INTERNET APPENDIX

This internet appendix presents additional results to accompany the paper "Partisan Corporate Speech." The contents are as follows:

Internet Appendix A provides variable descriptions.

Internet Appendix B presents results from a validation test of our measure of partisan corporate speech.

Internet Appendix C provides additional results on aggregate trends in partisan corporate speech.

Internet Appendix D reports additional results from our analysis of the content of partisan corporate speech.

Internet Appendix E presents additional results on firm heterogeneity.

Internet Appendix F presents additional results from the analysis of stock returns around partisan corporate tweets.

Internet Appendix G contains the appendix to accompany our theoretical model.

A Variable Descriptions

Table IA.1
Variable Descriptions

Variable	Description
Dependent variables	
Partisan tweet	Indicator equal to one if the tweet's PSI-value is $\leq$0.03 or $\geq$0.97, and zero otherwise.
Net Democratic tweet ratio ($NDTR$)	The difference in the number of Democratic-sounding tweets and the number of Republican-sounding tweets, divided by the total number of tweets sent by the firm in a given time period. Democratic (Republican)-sounding tweets are those with a PSI-value $\leq$0.03 ($\geq$0.97).
CAR (0,+τ)	Daily cumulative abnormal return, measured over trading days 0 to +τ around a corporate tweet. Abnormal returns are calculated using the Fama and French (1993) and Carhart (1997) four-factor model estimated over days $t = -300$ to $t = -50$ and requiring a minimum of 100 non-missing observations, and they are winsorized at the 1% and 99% levels within event time.
Independent variables	
Firm size quartile	The firm's total book assets as of the most recent fiscal year-end, sorted into quartiles within a given calendar year (for annual data) or quarter (for quarterly data). Data obtained from Compustat Annual.
Industry concentration quartile	Herfindahl index computed using the revenue shares of firms within a given 2-digit SIC industry, sorted into quartiles within a given calendar year. Data obtained from Compustat Annual using the most recent fiscal year-end.
Democratic worker share quartile	The percentage of employee reviews from blue states, sorted into quartiles within a given calendar year. The locations of employee reviews are obtained from the Glassdoor website, and a state classified as blue if the statewide vote share for the Democratic candidate in the 2016 presidential election exceeded that of the Republican candidate by more than five percentage points. Data on vote shares are obtained from the FEC website at `https://www.fec.gov/documents/1890/federalelections2016.xlsx`.
High (low) partisan-slant surprise	Indicator equal to one if the tweet is (not) in the top quartile of partisan tweets in a given calendar quarter, based on the absolute difference between the tweet's PSI-score and the average PSI-score of all tweets sent by the same company during the previous 36 months.
CEO aligned	Indicator equal to one if the partisan tweet matches the party affiliation of the CEO, zero if it does not match the party of the CEO, and 0.5 otherwise. Party affiliations of CEOs are obtained from Fos et al. (2025), who use voter registration data to infer partisan leanings.

Continued on next page

Table IA.1 – continued

Variable	Description
Share of workers aligned	The percentage of employee reviews from blue (red) states if the tweet has a Democratic (Republican) slant, respectively. The locations of employee reviews are obtained from the Glassdoor website, and states are classified as blue versus red based on the statewide vote shares in the 2016 presidential election. In order to be classified as a blue versus red state, the difference in the party voter shares has to be in excess of five percentage points. Data on vote shares are obtained from the FEC website at `https://www.fec.gov/documents/1890/federalelections2016.xlsx`.
Share of investors aligned	(Minus) The percentage of the firm's outstanding shares owned by funds with a sustainability mandate if the tweet has a Democratic (Republican) slant, respectively. Information on fund mandates and stock holdings are obtained from Morningstar.
Log market cap	Logarithm of the firm's market capitalization as of the most recent fiscal year-end. Data obtained from Compustat Annual.
IO	Percentage of the firm's shares outstanding held by institutional investors in the Thomson Reuters 13F database.
BRK holdings quartile	Percentage of the firm's shares outstanding held by BlackRock, sorted into quartiles within a given calendar quarter. Data obtained from Thomson Reuters 13F.
13F holdings quartile	Percentage of the firm's shares outstanding held by institutional investors in the Thomson Reuters 13F database, sorted into quartiles within a given calendar quarter.

B Measure Validation

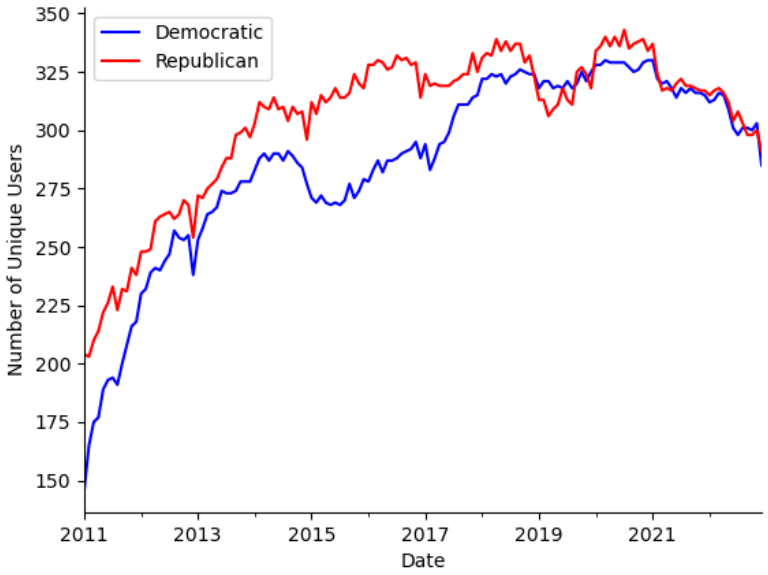
Table IA.2
Company Mentions by Members of Congress Around Partisan Corporate Tweets

The table reports results from a linear probability model that regresses an indicator equal to one if the company is mentioned in a tweet by a member of Congress on a given day, and zero otherwise, on event-time dummies, as well as interactions between the event-time dummies and an indicator *Partisan Tweet*, which is equal to one for partisan corporate tweets (PSI-score of $\leq$0.03 or $\geq$0.97) and zero for nonpartisan corporate tweets (PSI-score= 0.5). For readability, the dependent variable is multiplied by 100 in all columns. Standard errors are clustered at the firm level.

	Mentioned by Member of Congress		
	(1)	(2)	(3)
$\tau = -4 \times$ Partisan Tweet	0.150	-0.033	0.055
	(0.098)	(0.065)	(0.064)
$\tau = -3 \times$ Partisan Tweet	0.092	-0.091*	-0.003
	(0.099)	(0.054)	(0.055)
$\tau = -2 \times$ Partisan Tweet	0.127	-0.056	0.032
	(0.099)	(0.057)	(0.051)
$\tau = -1 \times$ Partisan Tweet	0.197*	0.014	0.103
	(0.115)	(0.067)	(0.071)
$\tau = 0 \times$ Partisan Tweet	0.378***	0.195**	0.283***
	(0.138)	(0.097)	(0.104)
$\tau = +1 \times$ Partisan Tweet	0.253**	0.069	0.158**
	(0.111)	(0.070)	(0.068)
$\tau = +2 \times$ Partisan Tweet	0.186*	0.003	0.091
	(0.108)	(0.069)	(0.067)
$\tau = +3 \times$ Partisan Tweet	0.071	-0.112*	-0.023
	(0.090)	(0.057)	(0.054)
$\tau = +4 \times$ Partisan Tweet	0.183**	-0.001	0.088
	(0.087)	(0.056)	(0.057)
$\tau = +5 \times$ Partisan Tweet	0.095	-0.088	
	(0.090)	(0.056)	
N	30,463,202	30,463,202	30,463,202
R^2	0.003	0.032	0.160
Day FE	No	Yes	Yes
Firm FE	No	Yes	No
Tweet FE	No	No	Yes

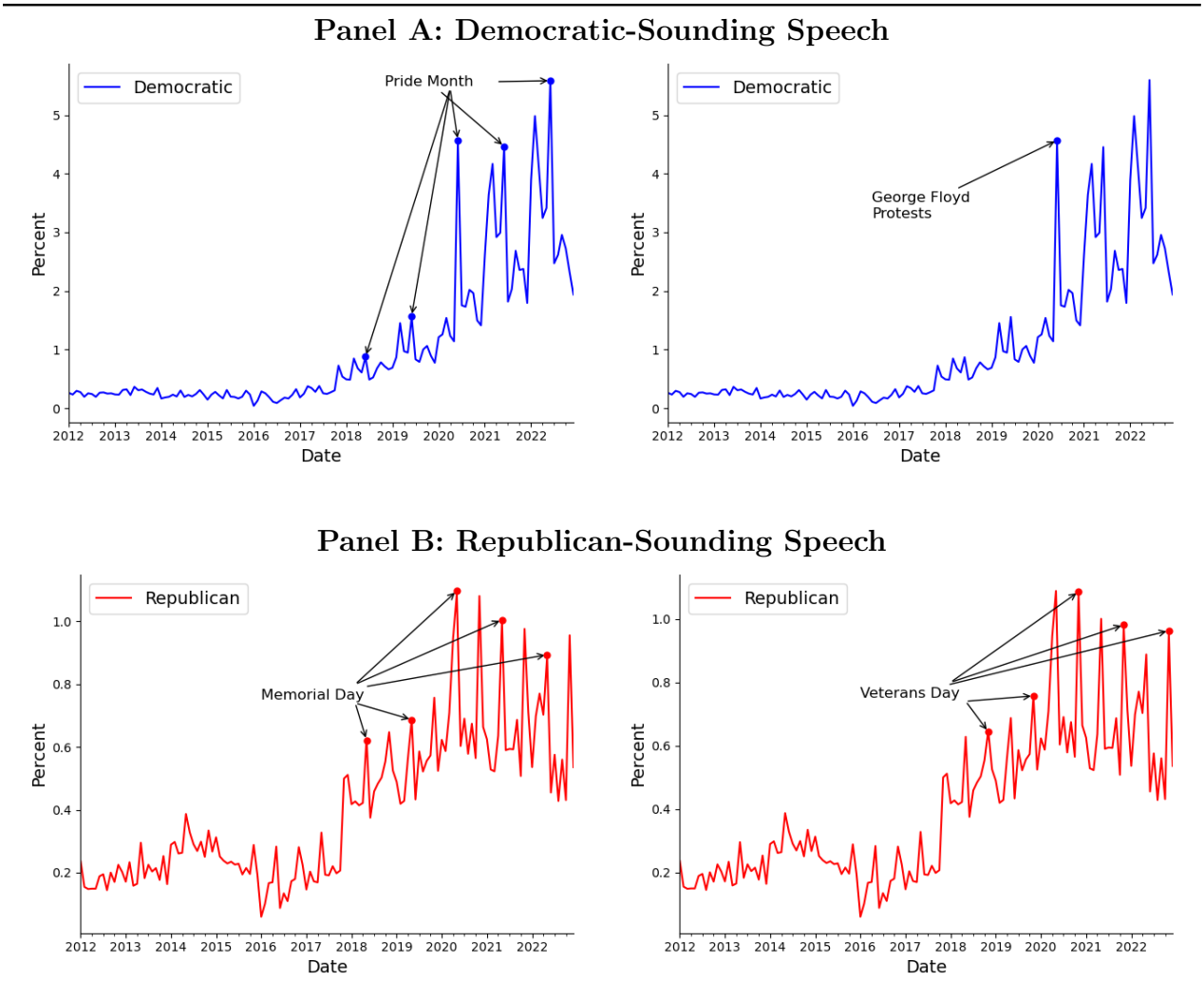
C Additional Results on Aggregate Trends in Partisan Corporate Speech

Figure IA.1
Number of Active Accounts Over Time by Party Affiliation



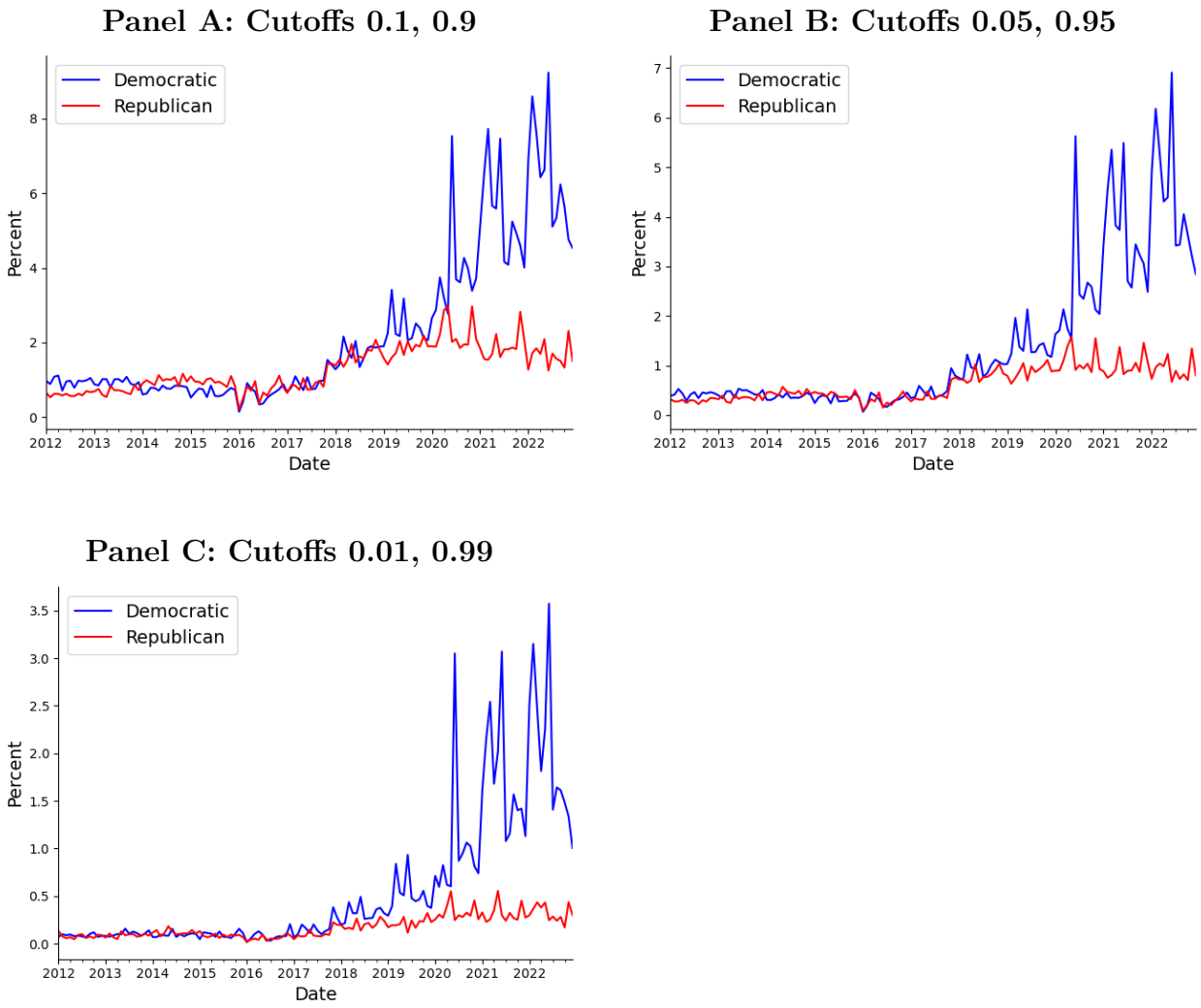
The figure shows the number of active accounts belonging to a Congressional member by calendar month and party affiliation of the member.

Figure IA.2
Partisan Corporate Speech: Key Events



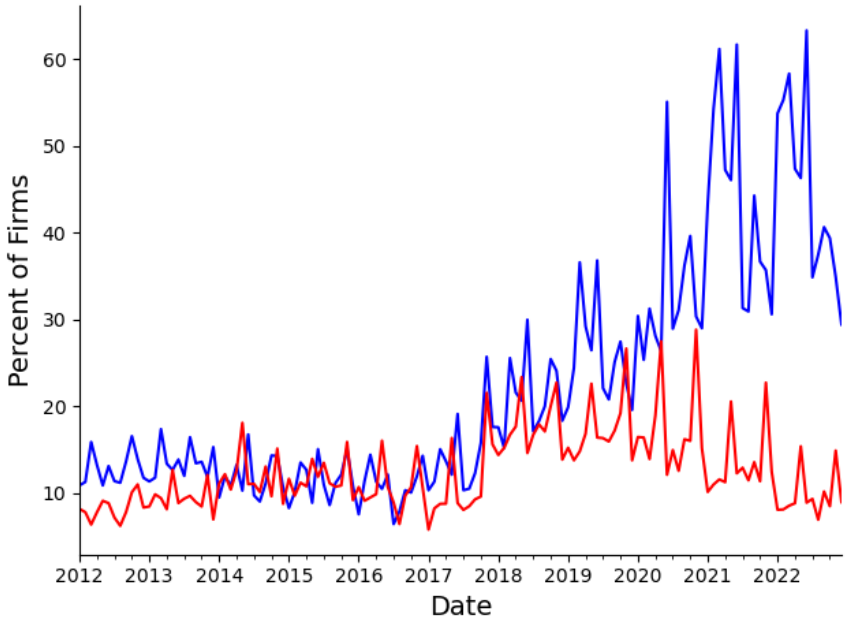
This figure displays our series of partisan speech, split into Democratic (Panel A) and Republican (Panel B) speech, and labels the months in which the two series have notable spikes.

Figure IA.3
Alternative Thresholds to Identify Partisan Speech



The figure repeats Figure 2, Panel B in the main paper, using different thresholds of PSI-values at which a tweet is characterized as Democratic- or Republican-sounding.

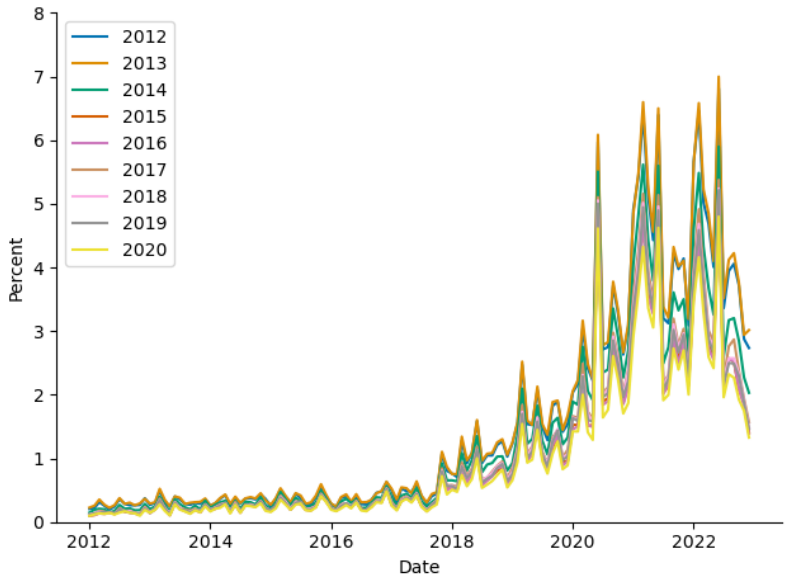
Figure IA.4
Partisan Corporate Speech: Extensive Margin



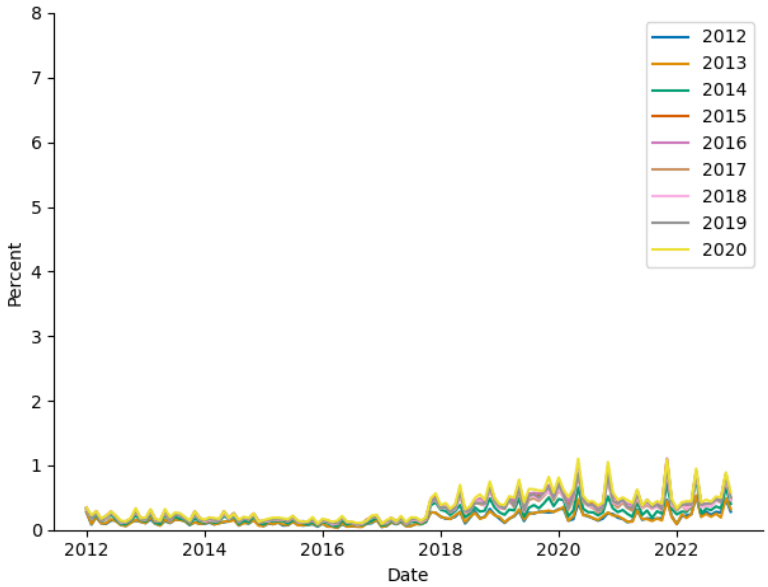
The figure repeats Figure 2, Panel B in the main paper, displaying only the extensive margin. The plotted series is the percent of firms, among those sending at least one tweet within a given month, that send at least one Republican or Democratic partisan tweet, respectively.

Figure IA.5
Varying the Timing of Politician Speech

Panel A: Democratic-Sounding Speech

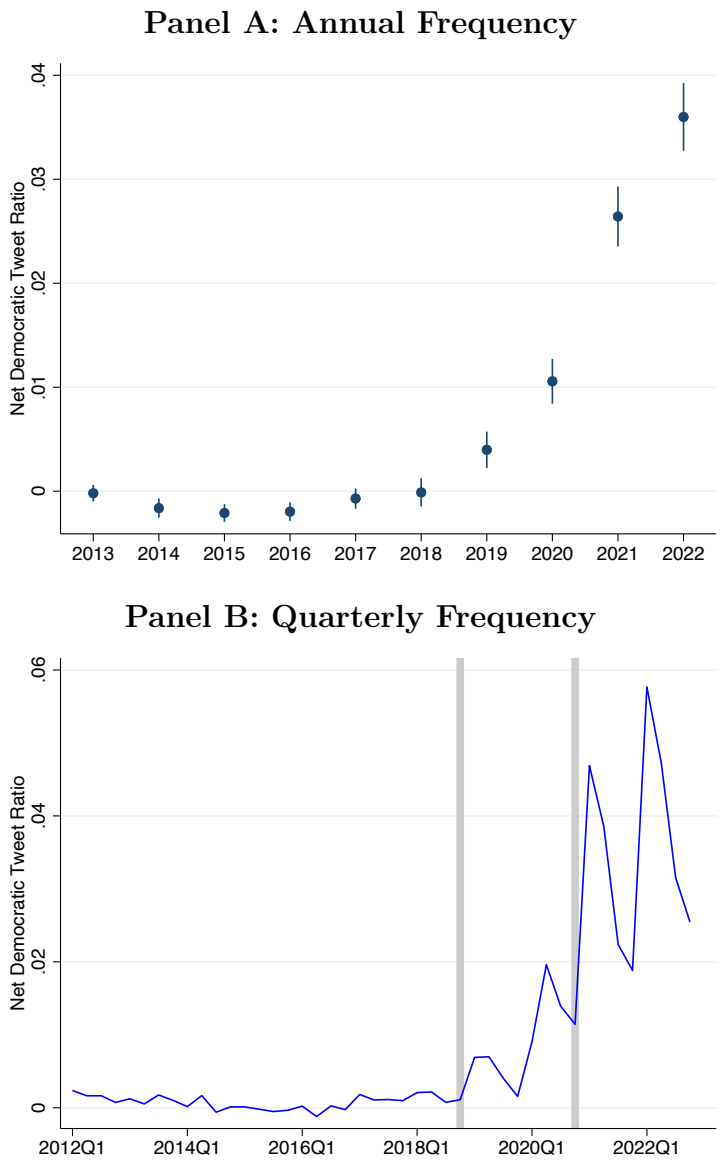


Panel B: Republican-Sounding Speech



The figure displays the time series of partisan corporate speech using politician speech from only one calendar year at a time in the construction of our parisan bigram scores. Specifically, we estimate the posterior probabilities for all bigrams sent by Congresspeople in a given calendar year and then apply these year-by-year probabilities to the entire sample of corporate tweets. Each year-by-year measure corresponds to a different line. Panel A shows the resulting series for Democratic-sounding speech and Panel B for Republican-sounding speech, using PSI-values of 0.03 and 0.97 as cutoffs, respectively.

Figure IA.6
Average Net Democratic Tweet Ratio: Annual and Quarterly Frequencies



The figure displays time trends in the average net Democratic tweet ratio ($NDTR$), defined as the percentage of Democratic tweets minus the percentage of Republican tweets, by calendar year (Panel A) and by quarter (Panel B), respectively. In Panel A, we estimate an OLS regression of a firm's annual $NDTR$ on calendar year dummies and firm fixed effects and plot the estimated coefficients, together with the corresponding 95% confidence intervals that are based on standard errors clustered at the firm level. In Panel B, we plot the mean quarterly $NDTR$, and the gray vertical bars indicate the estimated break points on the mean quarterly $NDTR$ using the procedure by Bai and Perron (1998) and Bai and Perron (2003).

Table IA.3
Structural Break Test on the Mean Net Democratic Tweet Ratio

The table presents results from the estimation of the number of break points on the mean quarterly NDTR using the procedure by Bai and Perron (1998) and Bai and Perron (2003). We report the results from a sequential F-test to determine the number of breaks, in which the null hypothesis of m breaks is tested against the alternative of one more break $(m + 1)$.

Number of breaks (m)	F-test Statistic	5% Critical Value
0	151.48	8.58
1	11.40	10.13
2	4.53	11.14
3	4.43	11.83
4	4.35	12.25

D Additional Results From Content Analysis

Table IA.4
Partisan Speech Topic Model

This table reports each of the fifty topics from the biterm topic model estimated on corporate tweets between 2011 and 2022 with a PSI-value ≥ 0.9 or ≤ 0.1. For each topic, we provide (i) the Chat-GPT assigned topic label, (ii) the five unigrams most associated with that topic, and (iii) the list of 2-digit SIC codes for which a tweet belonging to the topic is classified as business-related. Topics are ordered in decreasing frequency, with the most common topics at the top of the table.

	Topic Label	5 Most Important Unigrams					Business
1	Emergency preparedness and response	custom	power	hurrican	weather	line	49, 63, 95, 96
2	Veterans and military service	thank	veteran	honor	serv	day	37, 38, 97
3	Workplace equality, diversity, and inclusivity	equal	index	proud	corpor	work	
4	Energy sector	gas	oil	energi	natur	us	13, 29, 46, 49
5	Credit rating agencies	rate	moodi	assign	million	bond	All
6	Business and employment	busi	employe	job	small	new	69, 68, 67, 66, 65, 64, 63, 62, 61, 60
7	Economic indicators and market trends	us	market	rate	price	high	69, 68, 67, 66, 65, 64, 63, 62, 61, 60
8	Awards, recognition, and achievements	award	year	compani	name	honor	
9	Legislative and political actions	us	act	vote	protect	support	
10	Sustainability and climate change	futur	sustain	energi	chang	innov	
11	Financial reporting and corporate results	quarter	result	second	earn	report	All
12	Celebration and recognition of cultural heritage	celebr	month	american	black	histori	
13	Celebrations, well-wishing, and expressing happiness	year	happi	celebr	day	wish	
14	Health and medicine	covid19	vaccin	test	learn	get	80, 28, 51, 63
15	Climate action	climat	emiss	chang	sustain	reduc	
16	Financial assistance	help	save	student	loan	plan	69, 68, 67, 66, 65, 64, 63, 62, 61, 60
17	News and statements by political figures	say	presid	trump	us	state	
18	Technology, data, and network solutions	data	center	network	5g	new	All
19	Education	student	program	learn	educ	help	
20	Community support and philanthropy	communiti	support	help	provid	program	
21	Home, lifestyle, and shopping	get	home	make	one	new	All
22	Entertainment and media consumption	watch	new	live	game	episod	78, 79
23	Security, risk management, and data protection	secur	risk	data	protect	learn	All
24	Health and healthcare	health	care	help	patient	access	80, 28, 51, 63
25	Event or webinar invitation	join	us	today	regist	pm	
26	Sustainability and environmental protection	sustain	help	protect	learn	planet	
27	Markets, investments, and finance	market	global	read	discuss	invest	69, 68, 67, 66, 65, 64, 63, 62, 61, 60

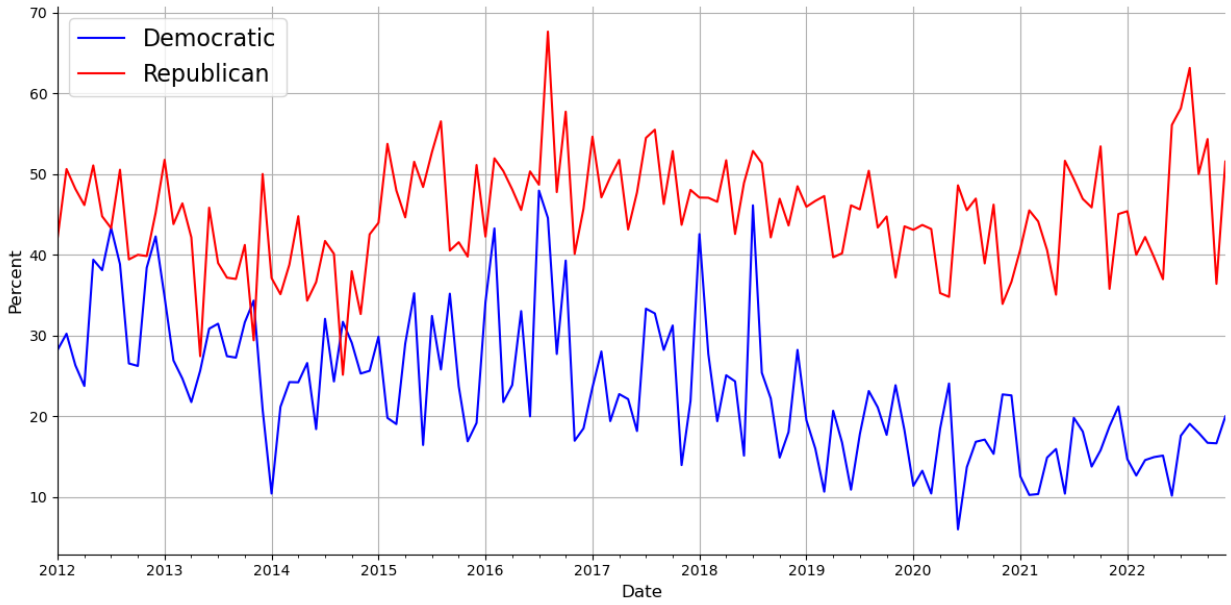
	Topic Label	5 Most Important Unigrams					Business
28	Positive sentiments	great	time	see	realli	thank	
29	Military and defense	defens	missil	system	air	us	37, 38, 97
30	Martin Luther King, Jr.	honor	king	dr	right	today	
31	Hard drives and external storage solutions	drive	hard	seagat	storag	new	All
32	Numbers and statistics	year	million	us	1	sinc	All
33	Discussions, interviews, and content featuring executives	discuss	ceo	watch	presid	join	
34	Navy and aerospace	us	uss	ship	carrier	navi	37, 38, 97
35	US China Relations	new	china	trade	us	global	
36	LGBTQ Pride, support, and celebration	pride	lgbtq	communiti	celebr	support	
37	Gender Equality	women	day	celebr	intern	equal	
38	Cities and location	new	red	citi	san	get	All
39	Water safety and cleanliness	water	safe	safeti	help	clean	95, 96
40	Food, hunger relief, and charitable actions	food	help	donat	hunger	us	
41	Inclusivity, diversity, and workplace culture	inclus	divers	employe	work	communiti	
42	Spanish Language	de	la	en	el	para	All
43	Community, racial equity, and social change	communiti	racial	chang	health	equiti	
44	New technologies, products, and solutions	learn	new	technolog	product	read	All
45	Teamwork, appreciation, employment, and community engagement	team	thank	great	employe	week	
46	Business and retail news	via	new	wsj	retail	sale	All
47	Energy, home, and environmental sustainability	energi	home	use	save	gas	
48	Clean energy, renewable power, and sustainability	energi	clean	power	electr	renew	
49	Positive impact	make	work	help	world	us	
50	Contests	win	get	chanc	us	day	

Table IA.5
Meta-Topic Classification

This table reports the associated meta-topic for each topic listed in Table IA.4. Meta-topic groupings and meta-topic labels are assigned by asking Chat-GPT to organize the fifty topics estimated by our biterm topic model into a smaller set of meta-topics.

Topic	Description	Meta-Topic
1	Emergency preparedness and response	Emergency and Security
2	Veterans and military service	Military and Veterans
3	Workplace equality, diversity, and inclusivity	DEI
4	Energy sector	Sustainability and Environment
5	Credit rating agencies	Business and Economy
6	Business and employment	Business and Economy
7	Economic indicators and market trends	Business and Economy
8	Awards, recognition, and achievements	Culture and Celebration
9	Legislative and political actions	Politics and Legislation
10	Sustainability and climate change	Sustainability and Environment
11	Financial reporting and corporate results	Business and Economy
12	Celebration and recognition of cultural heritage	Culture and Celebration
13	Celebrations, well-wishing, and expressing happiness	Culture and Celebration
14	Health and medicine	Health and Medicine
15	Climate action	Sustainability and Environment
16	Financial assistance	Business and Economy
17	News and statements by political figures	Politics and Legislation
18	Technology, data, and network solutions	Technology and Innovation
19	Education	Education and Knowledge Sharing
20	Community support and philanthropy	Community and Philanthropy
21	Home, lifestyle, and shopping	Lifestyle and Entertainment
22	Entertainment and media consumption	Lifestyle and Entertainment
23	Security, risk management, and data protection	Emergency and Security
24	Health and healthcare	Health and Medicine
25	Event or webinar invitation	Education and Knowledge Sharing
26	Sustainability and environmental protection	Sustainability and Environment
27	Markets, investments, and finance	Business and Economy
28	Positive sentiments	Culture and Celebration
29	Military and defense	Military and Veterans
30	Martin Luther King, Jr.	Culture and Celebration
31	Hard drives and external storage solutions	Technology and Innovation
32	Numbers and statistics	Education and Knowledge Sharing
33	Discussions, interviews, and content featuring executives	Education and Knowledge Sharing
34	Navy and aerospace	Military and Veterans
35	US China Relations	Politics and Legislation
36	LGBTQ Pride, support, and celebration	DEI
37	Gender Equality	DEI
38	Cities and location	Locations and Language
39	Water safety and cleanliness	Emergency and Security
40	Food, hunger relief, and charitable actions	Community and Philanthropy
41	Inclusivity, diversity, and workplace culture	DEI
42	Spanish Language	Locations and Language
43	Community, racial equity, and social change	DEI
44	New technologies, products, and solutions	Technology and Innovation
45	Teamwork, appreciation, employment, and community engagement	Culture and Celebration
46	Business and retail news	Business and Economy
47	Energy, home, and environmental sustainability	Sustainability and Environment
48	Clean energy, renewable power, and sustainability	Sustainability and Environment
49	Positive impact	Community and Philanthropy
50	Contests	Culture and Celebration

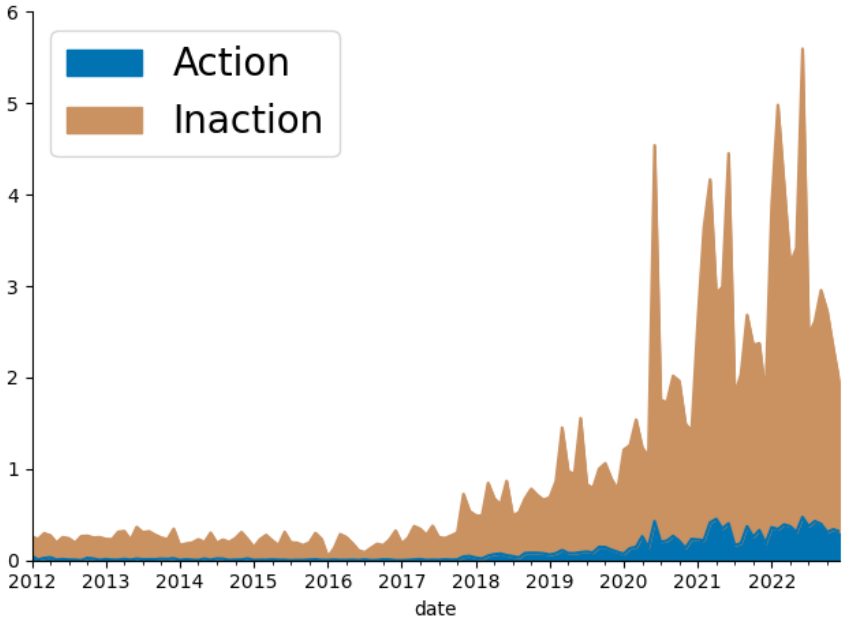
Figure IA.7
Proportion of Business-Related Partisan Tweets



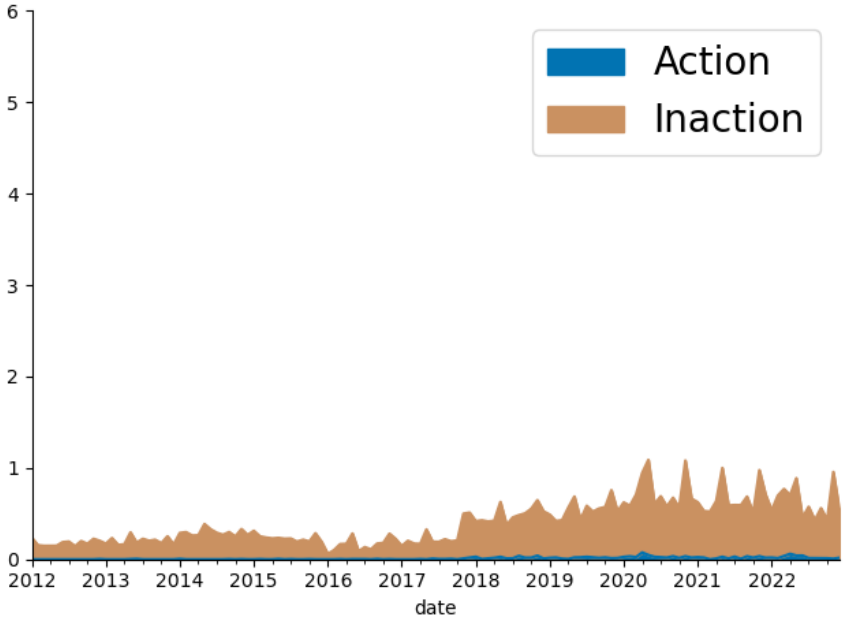
This figure displays the proportion of partisan corporate speech that is classified as business-related using the topics and industries listed in Table IA.4.

Figure IA.8
Action vs. Non-action Tweets

Panel A: Democratic Tweets



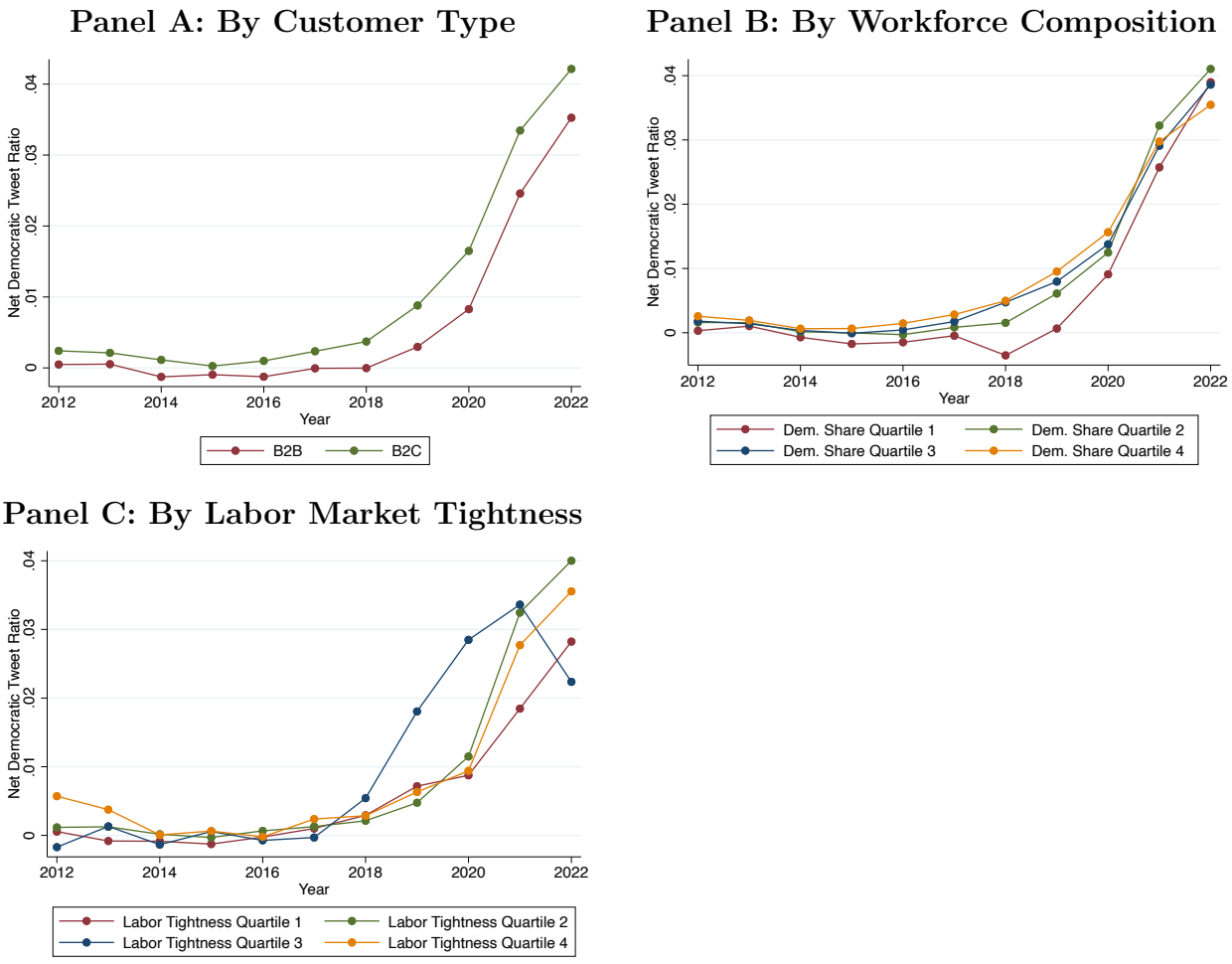
Panel B: Republican Tweets



The figure displays the frequency of Republican and Democratic corporate tweets that describe an action (blue) versus those that do not (brown).

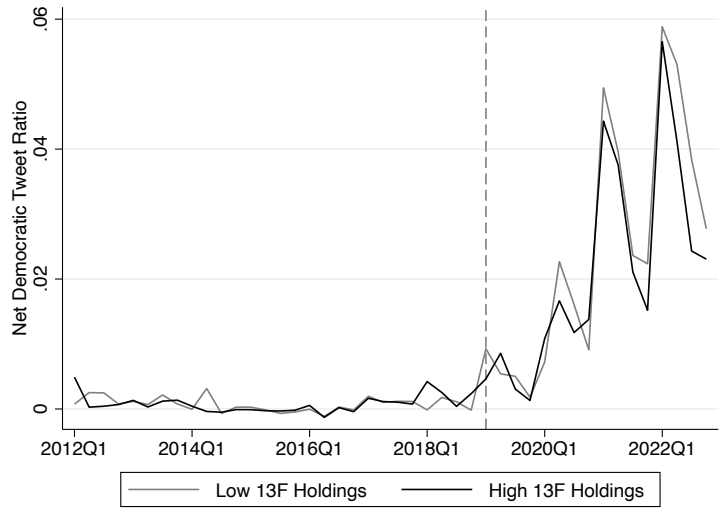
E Additional Results on Firm Heterogeneity

Figure IA.9
Additional Dimensions of Firm Heterogeneity



The figure plots the net Democratic tweet ratio, defined as the percentage of Democratic tweets minus the percentage of Republican tweets by a company in a given calendar year, by customer type (Panel A), by workforce composition (Panel B), and by labor market tightness (Panel C). In Panel A, Fama-French-48 industries are manually classified as B2B versus B2C based on their descriptions at `https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/Data_Library/det_48_ind_port.html`. In Panel B, we compute the share of Democratic workers at the firm-year level, defined as the number of Democratic workers divided by the number of Democratic and Republican workers, after combining resume data from Revelio Labs and commercial voter data by L2, Inc. In Panel C, labor market tightness is computed for a given North American Industry Classification System (NAICS) code and calendar year as the average number of job openings divided by the level of unemployment, as reported on the website of the Bureau of Labor Statistics. Quartiles are formed within a given calendar year.

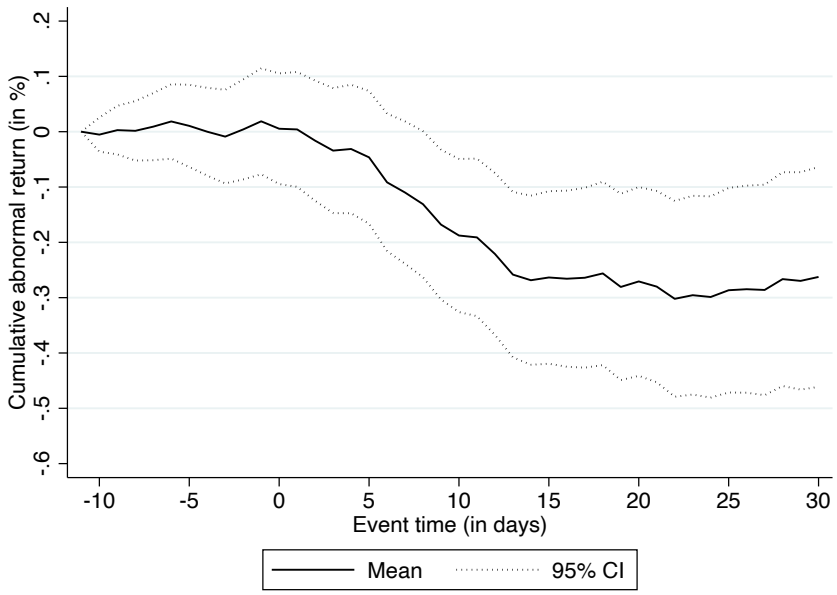
Figure IA.10
Partisan Corporate Speech and Institutional Ownership



The figure plots the average net Democratic tweet ratio for firms with high versus low institutional ownership, sorted within BlackRock ownership quartile. Institutional ownership is measured using holdings by 13F investors. We first sort all firms into quartiles based on their BlackRock ownership in a given quarter, and then sort firms into high versus low total institutional ownership groups by splitting at the median within each quartile. The dashed vertical line corresponds to the first quarter of 2019.

F Additional Results on Stock Returns Around Partisan Corporate Tweets

Figure IA.11
Stock Returns Around Partisan Corporate Tweets: Long Event Window



The figure repeats Figure 6, Panel A in the main paper, using a 30-day post-event window.

Table IA.6
Average Stock Returns Around Partisan Tweets: Robustness Tests

The table repeats Table 4 in the main paper, using alternative clustering strategies for standard errors (Panels A and B) and non-winsorized returns (Panel C).

Panel A: Clustering at the Tweet-date Level

	Cumulative Abnormal Return (in %)					
	(0,+1)	(0,+3)	(0,+10)	(0,+1)	(0,+3)	(0,+10)
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.017	-0.056*	-0.213***	-0.052	-0.121**	-0.295***
	(0.022)	(0.033)	(0.052)	(0.041)	(0.057)	(0.087)
N	8,990	8,990	8,990	2,777	2,777	2,777
High surprise only?	No	No	No	Yes	Yes	Yes

Panel B: Clustering at the Calendar-month Level

	Cumulative Abnormal Return (in %)					
	(0,+1)	(0,+3)	(0,+10)	(0,+1)	(0,+3)	(0,+10)
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.015	-0.068*	-0.215***	-0.052	-0.121*	-0.295***
	(0.023)	(0.040)	(0.078)	(0.042)	(0.061)	(0.099)
N	8,465	8,465	8,465	2,777	2,777	2,777
High surprise only?	No	No	No	Yes	Yes	Yes

Panel C: Non-winsorized Returns

	Cumulative Abnormal Return (in %)					
	(0,+1)	(0,+3)	(0,+10)	(0,+1)	(0,+3)	(0,+10)
	(1)	(2)	(3)	(4)	(5)	(6)
Constant	-0.012	-0.056	-0.191***	-0.034	-0.121	-0.246**
	(0.026)	(0.041)	(0.067)	(0.052)	(0.075)	(0.125)
N	8,990	8,990	8,990	2,777	2,777	2,777
High surprise only?	No	No	No	Yes	Yes	Yes

G Model Appendix

Lemma 1. *In the absence of a political controversy, the price of a share is given by Y.*

Proof. Investor utility is given by

$$U_j\left(C_j, x_j, a\right) = C_j + x_j \delta_j \mathcal{A}_j(a)$$

Notice that

$$\frac{\partial C_j}{\partial x_j} = Y$$

where this follows from the payout of Y per share in the stock. This implies that

$$\frac{\partial U_j}{\partial x_j} = Y + \delta_j \mathcal{A}_j\left(a\right) = Y$$

where the second equality exploits that we are in the no-controversy case and so $\mathcal{A}_j\left(a\right) = 0$. This expression is identical for all j and determines the price of a share. □

Lemma 2. *After taking action a_D, if the firm could be fully financed by the D investor, the price of a share of the firm would be given by*

$$P = Y + \delta_D \tag{7.8}$$

Proof. In this case, we know that

$$\frac{\partial U_D}{\partial x_D} = Y + \delta_D A_D\left(a\right) = Y + \delta_D$$

where the second equality follows from $\mathcal{A}_D\left(a\right) = 1$ in the hypothesized equilibrium. This object will determine the price as the D investor is willing to hold x shares at this price and the R investor is unwilling to purchase any shares at this price, as $\frac{\partial U_R}{\partial x_R} = Y - \delta_R < P$. □

Proposition 1. *There exists no equilibrium where the shares in the firm are fully held by a single investor.*

Proof. To show this, we check each case and verify that in each case it is not possible for a single investor to hold the entire stock.

Case 1: no controversy

By lemma 1, we know that in this case $P = Y$. If a single investor held the entirety of the stock, that would require $x_j Y = xY$, but we know that $xY > W_j$ by Assumption 1. This

is a contradiction and implies that the stock must be held by both investors in non-zero amounts.

Case 2: controversy and stock held by aligned investor

By lemma 2, we know that in this case the price is given by $P = Y + \delta_D$ (WLOG suppose that the aligned investor is the D type). This implies that $P > Y$. This again violates Assumption 1, because then $Px > Yx > W_D$.

Case 3: controversy and stock held by nonaligned investor

It is easy to show that in this case, the price is given by $P = Y - \delta_R$ (WLOG assume that the nonaligned investor is the R type). This does not immediately lead to a violation of Assumption 1, because now $P < Y$. However, this cannot be an equilibrium, because now the D type investor is willing to purchase shares from the R type investors at price $Y + \delta_D > P$.

This completes the proof, as there is no equilibrium that can be sustained where only a single investor type holds shares in the stock. □

Proposition 2. *If a controversy occurs and the firm takes action a_D, equilibrium, if it exists, is defined by the allocations*

$$x_D = \frac{W_D}{Y - \delta_R} \text{ and } x_R = x - \frac{W_D}{Y - \delta_R} > 0 \tag{7.9}$$

with

$$P = Y - \delta_R \tag{7.10}$$

this equilibrium is guaranteed to exist if

$$W_D < (Y - \delta_R)\, x \tag{7.11}$$

Proof. To show this, we first notice that any candidate equilibrium must have $x_R, x_D > 0$, by Proposition 1. This implies that the price must be set by the FOC of the R investor, if $P > Y - \delta_R$ then the R investor is not willing to have $x_R > 0$. If $P < Y - \delta_R$ then it cannot be an equilibrium because both investors would want to purchase more shares at that price. We next observe that any equilibrium must have $x_D = \frac{W_D}{P}$. Since the price is set by the FOC of the R investor, the D investor will purchase as many shares as they are able, until their budget constraint binds. x_R is then solved for using the market clearing condition.

□

Proposition 3. *When $\delta_D > \delta_R$, the firm will find it optimal to take action a_D.*

Proof. If the firm takes action a_D the price will be determined by the R's first-order condition

$$P = Y - \delta_R$$

If firm takes the action a_R then price will be determined by the D's first-order condition

$$P = Y - \delta_D$$

The firm will find it optimal to take action a_D if

$$Y - \delta_R > Y - \delta_D \Leftrightarrow \delta_D > \delta_R$$

which verifies the claim. □

Corollary 1. *When a political controversy arises and the firm takes an action $a \in \{a_R, a_D\}$, the stock price declines. If the firm takes action a_D, the price falls by $(1-q)\delta_R$; if it takes action a_R, the decline is $(1-q)\delta_D$.*

Proof. The equilibrium price conditional on a controversy is $P < Y$ by Proposition 2. If a controversy does not occur, the price is given by Y, from Lemma 1. Before it is known whether a controversy will arise, the price will be given by

$$P_0 = qP + (1-q)\,Y \text{ where } P = Y - \delta_R < P_0 < Y \text{ since } 0 < q < 1$$

WLOG assume the action taken is a_D. The difference between P_0 and P is given by

$$\begin{aligned} P_0 - P &= qP + (1-q)\,Y - P \\ &= (1-q)\,Y - (1-q)\,P \\ &= (1-q)\,(Y - P) \\ &= (1-q)\,(Y - (Y - \delta_R)) \\ &= (1-q)\,\delta_R \end{aligned}$$

The case for $a = a_R$ is symmetric. □

G.1 Model Extension

In the analysis below, we extend the model to allow for a quadratic cost of non-alignment. It can be shown that equilibrium is characterized by the allocations

$$x_D = \frac{W_D}{P} \text{ and } x_R = x - \frac{W_D}{P} > 0 \tag{G.1}$$

with prices satisfying

$$P = \frac{1}{2}\left(Y - \delta_R x + \sqrt{(Y - \delta_R x)^2 + 4\delta_R W_D}\right) \tag{G.2}$$

where $P \in (0, Y)$ is increasing in W_D and decreasing in δ_R. A sufficient condition to guarantee an equilibrium exists is $W_D < \delta_R x^2$.

Proposition 4. *The negative price effects of political controversies decrease with the alignment of the firm's action with its investor base.*

Proof. It is easy to verify that the difference between the initial price (P_0) and the price on controversy (P) is given by the expression

$$P_0 - P = (1 - q)(Y - P)$$

This expression is decreasing in P. From the expression above, we know that $P \in (0, Y)$ is increasing in W_D, this implies that the RHS is decreasing in W_D, which is the content of the claim. □