democrat	-0.049 (0.113)	0.127 (0.115)
Biden*Dem		1.221*** (0.248)
Biden*Rep		-2.027*** (0.314)
Trump*Rep		1.703*** (0.320)
Trump*Dem		-1.177*** (0.277)
Apolitical*Rep		0.160 (0.247)
Apolitical*Dem		-0.760*** (0.231)
R2	.106	.383
N	1153	1153

Notes: This table examines the effect of the our treatments on the perceptions about companies for Study 1 *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 3: Impact on firm's perception - Study 2

	(1) PosOpin <i>All</i>	(2) PosOpin <i>All</i>
<i>Political stances</i>		
Denounce	0.309*** (0.091)	0.039 (0.268)
Not Denounce	-0.902*** (0.085)	-0.437* (0.248)
Apolitical	-0.125 (0.094)	0.149 (0.257)
<i>Other variables</i>		
Confidence	-0.161 (0.118)	-0.062 (0.165)
NoConfidence	-0.082 (0.141)	0.027 (0.169)
Denounce*Conf		0.948*** (0.285)
Denounce*NoConf		-1.241*** (0.322)
NotDenounce*NoConf		0.603** (0.287)
NotDenounce*Conf		-0.985*** (0.269)
Apolitical*NoConf		0.506* (0.300)
Apolitical*Conf		-0.619** (0.283)
R2	.087	.253
N	1754	1754

Notes: This table examines the effect of the our treatments on the perceptions about companies for Study 2 *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 4: "Positive Opinion" - Comparisons across Treatments

Panel A: Study 1

	Biden	Trump	Apolitical	Control
<i>Before Treatment</i>				
Mean	4.49	4.32	4.43	4.29
Std. Deviation	1.15	1.23	1.33	1.35
"Enthusiastic" stakeh.	3.8%	3.4%	5%	3%
<i>After Treatment</i>				
Mean	3.92	2.97	4.57	4.35
Std. Deviation	1.85	2.05	1.66	1.37
"Enthusiastic" stakeh.	5.1%	7.2%	10%	4.1%

Panel B: Study 2

	Denounce	Not Denounce	Apolitical	Control
<i>Before Treatment</i>				
Mean	4.41	4.51	4.35	4.49
Std. Deviation	1.42	1.3	1.31	1.25
"Enthusiastic" stakeh.	7.2%	5.2%	4.07%	5.39%
<i>After Treatment</i>				
Mean	4.58	2.97	4.08	4.35
Std. Deviation	1.80	1.82	1.66	1.31
"Enthusiastic" stakeh.	13%	6.9%	6.78%	5.39%

Notes: This table compares the means and the standard deviations for the "Pos Opinion" variable divided by treatment assignments in Study 1 (Panel A) and Study 2 (Panel B). It also displays the percentage of stakeholders ("enthusiastic stakeholders") who reported maximum appreciation for the company (7/7 on a Likert scale). The top three rows display these values before the treatment, while the bottom three rows display the same values after the treatments.

Table 5: Impact on firm's perception - Study 1

	(1) Pos Opinion <i>Non-Gen Z</i>	(2) Pos Opinion <i>Non-Gen Z</i>	(3) Pos Opinion <i>Gen Z</i>	(4) Pos Opinion <i>Gen Z</i>
<i>Political stances</i>				
Biden	-0.805*** (0.161)	-0.568** (0.232)	-0.181 (0.244)	-0.185 (0.401)
Trump	-1.225*** (0.157)	-1.549*** (0.269)	-1.913*** (0.229)	-1.583*** (0.439)
Apolitical	0.254** (0.106)	0.381** (0.181)	-0.425* (0.222)	0.180 (0.366)
<i>Other variables</i>				
Republican	0.009 (0.153)	0.007 (0.150)	-0.005 (0.364)	0.265 (0.268)
Democrat	-0.039 (0.139)	0.018 (0.104)	-0.037 (0.194)	0.321 (0.251)
Biden*Dem		1.406*** (0.285)		0.840* (0.473)
Biden*Rep		-1.822*** (0.349)		-2.800*** (0.666)
Trump*Rep		1.769*** (0.359)		1.383** (0.665)
Trump*Dem		-1.196*** (0.321)		-1.118** (0.511)
Apolitical*Rep		0.103 (0.265)		0.347 (0.525)
Apolitical*Dem		-0.448* (0.243)		-1.406*** (0.478)
R2	.105	.382	.175	.416
N	839	839	314	314

Notes: This table examines the effect of the our treatments on the perceptions about companies for Study 1 broken down by non-Gen-Z (columns 1-2) and Gen-Z (columns 3-4). *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 6: Impact on firm's perception - Study 2

	(1) PosOpin Non-Gen Z	(2) PosOpin Non-Gen Z	(3) PosOpin Gen Z	(4) PosOpin Gen Z
<i>Political stances</i>				
Denounce	0.217** (0.105)	0.172 (0.314)	0.604*** (0.181)	-0.524 (0.433)
Not Denounce	-0.869*** (0.100)	-0.260 (0.299)	-0.985*** (0.165)	-0.929** (0.368)
Apolitical	-0.136 (0.109)	0.172 (0.294)	-0.099 (0.191)	0.033 (0.471)
<i>Other variables</i>				
Confidence	-0.155 (0.137)	0.060 (0.194)	-0.196 (0.236)	-0.521*** (0.194)
NoConfidence	-0.161 (0.161)	0.074 (0.197)	0.221 (0.291)	-0.167 (0.222)
Denounce*Conf		0.818** (0.332)		1.495*** (0.482)
Denounce*NoConf		-1.606*** (0.368)		0.408 (0.593)
NotDenounce*NoConf		0.508 (0.340)		0.659 (0.479)
NotDenounce*Conf		-1.245*** (0.322)		-0.265 (0.422)
Apolitical*NoConf		0.564* (0.326)		0.279 (0.691)
Apolitical*Conf		-0.742** (0.327)		-0.241 (0.518)
R2	.071	.282	.157	.206
N	1328	1328	426	426

Notes: This table examines the effect of the our treatments on the perceptions about companies for Study 2 broken down by non-Gen-Z (columns 1-2) and Gen-Z (columns 3-4). *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

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. Denounce		b. Not Denounce		c. Apolitical	
The focus of this business case is the CEO of		The focus of this business case is the CEO of		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. Denounce		b. Not Denounce		c. Apolitical	
The (<i>Manipulation 1 Company</i>)		The (<i>Manipulation 1 Company</i>)		The (<i>Manipulation 1 State</i>)	
was recently in the news		was recently in the news		was recently in the news	
a1. Statement	a2. Donations	b1. Statement	b2. Donations	c. Apolitical	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.		
"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",	because the CEO publicly announced that it would not take a political position following last week's events in the U.S. capital.	and the company's CEO wrote a memo.
the company's CEO wrote in a memo.					

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