Firm Partisan Political Positioning and Perceptions of COVID-19-Related Risk

In early November 2019, scientists first identified a novel coronavirus in the Wuhan province of 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 month’s end, the World Health Organization (WHO) declared it a public health emergency, and on March 11, the WHO upgraded the disease to pandemic status. Since that time, much of the world, including the U.S., has undergone a radical social transition as travel restrictions, quarantines, hazard controls, and various social distancing orders became the new normal.

COVID-19 and the efforts to minimize its impact have had a dramatic impact on society, including on business. With the benefit of some hindsight, it is clear now that the COVID-19 threat was real and its toll would be heavy. Yet, in the early months of the disease’s spread, there was uncertainty about the virus and how best to handle it, which dominated political discourse in the U.S. To some degree, this uncertainty still exists at the time of this writing, as political leaders across levels of government debate re-opening the economy. These early and ongoing debates are colored heavily by political partisanship and consequently what political scientists refer to as affective polarization: the dislike and distrust of members of the other political party as a function of social identity, not policy differences or ideology (Iyengar et al., 2019). For example, nationwide surveys (Agiesta, 2020) and other empirical studies (Barrios & Hochberg, 2020; van Holm et al., 2020) have consistently shown that Democrats perceive the risks of COVID-19 as more substantial than Republicans do, and a similar pattern exists at the elite level with Republican politicians, on average, enacting less stringent policies to fight it. Puzzlingly, this association runs contrary to a body of existing work in psychology that finds strong ties

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1 For example, the five states that did not enact stay at home orders in early 2020 all have Republican governors, and when attacked, these governors defended their decisions as a partisan team in a Washington Post op-ed on May 5.
between conservatism and threat perceptions (e.g., Jost et al., 2003), including the threat of disease (e.g., Beall et al., 2016). As such, there is evidence that the partisan politicization of COVID-19 affects whether individuals across societal strata perceive of it as a risk.

In this paper, we explore whether affective polarization on COVID-19 has spilled over into and affected corporate America’s perceptions of the disease. We do so by examining whether a firm’s partisan political positioning influences its perceptions of the disease as a business risk. Prior research reveals that the political ideology of executives, directors, and firms as a whole affect the willingness of firms to adopt risky financing (Hutton et al., 2014) and tax (Christensen et al., 2015) strategies, as well as other strategies such as corporate social responsibility initiatives (Gupta, Briscoe, & Hambrick, 2017). However, work in this stream has not explicitly explored how a firm’s public, partisan political behavior positions it in the broader, increasingly polarized U.S. party system. Thus, we offer a valuable extension by examining whether a firm’s partisan political positioning affects its perceptions on a de novo, exogenous, and affectively polarized issue. That is, in studying the relationship between a firm’s existing partisan political positioning and its perceptions of the risks arising from COVID-19, we can avoid any long-run, endogenous effects of risk perceptions on political behavior and can see whether or not a firm’s pre-existing partisan political positioning affects its perceptions of the disease as a business risk.

Empirically, we examine the association between a firm’s partisan political positioning, as reflected in its corporate political action committee (PAC) donations, and its discussion of COVID-19-related risks on its earnings call. The results of our analyses of this relationship in S&P 500 firms reveal a significant association, such that the more Democratic a firm’s partisan political positioning is, the higher the amount of discussion related to COVID-19 risk by that
firm’s representatives on its call. Given the above evidence that Republicans more broadly have minimized the disease and its potential impact, our findings provide evidence that affective polarization and a firm’s own partisanship help to shape its perceptions of COVID-19 risks.

THEORY AND HYPOTHESIS

Because executives are tasked with being stewards of their firms, they have strong incentives to objectively assess and consider the risks faced and run by their firms (Davis, Schoorman, & Donaldson, 1997). Following Christensen et al. (2015), we view managerial risk as arising when “there is uncertainty about both the positive and negative outcomes associated with... activity” (1920). Existing research on managerial risk taking in upper echelons theory (UET) largely explores its determinants with regard to strategic activities such as mergers and acquisitions (e.g., Hayward & Hambrick, 1997) and research and development (e.g., Devers et al., 2007). The recent studies on firm financing and tax strategies cited above have advanced this work by providing associational evidence that the ideology of executives plays a role in determining firms’ risk appetites. In this paper, we extend this literature in two ways. First, rather than exploring active risk taking by a firm, we explore the firm’s decision of whether or not to recognize perceived risk originating from its environment. Second, and more significantly, we argue that a firm’s perceived risk recognition level will be shaped by the relationship between its partisan political positioning and the partisan political nature of the issue generating the risk – specifically, whether or not the issue is subject to affective polarization.

According to UET, a firm’s willingness to recognize and take risks, like other strategic choices, is a product of its executives’ construal of reality based upon their psychological makeup and experiences (Hambrick, 2007). Psychological factors, and in particular the cognitive models managers adopt, affect managers’ construal of the firms’ external environment –
including, we argue, their recognition of risk – and thus affect their strategic choices with regard to how to best manage environmental risk (Eggers & Kaplan, 2013; Helfat & Peteraf, 2015).

As Hoskisson et al. (2017) note, however, there are firm- and environmental-level constraints on how these individual-level psychological factors affect risk-related decision-making: principally, the performance, diversification, and size of the firm and the dynamism, complexity, and munificence of its environment. To the list of firm-level constraints, we would add a firm’s partisan political positioning. Although the upper echelon directs the firm’s observable corporate political activity (Chin et al. 2013) and thereby establishes the firm’s partisan political positioning, we argue that because corporate PACs appear to follow a pattern of long-term investing in politicians (Snyder, 1992), there is substantial path dependence in a firm’s partisan political positioning that helps to anchor that echelon’s future construal of the riskiness of the firm’s external environment.

We further contend that the effects of the constraints imposed by firm-level partisan political positioning may depend on whether the strategically relevant issues have a partisan valence. Many issues related to managerial risk perceptions or risk taking lack a partisan valence, suggesting that the effect of a firm’s partisan political positioning may not affect managers’ understanding of and decision-making on these types of issues. For those that do have a partisan valence, however, the degree of political polarization on the issue will be key for determining the effect of a firm’s prior partisan political positioning on firm-level risk perceptions going forward.

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2 We view a firm’s partisan political positioning as a distinct concept from its organizational political ideology, 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). Whereas a firm’s organizational political ideology has deep roots in individuals’ psychological make-up and is operationalized based upon summarizing individual behavior, a firm’s public partisan political positioning is an actively chosen, collective, and strategic firm-level outcome arrived at by the managers responsible for the firm’s corporate political activity. Further, it is an outcome disclosed to the public under the firm’s name and thus stakeholders, including politicians and social activists, identify it as the positioning of the firm as a whole.
That is to say, if an issue is not polarized along partisan lines, then the upper echelon may be freer cognitively to strategize with regard to risk independent of the partisan political positioning it has adopted for the firm. However, if an issue is polarized, then the upper echelon of the firm will have a harder time deviating from the partisan political positioning it had previously adopted. That is, if managers publicly align their firm with one party to a greater degree at time $t$, they may, at time $t + n$ find themselves collectively adopting their preferred party’s perception of an issue as their firm’s perception of it.\(^3\)

Recent research in political science suggests that affective polarization in particular is becoming an increasingly significant form of partisan polarization in American political, social, and economic life. Public opinion data reveal that mass political behavior and attitudes are increasingly shaped not by ideology but by “negative partisanship,” or sheer dislike, of the opposition (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 \textit{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 (McConnell \textit{et al.}, 2018).

Given the dramatic and pervasive spillover effects of affective polarization throughout American life, there is strong reason to suspect that the upper echelon of a firm as a collective will need to account for this specific phenomenon at all steps in strategy formulation – including the assessment of perceived risks – vis-à-vis the firm’s external environment. The emergence of

\(^3\) Hence, it may be the case that on an issue that is affectively polarized a firm’s partisan political positioning becomes a “core rigidity” (see, e.g., Leonard-Baron, 1992), which could potentially turn a nonmarket competitive advantage – e.g., alignment with a political party or actor – into a disadvantage. In the political realm, an analogous effect appears to be occurring among members of the Republican U.S. Senate caucus, who despite their own weakening reelection prospects, have publicly remained loyal to the party’s position on COVID-19 (Bolton, 2020).
COVID-19 provides an ideal setting in which to test this argument. The preliminary evidence offered in the introduction suggests that affective polarization influences individual-level understanding of COVID-19-related risks. Furthermore, COVID-19 and its associated risks are a new and exogenous phenomenon, meaning i) they could not have shaped firms’ partisan political positioning at the disease’s emergence and ii) although, there is uncertainty as to the ultimate impact of the disease, there is little dispute that it poses risk to all firms.

We therefore argue that it is reasonable to ask whether a firm will be more or less likely to view the disease as a business risk based upon its partisan political positioning. If affective polarization has spilled over into firms and now informs upper echelons’ assessments of business risk, then we would predict that more Democratically-aligned firms will recognize and discuss perceived COVID-19 risk at higher levels than Republican-aligned firms. To be clear, we make no claims about what the ‘correct’ amount of risk discussion should be. Rather, we expect that affective polarization and pre-existing partisan political positioning will shape how firms discuss the threat. Determining whether this relationship holds is substantively important because left unchecked, affective polarization could lead managers to view achieving alignment between the firm and its co-partisans on an issue as being a more important goal than recognizing and mitigating the potential business risks of the issue. These arguments motivate our hypothesis:

*Hypothesis 1: A firm’s perceptions of COVID-19-related risk will be positively correlated with the share of its campaign contributions to Democratic partisans.*

**SAMPLE AND DATA**

Our sample consists of the cumulative membership of the S&P 500 index between 1990 and 2020. We link data on perceived COVID-19 risk, measured using computational text analysis of

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4 On the particular issue of COVID-19, Republican leaders and conservative-leaning media outlets tended to downplay the disease’s risk. However, on other risk-related issues the parties may flip sides.
earnings calls transcripts (Hassan et al., n.d.), with an indicator of corporate political partisanship, constructed using firm PAC contributions to political candidates and political party affiliated committees at the federal level. We also include several firm, industry, and state-level controls constructed from Compustat and other sources.

**Dependent variable: Perceptions of COVID-19 risk**

Our dependent variable captures firm-level perceptions of COVID-19 related risks, as captured in transcripts from earnings calls that occurred during the first quarter of calendar year 2020, the period when COVID-19 first started to reveal substantial risks for American firms and economic activity. An earnings call is a quarterly teleconference where company officials, typically the CEO and/or CFO, discuss operational and financial results from the previous quarter as well their outlook for future performance and earnings. Officials frequently discuss economic, industry, or political conditions and their effects on company performance as well as their outlook for future performance via a firm-generated opening statement that is prepared and/or reviewed by senior managers in corporate (e.g., the head of investor relations, the general counsel) and operational roles.

Computational linguistic analyses of earnings calls transcripts have become popular in several disciplines, particularly in accounting, finance, and economics (Loughran & McDonald 2013; 2016). These methods have become well established for measuring firms’ strategic orientations, such as time-horizons (Brochet, Loumioti, & Serafeim, 2015), sentiment and uncertainty (Loughran & McDonald, 2011; 2013), and optimism about future performance (Davis et al., 2015). Although a variety of approaches exist, most earnings call text analysis

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5 Our observed earnings calls occurred between January 2, 2020 and March 31, 2020
6 We provide examples of conference call transcripts with varying levels of discussion related to COVID-19-related risks in supplementary appendix 1.
methods involve computationally searching texts for a set of words or word combinations (bigrams) from predefined dictionaries; dictionaries may be general or purpose specific to capture sentiment related words, risk related words, or time-horizon related statements.

Recent work expands on these foundational methods by using earnings calls to measure discussions of specific topics. For example, Hassan *et al.* (2019) propose a measure characterizing firm’ perceptions of political risks. Their approach involves using training libraries of political and non-political texts to identity bigrams that are frequently used in political texts. They then search earnings call transcripts and count the number of instances where political bigrams are used in conjunction with synonyms for risk or uncertainty. Using a series of validation tests, they find that their measure effectively captures firm perceptions of political risk. For instance, they show that highly scored transcripts identify conversations associated with specific political risks, such as concerns about regulation or government funding. They also show that the measure correlates with expected firm outcomes, such as PAC contributions and lobbying expenditures. Building on this work, Hassan and colleagues have developed similar methods for identifying firm risk perceptions concerning more specific salient topics, such as Brexit or the Fukushima nuclear disaster (Hassan *et al.*, 2020).

Recently, Hassan and colleagues (Hassan *et al.*, n.d.) proposed a measure of firm perceptions of COVID-19 related risk, as reflected in first quarter 2020 earnings calls. Mirroring the above approach, the measure involves counting the number of times the disease is mentioned in the earnings call and characterizing the frequency with which these mentions coincide with synonyms for risk or uncertainty. More specifically, the researchers identify 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 construct a measure of COVID-19 exposure, which is the count of the number of times COVID-19 synonyms are used in the transcript divided by the total number of words in the transcript. Next, the researchers construct a measure of perceived COVID-19 related risk by conditioning the search for disease mentions on their proximity (within 10 words) to synonyms for risk or uncertainty.⁷ The perceived COVID-19 risk measure is the frequency with which the disease is mentioned in conjunction with a synonym for risk or uncertainty, normalized by transcript length. Hassan and colleagues have validated this measure of perceived COVID-19 risk in several ways, including a manual validation test that reveals that transcripts typically mention COVID-19 risks in conjunction with firm-specific concerns regarding a collapse in demand, supply chain disruptions, potential facility closures, and employee welfare.

We use firm perceptions of COVID-19 risk exhibited in earnings call transcripts, as constructed by Hassan et al., as our dependent variable, after log-transforming the measure to account to correct for right skewness.⁸

Key explanatory variable: Political partisanship index

Our focal explanatory variable is a firm-level political 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 political partisanship using contributions to political candidates, parties, and party affiliated committees, as disclosed in U.S. Federal Election Commission (FEC) reporting. In particular, we focus on contributions made by the firm’s PAC. Prior research has used both corporate PAC contributions as well as CEO contributions to measure corporate political ideology but, for our purposes, corporate PAC

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⁷ The authors constructed a list of risk and uncertainty synonyms using the Oxford English Dictionary.
⁸ The authors have made these risk measures available on their website www.firmlevelrisk.com.
contributions have a few important advantages as a measure of a firm’s partisan political positioning. First, in contrast to engaging in lobbying or spending so-called “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, 2010). Second, a firm’s PAC is what key stakeholders, including policymakers, consider the voice of the firm in electoral politics, and politicians are sensitive to the associations that come from accepting corporate PAC contributions (McDonnell & Werner, 2016; Richter & Werner, 2017).

Third, whereas CEO, board, and general employee political contributions are perhaps appropriate for measuring ideological commitments, they ultimately capture the political preferences of individuals. By contrast, corporate PAC contributions typically reflect the partisan preferences of several individuals and the firms’ goals (Cohen et al., 2019) and thus are a better measure of how a firm is strategically positioning itself in partisan politics. Lastly, because corporate PACs are typically viewed as access-seeking, pragmatic actors (Bonica, 2016), we expect that PAC contributions offer a more conservative test of our expectation that corporate political leanings affect COVID-19 risk perceptions than an ideology-focused measure would.

Other than employing PAC contributions in place of individual contributions, we follow the method established by Chin, Hambrick, and Treviño (2013) to measuring a firm’s partisan political positioning from political contributions. We include contributions made in the ten years prior to the COVID-19 pandemic (since 2010) in order to have a sufficiently long window to capture stable partisan patterns in political contributions.9 Using each firm’s PAC contributions,

9 In an unreported supplementary analysis, following Gupta et al. (2017), we also construct this measure using a shorter PAC contribution window of six years or three election cycles; our results are fully robust. We present the results using the ten-year measure, as it provides more variation in partisan control over both chambers of the U.S. Congress.
we calculate four measures that capture distinct elements of political giving: 1) the *number of contributions* to Democratic Party candidates or committees, divided by the number of contributions given to both parties; 2) the *dollar amount* given to Democrats divided by the amount given to both parties; 3) 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 4) the number of distinct Democratic party *recipients* to which the firm 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 political partisanship index.

We handle non-contributing firms in two ways. First, we follow Chin *et al.* (2013) in assigning a political partisanship index score of 0.5 (perfectly moderate) 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 political partisanship* score. Second, we estimate a model excluding non-contributors from the sample, and the results are consistent.

**Control variables**

We also introduce several control variables that could affect perceived COVID-19 risks and may be correlated with a firm’s partisan political positioning. First, 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 in corporate political activity (Bonica, 2016). Second, 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 in order to account for cross-firm variation in whether COVID-19 was discussed. Hassan et al. calculate COVID-19 exposure as the frequency of COVID-19 synonyms in the earnings call transcript divided by the length of the transcript (number of words). We log-transform the raw COVID-19 exposure score to correct for right skewness.

Third, we control for firms’ perceived political risks, as discussed in the earnings call transcripts. As defined and validated by Hassan et al. (2019), this measure captures risks associated with political concerns, such as regulation, trade, and government funding. As described above, this measure counts the frequency that political topics are discussed in conjunction with synonyms for risk and uncertainty. Fourth, in a similar vein, we control for the total annual dollar amount of firm lobbying expenditures, averaged over the prior 10 years. This variable is log-transformed to account for right skewness. Data on corporate lobbying come from the Center for Responsive Politics’ OpenSecrets lobbying database.¹⁰

Fifth, we control for the date of the 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 acknowledge perceived 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.

Sixth, we introduce a battery of firm-level controls measured at the end of calendar year 2019, prior to the onset of COVID-19. We measure these factors prior to COVID-19 related disruptions because our dependent variable captures perceived risk, rather than backward looking effects of the disease. We control for several indicators of size and performance, including

¹⁰ In unreported supplementary models we controlled for lobbying expenditures in just 2019, and our results are fully consistent.
(logged) total assets, return on assets, debt-to-equity ratio, and market-to-book ratio. These 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. Because potential policy responses to COVID-19 response could also come from the state level, we also control for whether the firm headquarters is located in a state with a Democratic governor. Finally, because COVID-19 related disruptions are likely to vary across industry, we include dummies for three-digit NAICS code.\footnote{11}

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

**MODEL AND RESULTS**

We estimate OLS regression models with heteroscedastic robust standard errors. We estimate i) a base-line model that includes only our political partisanship index, ii) a controls only model, iii) a fully specified model with both our political partisanship index and the controls included, and iv) the fully specified model run on the subsample that excludes non-contributing firms. Table 2 presents these results.

Model 1 estimates the baseline effect of partisan political positioning on firms’ perceived COVID-19 risks and shows a significant positive effect for our partisanship index ($\beta = 1.378, p < 0.05$), with more Democratic-leaning firms, as indicated by their corporate PAC contributions, being more likely to perceive and discuss COVID-19-related risks in their earnings calls.

Model 2 is the controls only model and reveals several relevant effects. Most notably, the COVID-19 exposure score effect is positive and significant ($\beta = 0.207, p < 0.001$), indicating

\footnote{11 Our results are fully robust to employing industry fixed effects at the three-digit SIC code level.}
that firms that discussed COVID-19 more were also more likely to perceive COVID-19-related risks. The perceived political risk measure is also positive and significant ($\beta = 0.054, p < 0.001$), indicating that firms that acknowledge greater political risk are also more likely to perceive greater COVID-19-related risks. Finally, the earnings call date effect is positive and significant ($\beta = 0.017, p < 0.05$), suggesting that earnings calls held later in the first quarter of 2020 were more likely to include discussion of perceived risks related to COVID-19.

Model 3 introduces the fully specified model and indicates that the political partisanship effect is positive and statistically significant ($\beta = 1.644, p < 0.05$). In terms of effect size, one standard deviation increase in Democratic giving on the political partisanship index is associated with an 18 percent increase in acknowledging COVID-19 related risks.

Model 4 estimates the fully specified model on the subsample of firms that made political contributions, excluding non-contributors that had been imputed as moderate in the main sample. Model 4 similarly shows a positive and significant political partisanship effect on acknowledging COVID-19 related risk ($\beta = 1.856, p < 0.01$). In this model, a one standard deviation increase in Democratic giving, among contributing firms, corresponds to a 20 percent increase in acknowledging COVID-19 related risks. The consistency of our findings across Models 3 and 4 helps assuage concern that selection into political contributing may affect our results.

**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 management had politically positioned the firm prior to the emergence of COVID-19, the more likely the firm’s management was to perceive of risks due to the disease. We believe that these results provide evidence that affective polarization in American politics has spilled over into
corporate America. This insight, that affective polarization may be a type of environmental-level cognitive influence that limits how a firm’s management can formulate strategy given also the prior partisan political positioning they have chosen for the firm, represents an important theoretical contribution. Further, our construct of a firm’s partisan political positioning represents an important empirical contribution in that it affects how a firm interacts with its external environment and captures an important dimension of a firm’s identity in the public sphere that its organizational (or CEO, board, or employee) ideology does not.

The immediate practical strategic consequences are less obvious given the still nascent nature of COVID-19. However, preliminary research in accounting suggests that those firms whose initial responses to the disease that received more positive news media coverage experienced more favorable treatment by institutional investors and financial market participants more broadly and that these effects were stronger for those firms with more salient responses to COVID-19 (Cheema-Fox et al., 2020).

In terms of limitations, the mechanism behind our finding needs further unpacking. We argue that recognizing that they are facing an issue characterized by affective polarization, a firm’s upper echelon makes decisions about whether and how to discuss COVID-19 risks in a manner that is consistent with their prior partisan political position. Ideally, we could observe the conversations that precede the earnings calls to determine whether the executives consider the constraints associated with their partisan political positioning and the politics of the disease in determining how they discuss COVID-19 risk to the broader public. Such information, however,

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12 In supplementary appendix 2, to bolster this claim we conduct a placebo test in which we examine whether a firm’s partisan political positioning affected its discussion of overall business risk in the first quarter of calendar year 2019 and find no relationship. This provides suggestive evidence that on topics without a partisan valence, and especially one not subject to affective polarization, a firm’s partisan positioning will have little or no effect on how its upper echelon discusses the issue.
is not widely available. Future work relying on other methodologies, such as interviews and case studies may be able to provide additional evidence for this mechanism.

CONCLUSION

COVID-19 is the most salient issue faced by all of society at present, and for the current crop of top executives of U.S. firms, it is likely the greatest and gravest challenge they will face in their careers. Interestingly, upon entering the U.S., the disease was almost immediately subject to the process of affective polarization, with clear partisan splits forming around perceptions of the risk that it posed that had little to do with ideology or science. This created a unique managerial challenge, and we provide evidence here that indicates, in light of the disease being affectively polarized, firms’ preexisting partisan political positioning colored their perceptions of it as a business risk. Although we are unable as of yet to demonstrate that these differences in risk perceptions will result in poorer firm performance, the initial evidence cited above that suggests that firms that are perceived as responding well to the disease are benefiting in terms of media and investor sentiment.

Exploring the degree to which firms recognize the risks unleashed by COVID-19 is of critical 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 only to increase in frequency and severity (Haass, 2020). We believe that the findings we present here can help inform how firms will perceive of such present and coming risks, including the inevitable adjustments that will occur because of unmitigated climate change, another critical issue for business and society that has already undergone the process of affective polarization.
REFERENCES


Table 1: Descriptive statistics and correlation matrix\textsuperscript{a}

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<th>Mean</th>
<th>SD</th>
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<tbody>
<tr>
<td>1. Perceived COVID-19 risk\textsuperscript{b}</td>
<td>-6.39</td>
<td>1.54</td>
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<td>2. Political partisanship index</td>
<td>0.44</td>
<td>0.10</td>
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<td>3. Proportion contributed to incumbents</td>
<td>0.53</td>
<td>0.42</td>
<td>-0.03</td>
<td>-0.36</td>
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<td>4. COVID-19 exposure\textsuperscript{b}</td>
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<td>3.01</td>
<td>0.44</td>
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<td>5. Perceived political risk\textsuperscript{b}</td>
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<td>3.03</td>
<td>0.15</td>
<td>-0.00</td>
<td>0.02</td>
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<td>6. Lobbying expenditures\textsuperscript{b}</td>
<td>6.65</td>
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<td>7. Total assets\textsuperscript{b}</td>
<td>9.87</td>
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<td>8. Return on assets</td>
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<td>9. Debt-to-equity ratio</td>
<td>0.05</td>
<td>17.43</td>
<td>0.03</td>
<td>-0.01</td>
<td>-0.00</td>
<td>-0.00</td>
<td>0.02</td>
<td>-0.02</td>
<td>-0.00</td>
<td>-0.00</td>
<td>-0.03</td>
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<tr>
<td>10. Market-to-book ratio</td>
<td>1.50</td>
<td>68.67</td>
<td>0.02</td>
<td>-0.12</td>
<td>0.02</td>
<td>0.05</td>
<td>0.02</td>
<td>-0.00</td>
<td>-0.01</td>
<td>-0.00</td>
<td>0.72</td>
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<td>11. Institutional investors (HHI)</td>
<td>0.07</td>
<td>0.16</td>
<td>-0.03</td>
<td>-0.05</td>
<td>0.05</td>
<td>-0.12</td>
<td>0.01</td>
<td>0.05</td>
<td>0.19</td>
<td>0.05</td>
<td>0.01</td>
<td>0.01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. HQ state Democratic governor</td>
<td>0.59</td>
<td>0.49</td>
<td>0.05</td>
<td>0.22</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
<td>0.04</td>
<td>0.06</td>
<td>0.05</td>
<td>0.07</td>
<td>0.05</td>
<td>-0.02</td>
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<tr>
<td>13. Call date (days since Jan 1, 2020)</td>
<td>37.32</td>
<td>13.08</td>
<td>0.22</td>
<td>-0.02</td>
<td>-0.11</td>
<td>0.35</td>
<td>-0.00</td>
<td>-0.17</td>
<td>-0.31</td>
<td>-0.08</td>
<td>0.06</td>
<td>0.04</td>
<td>-0.13</td>
<td>-0.08</td>
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\textsuperscript{a} n = 542; all S&P 500 firms (1990–2020) without missing data.

\textsuperscript{b} Variable is log-transformed.
Table 2: OLS regression models predicting perceived COVID-19-related risks

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
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<tbody>
<tr>
<td>Political partisanship index</td>
<td>1.378</td>
<td>-</td>
<td>1.644</td>
<td>1.856</td>
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<td></td>
<td>(0.568)</td>
<td>(0.640)</td>
<td>(0.715)</td>
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<tr>
<td>Prop. contributed to incumbents</td>
<td>-0.304</td>
<td>-0.334</td>
<td>-0.231</td>
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<tr>
<td></td>
<td>(0.472)</td>
<td>(0.461)</td>
<td>(0.480)</td>
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<tr>
<td>COVID-19 exposure(^b)</td>
<td>0.207</td>
<td>0.206</td>
<td>0.228</td>
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</tr>
<tr>
<td></td>
<td>(0.030)</td>
<td>(0.030)</td>
<td>(0.040)</td>
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<tr>
<td>Perceived political risk(^b)</td>
<td>0.054</td>
<td>0.053</td>
<td>0.033</td>
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<tr>
<td></td>
<td>(0.015)</td>
<td>(0.015)</td>
<td>(0.017)</td>
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<tr>
<td>Lobbying expenditures(^b)</td>
<td>0.014</td>
<td>0.015</td>
<td>-0.009</td>
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<tr>
<td></td>
<td>(0.011)</td>
<td>(0.011)</td>
<td>(0.017)</td>
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<tr>
<td>Total assets(^b)</td>
<td>-0.033</td>
<td>-0.049</td>
<td>-0.075</td>
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<tr>
<td></td>
<td>(0.064)</td>
<td>(0.065)</td>
<td>(0.090)</td>
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<tr>
<td>Return on assets</td>
<td>-0.095</td>
<td>-0.091</td>
<td>-0.937</td>
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<td>(0.654)</td>
<td>(0.673)</td>
<td>(0.788)</td>
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<tr>
<td>Debt-to-equity ratio</td>
<td>0.007</td>
<td>0.008</td>
<td>0.003</td>
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<tr>
<td></td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.004)</td>
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<tr>
<td>Market-to-book ratio</td>
<td>-0.002</td>
<td>-0.002</td>
<td>0.008</td>
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<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.004)</td>
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<tr>
<td>Institutional investors (HHI)</td>
<td>0.216</td>
<td>0.258</td>
<td>0.394</td>
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<td></td>
<td>(0.325)</td>
<td>(0.332)</td>
<td>(0.415)</td>
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<tr>
<td>HQ state Democratic governor</td>
<td>0.204</td>
<td>0.153</td>
<td>-0.024</td>
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<td>(0.137)</td>
<td>(0.140)</td>
<td>(0.178)</td>
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<td>Call date (days since Jan 1, 2020)</td>
<td>0.017</td>
<td>0.017</td>
<td>0.012</td>
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<tr>
<td></td>
<td>(0.008)</td>
<td>(0.008)</td>
<td>(0.012)</td>
<td></td>
</tr>
<tr>
<td>Partisanship index imputed flag</td>
<td>-0.443</td>
<td>-0.597</td>
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<tr>
<td></td>
<td>(0.424)</td>
<td>(0.423)</td>
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</tr>
<tr>
<td>Constant</td>
<td>-7.597</td>
<td>-5.735</td>
<td>-6.226</td>
<td>-5.662</td>
</tr>
<tr>
<td></td>
<td>(0.284)</td>
<td>(0.931)</td>
<td>(0.906)</td>
<td>(1.281)</td>
</tr>
</tbody>
</table>

Industry FEs                      | Yes     | Yes     | Yes     | Yes     |
Observations (\(n\))              | 542     | 542     | 542     | 353     |
\(R^2\)                            | 0.143   | 0.329   | 0.336   | 0.403   |

\(^a\) Robust standard errors in parentheses.
\(^b\) Variable is log-transformed.