Firm partisan positioning, polarization, and risk communication: Examining voluntary disclosures on COVID-19

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Abstract
Research Summary: The COVID-19 pandemic will rank among the greatest challenges many executives will have faced and not only due to the operational challenges it posed. Upon entering the U.S. context, the disease was immediately politically polarized, with clear partisan splits forming in risk perceptions of the disease unrelated to science. We exploit this context to examine whether firms' partisan positioning affects whether and how they communicate risk to their investors on a polarized public policy issue. To do so, we examine the covariation between firms' disclosure of COVID-19 risks and the partisanship of their political giving. Our analysis of earnings call and campaign contribution data for the S&P 500 reveals a positive association between a firm's contributions to Democrats and its disclosure of COVID-19 risks.

Managerial Summary: From its onset in the United States, attitudes toward and discourse around the COVID-19 pandemic was heavily politicized and perceptions of the disease's risks were seen as more serious by Democratic-identifying individuals than Republican identifiers. In this study, we examine whether this pattern also holds for U.S. publicly traded firms, who can also stake out a political position through their corporate political action committee campaign contributions. In analyses of earnings call transcripts from the first quarter of 2020, we show that the more Republican-leaning...
(Democrat-leaning) a firm’s campaign contributions are, the less (more) likely it was to voluntarily disclose risks related to COVID-19. We argue that these findings hold implications for parties interested in interpreting firm’s risk disclosures on politically polarized issues.

**KEYWORDS**
corporate political activity, COVID-19, managerial risk, political polarization, voluntary disclosure

1 | INTRODUCTION

In early November 2019, scientists first identified a novel coronavirus in Hubei, China. The disease that the virus inflicts, the Novel Coronavirus Disease-2019 or COVID-19, spread rapidly, with the first case in the United States reported on January 21, 2020. By that month’s end, the World Health Organization (WHO) declared the disease a public health emergency and upgraded it to pandemic status on March 11. Unsurprisingly, COVID-19 and the efforts to minimize its effects have had a dramatic impact on business, imposing unique challenges on corporate executives. Among these challenges, executives must assess the risks that the virus and policy responses pose to their firms and decide whether and how their firms should voluntarily disclose those risks to key stakeholders (cf. Hardy & Maguire, 2020).

Somewhat unique to the United States, however, is that from the onset, discourse around the COVID-19 took on a politicized nature, in which political partisanship informed views of the disease. Nationwide surveys consistently show that, among the mass public, Democratic-identifying individuals perceived the risks of COVID-19 as more serious than Republican identifiers (Agiesta, 2020; Green & Tyson, 2020). Further, many Republican political leaders and many members of the conservative news media continued to downplay the risks of the disease well into 2020, even as evidence mounted that the disease would have a significant impact on the economy (Green, Edgeron, Naftel, Shoub, & Cranmer, 2020).

The politicization of COVID-19 in the United States is perhaps unsurprising as it occurred against the backdrop of a society increasingly characterized by both ideological polarization driven by policy differences (Fiorina & Abrams, 2008) and affective polarization driven by the dislike and distrust of members of the other political party as a function of social identity (Iyengar, Lelkes, Levendusky, Malhotra, & Westwood, 2019). This rising and increasingly intense political polarization poses a strategic challenge for firms when an issue they need to manage takes on a strong partisan valence, as the typical issues that firms must manage lack such a valence and attract little public attention (Smith, 2000).

In this article, we leverage the challenges imposed by COVID-19 to explore the interrelationship between executives’ strategic decision-making with regard to how they politically position their firms’ (i.e., where they lay on the political spectrum between 100% Republican and 100% Democratic), as reflected in their corporate political action committee (PAC) donations, and the degree to which they voluntarily disclose risk on a politically polarized issue, as reflected in their discussion of COVID-19 risks on quarterly earnings calls. We theorize that stakeholders develop expectations of a firm’s behavior based, in part, on a firm’s partisan political positioning (hereafter, partisan positioning) and that because of the politicization of
COVID-19 and broader political polarization, the more Republican a firm's partisan positioning is, the less frequently its management will discuss COVID-19-related risks on its earnings calls. We expect this relationship despite the fact that, at baseline, conservative actors are assumed to be more risk averse (see, e.g., Jost, Federico, & Napier, 2009).

Earnings calls represent an economically important empirical context in which to measure voluntary disclosures of risk, as studies reveal that financial markets react to the information shared in these calls beyond what is mandated as part of a firm's financial statements (Bushee, Matsumoto, & Miller, 2003). By voluntarily disclosing its risks, a firm reduces information asymmetry between executives and shareholders, which increases analysts' forecast accuracy and impacts trading behavior (Guo, Sengul, & Yu, In Press). Voluntary risk disclosure improves shareholders' trust in the firm's management, thereby reducing both the firm's cost of capital (Healy & Palepu, 2001) and costs incurred from shareholder lawsuits (Skinner, 1997). As such, there is value in understanding the factors that motivate executives to communicate the potential effects of systematic risks, like COVID-19.

The results of both ordinary least squares (OLS) and matched sample analyses of the relationship between partisan positioning and COVID-19 risk disclosure among S&P 500 firms reveal that the more Democratic (Republican) a firm's partisan positioning is, the greater (lesser) the amount of discussion related to COVID-19 risk by that firm's representatives on its earnings call held during the first quarter of 2020 (January 2 – March 31). These results hold when analyzing both the full earnings calls and just their presentation sections, and when we test binary indicators of whether the firm made any COVID-19 risk disclosure. We find that our effects begin to diminish in late March, which corresponds with the Securities and Exchange Commission (SEC) calling upon executives to discuss COVID-19 risks, as well as broader interventions by the government to address the disease and deal with its economic fallout. This pattern represents a potential boundary condition of our theory, which we discuss below.

Our study primarily contributes to two literatures and may also inform practice and policy. First, within strategic management, we develop and test theory on a heretofore unstudied constraint on firms' decision-making with regard to risk that spans the firm and environmental levels: partisan positioning. Second, in showing that risk discussions in earnings calls are determined, in part, by a firm's partisan positioning, we contribute to the empirical literature on disclosure by providing novel evidence that the quality of voluntary disclosures on earnings calls can be colored by a firm's political commitments. This second contribution has practical implications for financial market participants and policy implications for regulators.

2 | THEORY AND HYPOTHESIS

A key premise undergirding much of contemporary organizational scholarship is that a firm's environment can change, often in unpredictable ways (e.g., Thompson, 1967). Significant disruptions to a firm's environment, such as natural disasters (Ballesteros & Gatignon, 2019), financial crises (Flammer & Ioannou, 2021), political upheavals (Cobb, Wry, & Zhao, 2017) or, indeed, pandemics cast doubt on prior expectations of firm performance as they create new, potentially unforeseen risks (Audia, Locke, & Smith, 2000). Following Christensen et al. (2015, p. 1920), we view business risk as arising when “there is uncertainty about both the positive and negative outcomes associated with... activity.” Because executives are tasked with being stewards of their firms, they have strong incentives to objectively assess risk faced by their firms (Davis, Schoorman, & Donaldson, 1997), and they are expected to communicate these risks to
help facilitate understanding among the firm’s key stakeholders (Fjeld, Eisenberg, & Compton, 2007).

Yet, not everything that could potentially be defined as a risk is recognized or disclosed as one (Douglas & Wildavsky, 1982; Hardy, Maguire, Power, & Tsoukas, 2020). Executive-, firm-, and environmental-level factors shape executives’ construal of the environment, as well as risk-related strategic decisions, including the voluntary disclosure of risk. For example, at the executive-level, the upper echelons perspective contends that a firm’s willingness to recognize, disclose, and/or take risks is a product of its executives’ psychological makeup and experiences (Hambrick, 2007). Psychological factors affect executives’ construal of their firm’s external environment and thus their strategic choices regarding environmental risk (Eggers & Kaplan, 2013). In this vein, researchers have found that executives’ individual political ideologies affect their willingness to engage in risky strategies. Hutton, Jiang, and Kumar (2014) find that conservative executives tend to prefer less risky corporate policies—their firms have lower levels of debt, lower capital and research and development expenditures—and Christensen et al. (2015) document that when firms are led by conservative executives, they are less willing to engage in risky tax avoidance activities.

Although the upper echelons perspective has animated much research on how political ideology affects managerial risk taking and corporate strategy generally (e.g., Chin, Hambrick, & Treviño, 2013), importantly, firm- and environmental-level factors also shape firms’ risk taking and risk communication. Notably, the performance, diversification, and size of the firm and the dynamism, complexity, and munificence of its environment, influence executives’ understandings of and firms’ reactions to environmental conditions (Hoskisson, Chirico, Zyung, & Gambeta, 2017).

Building off this prior research, we advance that certain risks can take on a valence embedded in political partisanship rather than the substantive merits of the issue generating the risk. Thus, we aim to extend the literature on responses to environmental risk in two ways. First, we introduce a new firm-level construct to the literature that may also serve as a constraint on risk-related strategic decisions—a firm’s partisan positioning—and we contend that a firm’s partisan positioning is most likely to serve as an environmental constraint on risk-related decisions on politically polarized issues. Second, we argue that in novel strategic contexts, and absent regulatory guidance, a firm’s partisan positioning and the partisan political nature of the issue generating risk will shape a firm’s voluntary disclosure of the risk.

2.1 Firm partisan positioning

In the U.S. political context, firms often directly engage in partisan politics via corporate political activity (CPA). Although evidence on the efficacy of CPA on firm performance is mixed (see, e.g., Hadani & Schuler, 2013), CPA is often thought to be strategic in intent, if not in effect. The main vehicle by which firms engage in partisan politics is via their corporate PACs, as PAC contributions are thoroughly disclosed and create visible associations between firms and the politicians and parties to whom they donate. As such, a firm’s PAC is what stakeholders, including policymakers, consumers, the media, and social movement activists, consider the firm’s voice in politics (McDonnell & Werner, 2016).1

We argue that by engaging in CPA via a PAC, a firm establishes a partisan position: that is, a signal of the degree (from 100% Democratic to 100% Republican) to which a firm is aligned with a specific political party in the social and political spaces in which it operates. Business
PACs have been modeled prototypically as pragmatic, access seeking actors (Bonica, 2016), and aggregate patterns in corporate PAC contributions roughly correlate with partisan divides in Congress. Yet, as Gimpel, Lee, and Parrott (2014) find, this assumption does not necessarily hold at the level of individual industries or firms, with roughly one-third of sectors showing clear partisan preferences in their giving. For example, extractive firms show a marked preference for Republicans, and casinos and retail pharmacies are more Democratic in their giving. Thus, we contend that when a firm determines the partisan balance of its PAC contributions, it has effectively made a “conscious choice” (Baron, 2013, p. 38) to establish a partisan position. This position is an actively constructed, collective, and strategic organization-level identity arrived at by the executives responsible for the firm’s CPA.2

This positioning is critical to a firm’s political strategy because corporate PACs tend to follow long-term investment strategies that lead to substantial path dependence in political giving (Snyder Jr., 1992). As a result, this partisan positioning can lead various stakeholders, including policymakers, current and potential employees, and consumers to effectively place the firm on the partisan political spectrum. For example, members of Congress are most likely to meet with lobbyists who have contributed more to their and co-partisans’ campaigns, as they view these lobbyists as being among their allies (Hojnacki & Kimball, 1998). As Furnas, Heaney, and Lapira (2019) similarly argue in a study of lobbyists’ political contributions, among political elites, “organizations become known with respect to their political loyalties” (2).

In sum, we argue that although corporate PAC contributions are a means for firms to manage external political constraints, these contributions become embedded in networks of interdependence with political leaders, who then form expectations about firms. A firm’s partisan positioning, therefore, represents a type of sociopolitical commitment (cf. Selznick, 1949) upon which stakeholders generate expectations and hold firms to account for deviations. Witness, the reaction of Republican Senators Mitch McConnell and Ted Cruz to business activism on voting rights in 2021. The former, despite being a staunch supporter of corporate attempts to influence elections, told firms taking stands on sociopolitical issues “to stay out of politics.” The latter wrote in a Wall Street Journal op-ed that firms’ “woke money is no good here,” declaring that he would no longer accept corporate PAC contributions due to firms’ sociopolitical activism.

2.2 Firm partisan positioning and politically polarized issues

The degree to which partisan positioning constrains aspects of a firm’s risk-related decision-making, however, will depend upon the degree to which partisanship matters in the issue

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1Evidencing this, in the wake of the January 6, 2021 insurrection at the U.S. Capitol building, dozens of major corporations came under substantial pressure to alter their PACs’ contribution policies toward those members of Congress voting against certifying the results of the 2020 presidential election (Sorkin et al., 2021).

2We view a firm’s partisan positioning as a distinct concept from its organizational political ideology (Parsons, 1951), which Gupta, Briscoe, and Hambrick (2017) define as, “prevailing beliefs among organizational members about how the social world operates, including convictions about what outcomes are desirable and how they should be achieved” (4). A firm’s organizational political ideology has deep roots in individuals’ psychological make-up and is operationalized based upon aggregating observable individual behavior. Although individual-level ideologies may affect how a firm assesses risk, it is less discernible to firm stakeholders than the firm’s PAC activity and is not a purposefully chosen organizational-level identity. Thus, we believe it does not signal to a firm’s stakeholders a firm-level political commitment in the same way that partisan positioning does.
environment. Although ideological polarization—in which Republicans favor a minimal state and Democrats a more robust, interventionist one—continues to play a role in American politics, research in political science suggests that affective polarization is increasingly important (Finkel et al., 2020). A key aspect of affective polarization is that people who identify as members of one political party dislike and distrust those members of the opposition party (Abramowitz & Webster, 2016). Not only are Americans more distrustful across parties, a process of “affective spillover” has occurred in which partisan allegiances affect social and economic behaviors as far ranging as dating and hiring (Iyengar et al., 2019). Consumers, for example, are less willing to purchase gift cards, even at substantial discounts, from companies that have PACs that contribute to their non-preferred party (Panagopoulos, Green, Krasno, Schwam-Baird, & Endres, 2020).

We contend that once an issue has been politically polarized, the strategic options for communicating and/or managing risk available to firms that have positioned themselves in a more partisan fashion may be quite narrow. If a firm’s prior political commitments result in the formation of a position or identity of being more Republican or more Democratic, stakeholders will have specific expectations of how the firm should act when addressing a new issue on which divisions are characterized by hyperpartisanship. If the firm behaves in line with these expectations, it will cultivate a stakeholder base supportive of the firm’s values, and if it deviates from these expectations, it may find itself alone, supported by neither side (Lyon & Montgomery, 2015). For example, after announcing unconditional pauses on their PAC giving in the wake of the January 6, 2021 insurrection at the U.S. Capitol, several firms with histories of giving to Democrats found themselves the subject of a demand by the party to reinstate their giving to it or to face adverse policy consequences (Mullins, Glazer, & Day, 2021).

In many scenarios, greater alignment with one political party versus the other can yield a nonmarket competitive advantage. Yet, as stakeholders form expectations about a firm’s behavior based on its partisan positioning, this positioning may constrain the firm’s ability to respond to politically polarized events. That is, a firm’s partisan positioning may become a “core rigidity” (Leonard-Barton, 1992), whereby a stronger alignment with a given party could become a disadvantage—a possibility Baron (2013, p. 42) refers to as a “peril of nonmarket positioning.”

To be clear, we are not arguing that firms or their leaders are affectively polarized, but rather, that due to stakeholder expectations, a firm’s partisan positioning will correlate with how it strategically responds when an issue becomes characterized by political polarization.3

2.3 Political factors and firm risk disclosure

In the context of risk communication, the presence of these firm- and environmental-level constraints suggest that a firm’s willingness to recognize and voluntarily discuss business risks on a politically polarized issue will be shaped, at least in part, by the views on the issue of the political party with which the firm’s partisan positioning more closely aligns. Specifically, absent disclosure regulation or guidance, a firm’s voluntary disclosure of risk will be shaped by the relationship between its partisan positioning and the partisan political nature of the issue

3We also do not claim that executives are individually subject to affective polarization in their actions. We recognize this may be the case, however, and we attempt to account for this possibility by controlling for the partisanship of each firm’s CEO and CFO (the most likely participants on earnings calls) in our empirical analyses.
generating risk: firms with a more Republican (Democratic) partisan positioning will behave more in accordance with Republican (Democratic) stances on the issue.

We make no claims about what the “correct” amount of risk communication should be. Rather, in this study, we argue and expect that a firm’s partisan positioning will shape the voluntarily discussion of risk on a politically polarized issue (e.g., COVID-19). Determining whether this relationship holds is substantively important because executives may view maintaining a close alignment between the firm and its co-partisan stakeholders as being more important than recognizing the potential business risks of an issue. In our research setting then, if the political polarization of an issue undermines the quality of voluntary disclosures, it would be harder for financial market participants to understand how the risks of an issue are likely to affect a given firm. These arguments motivate our hypothesis:

**Hypothesis 1.** In novel strategic contexts, the degree to which a firm voluntarily discloses risk related to a politically polarized issue will be positively correlated with the degree to which its partisan positioning aligns with the political party that views the issue as a source of risk.

## 3 | EMPIRICAL CONTEXT: THE POLITICAL POLARIZATION OF COVID-19

As noted in the introduction, the first phase of the COVID-19 pandemic unfolded over a series of months. On January 7, 2020, cases of pneumonia that had been earlier reported from the Wuhan province in China had been identified as a new coronavirus, and the following day, the U.S. Centers for Disease Control issued its first official health advisory. On January 20, Chinese officials confirmed that human-to-human transmission of the virus was possible. The first U.S. case was confirmed the next day, and the first earnings call by a firm in our sample (United Airlines Holdings, Inc.) that discussed COVID-19-related risk occurred. Figure 1 plots the across-time distribution in earnings calls, as well as firm and public attention to the coronavirus (proxied by Google search intensity).

At the end of January, the WHO had declared the outbreak a “public health emergency,” and the U.S. announced travel restrictions on China. By this time, several firms openly discussed the coronavirus and voluntarily disclosed associated risks in their earnings calls; a trend that, as Figure 1 shows, grew in the following weeks. Further global air restrictions were put in place by the U.S. and other large, industrial countries on February 2. Two days later, the Wall Street Journal published an op-ed warning that a pandemic seemed inevitable (Borio & Gottlieb, 2020). Hence, from mid-January to early February, governments and the media both produced increasing amounts of information that suggested that the coronavirus could present a major health challenge and potentially a significant economic challenge.

To be clear, during this early period there was uncertainty about the virus and the potential for it to disrupt economic activity. Yet, by early February, efforts to stem the virus’ spread in China were underway, leading to significant declines in export activity from the country (Cerdeiro, Komaromi, Liu, & Saeed, 2020). Although public health authorities across Europe made interventions to minimize its spread, in the United States, political partisanship colored responses. President Donald Trump, many Republican political leaders, and some members of the conservative media continued to downplay the virus’ risks into March (Green et al., 2020). For example, despite the Dow Jones Industrial Index dropping 1,000 points on February 24—the
first day in which U.S. stock markets reacted strongly to COVID-19 fears—the president stated that the virus was under control and that the stock market was now undervalued (Stevens, 2020).

By early- to mid-March, however, various levels of the U.S. government began making more significant efforts to curb the disease’s spread, as well as to cope with its economic fallout. The Federal Reserve cut interest rates 0.5 points on March 3, and the president signed an emergency spending bill on March 6. The weekend of March 7 and 8 witnessed a significant price war erupting in oil markets, causing prices to plummet. On March 11, the WHO declared COVID-19 a pandemic, and President Trump announced a travel ban on European Union countries. He followed up by declaring a national emergency on March 13. That same day, several U.S. states announced school closures, a trend that continued through that weekend. March 16 witnessed the second worst decline in Dow Jones history, and the S&P index and NASDAQ both declined approximately 12%. Although only days later President Trump declared that the country will “soon be open for business,” by month’s end, most U.S. states had imposed stay-at-home orders, over three million Americans filed for unemployment (with 6.5 million more to join them the first week of April), the Federal Reserve announced major interventions in the bond market, and the U.S. Congress passed a $2 trillion stimulus package.

We do not claim that each political party had reached full consensus about COVID-19 risks in these early months. However, considerable evidence suggests that COVID-19 became a politically polarized issue during this time, and multiple studies examining individual behavior support this claim. For example, data from the Pew Research Center revealed that in mid-March, Democratic-identifiers were more likely than Republican-identifiers to view the coronavirus as a “major threat to public health” (Green & Tyson, 2020), and relying upon location data from a large sample of smartphones, several studies found that in areas with more
Republican voters, individuals engaged in less social distancing (e.g., Barrios & Hochberg, 2020; van Holm, Monaghan, Shahar, Messina, & Surprenant, 2020). Moreover, at the elite level, Green et al. (2020) find that in this early period, Democratic members of Congress discussed the risks of the coronavirus more frequently than did Republican members, and research has shown that similar partisan splits occurred in the media’s discussion of the virus (see, e.g., Jamieson & Albarracin, 2020).

The emergence of COVID-19 provides an ideal setting in which to test our arguments regarding firms’ voluntary disclosure of risk for several reasons. First, because prior research shows that conservatives tend to be more risk averse (Jost, Glaser, Kruglanski, & Sulloway, 2003) and leerier of the threat of disease (Beall, Hofer, & Schaller, 2016), we would normally expect that actors (i.e., politicians, executives, firms) would be more cognizant of the risks of COVID-19 the more Republican-leaning they are and, in the case of firms, more willing to voluntarily disclose risks related to COVID-19 the more Republican their partisan positioning. In a situation where a political party is more naturally identified with an issue (e.g., Democrats and climate change), it would be difficult to assess the unique effects of partisan positioning absent some sort of shock to disrupt long-held beliefs.

Second, while there was uncertainty as to the ultimate impact of the disease, there is little dispute that it posed risks to many firms in the short- to medium-run. Although other issues may become similarly polarized, they may not affect the performance prospects of most firms in a time frame clear enough to garner mention in firms’ communications with analysts and investors, making it more challenging to observe firms’ risk communications on such issues. Additionally, during the early months of the crisis, firms had ample discretion about whether and how to discuss COVID-19 risks, as there was no regulatory guidance about doing so.

Finally, because COVID-19 was an exogenous event that had a partisan valence in the United States from its onset, COVID-19 could not have shaped firms’ partisan positioning. Hence, we can more precisely determine how a firm’s partisan positioning prior to COVID-19 affected how it communicated business risks associated with the disease. Many polarized issues, such as climate change and immigration, are long-standing; hence, they may have impacted a firm’s current partisan positioning. Our analysis of COVID-19 rules out such concerns of reverse causality.

In sum, we argue that it is reasonable to ask whether a firm’s willingness to voluntarily disclose COVID-19 as a business risk will covary with its partisan positioning. If a firms’ partisan positioning affects its response on a politically polarized issue, then in line with our Hypothesis (H1), we would predict that the more Democratic (more Republican) its partisan positioning, the more (less) likely it will be to voluntarily disclose COVID-19-related risk.

4 | SAMPLE AND DATA

Our initial sample consists of every firm that appeared in the S&P 500 between 1990 and 2020 that was still a going concern as of January 2020. Then, 521 firms are in this population, each of which held an earnings call during Q1 2020. We removed eight firms due to missing data on key earnings statement variables, giving us a sample of 513 firms.

We focus on earnings calls held during the first quarter (Q1) of 2020 (i.e., between January 2 and March 31). We do so for two reasons. First, on March 25, the SEC’s Division of Corporate Finance released guidance to firms about the organization’s “views regarding disclosure and other securities law obligations that companies should consider with respect to the coronavirus
disease," and on April 8, SEC Chairman Jim Clayton urged firms to be more forthcoming about the impact of COVID-19, with his guidance specifically mentioning both quarterly filings and earnings calls as appropriate venues to discuss COVID-19-related risks. Although neither of these actions had the force of law, research shows that such guidance increases the quantity and quality of firms' disclosures (e.g., Kravet & Muslu, 2013).

Second, political polarization's effects decrease when available information contradicts it (Healy & Malhotra, 2013). To that end, research on COVID-19 reveals that in areas with high caseloads of the disease, variance in the perceptions of COVID-19 risks between conservatives and liberals dissipated (Boxell, Conway, Druckman, & Gentzkow, 2020; Boxell, Gentzkow, & Shapiro, 2020; Druckman, Klar, Krupnikov, Levendusky, & Ryan, 2021). As the threat of COVID became more palpable, partisan reasoning diminished, suggesting that stakeholder pressure on firms to conform to their partisan positioning may have also decreased.

Because of the largely unprecedented nature of the economic shutdowns and restrictions occurring throughout the world by the April 1, it was clear there would be at least short- to medium-run disruptions and/or performance effects of COVID-19 for most U.S. firms. That is not to say that one could determine with complete accuracy what the effects of COVID-19 would be for each firm. Rather, we argue that as ambiguity about the economic effects of COVID lessened, so too did the potential impact of partisan positioning on risk disclosures.

We acknowledge that political polarization continued to impact the discourse around COVID-19 into quarter 2 (Q2) and beyond. Yet, much of the ambiguity about the virus's initial impact on the economy dissipated and the SEC issued guidance at that time, which informed our decision to focus on Q1 earnings calls. However, we also analyze data from Q2 (i.e., between April 1 and June 30). While we expect that firm-level partisanship effects will diminish over time in the case of COVID-19, we stress that we might not expect such a diminishment on other politically polarized issues, absent clear regulatory guidelines and/or the emergence of a bipartisan consensus about whether the issue in question would have an impact on the economy.

4.1 Dependent variable: Earnings call disclosures of COVID-19 risk

Our dependent variable captures voluntary firm-level disclosures of COVID-19-related risks, as captured in transcripts from earnings calls that occurred during Q1 of 2020. Analyses of earnings call transcripts have become well established for measuring firms' strategic orientations, such as time-horizons (Brochet, Loumioti, & Serafeim, 2015), sentiment and uncertainty (Loughran & McDonald, 2011), optimism about future performance (Davis, Ge, Matsumoto, & Zhang, 2015), and various kinds of firm risks (e.g., Hassan, Hollander, van Lent, & Tahoun, 2019).

An earnings call is a voluntary quarterly teleconference in which firm officials, often the CEO and/or CFO, discuss operational and financial results from the previous quarter, as well as their outlook for future performance. Although anyone can participate, it is common for analysts following the firm and major investors to attend. Executives discuss firm, industry, and/or general economic conditions and their current and potential future impacts on firm performance. There are two key portions of an earnings call: (a) a firm-generated presentation, commonly prepared and/or reviewed by senior managers, and (b) a “question-and-answer” (Q&A) session.6

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4https://www.sec.gov/corpfin/coronavirus-covid-19.
5https://www.sec.gov/news/public-statement/statement-clayton-hinman.
6See Appendix 1 for examples of transcripts with varying levels of discussion related to COVID-19-related risks.
The contents of and sentiments expressed in these calls provide information to market participants beyond what is contained in financial statements. Several studies show that earnings calls promote a timelier incorporation of information into stock prices (Kimbrough, 2005) and impact investor trading (e.g., Matsumoto, Pronk, & Roelofs, 2011). Managers thus take great care in crafting the language and tone used to communicate about risk, recognizing that these communications can trigger significant reactions from key stakeholders (cf. Wigglesworth, 2020). In this way, risk disclosure in an earnings call constitutes a strategic action, as such calls are economically important and provide one of the few avenues through which firms can communicate future risks with market actors who rely on this information to make decisions.

Furthermore, when unexpected events occur, market participants rely on information provided to them by firms to determine how an event is likely to impact firms' prospects. As noted by Wang, Li, and Xiao (2017), risk disclosure serves two main functions. First, it increases the supply of public information by interpreting known risk factors and revealing unknown ones, improving reporting quality and transparency (Elmy, LeGuyader, & Linsmeier, 1998). Second, risk disclosure guides market participants' understanding of the possible range of future performance by the focal firm (Hail, Muhn, & Oesch, 2021).

Recently, Hassan, Hollander, van Lent, and Tahoun (n.d.) proposed a measure of firm disclosures of COVID-19-related risk, as reflected in company earnings calls. To construct the measure, the researchers identified common synonyms for the disease using online resources and newspaper articles covering COVID-19, combined with hand checks to verify that these disease terms are commonly used in the calls. Using this word list, they constructed a measure of disclosed COVID-19 exposure, which is the number of times COVID-19 synonyms are used divided by the total number of words in the transcript. Next, the researchers constructed a measure of disclosed COVID-19-related risk by conditioning the search for disease mentions (i.e., COVID-19 exposure) on their proximity to synonyms for risk or uncertainty. Hassan et al. validated this measure in several ways, including manual validation that reveals that transcripts mention COVID-19 risks in conjunction with firm-specific concerns regarding supply chain disruptions, potential facility closures, and employee welfare.

We use firm COVID-19 risk disclosure exhibited in earnings call transcripts, as constructed by Hassan et al., as our main dependent variable. Following the authors, we define COVID-19 risk disclosure as the count of COVID-19 synonyms occurring in conjunction with a risk synonym (within 10 words), multiplied by 1,000, and divided by the total document length (number of words). Logging this variable has no material impact on our results. The authors rely on data from the entire transcript to construct their measure of COVID-19 risks, which they make publicly available. We collected transcripts ourselves to test measures of COVID-19 risks that appear only in the presentation section and from them created a measure of disclosed COVID-19 risk-presentation, which is measured as the frequency with which the disease is mentioned in the presentation statement in conjunction (within 10 words) with a synonym for risk or uncertainty.

Most earnings call text analysis methods involve computationally searching texts for a set of words or word combinations (bigrams) from predefined dictionaries. Recent work expands on these methods by using earnings calls to measure specific topics. For example, Hassan et al. (2019) use earnings calls to create and validate a measure of firms' disclosures of political risks. The authors have also developed methods for identifying firm risk disclosures concerning specific topics, such as Brexit or the Fukushima nuclear disaster (Hassan, Hollander, van Lent, & Tahoun, 2020).
uncertainty, multiplied by 1,000, and normalized by the length of the presentation section. Because presentation sections are carefully crafted and vetted, they likely represent a more intentional and conservative measure of voluntary COVID-19 risk communication.

4.2 | Key explanatory variable: Firm partisanship index

Our focal explanatory variable is a firm-level partisanship index, measured on a continuous scale from fully Republican (0) to fully Democratic (1). We follow established methods in strategy research in measuring firm partisanship using contributions to political candidates, parties, and party-affiliated committees, as disclosed in U.S. Federal Election Commission (FEC) reporting. We focus on contributions made by the firm’s PAC. Prior research has used corporate PAC contributions and/or executives’ contributions to measure corporate political ideology, but for our purposes, the use of corporate PAC contributions alone has a few important advantages as a measure of a firm’s partisan positioning.

First, in contrast to executives’ giving or firms’ spending on lobbying or “dark money,” creating and giving through a PAC is perhaps the most thoroughly disclosed method of engaging in federal politics a firm can engage in and contributing to specific politicians and parties creates open associations between the firm and these partisans (Bebchuk & Jackson Jr., 2010). Second, and as discussed above, PAC contributions are also the metric by which key stakeholders—including, policymakers, activists, and investors—evaluate a firm’s partisan positioning, and politicians, in particular are sensitive to the associations that stem from accepting corporate PAC contributions (McDonnell & Werner, 2016; Richter & Werner, 2017).

Third, whereas CEO, board, and general employee campaign contributions are proxy indicators for an individual’s political ideology, they ultimately capture the preferences of single individuals. By contrast, PAC contributions reflect the partisan preferences of several individuals and the firms’ goals (Cohen, Hazan, Tallarita, & Weiss, 2019) and thus are a better measure of how a firm is strategically positioning itself in partisan politics.

Other than employing PAC contributions in place of individual contributions, we follow the method established by Chin et al. (2013) to measure a firm’s partisan positioning from contributions. We include contributions made in the 10 years prior to the COVID-19 pandemic (since 2010) in order to have a sufficiently long window to capture stable partisan patterns in contributing. Employing a 6-year window has no material effect on the results. Using each firm’s PAC contributions, we calculate four measures that capture distinct elements of political giving: (a) the number of contributions to Democratic Party candidates or committees, divided by the number of contributions given to both parties; (b) the dollar amount given to Democrats divided by the amount given to both parties; (c) the number of years over the (10-year time frame) the firm made contributions to Democrats divided by the number of years contributions were made to either party; and (d) the number of distinct Democratic party recipients to which the firm

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8To create risk measures for the presentation section, we collected copies of the call transcripts for our sample firms from the Capital IQ Key Developments Database and closely replicated the Hassan et al. (2020) measures. Computational text analysis typically involves multiple decisions about data cleaning, tokenization, handling of stop words, and differences in underlying texts that can reflect differences across data vendors. As a result, our constructed measure differs slightly from the original Hassan et al. data due to small differences in transcript construction, data cleaning, and the fact that our underlying data comes from a different source. Although we could not perfectly match their measure, our respective measures of COVID-19 risk disclosure are correlated at 0.967; the statistical and substantive results we present below do not differ if we employ Hassan et al.’s measure or our own.
made contributions divided by the number of distinct recipients of both parties. These four indicators all exhibit similar means and variances, so following Chin et al. (2013), we calculate the simple average to generate our firm-level partisanship index.

Then, 174 firms in our sample did not contribute to a corporate PAC during the 10-year donation window, and we handle these noncontributing firms in two ways. First, we follow Chin et al. (2013) in assigning a political partisanship index score of 0.5 (perfectly bipartisan) to firms that did not contribute to a political candidate or party affiliated committee during the observation widow. In our regression models, we introduce a dummy variable to flag these non-contributors with an imputed partisanship score. Second, we estimate a model excluding non-contributors from the sample; our results are consistent across both approaches.

4.3 Control variables

We include several control variables that could affect the voluntary disclosure of COVID-19 risks and may be correlated with a firm’s partisan positioning. First, our models control for COVID-19 exposure, as measured by Hassan et al. (n.d.), which measures the extent to which COVID-19 was discussed in the earnings call, without giving weight to whether it was discussed as a significant risk factor. We include it to account for cross-firm variation in whether COVID-19 was discussed. In analyses using disclosed COVID-19 risks-presentation, we calculated and used a measure of COVID-19 exposure-presentation using text from the presentation section of the transcripts. Relatedly, we also control for peers' COVID-19 risk disclosure, which we measure as the average COVID-19 risk disclosure scores among other firms in the same three-digit NAICS industry that held their Q1 earnings call prior to the focal firm’s earnings call. We also include a control variable for transcript length, which is a count of words in the transcript. We similarly construct a measure of presentation length in our analyses of the presentation section.9

Second, we control for several measures that may affect firms’ political giving behavior. Our models control for the proportion of corporate PAC contributions made to incumbents. This control captures the role of contributions in gaining access to lawmakers and accounts for the pragmatic dimension of CPA (Bonica, 2016). Because policy responses to COVID-19 response could also come from the state level, we include two measures of state policymaking and ideology: a dummy variable indicating whether the firm’s headquarters is in a state with a Democratic governor and a scaled policy index variable running −1 (most conservative) to 1 (most liberal) for the firm’s headquarters state in 2019, as estimated by Caughey and Warshaw (2018). The former measure accounts for the likelihood of emergency policy intervention by the governor, and the latter measure accounts for potential community effects on both a firm’s political activity and its early response to COVID-19.

Additionally, we control for firms’ disclosed political risks, as indicated in the earnings call transcripts. As defined and validated by Hassan et al. (2019), this measure captures risks associated with political concerns by counting the frequency that political topics are discussed in conjunction with synonyms for risk and uncertainty. In a similar vein, we control for the total annual dollar amount of firm lobbying expenditures, averaged over the prior 10 years and

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9Excluding these two controls has no material effect on our results. We also analyze risk disclosures using measures not normalized by presentation/transcript length but still including the length controls, and the results are consistent with those presented here.
log-transformed to account for right skewness. Data on corporate lobbying come from the Center for Responsive Politics’ OpenSecrets lobbying database.

As much of the research in this broader area explores the political ideology of firms’ top-management teams (e.g., Chin et al., 2013), to rule out the possibility that we are capturing the ideology of a firm’s leaders, rather than the firm’s partisan positioning, we include measures of political ideology for each firm’s CEO (CEO political ideology) and CFO (CFO political ideology). To construct these variables, we identified each firm’s CEO and CFO in Q1 2020 using Compustat’s Execomp database and constructed a partisanship index for each individual (i.e., by using their personal campaign contributions over the prior 10 years).

Not all firms were likely to be adversely affected by COVID-19, suggesting that not all were equally as likely to voluntarily disclose COVID-19 risks in earnings calls. The extent to which these differences affect the relationship between partisan positioning and disclosed COVID-19 risks, they present potential omitted variables. We introduce four measures to capture the extent to which firms in our sample were exposed to global market risks, each measured prior to COVID-19-related disruptions. First, we leverage data from Hoberg and Moon (2017, 2019) to create three variables: China-exposure, other Asia-exposure, and Europe-exposure. Analyzing 10-K filings data, Hoberg and Moon count mentions of different countries to capture the extent to which firms are exposed to either input or output risks from each country mentioned. The authors validated these measures against data on foreign trade as reported by the U.S. Census Bureau. Second, and to help control for such global exposure using late-2019 data, we also calculated the percentage of foreign revenues from the Compustat segments database. Taken together, these variables capture firms’ exposure to foreign markets, which had a significant effect on stock market reactions in Q1 2020 (Ramelli & Wagner, 2020).

Research also reveals that in Q1 2020, markets responded more negatively to firms with less cash and with more debt (Ramelli & Wagner, 2020), as such firms might have a more difficult time weathering a downturn. Hence, we control for leverage, which is firms’ long-term debt plus debt in current liabilities divided by total assets, and cash/assets, which is cash and short-term investments divided by total assets. Because COVID-19-related disruptions are likely to vary across industry, we include dummies for three-digit NAICS code. Furthermore, we control for several indicators of size and performance, including (logged) total assets, return on assets, and market-to-book ratio. All of the above measures are constructed from Compustat. We also control for institutional investor ownership concentration, measured using the Herfindahl–Hirschman index drawn from Thomson-Reuters data on institutional ownership.

Firms with a stronger stakeholder orientation may be more likely to disclose COVID-19 risks, in part, because of the virus’ impact on workers, the community, and society. To account for this possibility, we include a measure of firms’ stakeholder orientation by using Sustainalytics’ ratings of firms’ environment, social, and governance (ESG) factors. Sustainalytics’ ESG rating is a

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10There are two limitations to our use of these measures: (a) 44 firms in our sample had no data on 10-K country mentions, and (b) these data were last updated in 2017, potentially missing adjustments that firms made in the 2017–2019 period to their foreign exposure, especially to China. We deal with the former through imputation of missing data (discussed further below), and the latter is likely to be mostly subsumed into industry fixed effects that we include, as the trade war between the United States and China has largely affected sectors (e.g., steel, agriculture) as a whole.

11This measure was also not available for all firms in our sample (82 of our 513 sample firms lacked it), but as with the other foreign exposure variables above, we employ imputation to deal with missingness.

12Using three-digit SIC code dummies in place of the NAICS categorization has no material effect on the results.
Finally, we control for the timing of each firm’s Q1 earnings call. Although the severity of COVID-19 was initially ambiguous, as time elapsed, the disease’s virulence and economic impact became clearer. Therefore, given increased information and salience over time, earnings calls held later in the quarter may be more likely to disclose COVID-19 risks. We thus include a continuous control variable that indexes the date of the earnings call, constructed as the number of days after January 1, 2020 that the call was held.\textsuperscript{14}

As noted above, there were missing data for several of our control variables, particularly our measures of ESG and foreign trade exposure (China-exposure, other Asia-exposure, Europe-exposure, and Percentage foreign revenue). Given our relatively small sample, we aimed to preserve as much data as we could, and thus, we used multiple imputation techniques to impute missing data for these five variables.\textsuperscript{15}

Table 1 presents the descriptive statistics and correlations for our variables.

## 5 | MODEL AND RESULTS

To analyze how COVID-related risk and partisan positioning vary, we estimate linear regression models using OLS with heteroscedastic robust SEs. We estimate (a) a baseline model that includes only our partisanship index, (b) a fully specified model with both our partisanship index and all controls included, (c) the fully specified model run on a subsample that excludes noncontributing firms, and (d) the fully specified model run on only the presentation section of the earnings call. Additionally, to analyze whether partisan positioning affects a firms’ willingness to discuss COVID-related risk at all, we estimate linear probability regression models with our dependent variable recoded as a binary (0,1) indicator with (e) the fully specified model run on the full earnings call transcript and (f) the fully specified model run on the presentation section only. Table 2 presents all six sets of results.

The results of Models 1–4 reveal a positive relationship between the partisan positioning of a firm and its voluntarily disclosed COVID-19 risks. The estimated coefficient for partisan positioning ranges from 0.058 to 0.114, depending upon model specification. The consistency of our findings across Models 2 and 3 helps assuage concern that selection into contributing may affect our results, and Model 4’s results ensures that our effect is driven by COVID-19-related risks discussed by the firm executives in the presentation section of the earnings call, rather than the.

\textsuperscript{13}Unfortunately, Sustainalytics does not cover 25 of our sample firms, but as with our foreign exposure variables, we address this missingness via imputation (discussed further below).

\textsuperscript{14}The likelihood that a call discussed of COVID-19 risks may not follow a linear functional form. As alternatives to including this linear time control, we ran analyses using several alternative measures, including: (a) the squared term of count of days since January 1, 2020; (b) the 7-day cumulative sum of the number of articles published in six major newspaper outlets (Chicago Tribune, Los Angeles Times, New York Times, Wall Street Journal, Washington Post, and USA Today) that mentioned COVID-19 or synonyms; and (c) the daily, cumulative number of reported COVID-19 cases in the United States. The results are consistent irrespective of specification. We used this linear control as it is easiest to interpret, but the analyses with these alternative measures are available upon request.

\textsuperscript{15}We use the multiple imputations with chained equations (mi) in Stata 15. Total ESG and percentage of foreign revenues were imputed using OLS regression while China exposure, other Asia exposure, and Europe exposure were imputed using Poisson regression. We estimate the multiple imputation equations using all other variables in the analysis and produce 10 imputed samples. We also estimate our models using only cases with complete data, and despite reduction in our sample size (from 513 to 378), our results are statistically and substantively comparable.
**TABLE 1** Descriptive statistics and correlation matrix$^a$

|                          | Mean | SD  | 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
|--------------------------|------|-----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| 1. Disclosed COVID-19 risk | .02  | .07 |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 2. Pres. COVID-19 risk    | .03  | .14 | .85|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 3. Partisanship index     | .44  | .11 | .04| .07|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 4. COVID-19 exposure      | .26  | .50 | .61| .55| .09|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 5. Text word count        | 8,407| 1,933| −.11 | −.11 | .06 | −.05|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 6. Prop. to incumbents    | .53  | .42 | −.03 | −.05 | −.33 | −.16 | −.04|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 7. CEO part. index        | .39  | .27 | −.03 | −.00 | .36 | .08  | .06  | −.06|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 8. CFO part. index        | .45  | .24 | .00  | .02  | .22  | .03  | −.01 | −.05 | .25|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 9. Disclosed political risk| 127  | 208 | .22 | .22 | −.01 | .19  | .03  | .01  | −.05 | −.02|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 10. Peers’ COVID-19 risk  | .01  | .02 | .19  | .19 | .06  | .50  | −.02 | −.08 | .16 | .04 | .07 |    |    |    |    |    |    |    |    |    |    |    |    |    |
| 11. Lobbying exp.$^b$     | 6.79 | 8.01 | .00 | −.01 | −.22 | −.11 | .03  | .49  | −.06 | −.00 | .15  | −.13|    |    |    |    |    |    |    |    |    |    |    |    |    |
| 12. Total assets$^b$      | 9.88 | 1.43 | −.09 | −.10 | −.02 | −.15 | .23  | .36  | −.02 | −.01 | .06  | −.11 | .37 |    |    |    |    |    |    |    |    |    |    |    |    |
| 13. Return on assets      | .05  | .09 | .04  | .01  | .09  | .09  | −.01 | −.04 | .05 | .03  | −.02 | −.01 | .04 | −.14|    |    |    |    |    |    |    |    |    |    |    |    |
| 14. Cash on hand          | .09  | .12 | −.01 | .03  | .23  | .08  | −.07 | −.09 | .26 | .14  | −.01 | .08  | −.09 | −.16 | .32 |    |    |    |    |    |    |    |    |    |    |    |    |
| 15. Leverage              | .34  | .21 | −.01 | −.17 | −.07 | −.01 | .27  | .07  | −.14 | .01  | −.03 | −.01 | −.00 | −.01 | −.03 | −.20|    |    |    |    |    |    |    |    |
| 16. Market-to-book        | 1.39 | 70.58 | .02 | .02  | .03  | .02  | .06  | .05  | −.02 | −.01 | .02  | .03  | −.01 | .01  | −.02 | .02 | −.08|    |    |    |    |    |    |    |    |
| 17. Inst. investors (HHI) | .09  | .19 | −.03 | −.05 | .03  | −.00 | −.03 | .05  | .09 | .02  | −.03 | .15  | .04  | .08  | .14  | −.10 | −.00 | .02 |    |    |    |    |    |    |
| 18. HQ state Dem. Gov.    | .62  | .49 | −.01 | −.02 | .20  | .00  | −.05 | .03  | .19  | .14  | .05  | −.00 | .02  | .05  | .07  | .23  | −.06 | .06  | −.05|    |    |    |    |
| 19. HQ state policy index | .65  | 1.65 | .08 | .09  | .33  | .08  | .02  | −.05 | .26 | .27  | .02  | −.01 | .04  | .13  | .38  | −.12 | .07  | .02  | .54 |    |    |    |    |
| 20. ESG rating            | 57.92| 8.51 | .09 | .05  | −.02 | .10  | .09  | .14  | −.03 | .03  | .09  | .09  | .19  | .33  | .04  | −.04 | .07  | −.09 | −.03 | .09 | .17 |    |    |
| 21. China-exposure        | 5.82 | 10.76 | .17 | .10  | .02  | .24  | −.08 | −.05 | .12  | .05  | −.08 | .21  | −.03 | −.15 | −.01 | .11  | −.01 | .02  | .06  | .04  | .08  | .15 |    |
| 22. Other Asia-exp.       | 17.51| 27.77 | .12 | .07  | .03  | .21  | .03  | −.05 | .07  | −.00 | −.02 | .18  | −.01 | −.03 | .02  | .11  | −.01 | .02  | .00  | .02  | .10  | .21 | .54 |
| 23. Europe-exposure       | 23.86 | 33.74 | .13 | .05  | −.03 | .13  | .03  | .02  | .07  | .10  | −.08 | .13  | .02  | −.06 | −.02 | .05  | .01  | .01  | .05  | .03  | .07  | .03 | .51 |
| 24. Perc. foreign revenue | .47  | .41 | .19  | .16  | .12  | .27  | −.08 | −.06 | .15  | .08  | −.02 | .25  | −.06 | −.08 | .05  | .23  | −.05 | −.10 | .03  | .14  | .21 | .15 | .33 |
| 25. Call date             | 37.19| 13.14 | .26 | .24  | −.04 | .45  | −.09 | −.09 | .01  | −.02 | .04  | .28  | −.13 | −.18 | −.09 | .12  | .11  | .05  | −.00 | −.13 | −.13 | −.01 | .00 | .01 |

Abbreviation: ESG, environment, social, and governance.

*a* $n = 513$; all S&P 500 firms (1990–2020) without missing data.

*b* Variable is log-transformed.
The results of Models 5 and 6 are consistent with those we report for our OLS models with continuous dependent variables: firm partisanship has a positive association with the mere mention of COVID-19-related risk.

5.1 Effect sizes

The results from Models 2 to 4 reveal that a 1 SD increase in the Democratic-direction in the political partisanship index is associated with a 37, 34, and 42% increase in voluntarily disclosed COVID-19-related risks, respectively. To provide a relative benchmark for these effect sizes, Model 2 predicts that firms in the airline industry (NAICS 481) disclosed 67% more COVID-19-related risks as compared to non-airline companies during Q1 2020. In absolute terms, the 37% increase in Model 2 corresponds to a firm with the mean partisanship index score (0.44) having a value of 0.019 on the continuous dependent variable, and a firm with a partisanship index of 1 SD above the mean (0.55) having a value of 0.026 on the dependent variable.

The linear probability models (Models 5 and 6) estimate the probability that a call will mention COVID-19-related risks at least once in the full text or presentation section, respectively. The results reveal that a 1 SD increase in Democratic giving is associated with 36 and 38% increases, respectively, in the probability of disclosing any COVID-19-related risks. According to the estimates in Model 5, the probability that a firm with a mean partisanship index score will mention COVID-19-related risks at least once is 0.10 (1 in 10); however, for a firm with a score of 1 SD above the mean, the probability is 0.136 (roughly 1 in 7.35).

We note that discussions of COVID-19 risk in Q1 of 2020 are a low base rate phenomenon: on average, a COVID-19 synonym was mentioned in conjunction with a risk synonym 0.15 times per transcript. Only 225 of the 513 firms in our sample mentioned COVID-19 at all during their Q1 2020 earnings call, while only 51 made a COVID-19 risk disclosure and 31 made a COVID-19 risk disclosure in the presentation section. Even in Q2 2020, after the SEC directed firms to begin discussing COVID-19 risk, the average firm only discussed COVID-19 risk 1.10 times. This low base rate is perhaps unsurprising, as the primary foci of earnings calls are the last quarter’s results and the firm’s prospects. Thus, most topics are not covered in great detail. For comparison, Q1 2020 transcripts use the words competition, compete, and competitor about 4.6 times per transcript, the words strategy and strategic about 7.6 times per transcript, and the word risk and its synonyms only appear 7.5 times per transcript.

Although discussions of COVID-19 during Q1 2020 were a rare event, they were an economically consequential one. Using an event study analysis of the full population of publicly traded U.S. firms, Wang and Xing (2020) find a significant market reaction to COVID-19 discussions (what we refer to as COVID-19 exposure) in the presentation section of earnings calls. After controlling for the overall uncertainty expressed in the presentation section of the call, they find that firms that mentioned COVID-19 in their presentations experienced positive cumulative abnormal returns (CAR) of roughly 2% in the 10 days following their calls, suggesting that market participants reacted positively to firms’ acknowledgement of the disease.

We conduct a similar event study analysis on our sample of firms. As is detailed in Appendix 2, firms that made at least one COVID-19 risk disclosure experienced positive CARs,

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16In analyses available upon request, we also estimated models using the COVID-19 risk scores on the Q&A section alone and found no significant political partisanship effect on COVID-19 related risk. Taken together, these results help assuage concerns that our effects primarily arise due to in analysts’ questions in the Q&A section.
on average. The magnitude of these estimated CARs ranges from 2.9 to 5.4% (corresponding to an average shift in market capitalization ranging from $746 million to $1.39 billion), with the estimate dependent upon the event window and the market model we use. Across these two event studies, the results strongly suggest that discussion of COVID-19 to any degree, and in particular discussion of it as a risk, was an economically meaningful event for these firms. Wang and Xing (2020) speculate that the positive effect in their event study is due to COVID discussion helping alleviate some uncertainty-aversion on the part of investors, and though speculative, such a mechanism could also be behind the findings in our event study.

| TABLE 2 | Regression models predicting disclosed COVID-19-related risks$^a$ |
|---------|---------------------------------------------------------------|
|         | (1)               | (2)               | (3)               | (4)               | (5)               | (6)               |
|         | Full text         | Full text         | Full text         | Presentation      | Full – Binary     | Pres.– Binary     |
| Partisanship index | 0.058 (0.022)  | 0.063 (0.025)  | 0.070 (0.031)  | 0.114 (0.054)  | 0.332 (0.128)  | 0.222 (0.094)  |
| Disclosed COVID-19 exposure | 0.100 (0.022) | 0.103 (0.024) | 0.125 (0.032) | 0.135 (0.040) | 0.357 (0.041) | 0.197 (0.043) |
| Text word count | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $0.000 (0.000)$ | $-0.000 (0.000)$ |
| Incumbent contributions | $-0.000 (0.015)$ | $0.003 (0.015)$ | $-0.030 (0.027)$ | $-0.073 (0.081)$ | $-0.128 (0.075)$ |
| CEO partisanship index | $-0.010 (0.012)$ | $-0.015 (0.017)$ | $-0.046 (0.033)$ | $0.041 (0.048)$ | $-0.017 (0.040)$ |
| CFO partisanship index | $-0.006 (0.010)$ | $-0.008 (0.012)$ | $0.010 (0.019)$ | $0.006 (0.052)$ | $0.041 (0.039)$ |
| Disclosed political risk | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.000 (0.000)$ |
| Peers' disclosed COVID-19 risk | $-0.558 (0.230)$ | $-0.794 (0.334)$ | $-0.629 (0.466)$ | $-3.146 (0.895)$ | $-1.042 (0.716)$ |
| Lobbying expenditures$^b$ | $0.000 (0.000)$ | $-0.001 (0.001)$ | $0.001 (0.001)$ | $0.003 (0.002)$ | $0.001 (0.002)$ |
| Total assets$^b$ | $-0.003 (0.004)$ | $-0.003 (0.005)$ | $-0.009 (0.007)$ | $-0.022 (0.013)$ | $-0.011 (0.011)$ |
| Return on assets | $-0.033 (0.030)$ | $-0.056 (0.044)$ | $-0.105 (0.064)$ | $0.031 (0.107)$ | $-0.042 (0.076)$ |
| Cash on hand | $-0.018 (0.025)$ | $0.014 (0.038)$ | $-0.036 (0.053)$ | $-0.158 (0.125)$ | $-0.105 (0.091)$ |
| Leverage | $-0.004 (0.013)$ | $0.003 (0.020)$ | $0.011 (0.031)$ | $-0.049 (0.064)$ | $-0.048 (0.047)$ |
| Market to book | $-0.000 (0.000)$ | $0.000 (0.000)$ | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $0.000 (0.000)$ |
| Institutional investors (HHI) | $-0.003 (0.010)$ | $0.005 (0.015)$ | $-0.011 (0.013)$ | $0.027 (0.054)$ | $-0.025 (0.032)$ |
| HQ state Democratic governor | $0.001 (0.009)$ | $0.000 (0.010)$ | $-0.018 (0.022)$ | $0.040 (0.032)$ | $0.006 (0.025)$ |
| HQ state policy index | $0.000 (0.003)$ | $-0.001 (0.003)$ | $0.005 (0.007)$ | $-0.009 (0.010)$ | $-0.008 (0.010)$ |
| ESG rating | $0.000 (0.000)$ | $0.000 (0.000)$ | $-0.000 (0.000)$ | $0.003 (0.002)$ | $0.003 (0.001)$ |
| China-exposure | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.002 (0.002)$ | $0.002 (0.001)$ |
| Other Asia-exposure | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $-0.000 (0.000)$ | $-0.000 (0.001)$ | $-0.001 (0.000)$ |
| Europe-exposure | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.000 (0.000)$ | $0.001 (0.001)$ | $0.001 (0.000)$ |
| Percentage foreign revenue | $0.009 (0.009)$ | $0.019 (0.012)$ | $0.032 (0.021)$ | $0.008 (0.040)$ | $0.027 (0.028)$ |
| Call date (days since January 1, 2020) | $-0.000 (0.000)$ | $-0.000 (0.001)$ | $-0.000 (0.001)$ | $-0.000 (0.001)$ | $0.002 (0.001)$ | $0.003 (0.001)$ |
| Partisanship index imputed flag | $-0.020 (0.007)$ | $-0.022 (0.012)$ | $-0.064 (0.026)$ | $-0.108 (0.074)$ | $-0.159 (0.069)$ |
| Constant | $0.021 (0.027)$ | $0.027 (0.062)$ | $0.027 (0.079)$ | $0.150 (0.157)$ | $-0.283 (0.173)$ | $-0.053 (0.147)$ |
| Industry FEs | Yes | Yes | Yes | Yes | Yes | Yes |
| N | 513 | 513 | 339 | 513 | 513 | 513 |
| $R^2$ | .48 | .52 | .61 | .41 | .49 | .47 |

Abbreviation: ESG, environment, social, and governance.

$^a$Robust SEs in parentheses.

$^b$Variable is log-transformed.

Wang and Xing (2020) speculate that the positive effect in their event study is due to COVID discussion helping alleviate some uncertainty-aversion on the part of investors, and though speculative, such a mechanism could also be behind the findings in our event study.
Despite COVID-19-related discussions having a low baseline rate of occurrence, a firm that chose to discuss COVID-19-related risks provided critical information to investors upon which they respond, and stock-based valuations adjusted in response. Thus, if political partisanship colored how executives communicated COVID-19-related risk, it likely also had a mediated and economically meaningful effect on the firm’s share price around the earnings call.

5.2 Supplemental analyses

The analyses above focus on Q1 2020 earnings calls, and in them, we account for time with a control variable capturing call distance from January 1, 2020. Yet, time’s effect is worthy of further investigation because it may be an important scope condition for our theory: partisan positioning may only induce nonmarket strategic rigidity, and thus affect risk disclosures, when ambiguity is high and/or firms have greater discretion over their disclosures.

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The consequentiality of COVID-19 risk disclosures is perhaps further illustrated by SEC’s guidance on the matter. The issuance of guidance suggests that the SEC (a) viewed disclosures of COVID-19-related risks as significant and (b) felt that there had not been sufficient disclosure of those risks to date.
To examine differences in the partisan positioning's effect over time, we estimate our main regression model on time-staggered overlapping subsamples using a 50-day window. We begin by estimating our model on a subsample of earnings calls held during the first 50 days of the year (January 1–February 19). We then estimate the model on progressively later subsamples, advancing the start of our 50-day sample window by 5 days in each iteration. This strategy allows us to investigate changes in the point estimates and SEs associated with the partisan positioning effect as time progresses.

Figure 2 presents regression estimates and SE bars for each of our 11 overlapping temporal subsamples from January 1 through April 9. The figure shows that the estimates were all positive throughout the entire period, indicating a partisan positioning effect consistent with the main results. However, beginning with the February 9 to March 30 subsample, the partisanship effect dissipates, as evidenced by the SE bar including zero. The SEs expand further in the subsequent time samples. This pattern of results is consistent with the historical progression of the pandemic—by late March, there was less ambiguity about many of the short- to mid-term consequences of the pandemic and associated stay-at-home orders, and the SEC had issued guidance to firms to discuss COVID-19-related risks. We also investigate earnings calls held during Q2 2020 and find no partisanship effect.

Beyond examining time's role, in Appendices 3–7, we conduct additional supplemental analyses to (a) rule out alternative explanations, (b) examine alternative dependent variables, (c) help address concerns with causality using a matched-sample analysis, and (d) investigate nonlinearity in our partisanship effects. We briefly summarize the results of these tests in Table 3—which are consistent with or buttress the results and arguments we present here.

### 6 | DISCUSSION

The results of this study pose important considerations for scholars of managerial risk and corporate decision-making more broadly. We show that the more Democratic a firm’s partisan positioning was prior to the emergence of COVID-19, the more likely the firm’s management was to voluntarily disclose risks related to the disease. We believe that these results provide evidence that growing political polarization in the United States has implications for firms’ strategic decision-making. This insight—that a firm’s partisan positioning may be a factor spanning the firm and environmental levels that shapes how a firm’s management can formulate strategy when political polarization intensifies—represents an important theoretical contribution. As corporate executives are increasingly challenged to comment on and address social problems, including politically polarized ones such as climate change, LGBTQ+ rights, immigration, and discrimination (Larcker & Tayan, 2020), our theory provides insight on how firms may respond to such challenges and their attendant risks, as well as the consequences from deviating from stakeholder expectations when doing so. In this same vein, our

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16This technique is commonly called temporally recursive regression and is often used for modeling historical processes in time-series data (Griffin & Isaac, 1992). It involves estimating periodized regression models on recursive overlapping historical subsamples to investigate changes in effect sizes and significance levels across historical time. We experimented with multiple time-window lengths (longer and shorter windows) and multiple time-step iterations (5-day steps, 10-day steps). These analyses were generally consistent with the main results but face trade-offs in-terms of sample size. Specifically, fewer firms held Q1 earnings calls during later time windows (especially after mid-March), making it challenging to estimate fully specified models. Concomitantly, SEs increase for these smaller subsample sizes that capture times of the year when fewer earnings calls were held.
TABLE 3  Robustness tests and analyses described in detail in the appendices

**Alternative explanation**

Are Democratic-leaning firms generally more apt to disclose any kind of risk than are firms that are Republican-leaning?

It is possible that firms’ willingness to disclose any kind of risk is correlated with its political positioning. For example, Republican-leaning firms may disclose fewer risks than Democratic-leaning ones irrespective of the politicization of the risk. To test this possibility, we conduct a placebo test using data from Hassan et al. (2019) in which we examine whether a firm’s partisan positioning affected its discussion of overall business risk in Q1 2019. We find no such relationship, which is consistent with our theory and suggestive of the claim that on topics without a partisan valence, a firm’s partisan positioning will not impact how its management discusses risk (see, Appendix 3).

**Alternative dependent variable**

Were Democratic-leaning firms more likely to discuss COVID-19 in their quarterly SEC filings than were Republican-leaning firms?

We analyzed firms’ 10-Q and 10-K reports filed during Q1 2020, which have sections where risks are discussed and where managers analyze ongoing and pressing issues. Using these texts, we constructed a simple measure of COVID-19-related discussion in these documents/sections based on the count of COVID-19 synonyms (as listed in Hassan et al. (2020)). The results suggest that, among firms that made political contributions through a corporate PAC, contributions to Democratic partisans are associated with more COVID-19 mentions in SEC filings, including the full text, the Management Discussion and Analysis (MD&A) section, and the Risk Factors section (see, Appendix 4).

**Alternative dependent variable**

Were Democratic-leaning firms likely to issue a press release about COVID-19 sooner than Republican-leaning firms?

Using an event-history model, we analyzed the first occasion in which firms in our sample issued a press release mentioning COVID-19 and related synonyms (as listed in Hassan et al. (2020)) in the title of the release. The model indicates that among firms that made donations through a corporate PAC, those with more Democratic party contributions issued COVID-19-related press releases earlier than those that made more contributions to Republican partisans (see, Appendix 5).

**Alternative analysis: Matched sample**

Does accounting for pre-pandemic differences in partisan positioning across firms impact the interpretation of our findings?

We analyzed our data using the covariate balancing propensity score estimation technique, which allows for matching on continuous dependent variables. Matching occurred on three dimensions that can have a substantial effect on a firm’s partisan positioning: (a) industry, (b) total ESG rating, and (c) a plausibly exogenous indicator of Democratic party context, which is the share of Democratic party held seats in the U.S. Congress from the firm’s headquarters state and on the
operationalization of a firm’s partisan positioning represents an empirical contribution in that it affects how a firm interacts with its external environment and captures a dimension of a firm’s identity in the public sphere that its organizational (or CEO, board, or employee) ideology does not.

Our study holds important practical implications as well. Notably, a large body of evidence points to the importance of firms’ voluntary risk disclosures and communications to the broader investment community. Investors and analysts rely on executives to provide them with information about the firms’ prospects and risks; a fact that is especially important when the firm is confronted with a novel risk (Hail et al., 2021). To our knowledge, ours is the first study to reveal that how executives communicate business risks on behalf of their firms can be colored by partisanship. In so doing, our study has key implications for investors and analysts, who should consider whether a firm’s partisan positioning may lead executives to play up or play down certain risks. If such bias is not considered, market actors may form inaccurate judgments of firms’ prospects. Such information may also inform the types of questions market participants ask on such calls in an effort to obtain more accurate information.

Although admittedly speculative, the results here also may point to an important role played by regulatory bodies, like the SEC. When attitudes and positions on a risk or issue polarize, regulatory bodies may benefit firms by offering early and clear guidance about proper courses of action, thereby minimizing the effects of political factors on firm decision-making.

In terms of limitations, the mechanism behind our finding needs further unpacking. We argue that recognizing that they are facing an issue characterized by political polarization, a
firm’s executives make decisions about whether and how to discuss COVID-19 risks in a manner that is consistent with the firm’s partisan positioning. Importantly, though, voluntary risk disclosure involves two distinct steps: recognizing the risk and freely disclosing it. We can only observe the latter, however. Ideally, we could observe the conversations that precede the earnings calls to determine whether the executives consider the constraints associated with their partisan positioning and the politics of the disease in determining whether and how they voluntarily reveal COVID-19 risks. Such information, however, is not widely available. We can also imagine other possible pathways, such as executives relying on private information from politicians to whom their firms’ PACs contribute money to guide their discussions of COVID-19 risks. Future work that relies on other methodologies, such as interviews and case studies, may be able to adjudicate between these possible mechanisms.

Our time effects analyses also point to potential boundary conditions in our theory. There is evidence in studies of mass public behavior that individuals in more conservative areas abide more closely to social distancing recommendations when COVID-19 outbreaks increase in their area (Druckman et al., 2021), suggesting that information/uncertainty reduction may minimize the impact of polarization on stakeholders’ behavior and expectations of a firm (Healy & Malhotra, 2013). In our study, however, we cannot know for certain what the differential impacts on voluntary risk disclosure that the SEC’s guidance about discussing COVID-19 risks had versus the broader awareness among a firm’s stakeholders that COVID-19 was significantly and adversely impacting the U.S. (and global) economy. Again, future work relying on other methodologies may be able to adjudicate between these two mitigating factors. More generally, along with discretion and stakeholder uncertainty reduction, future work should explore other moderating factors and boundary conditions that may shape firms’ reactions to politically polarized issues. Given the unique contours of campaign finance in the United States and the fact that political polarization, in particular, is stronger in the United States than other polities (Boxell, Gentzkow, & Shapiro, 2020), it is also important to study the impact of partisan positioning on firms’ voluntary risk disclosures (and strategic actions more broadly) in other countries.

7 | CONCLUSION

COVID-19 is among the most salient issues faced by all of society at present, and for the current crop of top executives of firms large and small, it will likely count among the most significant challenges they will face in their careers. Upon entering the United States, the disease was almost immediately politicized, with clear partisan splits forming about the disease and its potential risks. This created a unique managerial challenge, and we provide evidence here that indicates, in light of attitudes toward and responses to the disease being polarized, firms’ partisan positioning colored their discussions of it as a business risk.

Exploring the degree to which firms voluntarily acknowledge the risks unleashed by COVID-19 is of societal importance given the economic and political challenges the world will face in the next several years due to the disease. Further, such grand challenges are only likely to increase in frequency and severity (Haass, 2020). We believe that the findings here can help inform how firms will perceive of present and coming risks, including adjustments that will occur because of climate change, another critical issue characterized by political polarization.
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DATA AVAILABILITY STATEMENT
The data that support the findings of this study are available from a variety of commercial (Capital IQ Key Developments, Compustat, Thomson-Reuters, CRSP, Sustainalytics, and I/B/E/S) and noncommercial (Federal Election Commission, OpenSecrets, and various academics' individual websites, as detailed in the paper) databases. Restrictions apply to the availability of the commercial data, which were used under license for this study.

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