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Cashing in on the culture wars? CEO activism, wokewashing, and firm value

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Abstract

Research Summary: In this article, we examine under what conditions CEO activism—the practice of corporate leaders to take public stances on sociopolitical issues—can create firm value. In our model consumers care about the type of firm they buy from, but also understand that corporate leaders can make false or misleading statements to pander to valuable demographics. We show that, although the profitability of CEO activism is severely compromised by this wokewashing, under some conditions credible, value-enhancing sociopolitical communications can still take place. We characterize (i) when corporate leaders prefer to stay silent; (ii) when wokewashing is so widespread that no credible communication is possible; and (iii) when instead some credible communication can take place. We also show how an intrinsically motivated CEO can destroy or increase firm value.

Managerial Summary: Many corporate leaders take public stances on sociopolitical issues and observers suggest that this practice can sometimes create firm value. A problem with the idea, however, is that, if taking a certain stance is indeed value enhancing, then many other CEOs may be tempted to take the same stance opportunistically. In this article, we study how CEO activism can be profitable when wokewashing is a real concern. We show that credible, value-enhancing

sociopolitical communications require controversial messages, as significant opposition from consumers with different worldviews is necessary to ensure the credibility of communications. Far from being a "bug," controversy is a feature of credible CEO activism. We also demonstrate that a CEO's intrinsic motivation to take a stand can sometimes create value by making communications more credible. Obliquely, then, a CEO not primarily motivated by profits may be the best at maximizing profits.

KEYWORDS
CEO activism, cheap talk, strategic communication, wokewashing

1 | INTRODUCTION

Many companies expose values, missions and take public stances on sociopolitical issues. Starbucks and its former CEO Howard Schultz have been vocal in promoting marriage equality, gay rights, and racial justice. Nike recently ran an advertising campaign featuring Colin Kaepernick, a NFL quarterback who lost his job after kneeling during America's national anthems to protest against police racism. These examples illustrate "CEO activism," the practice of corporate leaders to sometimes take public stances on issues such as race relations, gender equality or climate change (Chatterji & Toffel, 2018, 2019; Hambrick & Wowak, 2021; Larcker et al., 2018).[1]

In this article, we investigate under what conditions CEO activism can create firm value. The distinguishing feature of our approach, relative to existing contributions (e.g., Burbano, 2021; Chatterji & Toffel, 2019; Hambrick & Wowak, 2021; Hou & Poliquin, 2023; Mohliver et al., 2023), is that we emphasize the issue of credibility of communications. As Burbano notes: "It's one thing to say, 'We're committed to X issue or we are committed to diversity'... It's another [...] to perceive that the claims are being followed through on, and that they reflect an authentic commitment on the behalf of the company" (Financial Times, 2020).

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[1]Some authors prefer to use terms such as "corporate activism" or "corporate sociopolitical activism" to refer to corporations and their leaders taking a stand on sociopolitical issues (e.g., Bhagwat et al., 2020; Eilert & Nappier, 2020). While we acknowledge that it is not always simple to locate where a specific instance of activism originated from (e.g., the Kaepernick commercial), we believe that the term "CEO activism" is preferable, for two main reasons. First, it is important to clearly distinguish between the firm and its management, to be able to explore situations where their interests are not perfectly aligned. This is what we focus on in Section 5, where we assume the CEO is not just interested in maximizing profits. Second, among a company's managers, the CEO is undoubtedly the most important in setting a direction for the company, and also acts as its "public face." As Apple CEO Tim Cook puts it: "As a CEO, [...] one of your responsibilities is to decide what the values of your company are, and lead accordingly" (Quartz, 2017). Prominent value-based messaging, such as the Kaepernick commercial, should be consistent with those values, even if the messaging itself does not originate with the CEO.

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The credibility of CEO or corporate communications cannot be taken for granted. Even purportedly socially conscious companies such as Starbucks, Amazon, or Apple at times appear to take actions inconsistent with their stated ideals, for instance in relation to organized labor (Washington Post, 2022). CEOs and companies that take strong stances on reproductive rights, while at the same time financing the very politicians who work to have these rights restricted, also naturally invite charges of hypocrisy (Financial Times, 2022; Popular Information, 2022). The spread of neologisms such as "greenwashing," "wokewashing," and "pinkwashing" bears witness to the salience of these issues.[2]

Building on cheap talk theory (see, e.g., Chakraborty & Harbaugh, 2007, 2010; Crawford & Sobel, 1982; Farrell & Gibbons, 1989), we develop a model where corporate leaders can have an incentive to make false or misleading statements about sociopolitical issues, and this "wokewashing" severely limits the value-enhancing potential of CEO activism.

In our model, consumers care about the type of firm they buy from. The firm is personified by its CEO and her values and beliefs. The CEO's values and beliefs are not observable; however, the CEO can try to signal her "type" (for simplicity, "liberal" or "conservative") by sending messages. For instance, the CEO could state her support for gay rights (thus signaling a liberal type), state her support for traditional family values (thus signaling a conservative type), or alternatively remain silent. CEO messages are costless to produce and unverifiable. That is, they are simply "cheap talk."

Consumers differ in their sociopolitical orientations. Some consumers are liberal and prefer to buy from a firm run by a liberal CEO. Other consumers are conservative and prefer to buy from a firm run by a conservative CEO. Throughout, we assume that liberals are a more valuable demographic than conservatives.[3] This gives CEOs an incentive to pretend to be liberal. By wokewashing, a profit-motivated conservative CEO may be able to appeal to a liberal demographic and increase sales for her company.

The problem with wokewashing is that consumers are sophisticated. They understand that CEOs may have an incentive to pretend to be liberal, and discount liberal messaging accordingly. This discounting can reduce or even completely destroy the value-enhancing potential of CEO activism.

We provide three sets of results. Our first main result is that we derive boundary conditions for the three types of equilibria that can arise in our model: the quiet-life equilibrium, the wokewashing equilibrium, and the (credible) CEO activism equilibrium.

In the quiet-life equilibrium, all CEO types (liberal and conservative) remain silent on a focal sociopolitical issue. They do so because they want to sell to a mass market of both liberal and conservative consumers, even though neither demographic is particularly engaged with their brand. This equilibrium tends to arise in markets where profit margins are quite high and where therefore targeting only one demographic (and excluding the other) is quite costly. This equilibrium formalizes the notion that not taking a stand can be valuable because, as Michael Jordan said, "Republicans buy sneakers, too."

In the wokewashing equilibrium, the incentives to pander to liberal consumers are so strong that both liberal and conservative CEO types send liberal messages. The market is rife with

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[2]The term "greenwashing" refers to false or misleading environmental claims often made with the purpose of boosting brand image or increasing sales (Berrone et al., 2017; Marquis et al., 2016). "Wokewashing" refers to "corporations adopting the veneer of progressive values for profit" (Guardian, 2019). "Pinkwashing" is when companies claim to be committed to gender equality and people's right to freely determine their sexual orientation or gender identity, but provide no or very little proof of actual commitment.

[3]The analysis is completely analogous if conservatives are the most valuable consumer segment in the market.

wokewashing, and consumers, by virtue of their sophistication, rationally ignore CEO communications. This equilibrium obtains when selling to engaged liberal consumers is very valuable (more than selling to a mass market of disengaged consumers), while selling to engaged conservative consumers is not very valuable. It emerges in uncontested terrains where a certain viewpoint is dominant (e.g., "sustainability" is good and "nonsustainability" is bad). Because the terrain is (largely) uncontested, incentives for wokewashing are too potent and completely destroy the credibility of communications.

Credible CEO activism emerges instead in hotly contested terrains (e.g., prochoice vs. prolife). Both sides of a debate must have sufficiently numerous and passionate supporters for information to be credibly transmitted. In these situations, taking a stand is valuable because engaged consumers are willing to pay a large premium for a brand that shares their sociopolitical orientation; however, taking a stand also involves a significant opportunity cost. By signaling liberal values, a CEO foregoes the lucrative conservative market, which provides countervailing incentives and limits the tendency to wokewash. Because liberals are the most valuable demographic, some wokewashing still occurs in equilibrium. Nevertheless, some information is credibly transmitted, and CEO activism creates firm value.

In these hotly contested terrains, CEO activism naturally involves controversial communication that appeals to one side of the market but also displeases the other. Indeed, for a message to be credible, there must be a substantial number of consumers in the market who react negatively to it. Controversy is a feature, not a bug, of credible activism in our model, because without significant "backlash" (a sizable opportunity cost from lost sales), messages would not be credible.

Three features of the market are associated with credible CEO activism: (i) high polarization (there must be both enough conservative and liberal consumers in the market); (ii) high importance attached by consumers to sociopolitical factors; and (iii) low profit margins (in the absence of sociopolitical differentiation). The first two features ensure that taking a stand is valuable but also involves significant opportunity cost, thus enhancing the credibility of communications. The third feature ensures that a mass market strategy is not too profitable.

Our model formalizes the idea that "A polarised populace [...] leaves [brands] with a choice: try to carry on catering to a vanishing mass-market middle ground, or stake out a position that will infuriate one side but excite the other" (Financial Times, 2018). It also helps explain why CEO activism may have become more common in recent times: in many markets, conditions (i–iii) are now more likely to be true (for instance, because there are many millennials in the market who care about sociopolitical factors). We illustrate these points in Section 6, when we discuss the evolution of Nike's advertising strategy, from the 1980s and 1990s when Nike avoided controversy, to the present times when controversy is sought.

Our second main result, after presenting the three types of equilibria in our model, is to provide a detailed characterization of the CEO activism equilibrium. This equilibrium exhibits several interesting and nonobvious features. We briefly mention three features here: in equilibrium, (i) both liberal and conservative stances are rewarded, while ambiguity (i.e., remaining silent) is not; (ii) most companies expose liberal values; (iii) but financial returns from liberal and conservative stances are very similar. Interestingly, Mohliver and Hawn (2020) provide evidence consistent with all these predictions.

Our baseline analysis assumes that the CEO is effectively only motivated by profit, which implies that CEO activism will not destroy value. If CEO activism did reduce profits, then a profit-maximizing CEO would simply choose to remain silent. Our third main result shows how things change when the CEO has non-negligible intrinsic motivation to take a stand.

Intrinsic motivation induces the CEO to engage in activism more often, compared with our baseline. Both value-enhancing and value-destroying activism can now occur in equilibrium, which meshes well with evidence that CEO activism sometimes is profitable (Chatterji & Toffel, 2019; Mohliver & Hawn, 2020) and sometimes is not (Bhagwat et al., 2020; Burbano, 2021; Hou & Poliquin, 2023).

CEO intrinsic motivation has both costs and benefits for the firm, relative to pure profit maximization. The cost is that the CEO may take a stand in situations where profit maximization would require silence: the CEO may "talk too much." The benefit is that intrinsic motivation improves the quality of communication: the CEO now "talks more credibly." Liberal and conservative CEO types are better able to differentiate themselves and credibly communicate their respective values. The baseline CEO activism equilibrium becomes a "super" (more informative and profitable) CEO activism equilibrium, where equilibrium wokewashing declines and consumers are willing to pay a higher price. This result provides an illustration of "obliquity" (Birkinshaw, 2010; Kay, 2010), the idea that objectives such as profit maximization are often best achieved indirectly, in our case through the CEO's intrinsic motivation to take a stand.

The article contributes to research on corporate communications (e.g., Cornelissen, 2017; Hawn & Ioannou, 2016; Whittington et al., 2016) by putting the emerging literature on CEO activism on a more solid foundation. Scholars recognize that corporate leaders face strong pressure to put their companies in the best possible light when communicating with external stakeholders (Crilly et al., 2012; Pérez, 2015; Scott & Lane, 2000). Some authors go as far as to suggest that corporate social reporting is often little more than "impression management" (Delmas & Burbano, 2011; Hooghiemstra, 2000).

The literature on CEO activism, however, has largely neglected the issue of credibility of communications, concentrating instead on the heterogeneity of stakeholder responses to CEO communications (Chatterji & Toffel, 2018, 2019). CEO activism has been perceived as risky because, although some stakeholders may respond positively to it, others may react negatively (Chatterji & Toffel, 2019; Hambrick & Wowak, 2021; Hou & Poliquin, 2023; Mohliver et al., 2023). How the perceived authenticity of communications affects the efficacy of CEO activism as a nonmarket strategy aimed at influencing the broader institutional and social context (Baron, 1995, 2001; McWilliams & Siegel, 2001) has largely been left unexplored. In this article, we show that incorporating wokewashing into a model of CEO communications has important implications. We characterize both the type of equilibria that can emerge and the equilibrium features of CEO activism, including how the divergence of interests between the CEO and the firm affects profitability.

The remainder of the article is organized as follows. Section 2 provides an illustration of the key mechanism emphasized in this article: that controversy can be a tool to enhance the credibility of communications. Sections 3–5 develop the model and present the main results. Section 6 discusses how the article advances conversations on CEO activism and strategic communications. Section 7 concludes.

2 | THE VALUE OF CONTROVERSY: A TALE OF TWO ADVERTISING CAMPAIGNS

This article suggests that controversy is a valuable tool to enhance the credibility of communications. Only communication which creates sufficient "backlash" (in the form of lost sales or

opportunity costs) tends to be credible. In this section, we first illustrate the usefulness of this tool in practice. Then, we discuss alternative ways in which firms can enhance the credibility of their communications.

To illustrate the value of controversy, we compare two advertising campaigns: the Nike 2018 advertising campaign featuring Colin Kaepernick mentioned in the introduction and the Pepsi 2017 campaign featuring Kendall Jenner. Both campaigns targeted young, socially conscious consumers; however, while the Nike campaign was hailed as a great success, the Pepsi campaign was "possibly the worst ad of all time" (Independent, 2017).

In the Pepsi commercial, American television personality Kendall Jenner joins a bland protest of young and diverse people displaying "peace" and "Join the Conversation" signs. In an attempt to mitigate tensions, Jenner offers a can of Pepsi to a police officer, while the crowd erupts in cheers. The Pepsi commercial was criticized for appearing to trivialize demonstrations. For instance, Bernice King, the daughter of Martin Luther King, tweeted a photo of her father being confronted by a police officer with the caption: "If only Daddy would have known about the power of Pepsi." The campaign was also widely perceived as inauthentic: a clumsy corporate attempt not to alienate anyone, young people and cops. By not taking a stand on any controversial issue, observers were left with the impression that the only goal of the commercial was to sell cans of soda.

In contrast, the Nike campaign featuring Colin Kaepernick was much more direct in its embrace of civil rights and Black Lives Matter. The commercial featured a portrait of American football player Colin Kaepernick with the message: "Believe in something, even if it means sacrificing everything." The commercial was highly controversial: "To supporters, Kaepernick [was] showing respect for the victims of racial injustice; to critics, he [was] showing disrespect for the US anthem, its flag and its troops" (Financial Times, 2018). Most observers concur that Nike's risky communication strategy paid off. Apex Marketing calculates that Nike generated exposure worth more than $163 m even before its television version of the Kaepernick commercial was aired. "By being bold and divisive and taking on a subject they knew would be politically conflicted, [the Kaepernick commercial has] become the gold standard," wrote the Financial Times (2018).

While the above examples suggest that controversy can be a useful tool to enhance the credibility of communications, it is obviously not the only one. Another important factor is the credibility of the messenger (Birnbaum & Stegner, 1979; Cornelissen, 2017; Mercer, 2004). Although an audience may not believe the message per se, it may trust the source of the information. That is, the credibility of the message may depend on the reputation of the messenger (Fombrun, 2001; Gaines-Ross, 2000; Weigelt & Camerer, 1988). Reputation, however, usually takes a long time and significant resources before it can be established. Thus, this mechanism may not be available to all potential senders.

Also key is the credibility of the message itself. If a firm is able to transform "soft" into "hard" information, then the credibility of the source is no longer an issue (Bertomeu & Marinovic, 2016; Liberti & Petersen, 2019). A major role here is played by the amount and quality of the supporting evidence. Quantitative, measurable information is generally believed to be more credible than qualitative information (Mercer, 2004; Scott & Lane, 2000). Certifications may also be used to increase the credibility of a message (Campos et al., 2015; Dranove & Jin, 2010; King et al., 2005). A problem with these mechanisms, however, is that they may lead to a proliferation of metrics, which may either be not relevant or reliable. Lacking reliable information, certifiers' estimates may be biased or inaccurate. In some cases, supporting evidence may also be hard to come by. This is often the case with CEO activism, which involves claims about a manager's true values and beliefs.

To sum up, there are many ways in which a sender may enhance the credibility of a message. However, mechanisms such as reputation or certification may not always be available or may be expensive. Controversy, by reducing the incentives to lie through countervailing incentives, provides an additional tool that may be useful especially when information is unverifiable.

3 | MODEL

A firm serves a market with two types of consumers, $T \in \{L, C\}$, who differ in their political views or social values. These views should be thought of as relating to a specific sociopolitical issue (e.g., gay rights versus traditional family values); however, for ease of expression, we will refer to type $T = L$ consumers as liberals and type $T = C$ consumers as conservatives. Let, n_L and n_C denote, respectively, the number of liberal and conservative consumers in the market.

The firm is run by a CEO, who is also either a liberal or a conservative. We assume that liberal consumers prefer to buy from a firm run by a liberal CEO, and conservative consumers prefer to buy from a firm run by a conservative CEO. (For evidence consistent with these assumptions, see for instance Chatterji & Toffel, 2019, or Hou & Poliquin, 2023.) The CEO also cares, at least to some extent, about whether consumers perceive her as being liberal or conservative, in way that we make precise later in the model description.

Consumers are initially uncertain about the CEO's sociopolitical views. That is, CEO type, denoted by $t \in \{l, c\}$, is private information. For simplicity, we assume that ex ante both CEO types are equally likely.[4]

The CEO can send a costless and unverifiable ("cheap talk") message to communicate her sociopolitical views and potentially influence the consumers' purchasing decisions.

The timing of the game is as follows. In period 1, the CEO makes a choice of communication. She sends a message, the contents of which we interpret as providing support for a social or political position, or an expression of values. Let, $M = \{\mathcal{L}, \mathcal{C}, \mathcal{S}\}$ denote the set of available messages, which respectively stand for "liberal," "conservative," and "stay silent." If the CEO sends the message $\mathcal{L}$ or $\mathcal{C}$ in equilibrium, we will say that the CEO takes a stand and will interpret this as CEO activism. If instead the CEO sends the message $\mathcal{S}$ in equilibrium, we will say that the CEO does not take a stand and will interpret this as "quiet life" or "strategic ambiguity." Communications are assumed to be public: the CEO sends a single message m, which is observed by all consumers.

In Period 2, consumers observe the CEO's message m and potentially update their beliefs about CEO type. Because consumers care about CEO type when making purchasing decisions, these beliefs affect their willingness to pay. Consumers do not simply take liberal or conservative messages at face value. Instead, they understand that a message can only reveal information if that particular message was more likely to be sent by one CEO type than the other, as we describe in more detail below.

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[4]Many of the assumptions we make can be relaxed. For instance, the main qualitative results of the paper continue to go through if we make the alternative assumption that some consumers place no value on the CEO's sociopolitical views, or if we assume the CEO might be an intermediate type who is neither liberal nor conservative. The main qualitative results of the paper also go through if we assume the prior probability a CEO is liberal differs from the probability that she is conservative, as long as the former probability is not too close to 1. We provide discussion and proofs of all these results (and others) in Appendix B.

In Period 3, the product's price p is set at the level that maximizes firm profits, given consumers' willingness to pay from Period 2. The firm might estimate this willingness to pay through market research, and an algorithm or middle managers (who do not hold private information about CEO type) might set the price. The key assumption here is that the chosen price p does not affect consumer beliefs about CEO type.[5] We normalize the marginal cost of production to zero, so profits π are equal to the price p times the number of consumers who buy.

In Period 4, consumers make their purchase decisions and payoffs are realized. Both a liberal and a conservative CEO care about firm profits, but they also care at least to some extent about consumer beliefs about their type. Specifically, the payoff of a liberal CEO is increasing in consumers' beliefs that the CEO is liberal, whereas the payoff for a conservative CEO is increasing in consumers' beliefs that the CEO is conservative.

Formally, let $\mathbb{P}(t=l|m)$ denote consumer beliefs about CEO type, conditional on message m. Given message m and price p, a liberal CEO and a conservative CEO earns payoffs

$$
\begin{aligned}
u_l &= \pi + 2k[\mathbb{P}(t=l|m) - 1/2], \\
u_c &= \pi - 2k[\mathbb{P}(t=l|m) - 1/2],
\end{aligned}
\tag{1}
$$

respectively, where π denotes profits and $k>0$ is a strictly positive parameter. Our interpretation of $k>0$ is that the CEO is intrinsically motivated take a stand. She wants the public to perceive her in a way consistent with her own true values and beliefs, perhaps because she wants to change people's minds and influence society. As such, she wants to credibly communicate her true sociopolitical views to the general public.

The magnitude of k also captures the extent of an agency conflict between the CEO and the firm, assuming that the firm (i.e., the board or the shareholders) is only interested in maximizing profits. In the limiting case where $k \to 0$, the CEO effectively aims to maximize profits. For larger k, the CEO puts more weight on her desire to credibly communicate her sociopolitical views.

A consumer's payoff from buying at price p is a baseline component $v-p$, plus a symbolic component that depends on their beliefs about CEO type. Specifically, given message m and price p, a liberal (type-L) consumer and a conservative (type-C) consumer earn payoffs

$$
\begin{aligned}
U_L(m,p) &= v + 2\lambda_L \Psi[\mathbb{P}(t=l|m) - 1/2] - p, \\
U_C(m,p) &= v - 2\lambda_C \Psi[\mathbb{P}(t=l|m) - 1/2] - p,
\end{aligned}
\tag{2}
$$

from buying, respectively. A high probability that consumers ascribe to the firm being liberal yields a high symbolic payoff to liberal buyers, but a low symbolic payoff to conservative buyers. Thus, our framework captures the idea that CEO communications can affect willingness to pay by affecting consumer beliefs. Since consumers have different views, raising the willingness to pay of one type of consumer may require lowering the willingness to pay of the other. The

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[5]We believe this is a reasonable assumption for large corporations that sell hundreds of products in different markets and where therefore pricing decisions are likely to be decentralized. Pricing is also affected by many factors other than CEO's sociopolitical views, so it may not be simple for consumers to draw inferences on CEO type from product prices.

parameter $\Psi > 0$ captures the extent to which symbolic consumption matters on average (e.g., how many millennials there are in this market). The parameters $\lambda_L > 0$ and $\lambda_C > 0$ measure the importance that each consumer type attaches to symbolic consumption relative to the other (i.e., how "passionate" liberal consumers tend to be, relative to conservatives). The term $v - p$ represents the baseline (intrinsic) payoff from buying at price p. As v reflects the maximum price the firm would be able to charge in the absence of symbolic value, and marginal costs are normalized to zero, we interpret a high level of v in terms of high profit margins. We normalize a consumer's payoff from choosing her outside option to zero.[6]

We note that our framework is similar to Chakraborty and Harbaugh ([2010]), but applied to a different setting. There, an expert with state independent preferences can make credible comparative statements that help the expert on some dimensions but hurt on others. In our model, a CEO can credibly convey her sociopolitical views by making statements that please some consumers while displeasing others.

All the above features of the model and parameter values are common knowledge. For example, the ex ante probability of the CEO being liberal or conservative summarizes all the information available to consumers about the sociopolitical beliefs of the CEO (before the message m is sent). The only private information is that consumers cannot directly observe the CEO type.[7]

Formally, in this game, a strategy for the CEO consists of, for each type $t \in \{l, c\}$, a choice of message m, with possible randomization in the case of mixed strategies. A strategy for consumers of type $T \in \{L, C\}$ is a decision whether or not to buy, for any possible message m and price p they could receive. We solve for a Perfect Bayesian Equilibrium, where the CEO maximizes her payoff given the strategy of consumers; consumers maximize their payoff for any possible message m and price p, given their beliefs about CEO type; and these beliefs follow from Bayes' rule and the CEO's equilibrium strategy whenever possible.

Bayes' rule entails that consumers rationally update their beliefs about whether a CEO is liberal or conservative, given the message they receive, and given the probability that each CEO type would send that particular message. In particular, a message m will only suggest the CEO is likely liberal, $\mathbb{P}(t = l | m) > 1/2$, if a liberal CEO was more likely than a conservative to send that particular message. Similarly, a message will only suggest the CEO is conservative, if a conservative CEO was more likely to send it than a liberal CEO. Throughout the analysis, we restrict attention to potential equilibria where silence does not transmit any information about CEO type, so where both liberal and conservative CEOs are equally likely to stay silent. We comment briefly on this approach and its implications at the end of Section 4.

Bayes' rule cannot be applied given a message m that should never be sent by either type according to the CEO's equilibrium strategy. We will then say this message is off the equilibrium path, as opposed to on the equilibrium path. Consumers who receive a message that is off the equilibrium path cannot reason whether it suggests the CEO is likely liberal or conservative, since neither CEO type should send such a message. In such situations, we assume consumers remain agnostic and simply maintain their prior beliefs that the CEO is equally likely to be liberal or conservative.

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[6]High profit margins are often associated with low competition. This intuitive idea could easily be formalized in the context of our model (proof available upon request), by modeling a consumer's outside option in a more nuanced way.

[7]Thus, we also assume that consumers know how important it is for the CEO to be perceived as she really is (i.e., the value of k). One interpretation is that the CEO has a reputation for outspokenness or honesty. At any rate, this assumption is just for simplicity. Qualitatively similar results hold when k is the CEO's private information. For details, see Appendix B, Result B4.

4 | AN EFFECTIVELY PROFIT-MAXIMIZING CEO

The main questions we investigate in this article are whether CEO activism can occur in equilibrium, and whether it can create firm value. To highlight the different forces at work in our setting, we first focus on a situation where the CEO's intrinsic motivation to take a stand is negligible ($k \to 0$). Both liberal and conservative CEOs then effectively maximize firm profits, and the incentives to pander to the most valuable demographic are very strong. If, say, liberals are very valuable customers (either because n_L or λ_L or both are very high), then even a conservative CEO may pretend to be liberal if that increases firm profits. Even in this extreme case, we will show that, under some conditions, *credible* CEO activism can occur in equilibrium. Some information can then credibly be transmitted and this increases firm value; however, the possibility of pandering bounds the quality of communication and the amount of profits that the firm can obtain.

The general case where CEO intrinsic motivation is not necessarily negligible, but may be moderate or even large, is studied in the next section.

We begin by defining three profit levels that will play a key role in our analysis:

$$\pi_L \equiv n_L(v + \lambda_L \Psi), \ \pi_C \equiv n_C(v + \lambda_C \Psi) \text{ and } \pi_{LC} \equiv (n_L + n_C)v. \tag{3}$$

$\pi_L = n_L(v + \lambda_L \Psi)$ are the highest possible firm profits from adopting a niche product strategy of serving only liberals. To achieve these profits, the CEO must convince liberal consumers that she herself is liberal for sure, which would imply a profit-maximizing price of $p = v + \lambda_L \Psi$. Similarly, $\pi_C = n_C(v + \lambda_C \Psi)$ are the highest possible profits from a niche product strategy of serving only conservatives. Here, the CEO must convince conservative consumers that she is conservative for sure. The highest possible profits from following a mass market strategy where the firm sells to both liberal and conservative consumers are $\pi_{LC} = (n_L + n_C)v$. To achieve these profits, both consumer types must believe the CEO is equally likely to be liberal or conservative (as given by the prior), so that they are both willing to buy at price $p = v$. We assume throughout that π_L, π_C, and π_{LC} all differ from one another. We will also assume, with essentially no loss of generality, that liberals are a more valuable demographic than conservatives: $\pi_L > \pi_C$.

> **Definition.** We say that an equilibrium is *uninformative* if both consumer types $T \in \{L, C\}$ hold beliefs $\mathbb{P}(t=l|m) = \mathbb{P}(t=c|m) = 1/2$, for all messages $m \in \{\mathscr{L}, \mathscr{C}, \mathscr{S}\}$. Otherwise we say that an equilibrium is *informative*.

Our analysis will consider both informative equilibria, where CEO messages transmit at least some information, and uninformative equilibria, where they do not. We will say that an informative equilibrium is fully revealing if consumers are perfectly able to infer both CEO types. For example, $\mathbb{P}(t=l|\mathscr{L}) = \mathbb{P}(t=c|\mathscr{C}) = 1$. Otherwise, we will say the informative equilibrium is partially revealing.

In our model, as is generally the case in cheap talk theory (see, e.g., Crawford & Sobel, 1982), an uninformative equilibrium always exists, whereas an informative equilibrium will only exist for certain parameters values. In the analysis below we will assume that, when both types of equilibria exist, it is the informative equilibrium that will be played, as it gives the CEO the highest payoff, regardless of whether she is liberal or conservative.

We can now present the following result. The proof of the result, and all those that follow, can be found in Appendix A.

Proposition 1. *Suppose that CEO intrinsic motivation is negligible:* $k \to 0$. *Then the following equilibria can arise, depending on parameter values:*

i. Quiet-life equilibrium. *If* $\pi_{LC} > \max\{\pi_L, \pi_C\}$, *then the only equilibrium is uninformative. The firm earns the highest possible profits* π_{LC} *by implementing a mass market strategy where all consumers (liberal and conservative) buy and setting price* $p = v$. *This equilibrium can be implemented by, for instance, all CEO types (liberal and conservative) sending message* $m = \mathcal{S}$.

ii. Wokewashing equilibrium. *If* $\pi_L > \pi_{LC} > \pi_C$, *then the only equilibrium is uninformative. The incentives to pander to liberal consumers are so strong that no information can be credibly transmitted in equilibrium. This equilibrium involves a mass market strategy where the firm sets price* $p = v$, *all consumers buy, and the firm earns profits* π_{LC}. *This equilibrium can be implemented by, for instance, all CEO types (liberal and conservative) sending message* $m = \mathcal{L}$.

iii. CEO activism equilibrium. *If* $\pi_{LC} < \min\{\pi_L, \pi_C\}$, *then an informative equilibrium exists. This informative equilibrium is partially, rather than fully, revealing and involves a niche product market strategy with probability one (i.e. never selling to all consumer types). Profits are the same regardless of CEO type and equal to* π_C.

Proposition 1 provides boundary conditions for the different types of equilibria that can arise when intrinsic motivation is negligible, so that both CEO types effectively maximize firm profits. Case (i), when $\pi_{LC} > \max\{\pi_L, \pi_C\}$, describes a situation where serving a mass market of liberal and conservative consumers, even if not particularly engaged, is the most profitable strategy. The focal sociopolitical issue could be interpreted as located in a relatively *barren terrain*, where neither consumer type feels strongly enough for π_L or π_C to exceed π_{LC}. Liberal and conservative CEO types can then obtain the highest possible payoff, π_{LC}, by remaining silent ($m = S$), thus enjoying a 'quiet life'. In this equilibrium no information is transmitted, the firm follows a mass market strategy, and prices tend to be low ($p = v$) because consumers enjoy no symbolic value.

Case (ii), when $\pi_L > \pi_{LC} > \pi_C$, describes a situation where the liberal viewpoint is dominant in the marketplace, whereas the conservative viewpoint enjoys little support. (The case when $\pi_C > \pi_{LC} > \pi_L$ is completely symmetric.) We view this as an *uncontested terrain*, where the incentives to pander to liberal consumers are extremely high. In equilibrium, both liberal and conservative CEO types send liberal messages ($m = \mathcal{L}$), but consumers, by virtue of their sophistication, understand that a large fraction of these messages are wokewashing. They rationally ignore these messages and no credible information is transmitted. The best that the firm can do in this scenario is to sell to a mass market of disengaged consumers at a low price ($p = v$).

Case (iii), when $\pi_{LC} < \min\{\pi_L, \pi_C\}$, describes a situation where both the liberal and conservative viewpoints enjoy substantial support, while the mass market is not very attractive. We view this as a *hotly contested terrain*, where both the liberal and the conservative viewpoints have significant merit. In this hotly contested terrain, some information transmission is possible. The equilibrium involves (credible) CEO activism, in the sense that a liberal CEO is more likely to use liberal messaging, and a conservative CEO is more likely to use conservative messaging. However, the equilibrium is partially, rather than fully, revealing because a conservative CEO type pretends to be liberal with some probability (hence, some wokewashing persists). CEO activism is also associated with a niche product market strategy and creates firm value, compared with the case where the CEO remains silent: $\pi_C > \pi_{LC}$.

To obtain further insights into the conditions that help sustain the CEO activism equilibrium, it is useful to restate the necessary condition $\pi_{LC} < \min\{\pi_L, \pi_C\}$ in terms of the primitives of the model.

Corollary 1. *A necessary condition for credible CEO activism to occur and be profitable, when intrinsic motivation is negligible, is that*

$$v < \min\left\{\frac{n_L}{n_C}\lambda_L, \frac{n_C}{n_L}\lambda_C\right\}\Psi. \tag{4}$$

Corollary 1 shows that CEO activism can only be credible and profitable (and hence occur in equilibrium) when there are both enough conservative and liberal consumers in the market. If the size of either demographic is too small, then the right-hand side of (4) is close to zero and the condition is violated. Our interpretation of condition (4) is that CEO activism can only be credible if messaging is sufficiently *controversial*. If messaging creates symbolic value for one group (say liberals), there must be a substantial number of other consumers in the market (say conservatives) who react negatively to the same message. CEO activism is not credible when either demographic is relatively unimportant.

Corollary 1 identifies three factors that make CEO activism more likely. First, polarization in the market (as measured by $\min\left\{\frac{n_L}{n_C}\lambda_L, \frac{n_C}{n_L}\lambda_C\right\}$) must be sufficiently large. The relative size of the two consumer groups ($\frac{n_L}{n_C}$ and $\frac{n_C}{n_L}$), weighted by the *relative* extent to which their beliefs affect willingness to pay (λ_L and λ_C) cannot be too small. Second, both consumer types must attach sufficient weight to the symbolic component of utility (Ψ large). That is, their purchasing behavior must be significantly affected by their sociopolitical values and beliefs. Third, the market must exhibit low profit margins (low v). If profits margins are very high, focusing on a niche market and excluding a group of consumers would be too costly. The firm would be better off by serving a mass market of both liberal and conservative consumers.[8]

Next, we provide a complete characterization of the informative CEO activism equilibrium.

Proposition 2. *Suppose $\pi_{LC} < \min\{\pi_L, \pi_C\}$ and define $\alpha = \frac{\pi_L - \pi_C}{\pi_C + \pi_L - 2n_L v} \in (0,1)$. Then when intrinsic motivation is negligible, the following constitutes an informative, CEO activism equilibrium:*

i. *A liberal CEO sends a liberal message, $m = \mathcal{L}$, for sure, and sets price $p = v + \frac{1-\alpha}{1+\alpha}\lambda_L\Psi$. Profits are π_C.*

ii. *With probability α, a conservative CEO sends a liberal message, $m = \mathcal{L}$, and sets price $p = v + \frac{1-\alpha}{1+\alpha}\lambda_L\Psi$; with probability $1 - \alpha$, she sends a conservative message, $m = \mathcal{C}$, and sets price $p = v + \lambda_C\Psi$. In both cases, profits are π_C.*

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[8]We stress that polarization and controversy are related but distinct concepts. Polarization—the fact that consumers disagree about what is right and wrong—is a characteristic of the consumer population. Controversy is a feature of the messages. In our model there are two "extreme" or controversial messages ($m = \mathcal{L}, \mathcal{C}$) and one "pooling" or non-controversial message ($m = \mathcal{S}$). CEO activism is credible if the messages $\mathcal{L}$ and $\mathcal{C}$ are "sufficiently" controversial, meaning that a sufficiently high proportion of consumers disagree enough with the messages that condition (4) holds. This condition involves not just polarization, as captured by $\min\left\{\frac{n_L}{n_C}\lambda_L, \frac{n_C}{n_L}\lambda_C\right\}$, but also other parameters (i.e., Ψ and v).

iii. *If consumers receive a conservative message, then they believe the CEO is conservative for sure; only conservative consumers then buy. If consumers receive a liberal message, then they believe that the CEO is likely liberal; only liberal consumers then buy.*

In the equilibrium described in Proposition 2, both CEO types engage in CEO activism but send different messages. A liberal CEO type always uses liberal messaging, whereas a conservative CEO type sometimes uses liberal messaging and sometimes uses conservative messaging. Because liberal messaging is sometimes used by a conservative CEO, some wokewashing occurs in equilibrium. Nevertheless, communication is somewhat credible, because liberal messages are more likely to be sent by a liberal CEO.

In equilibrium, clear stances ($m = \mathscr{L}, \mathcal{C}$) are rewarded, while ambiguity ($m = \mathcal{S}$) is not. The profitability of both liberal and conservative messaging is π_C, while the profitability of remaining silent is only π_{LC} (off the equilibrium path). Thus, CEO activism creates firm value, compared with a situation where sociopolitical communications were impossible. Note, however, that some inefficiency remains. With no informational frictions, a liberal CEO type would earn $\pi_L > \pi_C$, while a conservative CEO type would earn π_C. Wokewashing destroys some of the potential value that a liberal CEO could in principle have obtained.

Proposition 2 also shows a close link between CEO communications and product market strategy. When the CEO sends a liberal message, the firm serves only liberal consumers. When the CEO sends a conservative message, the firm serves only conservative consumers. This is because the particular message sent increases the willingness to pay of consumers in the target niche market.

Some wokewashing occurs in equilibrium because liberals are a more valuable demographic than conservatives: $\pi_L > \pi_C$. To gain a deeper understanding of what determines this level of equilibrium wokewashing (measured by α in Proposition 2), notice that sophisticated consumers who observe a conservative message always conclude that the CEO is conservative for sure. This is because, in the posited equilibrium, only conservative CEO types send conservative messages (regardless of α). Thus, the profitability associated with conservative messaging and targeting the conservative niche market is always π_C.

In contrast, the profitability of liberal messaging is decreasing in the value of α. If $\alpha = 0$, so that no wokewashing occurs, then a liberal CEO type would earn profits π_L and a conservative CEO type would earn profits π_C. This clearly cannot be an equilibrium outcome, as a conservative CEO would have an incentive to misrepresent her type and start wokewashing with positive probability. Crucially, however, as the probability of wokewashing α increases, the informational content of liberal messaging declines. Sophisticated consumers reason that a message $m = \mathscr{L}$ is increasingly likely to have been sent by a conservative misrepresenting her type. Liberal consumers' willingness to pay then declines, so the profits associated with liberal messaging and targeting the liberal niche market decline as well. Denoting these profits by $\pi_L(\alpha)$, equilibrium only obtains when α is precisely large enough so that $\pi_L(\alpha) = \pi_C$, so that a conservative CEO cannot benefit from changing her behavior.

The result that, in equilibrium, liberal and conservative messaging is equally profitable is a consequence of two key assumptions: that (i) "talk is cheap" (so that it is easy for a CEO to misrepresent her type) and that (ii) the CEO effectively only cares about profits (so that she always misrepresents her type if it is profitable to do so). The subsequent analysis will allow for non-negligible CEO intrinsic motivation to take a stand and will show that this precise equality in returns that we obtain here no longer holds. The key insight, however, is that, when misrepresenting one's type is easy and CEOs care a lot about profits, the returns from different activist stances cannot be too large, because otherwise wokewashing would be rampant.
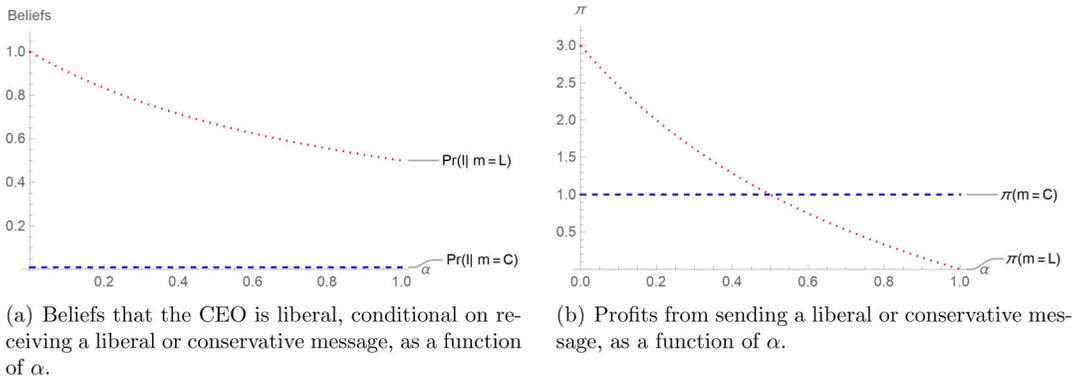
(a) Beliefs that the CEO is liberal, conditional on receiving a liberal or conservative message, as a function of α.

(b) Profits from sending a liberal or conservative message, as a function of α.

FIGURE 1 CEO activism equilibrium, where a liberal CEO sends a liberal message for sure and a conservative CEO sends a liberal message with probability α, for $n_L = n_C = \Psi = \lambda_C = 1, \lambda_L = 3, v = 0$.

Figure 1 illustrates a number of features of the CEO activism equilibrium described in Proposition 2, in line with the above discussion. Panel (i) shows that, as wokewashing increases, consumers increasingly discount liberal messaging. At the same time, consumers always take conservative messaging at face value, since a liberal CEO will never send a conservative message. Panel (ii) shows that, as a result, the profits associated with liberal messaging decrease, due to a drop in liberal consumer willingness to pay, whereas the profits associated with conservative messaging remain constant. The equilibrium probability of a conservative CEO sending a liberal message is the value of α where the two curves intersect in Panel (ii), so where the two messages are equally profitable. Thus, when α takes on this value, the CEO strategy is optimal given consumer behavior, consumer behavior is optimal given their beliefs, and beliefs follow from Bayes' rule and the CEO strategy.

We summarize the main features of the CEO activism equilibrium in Table 1.

We conclude this section by briefly commenting on whether other informative equilibria, that differ from the CEO activism equilibrium described in Proposition 2, might also exist. The proof of Proposition 1 shows that the CEO activism equilibrium is the unique informative equilibrium up to a relabeling of messages. That is, any informative equilibrium will involve the same firm profits, the same prices, and the same amount of information transmission as described in Proposition 2. In this sense, Proposition 2 provides a comprehensive picture of credible CEO activism in our setting.[9]

Nevertheless, as in any cheap talk game, it is always possible to find equilibria where different names are used for players' messages, since from a game-theoretic point of view messages themselves have no intrinsic meaning. We can in particular construct an equilibrium analogous to Proposition 2 but where a liberal CEO always sends the message "conservative," and consumers rationally infer the CEO is likely liberal; whereas a conservative CEO randomizes between messages, and consumers rationally infer that the message "liberal" reveals the CEO

[9]Allowing for strategy profiles where liberal and conservative CEOs stay silent with different probabilities would expand the range of parameter values for which information transmission is possible in our setting. Any such new equilibria would always involve lower profits than that described in Proposition 1. Moreover, their existence would just be an artifact of the CEO not having any available message to send "off the equilibrium path," which would allow them to stay neutral and enjoy mass-market profits π_{LC}. Thus, our analysis restricts attention to scenarios where the CEO has a neutral message at their disposal, which we label "stay silent" ($m = \mathcal{S}$).

TABLE 1 Main features of the CEO activism equilibrium.

1. Credible CEO activism creates firm value	If a CEO was unable to communicate her sociopolitical views, firm profits would be π_{LC}. CEO activism increases firm profits to π_C
2. But wokewashing destroys some of the potential value	If wokewashing was impossible, a liberal CEO type would earn π_L, and a conservative CEO type would earn π_C. With wokewashing, both types earn π_C (which is less than π_L)
3. Clear stances are rewarded, ambiguity is not	The profitability of remaining silent, π_{LC}, is lower than the profitability of either activist stance
4. Most activist CEOs take liberal stances	More CEOs tend to take liberal stances than conservative stances, because of wokewashing. As a result, most activist companies appear to be "woke"
5. However, returns from different activist stances are similar	If one activist stance was more profitable than another, some CEOs would have an incentive to misrepresent their type. Wokewashing tends to equalize the returns from different activist stances
6. CEO activist stances convey information, but only asymmetrically so	In a CEO activism equilibrium, a liberal CEO type is more likely to use liberal messaging than a conservative CEO type, and a conservative CEO type is more likely to use conservative messaging than a liberal type. However, conservative messaging perfectly reveals that a CEO is conservative. The same is not true for liberal messaging, because of wokewashing
7. Close link between CEO communications and product market strategy	When the CEO sends a liberal message, the firm serves only a niche market of (engaged) liberal consumers. When the CEO sends a conservative message, the firm serves only a niche market of (engaged) conservative consumers. When the CEO remains silent, the firm serves a mass market of (relatively disengaged) liberal and conservative consumers

to be conservative. Words then are not just taken with a grain of salt, but directly contradict their standard meaning. Since from a real-world perspective this is not particularly plausible or insightful, we ignore this possibility in our formal analysis.[10]

5 | GENERAL ANALYSIS

We now show how our results change when the CEO's intrinsic motivation to take a stand, parametrized by $k > 0$, is not negligible but may instead be moderate or even large.

Our focus is on how this intrinsic motivation k influences CEO communications and firm profits.

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[10]If the CEO's intrinsic motivation to take a stand was completely absent, $k = 0$, then the informative equilibrium from Proposition 2 would still exist, but so would other informative equilibria with different messaging strategies. In these equilibria, messages would be less informative, as both CEO types would randomize between claiming to be liberal or conservative. We view these equilibria as less compelling for two reasons. First, they only exist in a knife-edge case (when k is exactly zero, but not when k is arbitrarily small but positive). Second, the corresponding equilibrium profits are lower than those from Proposition 2, regardless of CEO type. Further details can be found in the authors' earlier working paper: Melloni et al. (2019).

Proposition 3. *Intrinsic motivation makes it more likely for the CEO to take a credible stand: that is, a CEO activism equilibrium exists for a strictly larger set of parameter values compared* with *Proposition 2. Moreover:*

i. *If $\pi_{LC} > \max\{\pi_L, \pi_C\}$, then equilibrium profits with intrinsic motivation are always weakly lower, and sometimes strictly lower, than those specified in Proposition 2. Thus, the CEO's intrinsic motivation reduces profits.*

ii. *If $\pi_C < \pi_{LC} < \pi_L$, then equilibrium profits with intrinsic motivation are sometimes higher, and sometimes lower (and sometimes the same), than those specified in Proposition 2. Thus, the CEO's intrinsic motivation has an ambiguous effect on profits.*

iii. *If $\pi_{LC} < \min\{\pi_L, \pi_C\}$, then equilibrium profits with intrinsic motivation are always weakly higher, and sometimes strictly higher, than those specified in Proposition 2. Thus, the CEO's intrinsic motivation increases profits.*

Proposition 3 shows, quite intuitively, that a CEO's intrinsic motivation to take a stand tends to result in more CEO activism. The proof, available in Appendix A, distinguishes between different cases. If k is sufficiently large, then the CEO always takes a stand, even when mass market profits are high and no credible communication is possible in the baseline. A CEO activism equilibrium then exists that is fully revealing: a liberal CEO sends a liberal message for sure, and a conservative CEO sends a conservative message for sure. There is no wokewashing in equilibrium, and consumers take messages at face value. In terms of pricing, the firm may either use a niche or a mass market strategy in conjunction with its activist messaging, depending on which is more profitable.

The situation is less stark if k is moderate. The proof of Proposition 3 shows that messaging, profits, and consumers beliefs in a partially revealing CEO activism equilibrium, where the firm always employs a niche product strategy, are analogous to those described in Proposition 2, but where a conservative CEO now claims to be liberal with probability $\alpha_k < \alpha$, where $\alpha_k \equiv \frac{\pi_L - \pi_C - 2k}{\pi_C + \pi_L - 2n_L v}$. Communication is now clearer than in the baseline (i.e., α_k is decreasing in k), because intrinsic motivation pushes a conservative CEO to use conservative messaging.

Proposition 3 also shows that CEO intrinsic motivation sometimes reduces profits, and sometimes increases profits, relative to when intrinsic motivation is negligible ($k \to 0$). This result meshes well with evidence that CEO activism is sometimes value-destroying (Bhagwat et al., 2020; Burbano, 2021; Hou & Poliquin, 2023) and sometimes value-creating (Chatterji & Toffel, 2019; Mohliver & Hawn, 2020).

That a CEO's intrinsic motivation can reduce profits is not surprising. Intrinsic motivation is a behavioral trait that induces the CEO to deviate from pure profit maximization. Profits decrease if, in the baseline, the CEO would choose to stay silent (i.e., when $\pi_{LC} > \max\{\pi_L, \pi_C\}$), but with intrinsic motivation the CEO engages in activism. Intrinsic motivation induces the CEO to "talk too much," relative to what would maximize profits.

The surprising result is that stronger intrinsic motivation can sometimes increase profits. The reason is that intrinsic motivation improves the quality of communication, via enhanced credibility. Different CEO types (liberal and conservative) are better able to differentiate themselves from one another, which mitigates the credibility problem of CEO communications and drives up consumer willingness to pay. This in turn allows the firm to set a higher

price when selling to liberal consumers. Intrinsic motivation allows a CEO to "talk more credibly," compared with how a pure profit-maximizing CEO could.[11]

To say a bit more about how intrinsic motivation improves the quality of communication and affects profits, suppose that $\alpha_k \in (0, 1)$, so a conservative CEO is indifferent between messages. Now consider a small increase in CEO intrinsic motivation. Holding consumers' willingness to pay constant, an increase in k would give a conservative CEO a strict incentive to claim to be conservative, since she now more strongly dislikes being perceived as liberal. However, as the CEO becomes more likely to claim to be conservative, liberal consumers react more positively to a liberal message, because this message is now more informative. The profits from liberal messaging increase, and the equilibrium amount of wokewashing α_k adjusts to a new and lower level, that again leaves the CEO indifferent between claiming to be conservative or liberal.

This relationship between CEO intrinsic motivation, communications and profits is also illustrated in Figure 2. The horizontal dotted curves show a conservative CEO's payoff from conservative messaging, whereas the downward-sloping dashed curves show her payoff from liberal messaging, as a function of the mixing probability α_k, for three different levels of intrinsic motivation. An increase in intrinsic motivation makes conservative messaging more attractive, and therefore shifts the dotted curves up. It also makes liberal messaging less attractive, shifting the dashed curves down.

The palest curves depict payoffs when intrinsic motivation is negligible, $k \to 0$. They coincide with the firm-profit curves in Figure 1b, and the equilibrium value α is again given by the intersection of these two curves; for the assumed parameter values, a conservative CEO claims to be liberal with probability 1/2 and both messages yield profits $\pi(m = \mathcal{L}) = \pi(m = \mathcal{C}) = 1$. The somewhat darker curves depict payoffs when intrinsic motivation is moderate, $k = 0.5$. A conservative CEO then only claim to be liberal with probability 1/4, and liberal messaging yields strictly higher profits than conservative messaging, $\pi(m = \mathcal{L}) = 1.8 > 1 = \pi(m = \mathcal{C})$. The darkest curves depict payoffs when intrinsic motivation is large, $k = 1$. A conservative CEO then never claims to be liberal, and so the equilibrium is fully revealing, and involves even higher profits from liberal messaging, $\pi(m = \mathcal{L}) = 3$.

A key implication of Proposition 3 is that having a CEO that effectively only cares about maximizing profits ($k \to 0$) can be bad for profits. This provides an illustration of "obliquity" (Birkinshaw, 2010; Kay, 2010), the idea that complex objectives such as profit maximization are often best achieved indirectly (in our case through the CEO's intrinsic motivation to take a stand).

Our analysis also tells us something about *when* having an intrinsically motivated CEO is good for profits. Profits are higher with intrinsic motivation when CEO activism is already a relatively good strategy; for instance, in hotly contested terrains where $\pi_{LC} < \min\{\pi_L, \pi_C\}$ (Case (iii)). This case occurs when consumers care a lot about sociopolitical factors, polarization is high, and profit margins in the absence of sociopolitical differentiation are low (perhaps because of intense competition). If one believes that these factors have become more relevant in recent times, then our analysis suggests that intrinsically motivated CEOs have also become more valuable.

In contrast, intrinsic motivation is not conducive to higher profits in barren sociopolitical terrains (Case (i)), where a CEO would maximize profits by remaining silent.

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[11]The results also show that CEO activism yields higher profits on average when the intrinsically motivated CEO is liberal than when the CEO is conservative. The reason is that a firm with a liberal CEO always uses liberal messaging, and hence always enjoys the profits associated with serving the more valuable liberal niche market.
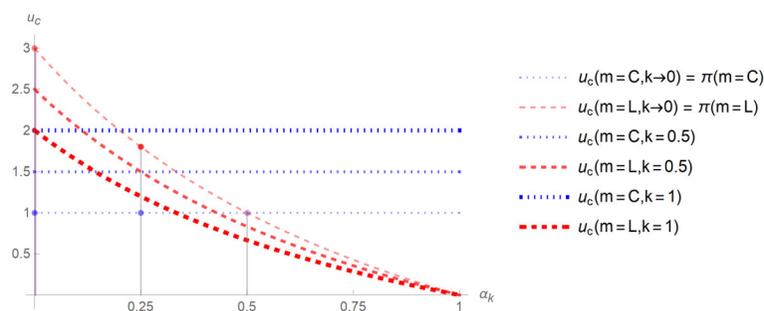
FIGURE 2 Conservative CEO payoff from sending a liberal or conservative message, as a function of α_k, for $n_L = n_C = \Psi = \lambda_C = 1, \lambda_L = 3, \nu = 0$, and different levels of intrinsic motivation.

6 | DISCUSSION

Recent years have witnessed an explosion of interest in the topic of CEO activism. Insightful early analyses can be found in Chatterji and Toffel (2018, 2019) and Larcker et al. (2018), who also present evidence about the relevance of the phenomenon. This work, as well as much of the research that followed (e.g., Burbano, 2021; Hambrick & Wowak, 2021; Hou & Poliquin, 2023; Mohliver et al., 2023), has focused on the heterogeneity of stakeholder responses to CEO activism. Taking a stand on a sociopolitical issue has been perceived as risky because, while stakeholders who are ex ante predisposed toward a stance may respond positively (for instance, by identifying more with the firm or increasing consumption), stakeholders who are ex ante predisposed against the stance may respond negatively.

Heterogeneity of stakeholder responses to CEO activism is also a key ingredient of the present model. What distinguishes our work from existing contributions is our emphasis on the issue of the credibility of communications. In our model, stakeholders' responses to an activist stance depend not only on their predispositions toward the stance, but also on how confident they are that the stance reflects the CEO's true values and beliefs. Communications perceived as inauthentic because possibly made with the purpose of increasing sales tend to be disregarded as wokewashing.

To appreciate the novel aspects of our work, it is useful to compare our model to other formal analyses of corporate social responsibility (CSR) investment and CEO activism. A few papers explore the idea that consumers may be willing to pay more for products or services that they perceive as socially responsible. Arora and Gangopadhyay (1995) and Bagnoli and Watts (2003), for instance, study the effects of competition when firms can produce in more socially responsible ways. Because these models assume that more socially responsible production methods are observable, problems such as greenwashing or wokewashing do not arise there.[12]

Mohliver et al. (2023) examine how issue salience, polarization and competition affect the likelihood that firms will take opposing stances on an issue. In their model, firms have no type:

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[12]Asmussen and Fosfuri (2019) develop a model of CSR where headquarters managers carry out investments to develop the global social brand of a multinational enterprise (MNE). These investments are visible and bring benefits to all the units of the MNE; however, subsidiary managers can engage in irresponsible behaviors that, if detected, reduce the value of these investments. In their model, there is a sense in which the MNE may be engaging in wokewashing: the actions of the subsidiaries may not be consistent with the global message put forward by headquarters. The problem in their setting arises from the difficulty of coordinating the actions of self-interested managers in a decentralized organization. In our model, wokewashing is instead the deliberate attempt of a manager to misrepresent reality for personal (or corporate) gain.

consumers simply experience higher utility whenever they buy a product associated with their preferred stance. Thus, in their model as well, issues related to the credibility of communications do not arise.

Mohliver et al.'s model and assumptions can be interpreted in two ways. It could be that consumers care directly about the message (regardless of whether it reflects the firm's true values and beliefs), or consumers may be naive and take the firm's message at face value. In our model, consumers are sophisticated and do not care directly about the message. They only use the message to infer the CEO's type (which is private information and hence not observable by consumers).

We view these two approaches—ours and Mohliver et al.'s—as complementary. Mohliver et al.'s approach is reasonable if the message itself is instrumental in bringing about change. For instance, the "message" could be an investment in a socially valuable new project that consumers intrinsically care about. Focusing on the firm's true values and beliefs (and not the message) is reasonable when messaging is strictly an act of communication, but where a firm is also expected to take possibly hidden actions that will affect relevant outcomes. Consumers may then only want to align themselves with a firm that they are confident will behave responsibly, both now and in the future. At any rate, issues of greenwashing and wokewashing can only be studied in a model like ours where stakeholders care not about the message itself, but about the congruence between the message and a difficult to observe state of the world.

By allowing for false or misleading communications, thus introducing the risk of wokewashing, our model produces rich predictions. We characterize when a CEO should remain silent, when CEO communications are so rife with wokewashing that no credible information can be transmitted in equilibrium, and when instead credible CEO activism can emerge. Three features of the market are associated with credible CEO activism: (i) high consumer polarization; (ii) high importance attached by consumers to sociopolitical factors; and (iii) low profit margins (in the absence of sociopolitical differentiation). These three factors arguably help explain why CEO activism has become increasingly widespread.

Consider the evolution of Nike's advertising strategy. In the 1980s and 1990s, Nike avoided controversy. The "Just do it" commercial first aired in 1988 featured "an 80-year-old long-distance runner jogging cheerfully across the Golden Gate Bridge. The sun shone, forgettable music plinked and nobody was remotely offended" (Financial Times, 2018). This corresponds to the quiet-life equilibrium in our model.

In more recent times, however, Nike has been courting controversy. One possible explanation, suggested by our model, is that increased consumer polarization and pressure from competitors (leading to lower profit margins) may have reduced the attractiveness of a mass market strategy. The Financial Times (2018) notes that "A polarised populace [...] leaves [brands] with a choice: try to carry on catering to a vanishing mass-market middle ground, or stake out a position that will infuriate one side but excite the other." Firms face exactly that choice in our model. The same Financial Times article notes that Nike has also faced strong competition from Adidas, particularly since the German group introduced its Yeezy line with Kanye West in 2015. Finally, according to our model, greater importance attached by consumers to sociopolitical factors, relative to more standard factors such as price and quality, should also push firms toward CEO activism. This meshes well with the perception that consumers in many countries (e.g., millennials) increasingly relish brands with a "purpose."

One could speculate about what our model implies for specific companies or industries. For a company like Apple, with very high profit margins, our model suggests that CEO activism should typically not be profitable. In Apple's case, sociopolitical activism may be driven more

by a CEO's "intrinsic motivation" or values system than profit motives. However, in industries where profit margins are lower, such as the apparel or food industries, sociopolitical differentiation may pay off, by raising consumers' willingness to pay and hence prices (e.g., Nike, Patagonia, Ben & Jerry's). Within an industry, "challengers" may be more likely than "leaders" to adopt activist stances, because the latter typically enjoy higher profit margins from economies of scale or other efficiency advantages.

A key prediction of our model is that, in hotly contested terrains (i.e., in a CEO activism equilibrium), clear stances (liberal *and* conservative) are rewarded, while ambiguity is not. More CEOs expose liberal values than conservative values, but financial returns from liberal and conservative stances are similar.

Interestingly, Mohliver and Hawn (2020) present evidence consistent with all these predictions. They examine investor reactions to US corporations' LGBTQ rankings (a highly contentious issue in the United States) and find that only firms with high or low scores experience positive reactions; firms ranked in the middle do not. Ambiguity does not appear to be rewarded. Many more firms exhibit high scores (suggesting a liberal disposition) than low scores (suggesting a conservative disposition). However, returns from high and low scores are similar.

The model is flexible and can easily be extended or modified to examine additional issues. In Appendix C, we consider two variants of the baseline model: one where CEO activism is motivated by a desire to please employees rather than consumers, and one where we explicitly model competition among activist CEOs. In the first variant, we show that CEO activism is more likely to occur when employees are able to extract a large fraction of the surplus from production. This highlights one possible driver of the condition for CEO activism that profit margins be low: employee bargaining power. In the second variant of the model, we show that competition among activist CEOs tends to make CEO activism both more credible and more likely. Activism becomes increasingly attractive in more competitive markets because it allows firms to differentiate their products along sociopolitical lines, thus softening price competition.[13]

Finally, we suggest some implications of our model for CSR. CEO activism and CSR are similar in that they both have the potential to engender positive stakeholder responses; the main difference is that, while CSR entails substantive firm actions and investments, "CEO activism is strictly an act of communication, [...] involving little or no out-of-pocket cost (Hambrick & Wowak, 2021, p. 34). A second difference, which Hambrick and Wowak only allude to, is that CSR is often much less controversial than CEO activism. Few people object to companies engaging in philanthropy or reducing their carbon footprint. In contrast, CEO activism frequently involves CEOs speaking out on "highly contentious, hot-button issue[s]" (Hambrick & Wowak, 2021, p. 49).

If we were to apply our model of CEO activism to CSR, we would therefore expect the key payoffs π_L, π_C, and π_{LC} to often fall within the *uncontested terrain* scenario (i.e., Case (ii) of Proposition 1). This would mean that, because almost everyone agrees that CSR activities are desirable, CSR claims are particularly susceptible to the "skyrocketing incidence of greenwashing" (Delmas & Burbano, 2011, p. 64).

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[13]The model could also be extended to examine situations where a CEO interacts, not with different types of the same stakeholder as in our paper, but with different stakeholders. The key building blocks of our analysis are the payoffs π_L, π_C, and π_{LC}. Different variants of the model can be analyzed by microfounding π_L, π_C, and π_{LC} differently.

There are, however, at least two reasons why applying our model to CSR would be inappropriate. First, because CSR typically entails substantive actions and investments that in principle can be monitored, evaluating to what extent words correspond to deeds is arguably easier in the case of CSR than CEO activism. Introducing the possibility of monitoring in our model would naturally reduce the incidence of greenwashing.

Second, a truly committed CEO may be able to credibly signal her sociopolitical views to stakeholders by taking actions that are very costly (say investments in CSR), but nonetheless less costly for her than for an opportunistic type (Bénabou & Tirole, 2006; Spence, 1973). The critical feature of such signaling models that is not present in our framework, is that the costs of different actions are type-dependent. For instance, a truly committed CEO may perceive achieving net zero emissions as less costly (or more beneficial) than an opportunistic CEO. In contrast, simply introducing type-independent communication costs in our model (e.g., identical advertising costs for both liberal and conservative CEOs) would not qualitively change our results.

7 | CONCLUSION

This article develops a theory of CEO activism where communications can be false or misleading. We show that the value-enhancing potential of CEO activism can be severely constrained when consumers are sophisticated and do not take activist stances at face value. We characterize when CEOs remain silent, when communications are so rife with wokewashing that they are completely disregarded, and when instead CEO activism can be credible and create value.

Credible CEO activism is embodied in sufficiently controversial communications (in the sense that these communications alienate a sufficiently large fraction of potential consumers). It is associated with niche markets and relatively high prices. Credible activism is more likely to emerge when polarization is high, consumers care a lot about sociopolitical factors, and profit margins are low.

Interestingly, a CEO who is intrinsically motivated to take a stand can generate higher profits than a CEO whose only objective is to maximize profits. The reason is that intrinsic motivation, by mitigating credibility problems, improves the quality of communications and allows for more credible sociopolitical differentiation. However, intrinsic motivation can also sometimes lead to excessive, profit-destroying activism.

The article makes several contributions to the strategy literature. First, it highlights controversy as a rhetorical mode associated with credible communications and sociopolitical differentiation. Second, it illustrates the power of obliquity—the idea that complex objectives such as profit maximization are often best achieved indirectly. Most importantly, by emphasizing the issue of credibility of communications, our work helps put the emerging literature on CEO activism on a more solid foundation.

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