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# Corporate social counterpositioning: How attributes of social issues influence competitive response

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**Abstract**

**Research Summary:** Whilst existing research generally assumes corporate social responsibility (CSR) is seen as universally positive, firms increasingly adopt practices, and take stands, on highly polarizing social issues (e.g., gun-control, LGBTQ rights, abortion). To better understand this phenomenon, we develop a theory about when firms will emulate, ignore, or oppose each other's CSR efforts, based on attributes of the underlying social issue (its salience and polarization), the level of market competition, and the substantiveness of CSR. Our theory predicts several distinct equilibrium outcomes, including the potential for social counter-positioning, whereby rival firms take advantage of socio-political polarization to horizontally differentiate by taking opposing stances on a polarizing issue. Counterpositioning is more likely when salience is high, but agreement is low, when markets are competitive, and when CSR is largely symbolic.

**Managerial Summary:** Firms increasingly find themselves drawn, willingly or not, to taking stances on a controversial social issue (e.g., gun rights, abortion), though doing so risks alienating (some) stakeholders. In this paper, we develop a theory of why, when, and how firms should take a stance on a polarizing issue.

We argue that firms profit from doing so when (1) the issue is salient, (2) markets are competitive, and (3) the actions are mostly symbolic. We also show that taking a stance on polarizing issues creates opportunities for the firms' competitors to counter their ideological positioning, strengthening weaker rivals in the process. Thus, in competitive markets, taking clear stances on polarizing, salient issues can segment the market, increasing the profits of all firms, and, potentially, intensifying polarization.

**KEYWORDS**

corporate social responsibility, differentiation, polarization, social positioning

# 1 | INTRODUCTION

Recent years have seen a sharp increase in the number of firms taking stances on controversial sociopolitical issues. Disney's stance against Florida's "Don't Say Gay" bill and the resulting backlash from the state serve as a case in point, as does Elon Musk's hostile bid to take over Twitter as an attempt to "free it from liberal censorship and 'cancel culture'." Faced with an increase in gun violence, Dick's Sporting Goods has refused to stock assault weapons in its stores and is lobbying for stronger gun control legislation, even as its rival Bass Pro partners with the National Rifle Association to open an arms museum. In the aftermath of the U.S. Supreme Court's Dobbs decision, some firms, such as Amazon and Starbucks, have vowed to fund female employees' travel to get abortions, while others like AT&T, Exxon, and Walmart continue to fund anti-abortion politicians, and yet others such as Hobby Lobby deny their employees access to birth control. These and other, similar stories increasingly dominate business headlines, suggesting a growing trend of firms being drawn, willingly or unwillingly, into raging social battles, often in opposition to each other, and frequently in the face of backlash from key stakeholders.

Despite the manifest importance of this phenomenon, existing work in organizational theory, strategy, and economics offers little guidance on why, when, and how firms should engage with such hot button issues. This is because existing theories of CSR have generally assumed that firms' socially responsible actions are universally seen as legitimate and good. Based on this assumption, economic models predict a separating equilibrium, with some firms investing in, and being rewarded for socially valuable actions, while others stay neutral (Baron, 2009; Besley & Ghatak, 2007; Kitzmueller & Shimshack, 2012). Similarly, work in strategy on CSR as a source of competitive advantage (Flammer, 2015a; Henisz et al., 2014) models CSR as a way for firms to vertically differentiate themselves from their rivals (Kaul & Luo, 2018; McWilliams & Siegel, 2001), earning rewards for engaging in unambiguously positive behavior from key stakeholders such as customers (Fosfuri et al., 2015), employees (Burbano, 2016; Carnahan et al., 2017), and investors (Cheng et al., 2014; Mackey et al., 2007; Werner, 2017). Research rooted in sociological perspectives goes even further, arguing that not only will CSR actions be seen as legitimate, but will lead to normative pressures on other firms to conform (Marquis & Tilcsik, 2016; McDonnell et al., 2015; McDonnell & King, 2013), so that responsible practices will diffuse across firms (Briscoe & Gupta, 2016; Briscoe & Safford, 2008), undermining any competitive advantage of first movers (Gupta et al., 2020). None of these perspectives consider firms taking actions on controversial issues, nor do they explain why firms would take stances in opposition to each other (Bove, 2022).

In this short note, we develop a theory of the conditions under which firms will oppose, ignore, or emulate each other's CSR efforts as a function of the nature of the social issue itself and the level of competition, with implications for firms' profitability and competitive advantage. Our key contribution is to highlight the possibility—observed with increasing frequency in recent years, yet largely ignored in the literature (see Vaaler & Waldfogel, 2019, for a notable exception)—that firms take advantage of ideological differences among their audiences to horizontally differentiate themselves from their rivals by taking opposing stances on an issue. We call this strategic response *social counterpositioning*.

More generally, we highlight issue *agreement* as a key factor driving strategic CSR choices, recognizing that firms investing in socially responsible practices may not only be rewarded by stakeholders who support their actions, but also alienate stakeholders who oppose their position (Hou & Poliquin, 2022; Melloni et al., 2019). Taking this indirect cost of CSR into account, we develop a holistic framework of CSR between rivals, one that not only predicts the counterpositioning case described above, but also incorporates cases predicted by prior work, including the economic case where CSR becomes a source of competitive advantage through vertical differentiation (Kitzmueller & Shimshack, 2012; McWilliams & Siegel, 2001) and the sociological case where a CSR position diffuses and becomes widespread (Briscoe & Gupta, 2016).

Our theory aims to shift attention from attributes of firms to attributes of issues and considers two core issue attributes as driving corporate response: salience, that is, how much stakeholders care about the issue, and agreement, that is, how polarized are stakeholders' views about it. We map different values of these attributes to whether a profit-maximizing firm[1] will pursue CSR, and whether its rival will follow, ignore, or oppose these efforts. Given the relative simplicity of our framework, we use verbal theory to explain the logic of the different outcomes. Readers interested in a formal derivation can find one in Supporting Information Appendix A. To ground our arguments we develop measures of issue salience and agreement based on media reports and political party platforms (Supporting Information Appendix B). We then use these measures to identify issues that vary in their salience and agreement, and to provide face validity to our theory, we include short comparative case studies of firms' CSR efforts on these issues.

Briefly, our framework describes four potential scenarios: First, where issue salience and agreement are sufficiently low, we expect all firms to ignore the issue. Second, where issue salience and agreement are moderate, we expect CSR to emerge as a niche strategy, with some firms using CSR to vertically differentiate themselves from their rivals. Interestingly, this can result in higher profits for both the niche-CSR strategy firm and its rivals and in some cases the benefit to a rival may be even greater than that to the firm pursuing CSR. Niche CSR strategies can therefore sometimes increase profit but not be a source of competitive advantage. Third, where issue salience is sufficiently high but agreement is low, we predict a counterpositioning

[1]While not all CSR is profit-seeking, with firms being motivated to invest in CSR in response to managerial preferences (Chin et al., 2013) or normative pressures (Marquis & Lee, 2013; Marquis & Tilcsik, 2016), in this study we focus on strategic CSR, that is, CSR investments intended to raise firms' financial performance.

equilibrium, where firms take opposing stances. This maximizes their horizontal differentiation and resulting profits. Fourth, where issue salience and agreement are sufficiently high, we expect all firms to invest in CSR supporting the majority position, increasing their profits but not achieving competitive advantage. Our framework also identifies moderators of these outcomes. Notably, counterpositioning becomes more likely when competition is high, when firms have different capabilities, and when CSR is symbolic or driven by pressure from activists.

Our framework contributes to the literature in several ways. First, it draws attention to the heterogeneous nature of social issues, showing how optimal firm CSR strategies, profitability, and competitive equilibria, differ by attributes of social issues, and highlighting issue agreement as a critical determinant of strategic CSR. Second, it provides a coherent account of the conditions under which firms will emulate, ignore, or oppose each other's CSR efforts and the implications of these responses for profitability and competitive advantage. Further, we map the combinations of conditions resulting in a counterpositioning equilibrium, where firms take advantage of existing ideological differences to horizontally differentiate themselves by taking opposing stances on an issue. Finally, our framework offers fresh insight into the effect of competition on firms' CSR, potentially reconciling mixed conclusions in existing work (Bagnoli & Watts, 2003; Duanmu et al., 2018; Flammer, 2015b).

## 2 | DIMENSIONALIZING SOCIAL ISSUES

Research has long argued that firms can increase their profits by investing in CSR because such action is rewarded by stakeholders. The extent of these rewards depends on two factors: first, the *salience* of the issue, that is, the extent to which stakeholders care about the issue and will reward a firm for investing in it. The salience of a social issue captures both its pervasiveness and its valence. Pervasiveness refers to the proportion of stakeholders who care about the issue (RePass, 1971). For most issues, some section of the relevant population is indifferent (Baron, 2009), and will not appreciate attempts to raise prices or lower wages in response to CSR (Kotchen, 2006). Valence refers to the utility that stakeholders who do care derive from a firm's CSR activity, that is, how much a person is "passionately concerned about and invested in an attitude" (Krosnick, 1990, p. 60). The greater this utility is, the greater the rewards the stakeholder is willing to bestow on the firm. Clearly, issues vary in their salience, with some issues such as health care, climate change, gun control, etc. being very important to many people, while others, like school vouchers, the destruction of archeological sites, and the conflict in Kashmir are less salient, because few people care about them or because people care about them relatively little. Of course, issue salience may change over time. Gender equality, for example, increased in salience following the #metoo movement.

While the *salience* of a social issue is widely acknowledged as a driver of CSR, contention over the issue (Baldassarri & Bearman, 2007) has received far less attention. Existing models generally assume that CSR activities are unambiguously "good", with stakeholders valuing them or (at worst) being indifferent toward them (Besley & Ghatak, 2007; Kitzmueller & Shimshack, 2012). This may be true for some issues such as children's rights and disaster relief. But many other issues such as abortion rights, gun control, and immigration are contested and CSR initiatives on these issues are likely to alienate a portion of stakeholders (Durand & Gouvard, 2021). In evaluating CSR investment, it is therefore critical to take into account *agreement* on the issue. By agreement, we mean the extent to which opinions on the issue are similar across the relevant population. Where agreement is low, issue supporters may reward the firm for taking action in support of an issue, while opponents punish it, often by boycotting it in favor of a rival (Vaaler & Waldfogel, 2019).

Recognizing the potential for stakeholder disagreement on a social issue is important because it introduces heterogeneity in the demand for pro-social actions, allowing us to move beyond seeing such actions as a means of vertical differentiation on an issue as in prior work (Kaul & Luo, 2018; Kitzmueller & Shimshack, 2012; McWilliams & Siegel, 2001) to allow for horizontal differentiation on a single issue.[2] Moreover, the ideological nature of socio-political issues means that issue disagreement is likely to differ from other types of heterogeneous preferences in two key ways. First, because any stance a firm takes is likely to be seen as integral to its identity, a firm may only be able to take a single position on a social issue. Attempts to play both sides of the issue are likely to be seen as inauthentic (Durand & Gouvard, 2021). Second, the ideological nature of social issues means that stakeholders may not simply reduce their willingness to pay toward firms that take a stance opposite to their beliefs, but boycott such firms entirely. When a firm's actions go against one's core values, any dealings with it can be seen as compromising, and stakeholders may be loath to engage with firms they see as implicated in moral or ethical wrongdoing. This assumption—that issue opponents will boycott firms entirely—is consistent with an extensive literature documenting such boycotts by consumers (McDonnell & King, 2013) as well as recent evidence showing that the reactions of opponents to firms' sociopolitical stances are asymmetrically negative compared to the reactions of supporters (Burbano, 2021; Hou & Poliquin, 2022).[3]

## 3 | SALIENCE, AGREEMENT, AND CSR CHOICE

### 3.1 | Single firm case

We begin by considering how issue *salience* and *agreement* impact the CSR strategy of a single firm—when it is a monopolist, or expects that its rivals will not undertake CSR. Figure 1a shows the level of agreement on the x-axis and the level of salience on the y-axis. Note that while issue salience is theoretically unbounded, we limit the level of salience in all our figures to 1 to keep it within realistic bounds, that is, we assume that the value supporters get from a firm taking a stand on a social issue is not greater than the value they get from the firm's market offering itself. The solid line plots the threshold of salience-agreement levels above which the firm will undertake CSR. As Figure 1a shows, when salience or agreement is sufficiently high, a single firm will undertake CSR activities that are aligned with the majority position on the issue.[4] This is because the price premium[5] stakeholders will pay to firms that support their position is proportional to the salience they attach to the issue. Stakeholders who hold an opposing view will simply boycott the firm.

[2]Some recent work (Nardi et al., 2021; Seo et al., 2021) examines horizontal differentiation in CSR by taking stands on different issues from one's rivals. Our focus here is on firms taking different stands on the same issue.

[3]While we assume that those opposed to the firm's stand will boycott it entirely in our main models below, we relax this and other assumptions in Supporting Information Appendix A, and show that our main predictions are largely unchanged.

[4]Since taking a stand for the majority position is always more profitable than taking a stand for the minority position, a profit-maximizing firm, acting alone, will always choose the former.

[5]For brevity, we refer to a single stakeholder group—consumers (Fosfuri et al., 2015; Kaul & Luo, 2018)—although we expect the analysis to hold for employees, suppliers, investors, and other key stakeholder groups.

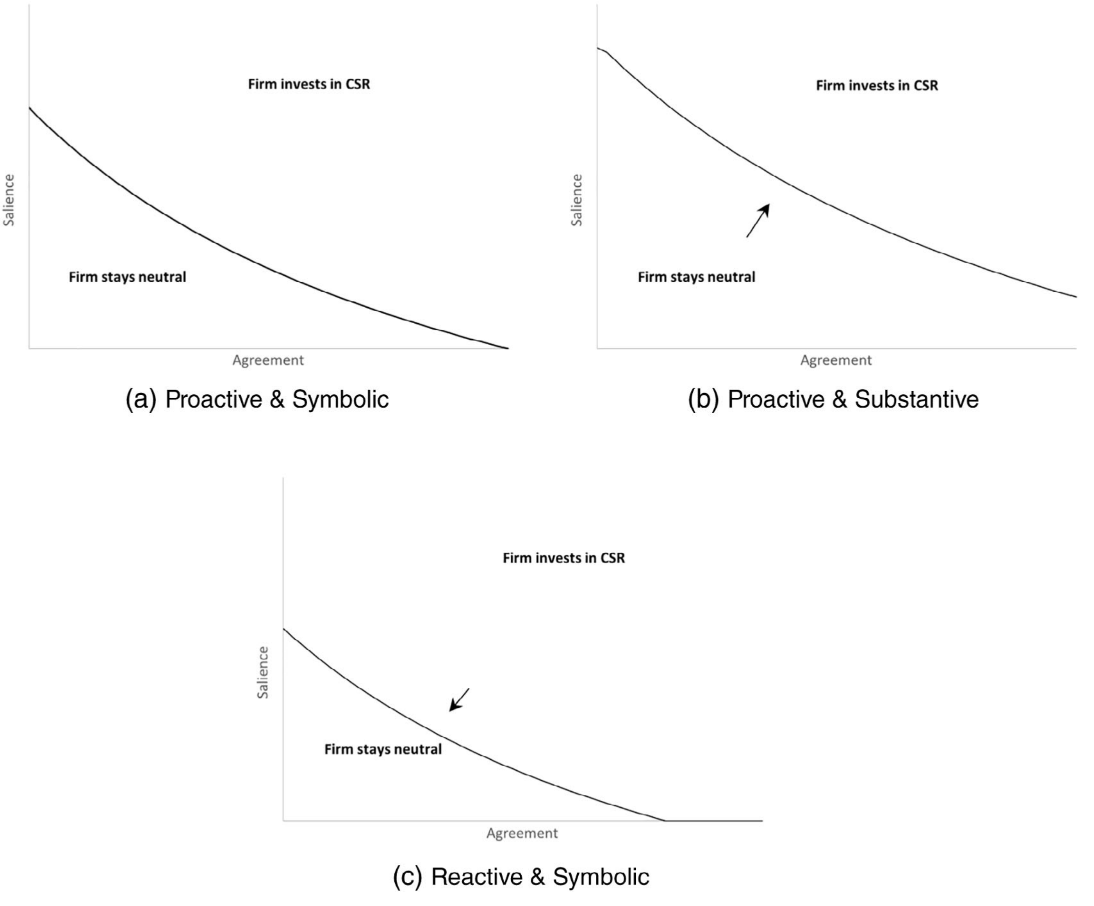


**FIGURE 1** Single firm CSR choice

We can draw a few observations from jointly considering salience and agreement in determining whether a single firm will undertake CSR. First, the salience threshold above which firms undertake CSR rises as agreement falls, as is clear from Figure 1a. As agreement falls, the firm alienates a growing proportion of its consumer base by "picking sides," and thus faces an indirect cost of CSR in terms of lost sales to issue opponents. Only if the increase in salience is sufficient to offset this indirect cost will the firm engage in CSR. Thus, on one extreme, if support for the issue is unanimous (agreement is 100%), the firm should be willing to undertake CSR no matter how small the increase in willingness to pay. On the other extreme, if the issue is hotly contested (agreement is 50%), the firm will only invest in CSR if the premium it can charge to issue supporters is high enough to offset losses from alienating half its customers.

We note that in Figure 1a CSR is *purely symbolic* and *strictly proactive*. Purely symbolic means that there is no direct cost associated with undertaking the CSR, for example, firms taking public stands on social issues (Chatterji & Toffel, 2018; McDonnell, 2015). Strictly proactive means that the firm faces no cost if it does not engage in CSR. Figure 1b shows the case of substantive CSR, where the firm incurs some (fixed) cost for engaging in CSR, and Figure 1c shows the case where CSR is reactive, that is, the firm faces activist pressure and may suffer a penalty if it chooses to do nothing. As both figures show, these changes shift the threshold value of salience for the firm to undertake CSR up or down but do not change the slope of the threshold.[6] In the case of substantive CSR, the intuition is that the increase in revenue from supportive customers must now cover both the indirect cost of lost sales and the direct cost of CSR. Thus, even with full agreement, the firm will only undertake CSR if the increase in willingness to pay is high enough to cover its cost. Conversely, in the case of reactive CSR, the firm stands to lose some profits anyway, and will undertake CSR so long as the lost profits from alienating those aligned with the minority position are less than the lost profits from activist action. For any given level of salience and agreement, the firm is more likely to pursue CSR activities that are symbolic than substantive, and more likely to undertake reactive than proactive CSR. While we focus on disagreements within a single stakeholder group (consumers), the logic could be extended to disagreements across stakeholder groups, with the intuition being that the salience of the issue to the supportive stakeholder group must offset the cost of alienating issue opponents.

## 3.2 | CSR choice with competition

A more interesting set of predictions arises when the firm undertaking CSR accounts for the likely response of its competitors. Figure 2 illustrates this case by mapping the likely *joint decisions* of the focal firm and its rival under different levels of issue agreement and salience.[7] In contrast to the single firm case, here we find four distinct potential outcomes. We derive the formal results underlying this figure in Supporting Information Appendix A, and focus on explaining the outcomes and the intuition underlying them here.[8]

### 3.2.1 | Zone I: social indifference

First, as in Figure 1a, we see a zone of *social indifference* marked by relatively low salience in which neither the focal firm nor its rival undertakes CSR. The intuition, as before, is that a social issue must be salient enough so that the increase in willingness to pay in response to undertaking CSR is sufficient to overcome the cost of doing so, that is, the lost profits from alienating issue opponents. Below this level of salience, neither firm has an incentive to undertake CSR, since doing so would only reduce profits. As in Figure 1a, the threshold value of salience above which some CSR is worth undertaking falls to zero when agreement is full,[9] the intuition being that if everyone agrees on the issue then it is always in at least one firm's

[6]Intuitively, the slope of the threshold value is determined by the firm's average profit margin. The higher the profit margin, the greater the loss to the firm per alienated customer, and the greater the increase in willingness to pay among supportive customers (i.e., salience) required to compensate. This implies that, all else equal, high capability monopolists may be less likely to invest in CSR for contested issues than low capability monopolists.

[7]More specifically, it maps the resulting equilibria when a focal firm chooses whether or not to invest in CSR for the majority position, anticipating the best response from its closest rival.

[8]For simplicity we draw this figure for CSR that is symbolic and proactive, that is, the competitive outcomes shown in Figure 2 correspond to the single firm case in Figure 1a. We focus on the symbolic case because it more clearly delineates the difference between the direct and indirect costs of CSR by setting the former to zero.

[9]At least for symbolic CSR. If CSR is substantive, that is, there is a direct cost incurred in undertaking CSR then there may still be some minimum level of salience necessary to motivate CSR, exactly as in Figure 1b.

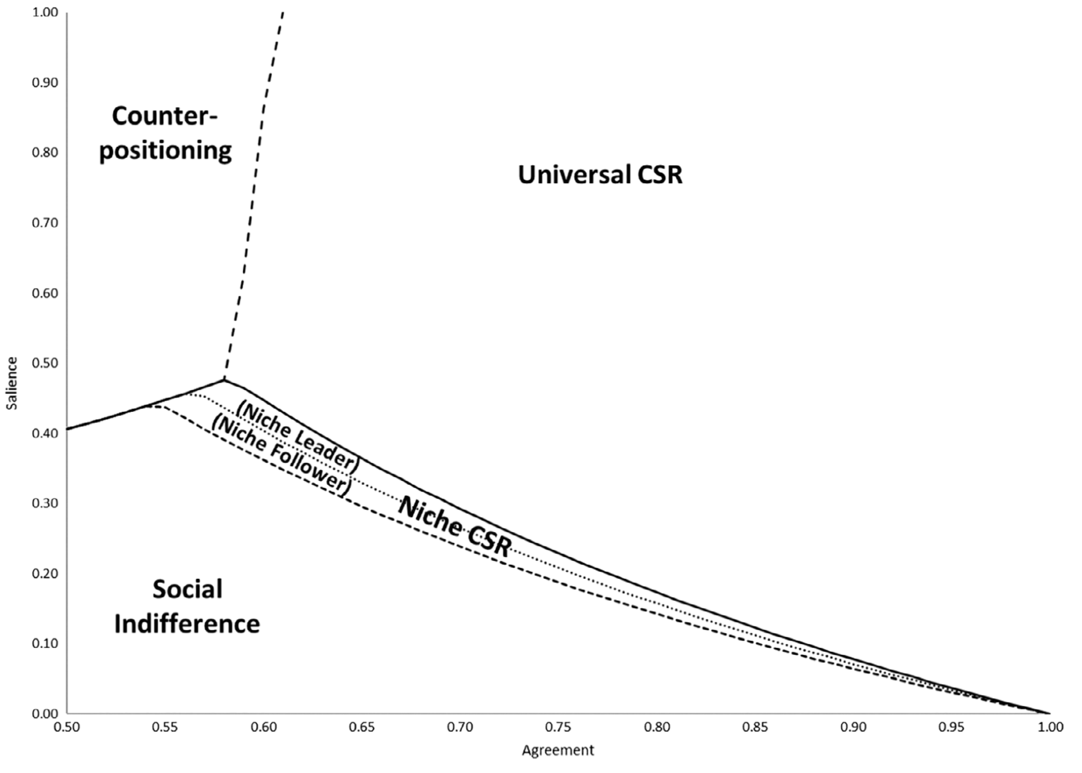


**FIGURE 2** Competitive (multiple firms) CSR equilibria

interest to undertake CSR, since they have nothing to lose by doing so. This is why prior models, which assume agreement, predict that at least some firms will undertake CSR (Bagnoli & Watts, 2003; Besley & Ghatak, 2007). As agreement falls, however, any CSR results in lost sales, so even if there is some consensus on an issue, low salience will result in social indifference. If salience is sufficiently low, this will extend to moderate and low agreement.

To illustrate the impact of salience on social indifference, consider the case of capital punishment. In a 2016 Pew survey, 49% of respondents supported the death penalty, with 41% opposed, implying low agreement. Yet, the issue is not highly salient. Political parties rarely mention it in their platforms, and public discourse about the morality of capital punishment has been sparse. Indeed, very few firms take public stances either in favor of, or opposing, capital punishment (Maks-Solomon, 2020). Benetton serves as a notable exception in that it took a highly public stance against capital punishment in 2000. Consistent with our theory, its position did not seem to attract new customers. Commentators were quick to criticize the company for taking a position on an issue that was peripheral to its product offerings (Chandler, 2000; Kraidy & Goeddertz, 2003), and Benetton swiftly reversed course. More recently, Lush Cosmetics launched an instore campaign in support of an initiative by the Responsible Business Initiative for Justice and Death Penalty Focus. Its campaign was also short-lived (from May 15–25, 2017). In both cases, the firms' CSR efforts were met with no response from their rivals.

### 3.2.2 | Case II: Niche CSR

As the salience of an issue increases beyond some minimal threshold, CSR becomes increasingly attractive. However, this does not mean that all firms will undertake CSR. As Figure 2 shows, where salience is moderate and agreement is moderate to high, we find a zone of *niche CSR*. In it, only one firm will undertake CSR, while the other is better off staying neutral. When salience is moderate, undertaking any CSR is profitable only when the firm is able to charge the maximum price premium from supporters of that position. To charge it, the firm must be able to exercise market power. If another firm were to follow and undertake CSR in support of the same position, competitive pressures would reduce the price premium of both firms. Even if the CSR is purely symbolic, neither firm would recoup the cost of losing sales to those who oppose its actions. Thus, once a first mover undertakes CSR on an issue with moderate salience, its rivals may no longer have any incentive to proactively follow suit.

In a sense, this niche CSR result corresponds to the case of CSR as a form of vertical differentiation in prior work (Besley & Ghatak, 2007; Kaul & Luo, 2018; Kitzmueller & Shimshack, 2012). There are two key differences, however. First, the constraint keeping all firms from investing in CSR in those prior models was the direct cost of undertaking socially responsible actions, while in Figure 2 it is the indirect cost of lost sales from alienating issue opponents. Of course, as previously shown, if CSR were substantive, that is, if firms had to incur direct costs to act in socially responsible ways, these costs would further constrain firms from pursuing CSR, so that the niche CSR case is more likely, the more substantive the CSR efforts involved. The point of Figure 2 is that even when CSR is purely symbolic, we may still get differentiation on CSR so long as there is disagreement over the underlying issue. Second, unlike prior work, a firm's investment in CSR does not necessarily place its rivals at a disadvantage. This is because, given issue disagreement, *a firm pursuing CSR grants its rivals increased market power over those who oppose its stance*. Since these minority supporters now have fewer firms to buy from,[10] and since the majority supporters are in any case paying a higher price, a firm that stays neutral can also afford to raise its prices after its rival pursues CSR. Thus, not only do firms undertaking CSR bear an indirect cost of lost sales to opposed customers, they also confer an indirect benefit of increased market power on their rivals. The extent of this potential price increase rises as agreement falls. That is why the range of salience over which the firm undertaking CSR acts alone increases with falling agreement, as shown in Figure 2. We call this the *niche CSR* case because it is a situation where the demand for CSR is just large enough to accommodate one firm (or a few firms) but not sufficient for widespread adoption.

As an example, consider the case of animal cruelty in the production of consumer goods (cosmetics, fashion, etc.). As an issue, animal cruelty has moderate salience, being of concern to some, but not especially salient in society at large (Jung et al., 2016). It also has moderate agreement: whilst there is no unanimity on using animals in experiments or commercial exploits, only a small minority of consumers support the use of animals in production (Godart et al., 2018). This combination suggests the potential for some firms to voluntarily embrace higher standards, whilst others keep to regulatory requirements. In the fashion industry, between 2018 and 2020 some major houses—including Burberry, Gucci, and Prada—committed

[10] In the pure duopoly model from which Figure 2 is derived, they now only have one potential seller. The absolute extent of this benefit may reduce as markets become fragmented with more rivals. Even in such markets, we would expect some increase in market power if some firms took a stand while others did not, and fragmentation may amplify the relative importance of increases in market power, assuming lower average firm profitability in such markets.

to stop using fur in their products, driven by activism by the Fur Free Alliance. Yet, at the same time other fashion houses—including Dior, Louis Vuitton, and Canada Goose—continue to breed animals and use their fur, while avoiding any explicit stance on the issue.

As mentioned, the fact that a firm undertakes CSR exclusively does not necessarily mean that it enjoys a competitive advantage. If disagreement is sufficiently high, it is possible that neutral firms realize *higher* profits than the firm that takes a stand for CSR. It follows that in such a case the first firm to consider CSR may choose to stay neutral, but a follower may invest in CSR, recognizing the opportunity to increase its profits, albeit not as much as the neutral firm.[11] In Figure 2, this case is shown as the "Niche (Follower)" case. The intuition is that a combination of exclusive access to minority supporters, and sales captured from customers who support the majority position but not enough to pay the price premium being charged by the firm investing in CSR, means that the neutral firm realizes an increase in its revenues that overshadows the higher prices its rival is able to charge.

### 3.2.3 | Case III: Social counterpositioning

A more extreme case arises when salience is high, and agreement is sufficiently low. As Figure 2 shows, in cases with low agreement and moderate to high salience we get a *social counterpositioning equilibrium*, where the investment of a focal firm in CSR in support of the majority position prompts its rival to invest in CSR, but in support of the opposing position. The intuition is that for issues with low agreement, a firm undertaking CSR aligned with the majority position leaves a large enough portion of customers displeased. This provides an opportunity for its rival to increase its attractiveness by taking *the opposite stance* on the same issue. Of course, by doing so the rival sacrifices potential sales to the customers who support the majority position, but these customers already prefer the firm that undertook CSR aligned with their position. The rival now has more to gain by fully exploiting its market power over the minority than by continuing to compete for sales to the majority as well. In this counterpositioning case *both firms are unambiguously more profitable* (with the firm undertaking CSR for the majority also realizing higher profit than it would have had the rival firm stayed neutral), because they are maximally differentiated from each other. Yet, the implications of this case for addressing the underlying issue are ambiguous, since we do not know ex ante the net result of two firms undertaking CSR on opposing sides of the same issue.

Comparing Figure 1a with Figure 2 also shows that given low agreement, the level of salience required to motivate the focal firm to invest in CSR is much *lower with competition* than without it. In fact, beyond a certain minimum level of agreement, the threshold of salience required for CSR actually *falls* with falling agreement rather than rising with it throughout (as in Figure 1a). The intuition is that, when a firm acts alone, it must balance the cost of alienating minority supporters against the benefits of increasing the value for majority supporters. Once the firm knows that its rival will counter-position, it anticipates losing the minority supporters anyway, so the focal firm is willing to invest in CSR, even for issues with lower salience. Put differently, where initially the firm faced only the indirect cost of lost sales from undertaking CSR, it now also stands to benefit from increased market power as its rival counterpositions.

[11]In such a case, we could arrive at a no-CSR equilibrium, where firms wait for the other to move first (see Cirik & Makadok, 2021 for a discussion of such adverse pioneering scenarios). For our purposes, we assume that the focal firm, moving first, chooses to stay neutral while its rival, reacts to its indifference by investing in CSR, thus realizing higher profits, albeit at the cost of reduced competitive advantage.

In sum, the potential for social counterpositioning *increases* the likelihood of CSR—but one where each firm supports the opposite position on a hotly contested issue. Importantly, this *counterpositioning is a competitive response*. It is one firm's decision to support the majority position that creates the opportunity for its rival to profit from supporting the minority position. A firm that chose to support a minority position when its rivals stayed neutral would incur losses because it would alienate the majority of its customers, while still having to compete for the business of the minority that were aligned with its stand. The minority position is only attractive to a profit-seeking firm when there is a group of customers who feel alienated by the competition.

As an example of such a scenario, consider the case of corporate support for LGBTQ rights, a highly salient issue. Prominent companies and CEOs engage with this issue (Maks-Solomon, 2020), often motivated by arguments based on market position (Maks-Solomon & Drewry, 2021). At the same time, it remains highly polarizing (low agreement), with a 2016 Pew survey finding that 55% of respondents supported same-sex marriage, while 37% were against. Many firms in the food and beverage industry—including Chipotle, Burger King, and McDonalds—have publicly and financially supported LGBTQ causes in recent decades. In 2012, nearly half of the food and beverage companies rated (26 out of 59) received high marks on their support for LGBTQ rights on the Corporate Equality Index (CEI), a widely used rating of firms' LBGTQ-friendliness published by the Human Rights Campaign.

This support has not come without a backlash, however. For instance, when McDonalds became a member of the National Gay & Lesbian Chamber of Commerce in 2008, it was met by a call for a boycott from the American Family Association. More importantly for our theory, at least one competitor—the fast-food chain Chick-fil-A—has chosen to counterposition against this trend, sponsoring events by organizations opposed to LGBTQ rights, such as the Pennsylvania Family Institute, and drawing explicit attention to its founding family's opposition to same-sex marriage through a string of media events in 2011. While Chick-fil-A's stand was attacked by some media outlets, LGBTQ organizations, and student groups, it received support from other quarters. Fox News host Mike Huckabee, for example, launched a Facebook page that quickly gathered 400,000 followers and over 630,000 RSVPs for "Chick-Fil-A Appreciation Day," which produced queues at many locations. In the years following Chick-fil-A's explicit positioning on the issue, the company has seen consistent growth both in total revenue and in revenue per-unit (see Supporting Information Appendix C for a comparison to a close competitor), growing between 2012 and 2020 from 1,500 locations to nearly 2,700 locations, increasing revenues from $4.5 billion to over $13 billion, and becoming the third largest fast-food chain in the United States. While this success cannot be linked directly to its position on LGBTQ rights, it is consistent with our theory; at the very least, it is hard to argue that Chick-fil-A suffered for its counterpositioning.

While we focus on the reaction of existing rivals to a firm's CSR efforts, the counterpositioning scenario suggests that a firm's CSR may also create market opportunities for new entrants to come in and serve supporters of the minority position who feel neglected by incumbents. For example, the Black Rifle Coffee company was established in 2014 to support gun rights, and the Freedom Phone is a mobile device company targeting political conservatives.

### 3.2.4 | Case IV: Universal CSR

Finally, where both agreement and salience are high, all firms invest in CSR aligned with the majority position, a case we call *universal CSR*. Here, support for the issue is strong and popular enough that all firms are willing to sacrifice a minority of customers opposed to the issue in

**TABLE 1** Summary of equilibrium scenarios

| Case | Case I: Social indifference | Case II: Niche CSR | Case III: Counterpositioning | Case IV: Universal CSR |
|---|---|---|---|---|
| Equilibrium | No firm undertakes CSR | a. Focal firm undertakes CSR; rival stays neutral<br>b. Rival undertakes CSR; focal firm stays neutral | Focal firm undertakes CSR; rival takes opposing position | Focal firm undertakes CSR and rival follows |
| Issue salience | Low | Moderate | Moderate/high | Moderate/high |
| Issue agreement | Low/moderate | Moderate | Low | High |
| Firms profits | No change | Increase | Increase | Increase |
| Competitive advantage | None | Focal firm | Focal firm | None |
| Effect of competition | Less likely | More likely | More likely | Less likely |
| Effect of CSR cost/substantiveness | More likely | More likely | Less likely | Less likely |
| Effect of activist pressure | Less likely | More likely | More likely | More likely |
| Example social issue | Death penalty | Animal rights | LGBTQ rights | Human trafficking |

order to capture the price premium from issue supporters. They are also willing to compete in CSR with other firms because the additional value created for the majority is high enough that, even with competition, the resulting price premium makes up for the loss from alienating issue opponents. Note that in this case CSR is no longer a source of competitive advantage, since all firms[12] make comparable CSR investments and there is nothing to differentiate between them. This case is most akin to mimetic isomorphism accounts in sociological models of CSR, where normative pressures are most likely to lead to social change aligned with the majority position.

As an illustration of the scenario, consider human trafficking: a unanimously undesirable issue that has become salient to policy makers and firms, especially in the most exposed sectors such as banking and hotels (Niethammer, 2020). In the hotel industry, where sex trafficking and labor trafficking are serious concerns, two chains, Hilton and Marriott, initiated measures against human trafficking in 2015 and 2016 respectively. These measures—for example, training programs for employees to identify signs of trafficking—were widely communicated publicly. Each firm developed its training program in association with the same organizations (Polaris and ECPAT-USA) and collaborated with the United Nations'

[12]In Figure 2, which models a duopoly, this means both firms, but the underlying intuition holds for the N firm case; the higher the salience and agreement, the greater the proportion of firms that will invest in CSR and the lower the likelihood that CSR will confer competitive advantage.

International Tourism Partnership (ITP). Following Hilton and Marriott, multiple other chains (e.g., Carlson Wagonlit, Hyatt, Accor) have taken the same anti-trafficking stance by signing up to the ECPAT code and/or by partnering with the ITP. Subsequently, the American Hotel and Lodging Association (a leading industry body) has made similar training programs available to all its members. In short, there is evidence of convergence around a single position, with most industry players following the first mover and adopting practices against human trafficking. Neither the first mover nor its competitors enjoy a competitive advantage as a result.

Table 1 summarizes the four cases shown in Figure 2, along with their implications for firm performance, competitive advantage, and the diffusion of responsible practices.

## 3.3 | IMPLICATIONS AND EXTENSIONS

Our framework has some clear implications and extensions. While fully exploring these is beyond the scope of this short note, we mention them briefly in this section, leaving a detailed discussion of these ideas as opportunities for future work.

### 3.3.1 | Effect of competition

Comparing Figure 1a (where a firm is a monopolist) to Figure 2 (where a firm faces competition from a perfect substitute) demonstrates the effect of competition on the firms CSR. Notably, both counterpositioning and niche CSR strategies arise directly from product-market competition. The intuition is that either ignoring a social issue or supporting the minority position increases the firms profits only when doing so increases its market power by differentiating it from its rival. Figure A.3 in Supporting Information Appendix A develops these results further, showing how Figure 2 changes as we change the level of product market competition.

This result highlights how introducing "agreement" as a key attribute of social issues helps reconcile the mixed predictions in prior literature about the effect of competition on CSR. When agreement is low, increasing competition is likely to increase CSR activity and profitability of all firms as they become more likely to counterposition,[13] which is consistent with evidence of a *positive* relationship between competitive intensity and CSR (Fernandez-Kranz & Santalo, 2010; Flammer, 2015b). When agreement is high, increasing competition may reduce CSR activity as rival firms prefer to stay neutral rather than engage in CSR themselves, because there is not enough profit potential to justify CSR by all firms. This is consistent with prior work predicting a *negative* relationship between product market competition and CSR (Bagnoli & Watts, 2003; Duanmu et al., 2018). In short, our framework suggests that the effect of product market competition on CSR depends on the level of agreement over the issue. It also suggests that when a firm invests in CSR, its close rivals are more likely to either stay neutral or counterposition, while firms further away in product-market space are more likely to emulate it.

[13]In terms of Figure 2, the threshold above which firms counterposition falls with both decreasing agreement and increasing competition.

### 3.3.2 | Types of CSR activities

From Figure 1b,c we can also see how different types of CSR activities will impact the relative probability of the four scenarios in Table 1. Both counterpositioning and universal CSR are more likely when CSR is symbolic. The intuition is that the costlier the CSR effort, the higher the bar for a rival firm to find it worth investing in either emulating the focal firm (for high agreement issues) or opposing it (for low agreement issues). Where CSR requires substantive investments, indifference or niche CSR strategies become more likely. Moreover, as the level of agreement declines substantive CSR investments are unlikely to be emulated or result in a competitive advantage. Figure A.2 in Supporting Information Appendix A develops these results further, showing how Figure 2 changes as we increase the cost of CSR.

Our framework also suggests that for low agreement issues, *reactive* CSR efforts may be especially likely to trigger social counterpositioning. In other words, if activists pressure one firm in an industry to invest in CSR in support of a particular side of an issue, such investments are unlikely to be matched by the firm's rivals. In fact, rivals become more likely to either ignore the issue (for high agreement issues) or counterposition and invest in supporting the opposite position (for low agreement issues). The intuition is that the costs imposed on the focal firm from activists' attack benefits its rivals indirectly, by giving them higher market power, creating an opportunity to seize a competitive advantage by doing something different. Moreover, this effect is amplified if activists force a targeted firm to undertake CSR in support of a minority position, in which case its rivals are especially likely to counterposition. If activists then target the counterpositioning firm, they do little more than add to the credibility/authenticity of its position (Melloni et al., 2019). If follows that, when competition is high and issues are salient and polarizing, some firms may, in fact, benefit from activists' protests.

### 3.3.3 | Firm heterogeneity

While Figure 2 describes equally capable firms, we can also extend our model to consider the case where one firm is more capable than the other, that is, where it can produce an identical market offering at a lower cost (or, equivalently, produce a higher quality offering at the same cost) than its rival. As already shown in Figure 1, the threshold of salience required to trigger CSR rises faster with falling agreement for high-capability firms than for low-capability firms. We model the competitive case in Supporting Information Appendix A. As Figure A.4 shows, if the high capability (low cost) firm moves first and claims the majority position, this makes both social counterpositioning and niche CSR more likely. The intuition is that a weaker follower has more to gain from distancing itself from its stronger peer, and is less likely to emulate a high-capability firm since it would rather not compete head to head with it. Conversely, if the low capability (high cost) firm moves first then the odds of both firms pursuing CSR for the majority (the Universal CSR case) increase at the cost of both social counterpositioning and niche CSR. Again, the intuition being that a high capability follower has little to fear from going head to head with a weaker rival, and may be unwilling to cede the majority position to such a rival, even if the rival moves first. Together, these results also suggest that CSR is more likely to serve as a source of competitive advantage for firms that already have a competitive edge due to their superior product market capabilities.

#### 3.3.4 | Evolving issues

Though we introduced our framework as cross-sectional, in that we derive likely outcome scenarios for different types of issues (in terms of their salience and agreement), it is easily extended to predict how changes in the nature of the underlying issue will shift outcome scenarios. For instance, as agreement on LGBTQ rights increases, we would expect a shift away from counterpositioning towards indifference, and eventually universal support. Notably, we would expect a similar outcome if the salience of the issue declined.

## 4 | DISCUSSION

Our study extends the existing theory of strategic CSR in several ways. First, we draw attention to the heterogeneous and contested nature of social issues. While most prior work on CSR takes a "one-size-fits-all" approach to social issues, treating all ESG issues as equivalent and even going as far as combining them into a single index, we emphasize that issues differ in their salience and agreement, and that these differences have important implications for firms' strategic CSR choices, and by extension for the profits and competitive advantage of the firm *and* its rivals. In particular, we draw attention to the level of social agreement on an issue as a critical consideration for CSR. While scholars have long recognized that social issues are often contested (Becker, 1985; Meyer & Staggenborg, 1996), theoretical accounts of CSR have largely ignored this aspect (Besley & Ghatak, 2007; Kitzmueller & Shimshack, 2012). Yet, as sociopolitical polarization increases, firms often find themselves faced with the choice of whether and how to respond to controversial issues, and corporate activism on such issues has become increasingly common. Acknowledging issue contestation is thus important, not only to provide a more realistic picture of CSR activity, but because firms investing in CSR incur a cost in terms of penalties from opposed stakeholders (Burbano, 2021; Hou & Poliquin, 2022), while conferring a benefit on their rivals in the form of increased market power. These are factors that existing models of CSR have largely overlooked (Kaul & Luo, 2018).

Second, recognizing that some social issues are contested allows us to predict a social counterpositioning equilibrium, where firms take advantage of ideological polarization to horizontally differentiate themselves by taking opposing stances on a social issue. We not only highlight the possibility of such counterpositioning, but also derive a set of conditions under which counterpositioning may be more likely. These include when (a) product market competition is high, (b) CSR is mostly symbolic, (c) CSR is reactive, (d) the first firm(s) pursuing CSR has stronger operating capabilities, and (e) those opposed to a firm's CSR stand boycott it entirely. We thus contribute to a growing body of work examining how firms achieve competitive advantage through CSR—by investing in different subsets of issues (Nardi et al., 2021), or by investing in the same issues more credibly (Asmussen & Fosfuri, 2019; Fosfuri et al., 2016; Nardi, 2021). In addition to shedding new theoretical light on the increasingly common empirical phenomenon of established firms taking positions on hot button issues, our counterpositioning prediction also highlights an entrepreneurial opportunity for new firms to enter markets by taking stances opposite to that of established incumbents, for example, the introduction of the Freedom Phone, or the rise of alternative social media platforms like Gab and Parler.

Third, by distinguishing different issue attributes, we provide a systematic framework to predict how a firm's rivals are likely to respond to its CSR efforts, and under what conditions

CSR is likely to result in competitive advantage. In doing so, we tie together conflicting predictions from prior work, explaining why, for instance, sometimes firms' CSR efforts are emulated by rivals (Briscoe & Gupta, 2016), while in other cases they are ignored (Kitzmueller & Shimshack, 2012), or even countered (Vaaler & Waldfogel, 2019). Further, we offer a potential reconciliation between competing predictions on the effect of product market competition on CSR activity, suggesting that competition may increase CSR activity (Fernandez-Kranz & Santalo, 2010; Flammer, 2015b) for low-agreement issues, but decrease CSR activity (Bagnoli & Watts, 2003) for moderate- to high-agreement issues.

Fourth, our framework offers several counter-intuitive predictions for future work to test. For instance, we suggest that a firm's CSR investments will tend to increase the profits of its rivals, even if they remain neutral, and that in some cases (where salience and agreement are both moderate) this increase in rival's profits may be greater than that of the firm investing in CSR. We also argue that, beyond a point, the salience required to drive CSR investment may actually fall with agreement; the intuition being that as issues become more contested, the indirect market power benefits of counterpositioning become more important than the direct rewards from CSR itself. Finally, we suggest that activists who successfully get firms to cede to their demands on contested social issues may find themselves facing a backlash from other firms in the industry, who may prefer to take an opposing stand, increasing their profits.

In addition to these counter-intuitive predictions, our study offers opportunities for further empirical work. Researchers could build on the measures we develop in Appendix B to develop empirical measures of the salience and agreement of different social issues, and use them to test our predictions for how firms' CSR actions vary across issues and over time. Future researchers could also study differences in the reaction that a focal firm's CSR investments produce on its rivals as a function of their competitive distance, as well as the nature of the issue.

Our study also offers several opportunities for future theory development. Future work could consider issue attributes when firms compete for other stakeholders, for example, employees (Carnahan et al., 2017; Flammer & Luo, 2017), or multiple stakeholders simultaneously. Research could also extend our framework, potentially building off the formalization we offer in Appendix A to model competition between multiple heterogeneous firms, to consider issues where there were multiple positions on one side of the cause (Heyes & Martin, 2015, 2017), to explore cases where agreement and salience are endogenous to firms' efforts, or to explore cases where agreement and salience may be correlated with each other.

To conclude, we develop a coherent theoretical framework of how firms respond to each other's CSR as a function of the nature of the social issue and the competitive context. We define two distinct attributes of a social issue—salience and agreement—and argue that different combinations of these attributes lead to different equilibrium outcomes, determining whether a firm chooses to undertake CSR and whether its rival follows, ignores, or opposes its actions. In doing so, we offer a potential reconciliation of conflicting predictions in prior work and highlight the importance of recognizing that not all CSR efforts are universally lauded, and that firms may exploit the lack of social agreement about what is right to differentiate themselves from their rivals by taking opposing stances on a social issue, mutually enhancing their profits.

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## DATA AVAILABILITY STATEMENT

Data sharing not applicable to this article as no datasets were generated or analysed during the current study.

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## SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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