Introduction

*Republicans buy sneakers, too.*

—Michael Jordan
Introduction

BUSINESS

With Georgia Voting Law, the Business of Business Becomes Politics

Coca-Cola and Delta received blowback from both left and right for their response to Georgia’s new voting law. Engaging on social issues is now part of the CEO job description, but it’s a treacherous path.
Introduction

200+ Major U.S. Companies Oppose Anti-LGBTQ+ State Legislation

by Henry Berg-Brousseau • March 31, 2022

WASHINGTON, D.C. — Today, the Human Rights Campaign and Freedom for All Americans announced that more than 200 major companies have joined together to sign an amicus brief in support of the Human Rights Campaign and Freedom for All Americans Business Statement on Anti-LGBTQ+ Legislation. The companies are united in opposing the wave of anti-LGBTQ+ legislation, much of which specifically harms transgender youth, in states across the country. The list of signatories has more than quadrupled in the past year.
Open research questions:

1. Are U.S. companies indeed making more partisan statements?
Introduction

Open research questions:

1. Are U.S. companies indeed making more partisan statements?

2. If so, why?
Open research questions:

1. Are U.S. companies indeed making more partisan statements?

2. If so, why?

3. What are the potential consequences of partisan corporate speech?
This paper

- **Novel measure** of partisan corporate speech based on similarity to speech by politicians on social media

- Notable increase in partisan corporate speech in 2017
- Significant growth in Democratic-sounding speech since 2019
- Broad-based across locality, industry, size and CEO political affiliation
- Discussion of climate, DEI and LGBTQ+
- Suggestive evidence: driven by investor demand for sustainability
- (Small) negative stock returns following partisan speech
  - Magnitude varies by stakeholder alignment
This paper

○ **Novel measure** of partisan corporate speech based on similarity to speech by politicians on **social media**

○ Main findings:

1. **Notable increase in partisan corporate speech** in 2017

2. Significant growth in Democratic-sounding speech since 2019
   - Broad-based across locality, industry, size and CEO political affiliation
   - Discussion of climate, DEI and LGBTQ+

3. Suggestive evidence: driven by investor demand for sustainability

4. (Small) negative stock returns following partisan speech
   - Magnitude varies by stakeholder alignment
Socio-political activism of CEOs

- Mixed evidence on product market responses (Boxwell and Conway (2024); Hou and Poliquin (2021); Painter (2021))
- Mixed evidence on investor reactions: positive (Mkrtchyan et al. (2024); Gangopadhyay and HomRoy (2024)) vs. negative (Bhagwat et al. (2020)), depending on definitions used
- Partisan statements measured ex post

The political polarization of business in the U.S.

- Kempf & Tsoutsoura (2023); Cassidy & Vorsatz (2024); Dagostino et al. (2023); Engelberg et al. (2024); Fos et al. (2023)

Measuring partisanship in speech

- Gentzkow, Shapiro, Taddy (2019); Engelberg et al. (2024); Cookson et al. (2024)
Empirical approach

- **Challenge:** How to identify partisan corporate speech?

- **Step I:** Use all statements made by companies via their official twitter accounts

- **Step II:** Identify tweets that sound like those by a Republican or Democratic politician

Example: if Democratic politicians tweet a lot about "climate crisis," then a company tweeting about climate crisis is labeled as Democrat-sounding.

Builds on Gentzkow, Shapiro, and Taddy (Econometrica, 2019)
Empirical approach

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Empirical approach

- Advantages:
  - Data-driven approach to identify partisan speech
  - Corporate twitter accounts very common (84% vs. 11% for CEOs) and visible to investors, consumers, employees
  - Can study the entire corpus of tweets going back until 2011
  - Compare corporate speech to politician speech on the same medium

- Limitations:
  - Won't capture the entirety of corporate communication
  - Will inevitably come with some measurement error
Empirical approach

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Data

- Politician tweets:
  - 8 million tweets by 150 Senators and 721 Representatives

- Corporate tweets:
  - 4.4 million tweets by S&P 500 companies between 2011 and 2022
  - 632 out of 751 companies (84%) have an active Twitter account
  - Exclude newspapers and publishing, television broadcasting and Twitter itself
Our approach follows two steps:

1. Identify bigrams that are highly predictive of being used by a Republican (Democratic) politician (Gentzkow et al. (2019))

2. Apply this measure of partisanship to corporate tweets
Model of speech

- Our approach follows two steps:
  1. Identify bigrams that are highly predictive of being used by a Republican (Democratic) politician (Gentzkow et al. (2019))
  2. Apply this measure of partisanship to corporate tweets

- Assume that bigram counts \(c_{it}\) sent by politician \(i\) at time \(t\) are drawn from a multinomial distribution:

  \[
  c_{it} \sim \text{MN}\left(m_{it}, q_t^{P(i)}(x_{it})\right).
  \]  

  \(q_t^{P(i)}\) : vector of choice probabilities, with \(P(i) \in \{R, D\}\)

  \(x_{it}\) : home state, education, gender, age, ethnicity

- Estimate year-by-year over bigrams used \(\geq 40\) times by \(\geq 20\) distinct speakers


**Model of speech**

- Compute the probability that a Republican politician would use the $j$th bigram in year $t$ as:

  $$q^{R}_{jt} = \frac{1}{|R|} \sum_{i \in R} q^{P(i)}_{t}(x_{it})' \cdot e_j$$  \hspace{1cm} (2)

- Posterior probability that a politician is a Republican after the listener hears the $j^{\text{th}}$ bigram, denoted $p^{R}_{jt}$, using Bayes rule:

  $$p^{R}_{jt} = \frac{q^{R}_{jt}}{q^{R}_{jt} + q^{D}_{jt}}$$  \hspace{1cm} (3)

- We then calculate the posterior that the corporate sender of tweet $k$ in year $t$ is a Republican politician:

  $$p^{R}_{k} = \frac{\prod_{j \in J^*} q^{R}_{jt}}{\prod_{j \in J^*} q^{R}_{jt} + \prod_{j \in J^*} q^{D}_{jt}}.$$

\textit{model} Cassidy and Kempf Partisan Corporate Speech 10 / 26
### Most Partisan Bigrams in 2022

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brown jackson: American energy

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Cassidy and Kempf
Some partisan speech is directly related to the core business of the firm

- E.g., an oil & gas firm discussing energy independence

To separate those from partisan statements on issues that are not directly business related, we estimate a biterm topic model and ask Chat-GPT to label the topics

Use topic + industry to identify business-related partisan tweets

Set posterior \( p_{ik}^R \) = 0.5 for business-related tweets
Highly Democratic-sounding tweets:

“The heartbreaking loss of George Floyd’s life and the powerful response to it are excruciating reminders of the progress we still need to make in our communities. We’re pledging $1 million to nonprofit orgs committed to social justice and racial equity.”

(Duke Energy, June 2020)
○ Highly Democratic-sounding tweets:

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“A person’s right to cast their ballot is the foundation of our democracy. Georgia HB 531 would limit trustworthy, safe & equal access to voting by restricting early voting & eliminating provisional ballots. That’s why Salesforce opposes HB 531 as it stands. #gapol”

(Salesforce, March 2021)
Highly Republican-sounding tweets:

“#TaxReform is essential to keeping workers, job creators & economy competitive in the 21st-century #TaxReformTuesday”

(CF Industries, November 2018)

“At ADP offices across the country, we are honoring our Veterans and their families for their service and sacrifice. Thank you for your contributions to the preservation of freedom and democracy! #militarystrong

Partisan Scores of Corporate Tweets

2011

2017

2021
Figure: Percentage of All Corporate Tweets

- Blue line: Democratic
- Red line: Republican
Results

Partisan Tweets Over Time

Figure: Percentage of All Corporate Tweets

- Democratic

Date: 2011 to 2021

George Floyd Protests
Results

Partisan Tweets Over Time

**Figure:** Percentage of All Corporate Tweets
Figure: Percentage of All Corporate Tweets

[Graph showing the percentage of Democratic corporate tweets over time, with a sharp increase during Black History Month in 2021.]
Figure: Percentage of All Corporate Tweets

Date

2011
2013
2015
2017
2019
2021

Percent

0.2
0.4
0.6
0.8
1.0

Republican

Memorial Day
Figure: Percentage of All Corporate Tweets
results

partisan tweets over time

figure: percentage of all corporate tweets

\[\text{Percent} \quad \text{Date} \quad \text{2011} \quad \text{2013} \quad \text{2015} \quad \text{2017} \quad \text{2019} \quad \text{2021} \]

\[\text{Democratic} \quad \text{Republican} \]
Figure: Breakdown of Democratic Tweets

- All Other
- Health and Medicine
- Culture and Celebration
- Community and Philanthropy
- Sustainability and Environment
- DEI
Results Partisan Tweets Over Time

Figure: Breakdown of Republican Tweets
○ Different patterns for random tweets or politicians:

Figure: Random Sample of Tweets
Main Outcome Variable

- Net Democratic Tweet Ratio:

\[ \text{NDTR}_{it} = \frac{\text{\# Democratic Tweets}_{it} - \text{\# Republican Tweets}_{it}}{\text{\# Total Tweets}_{it}} \]  

- Measures how “Democratic” firm i’s speech is, normalized by total number of tweets sent by firm i
### Results

#### Heterogeneity

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<tr>
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<th>ΔNDTR (2022 vs. 2018)</th>
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<tr>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Log assets</td>
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<td></td>
<td>(0.295)</td>
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<td>Tobin’s Q</td>
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<td>(0.174)</td>
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<tr>
<td>Democratic CEO</td>
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<td>(0.191)</td>
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<td>IO</td>
<td>-0.636</td>
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<td></td>
<td>(0.469)</td>
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<tr>
<td>ESG holdings</td>
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<td>(0.138)</td>
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<tr>
<td>Employees blue states</td>
<td>-0.455*</td>
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<td></td>
<td>(0.269)</td>
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<td>HHI</td>
<td>-0.813***</td>
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<td>(0.169)</td>
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<td>B2C industry</td>
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Potential driver: investor demand

- Strong predictive power of ESG holdings indicates a potential role of institutional investor demand

- Difficult to identify causal link due to both reverse causality and omitted variable concerns

- We follow two approaches:

  1. Difference-in-Differences around Larry Fink’s 2019 Letter to CEOs
     - Called for CEOs to lead on divisive social and political issues:

     "Stakeholders are pushing companies to wade into sensitive social and political issues – especially as they see governments failing to do so effectively. [...] One thing, however, is certain: the world needs your leadership."

  2. "Exogenous" variation in ESG fund flows

Cassidy and Kempf
Partisan Corporate Speech

21 / 26
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       “Stakeholders are pushing companies to wade into sensitive social and political issues – especially as they see governments failing to do so effectively. [...] One thing, however, is certain: the world needs your leadership.”

  2. “Exogenous” variation in ESG fund flows
○ Holds in Diff-in-Diff design with firm and quarter fixed effects, as well as controls for firm size + IO.

Potential driver: investor demand

2019 Larry Fink letter
Potential driver: investor demand

ESG fund flows

- Exploit quasi-exogenous flows into ESG funds (see Sammon and Shim (2024))
  - Construct hypothetical flows into ESG funds using:
    1. Flow-performance relationship
    2. Return of stocks in industries other than stock’s own industry in fund portfolio
  - Hypothetical flows into ESG funds predict higher NDTR up to three quarters ahead
    - Strongest effects two quarters ahead
    - $100 million incremental ESG inflows $\rightarrow$ 3 ppt higher NDTR
How do stock prices behave around partisan corporate statements?

Ex ante not obvious

Study daily and intraday stock returns around partisan tweets

Keep only the first tweet by a company on a given topic
Figure: Stock Returns Around Partisan Corporate Tweets

- Intraday
- Daily

- Similar results for “surprising” tweets
- Magnitude depends on stakeholder alignment
Conclusion

- Corporate speech on social media
  - has become more partisan
  - with stronger increase for Democratic-sounding speech
Conclusion

- Corporate speech on social media
  - has become more partisan
  - with stronger increase for Democratic-sounding speech

- Potential driver: demand for sustainability investing
  - Post-2019 BlackRock portfolio firms see larger increases in NDTR
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- Potential driver: demand for sustainability investing
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- MNIR as a useful tool for other applications in finance