Public Displays of Alignment*

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Abstract

We study corporate "public alignment": firm speech that echoes the rhetoric of an autocratic regime. We develop a theoretical model in which public alignment sustains political risk-sharing between firms and the regime: by tying their payoffs to the regime's, aligned firms credibly commit to undertake costly, regime-favored actions in adverse states, and in return the regime becomes less likely to expropriate them. We construct an empirical measure of public alignment using a general, replicable index based on regime-specific phrases in annual reports and implement it for Chinese listed firms. We use this to validate both the model's predictions and its key assumption that alignment links firm and regime payoffs. More-aligned firms take more regime-favored actions during periods of unrest and earn lower profits, and alignment increases following heightened expropriation risk. These patterns hold after controlling for other forms of state proximity (state ownership, political connections, and Party cells) and are difficult to reconcile with alternative explanations such as cheap talk or simple patronage.

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1 Introduction

Corporate political speech is widespread and rising globally (Cassidy and Kempf, 2025; Ottonello et al., 2024; Barari, 2024; Conway and Boxell, 2024). An important but understudied audience is the government. Across regime types, firms publicly align with the government, including in the United States, where some companies adopted pro-Trump language after the 2024 election.[1] This behavior is especially common in autocracies: in Saudi Arabia, Russia, and China, firms routinely echo regime-specific slogans.[2] We refer to such behavior as *public alignment*.

This behavior prompts several questions. What are its economic consequences? Which firms align with the regime, and how does it benefit them? If the regime rewards alignment, what does it gain in return?

Anecdotal evidence provides some hints. Public alignment is often associated with benefits for firms, including business favors and protection from expropriation. In China, firms seem to align more when they are at risk of being regulated or shut down.[3] But public alignment is not universal. For example, Russia's Tinkoff Bank and Turkey's Koç Holding both avoided pro-regime rhetoric during the Ukraine War and Turkey's 2013 anti-government protests, respectively.[4] Public alignment can also be costly for firms: it compels firms to take pro-regime actions and can affect their public reputations, even if the regime falls.[5]

In this paper, we argue that public alignment serves as a second-best solution to the fundamental commitment problem faced by autocratic regimes. Without effective checks and balances, autocrats cannot credibly promise not to expropriate firms (Egorov and Sonin, 2024; Yang, 2024; Shleifer and

[1] See Washington Post, March 13, 2025 and Semafor, June 16, 2025.
[2] See City Cement, 2023 Annual Report; Rosneft, 2024 Annual Report; and Zhongyuan Bank, 2024 Annual Report.
[3] See Reuters, August 30, 2024; Axios, April 10, 2021; and Alibaba Group, September 3, 2021, Press Release.
[4] See Financial Times, April 25, 2022; and London South East via Reuters, July 25, 2013.
[5] For example, after World War II, Allied leaders dissolved the Zaibatsu holding companies (e.g., Mitsui, Mitsubishi, Sumitomo, Yasuda) in part because they were aligned with the prior regime. See U.S. Department of State, *FRUS* 1947, Vol. 6, Document 240.

Vishny, 1998).[6] This problem is particularly acute in "bad" states of the world (e.g., unrest, political crisis, or external threat) when regimes seek politically favored corporate actions, but information frictions make effort hard to verify. Anticipating noncompliance, regimes may expropriate firms preemptively, which depresses investment and growth (Djankov et al., 2003; Dixit and Pindyck, 1994). Although institutional reforms are the first-best solution to the commitment problem, many regimes resist them and rely on second-best alternatives (Gehlbach and Keefer, 2011). We show that public alignment serves as one such alternative by tying firms' payoffs to the regime's, thereby allowing the regime to share political risk with firms and, in turn, reducing the regime's incentives to expropriate.[7]

To make this argument formally, we begin by developing a theory of how public alignment can lead to political risk-sharing between a regime and a firm. In our model, there are "good" and "bad" states of the world, and the firm makes a production decision after observing the realized state. Whereas the regime and the firm share identical preferences in the good state, they differ in the bad state: the regime prefers production decisions that are more favorable for its political objectives (e.g., increasing hiring to help quell unrest) to the profit-maximizing one preferred by the firm. Without public alignment as an instrument, the regime might wish to preemptively expropriate the firm if the difference between their preferences in the bad state is large.

Our key modeling assumption is that public alignment commits the firm to maximize a weighted sum of its own profit and the regime's payoff, with the weight on the latter capturing alignment strength. The firm's realized payoff, however, remains its profit. As such, through public alignment, the firm sacrifices profit by committing to take more pro-regime production decisions in the bad state. In turn, this reduces the regime's incentives to expropriate. The resulting equilibrium benefits both agents: the firm faces lower expropriation risk and the regime receives more support on its

[6] We conceptualize expropriation as a continuum of government interference in firms, including fines, sanctions, asset seizures, and shutdowns.

[7] We do not claim that risk-sharing is the only motive for public alignment. Rather, we demonstrate how it can be theoretically sustained in equilibrium and show that it is sufficient to explain empirical patterns.

political objectives.[8]

Our theory generates several empirically testable comparative statics. First, more-aligned firms should make more pro-regime production decisions in bad states. Second, alignment should increase with the risk of expropriation. Third, alignment should be positively correlated with the extent of disagreement between the regime's preferred production decision and the firm's profit-maximizing decision. Fourth, alignment should be associated with lower firm profitability.

To empirically evaluate our key assumption and theoretical implications, we develop a general, replicable, text-based measure of public alignment. We use machine-learning based natural language processing techniques to extract distinctive phrases from a corpus of regime documents; we then search for these phrases in a second corpus of listed firms' annual reports. We implement this method for listed Chinese firms, identifying the 50 phrases that most clearly distinguish Chinese Communist Party language from standard Mandarin. We count their occurrences in each report and collapse the 50 indicators to the firm-year level using the first principal component. Firms whose annual reports exhibit a larger share of regime-specific phrases are more aligned.

Using our new measure of public alignment, we show that both our core modeling assumption and the model's theoretical implications are consistent with observed empirical patterns. We first validate the key assumption by showing that, following negative political shocks to the regime, more-aligned firms experience larger stock price declines, consistent with firms at least partially internalizing the regime's payoffs. We then document that the model's comparative statics are borne out in the data. First, during periods of social unrest, more-aligned firms expand employment, or reduce it less, than comparable less-aligned firms, consistent with taking regime-favored actions. Second, after increases in perceived expropriation risk, which we proxy with regulatory investigations, firms increase their public alignment. Third, alignment is higher in settings where the

[8] Other mechanisms can also tie firm and regime payoffs, such as political connections (e.g., Acemoglu et al., 2008; Egorov and Sonin, 2024). These may substitute for or complement public alignment; we leave a fuller comparison to future work.

divergence between the regime's preferred production decision and the firm's profit-maximizing decision is greater, which we proxy with strategic industries, firm size, and cross-listing status. Fourth, more-aligned firms are less profitable and score higher on corporate social responsibility (CSR) indices.

One potential alternative interpretation is that these facts may reflect other forms of proximity to the regime. We address this in each empirical exercise by controlling for other firm-regime ties: state ownership, political connections, and the presence of Party organizations within the firm. Our results are robust to these controls.

Finally, we discuss additional potential functions of public alignment. Two common candidate explanations are: (i) cheap talk, in which alignment is costless speech; and (ii) simple patronage, in which alignment is a means for firms to secure favors (e.g., permits, subsidies, or lenient enforcement). In the latter case, the regime derives a direct benefit from speech, such as legitimacy or consumption value, that does not hinge on firms undertaking costly contingent activities. We show that these alternatives cannot account for the full set of empirical facts we document. In particular, cheap talk cannot account for the costs that firms incur for public alignment, and simple patronage is inconsistent with a negative correlation between public alignment and profitability, does not predict that more-aligned firms maintain higher employment during periods of unrest, and does not naturally imply that regulatory investigations would trigger increases in alignment.

Our work contributes to several literatures. First, we consider the state as an audience for corporate political speech, rather than consumers, investors, or employees (e.g., Bombardini and Trebbi, 2025; Cassidy and Kempf, 2025; Conway and Boxell, 2024; Cowgill et al., 2024; Ottonello et al., 2024; Kempf and Tsoutsoura, 2024; Yue et al., 2023; Fos et al., 2022; Lin and Milhaupt, 2021; Bhagwat et al., 2020; Hassan et al., 2019). We introduce a novel, broadly applicable metric of alignment, use it to uncover new empirical patterns, and develop a framework that explains how autocrats use such speech to trade off political control against economic output. Our theory

explains previous empirical facts, including why aligned speech and political commitments might increase after anti-corruption crackdowns (Jiang et al., 2023).

Our work contributes to the political economy literature by showing that public displays of alignment such as firm rhetoric serve as tools to address a fundamental problem of autocracies: the commitment problem, in which regimes with concentrated power struggle to credibly commit not to expropriate firms when their interests diverge with those of the regime (Egorov and Sonin, 2024; Yang, 2024; Acemoglu et al., 2008; North and Weingast, 1989; North, 1971; North and Thomas, 1970). By aligning firm and regime interests, such rhetoric helps sustain cooperation.

By documenting how public firm speech functions as an instrument of rule, we extend the literature on how autocrats maintain power. One line of research emphasizes the role of repression (Egorov and Sonin, 2024; Rozenas and Stukal, 2019; Gehlbach et al., 2016; Adena et al., 2015; Yanagizawa-Drott, 2014; King et al., 2014), while another highlights how autocrats govern through targeted benefits such as transfers, job promotions, limited electoral reforms, and public employment (Mueller, 2025; Wen, 2025; Martinez-Bravo et al., 2022; Xu, 2018; Jia et al., 2015). Our work demonstrates that symbolic declarations of political alignment in autocratic regimes (Baturo et al., 2024; Rithmire, 2023; Egorov and Sonin, 2011; Choi and Thum, 2009; Shih, 2008) can also function as an instrument of autocratic control.

The remainder of the paper proceeds as follows. Section 2 provides background and additional motivation for how public alignment helps to share political risk, while Section 3 develops a formal theoretical model of public alignment. Section 4 constructs a firm-year measure of public alignment and implements it in the context of China. Section 5 outlines our empirical strategies for testing the model's implications and reports their results. Section 6 then discusses alternative explanations and shows where their predictions diverge from the evidence. Section 7 concludes.

2 Background

This section synthesizes qualitative evidence and prior research that motivates our central claim: in autocracies, public alignment allows firms to credibly commit to sharing political risk with the regime in exchange for protection against expropriation. The logic builds on a central commitment problem for autocracies: without effective checks and balances, such regimes cannot credibly promise to respect property rights and refrain from expropriation (Egorov and Sonin, 2024; Yang, 2024; North and Weingast, 1989; North, 1971; North and Thomas, 1970).

One manifestation of the commitment problem is time inconsistency across good and bad states. In good states, the regime prefers firms to maximize profits, and thus has little reason to interfere with corporate decisions. In bad states, like periods of social unrest, economic crisis, or external threat, the regime prioritizes political objectives and may require firms to take costly actions, such as maintaining employment or keeping prices low. If firms do not comply, the regime may intervene or expropriate.

Examples of expropriation motivated by misalignment between regime interests and narrow profit maximization abound. In 2008, the Venezuelan government seized cement company Cemex's plants to keep construction inputs cheap and meet price-control objectives.[9] In 2021, just days after the ride-hailing app Didi listed on the New York Stock Exchange, Chinese regulators opened a cybersecurity investigation and removed its software from domestic app stores, citing national security and data protection concerns.[10] Regimes have explicitly voiced this logic: for example, CCP leadership opined that prominent conglomerate Ant Group (Alibaba) was "too focused on its own profits" and threatened expropriation of certain business areas.[11]

In principle, regimes and firms could bargain in bad states to avert expropriation, but autocracies often lack timely, credible information about conditions on the ground and firm effort (Egorov and

[9] See Forbes, 2008; UNCTAD, n.d.
[10] See Wall Street Journal, 2021; Reuters, 2024; The Guardian, 2021.
[11] See China News, 2020.

Sonin, 2024; Yang, 2024), and firms facing the threat of expropriation have incentives to misreport. Consistent with this concern, Chinese authorities have noted that firms "cannot be fully trusted."[12] Ex ante bargaining is also of limited value: when a political crisis arrives, firms are tempted to renege and, anticipating this, the regime is tempted to expropriate anyway.

A high-expropriation equilibrium depresses long-term investment, both theoretically (Djankov et al., 2003; Dixit and Pindyck, 1994) and empirically (Acemoglu and Johnson, 2005). If autocrats also value economic growth, they may wish to avoid this outcome. A first-best solution would be to adopt strong formal institutions, but many regimes resist reform and seek second-best arrangements instead (Yang, 2024; Guriev and Treisman, 2019; Gehlbach and Keefer, 2011).

We propose that public alignment is one such second-best arrangement and acts as an informal contract between a regime and firms that can help mitigate this commitment problem. Our argument is motivated by qualitative accounts that public alignment ties firms' public perception to the regime, such that aligned firms face repercussions when the regime experiences problems. Here, we present broad qualitative support for this idea; Section 5.1 provides empirical evidence specific to our setting.

Anecdotally, publicly aligned firms can suffer backlash for their reputational ties to regimes. For example, the European Union banned state-aligned Russian outlets RT and Sputnik for wartime propaganda, de-platforming them across the continent.[13] In Turkey, companies perceived as siding with the Erdogan regime have faced boycotts led by opposition figures.[14] In the United States, Tesla has faced consumer boycotts, protests at showrooms, analyst downgrades, and sharp declines in brand rankings after Elon Musk aligned himself publicly with the Trump administration.[15] Appendix A provides further examples.

In addition, public alignment may come with an expectation that firms will make costly invest-

[12] See China News, 2020.
[13] See European Commission, 2022.
[14] See Reuters, 2025.
[15] See PBS News, 2025; CBS News, 2025; ABC News, 2025; People, 2025.

ments to support their rhetoric. For example, China's Alibaba, which publicly pledged loyalty to the regime in response to expropriation threats, committed over 100 billion yuan (about $15.5 billion) to initiatives related to the regime's "common prosperity" agenda.[16] Given these reputational costs and expensive commitments, public alignment seems unlikely to be merely cheap talk.

This qualitative evidence suggests that public alignment can partially resolve the autocratic regime's commitment problem by giving firms a way to credibly share the regime's political risk. As a costly, public act that links firms' payoffs to those of the regime, public alignment helps discipline the firm's behavior in bad states of the world. Consequently, the regime has less incentive to expropriate aligned firms in bad states, since these firms will take actions that serve the regime's interests; furthermore, expropriating an aligned firm raises the regime's political costs by sending a message to other firms and allies that loyalty is not rewarded.[17]

3 Theoretical Analysis

We now develop and analyze a model motivated by the examples in Section 2 to show how public alignment helps the regime and firms to share political risk, mitigating the regime's commitment problem. To illustrate the key economic forces underlying public alignment, we present a deliberately parsimonious version of the model and defer discussions of alternative mechanisms and extensions to Section 6 and Appendix B.

3.1 Basic Model

We consider an autocratic regime and a profit-maximizing firm. There are two states of the world: a good state and a bad state, denoted by $\theta \in \{0, 1\}$. The bad state ($\theta = 1$) occurs with probability

[16] See Wall Street Journal, 2021.

[17] In interviews with Chinese businesses, Jordan (2024) documents this exact logic: such expressions "mitigate risk for the firm[. . .] if a company has demonstrated consistent loyalty and publicized numerous activities conducted under the auspices of their Party cell, it looks unfavorable for the Party to come out and punish this company later."

$p \in (0,1)$ and represents a scenario of heightened political stress, for example, social unrest or geopolitical conflict, in which the firm's interests might diverge from the regime's. The good state ($\theta = 0$) occurs with probability $1 - p$ and represents stable times with no immediate disagreement between the objectives of the firm and the regime.

Having observed the state θ, the firm chooses a production decision $x \in \mathcal{X} \coloneqq \bigtimes_{i=1}^{n} [0, \overline{x}_i]$. The production decision is multidimensional and may include prices, employment, and/or environmental impact. For simplicity, we assume that the firm's preferences over its production decision are state-independent: they are described by a continuous profit function $\Pi : \mathcal{X} \to \mathbb{R}$, where $\Pi(x)$ denotes the firm's profit given x.

Unlike the firm, the regime's preferences over the firm's production decision depend on the state. Let $u_R : \mathcal{X} \times \{0,1\} \to \mathbb{R}$ be the payoff function describing the regime's preferences, where $u_R(x, \theta)$ denotes the regime's payoff in state θ if the firm takes a production decision of x. We assume that $u_R(\cdot, \theta)$ is continuous for each $\theta \in \{0,1\}$. In the good state, we assume that the regime's preferences are aligned with those of the firm:

$$u_R(x, 0) = \Pi(x), \qquad \forall\, x \in \mathcal{X}.$$

By contrast, the regime's preferences diverge from those of the firm in the bad state. Whereas the firm seeks to maximize profits, the regime also cares about political goals, like domestic stability or geopolitical power. We define the *payoff divergence* between the regime and the firm in the bad state to be

$$\Delta(x) \coloneqq u_R(x, 1) - \Pi(x).$$

We assume that $\Delta : \mathcal{X} \to \mathbb{R}$ is increasing: political concerns cause the regime to prefer higher production decisions (e.g., higher quantities, employment, and environmental protection) than the firm in the bad state. We further assume that $u_R(x, 1) < u_R(x, 0)$ for every $x \in \mathcal{X}$: for any given production decision, the regime strictly prefers the good state to the bad state.

Before the state is realized, the regime can choose to preemptively expropriate the firm. As described in Section 2, the timing of the expropriation decision reflects the regime's challenge of gathering reliable information. We normalize the expropriated firm's production decision, as well as the expropriated firm's profit and the regime's payoff, to zero in each state: $\Pi(0) = u_R(0, \cdot) = 0$. Consequently, the regime expropriates the firm if and only if its *ex ante* expected payoff from the firm's production decision is negative.

To avoid expropriation, the firm can choose a level $\alpha \in [0, 1]$ of public alignment with the regime. In doing so, the firm ties its public perception—and hence its payoff—to the regime (see Section 2). Formally, the aligned firm commits to maximize a weighted sum of its profit and the regime's payoff, where the weight on the regime's payoff is equal to the firm's chosen level of alignment:[18]

$$u_F(x, \theta \mid \alpha) \coloneqq (1 - \alpha)\,\Pi(x) + \alpha u_R(x, \theta).$$

Given α, we denote the optimal production decision of the aligned firm in state θ by

$$x^*(\theta \mid \alpha) \in \arg\max_{x \in \mathcal{X}} u_F(x, \theta \mid \alpha).$$

The existence of x^* is guaranteed by our continuity assumptions and the compactness of $\mathcal{X}$.[19]

Public alignment is potentially costly for the firm.[20] Even though it commits to maximize $u_F(x, \theta \mid \alpha)$, the firm nonetheless receives a profit of $\Pi(x, \theta)$ in state θ. Thus, by aligning with the regime, the firm forgoes an expected profit of

$$c(\alpha) \coloneqq \max_{x \in \mathcal{X}} \Pi(x) - \left[p\Pi(x^*(1 \mid \alpha)) + (1 - p)\,\Pi(x^*(0 \mid \alpha))\right].$$

[18] We interpret this change as arising from the public's response to the firm's speech: by choosing alignment, the firm induces customers, investors, and other members of the public exposed to the speech to associate the firm with the regime. For simplicity, we do not model this mechanism explicitly.

[19] If there are multiple solutions, we assume that the firm chooses the one that yields the highest payoff for the regime, which is possible by Berge's maximum theorem.

[20] Our model can be extended to account for potential benefits of public alignment, such as business contracts and consumer demand for alignment. We discuss this possibility in Section 6.

Henceforth, we refer to $c(\alpha)$ as the firm's *expected (opportunity) cost* of choosing a level of alignment α. By construction, $c(0) = 0$ and c is nondecreasing (see Appendix B).

For expositional simplicity, we assume that there is always some level of alignment that would protect the firm from getting expropriated and yield positive profit nonetheless:[21]

Assumption 1. *There exists* $\hat{\alpha} \in [0, 1]$ *such that*

$$\mathbf{E}_\theta \left[\Pi(x^*(\theta \mid \hat{\alpha}))\right] \geq 0 \quad \textit{and} \quad \mathbf{E}_\theta \left[u_R(x^*(\theta \mid \hat{\alpha}), \theta)\right] \geq 0.$$

Assumption 1 guarantees that there are positive gains from public alignment. Consequently, expropriation is never optimal on the equilibrium path.

In summary, the timing of the game is as follows:

1. The firm chooses its level of alignment, $\alpha \in [0, 1]$.
2. The regime observes α and decides whether to expropriate the firm.
3. The state θ realizes and the firm (if not expropriated) chooses $x^*(\theta \mid \alpha)$.
4. The firm receives a profit of $\Pi(x^*(\theta \mid \alpha))$ and the regime receives a payoff of $u_R(x^*(\theta \mid \alpha), \theta)$.

In Appendix B, we solve this model for the optimal alignment α^* of the firm using the equilibrium concept of subgame-perfect equilibrium. As we show, α^* is the minimum level of alignment that the firm can choose in order to avoid expropriation.

3.2 Comparative Statics of Public Alignment

To generate empirical implications of our theory, we now explain how public alignment varies with: *(i)* the firm's production decision and *(ii)* model primitives. We defer proofs to Appendix B.

[21] This assumption can be relaxed. In some parameter regions, no level of alignment can solve the commitment problem, leading to low investment and high expropriation. This outcome is similar to "Autocracy 1.0" as described by Yang (2024), where the commitment problem remains unresolved. Under our Assumption 1, the equilibrium echoes "Autocracy 2.0," where more sophisticated governance tools, including public alignment, help address the regime's commitment problem.

Our first result shows that public alignment covaries monotonically with the firm's production decision:

Proposition 1. *The firm's production decision $x^*(\theta \mid \alpha)$ is nondecreasing in the level of alignment α for every state $\theta \in \{0, 1\}$. Moreover, if the equilibrium level of alignment is positive (i.e., $\alpha^* > 0$), $x^*(\theta \mid \alpha^*)$ is increasing in θ.*

Proposition 1 shows that increasing alignment compels the firm to make production decisions that are more favorable to the regime; and in equilibrium, this implies that the firm makes a more favorable production decision in the bad state. Intuitively, at $\alpha = 0$ the firm behaves as a profit maximizer, at $\alpha = 1$ it behaves as a regime-payoff maximizer, and as α rises it moves monotonically along that spectrum. Since the regime and firm are already aligned in the good state, public alignment has no effect there—so when $\alpha^* > 0$ (i.e., when the firm would otherwise be expropriated by the regime if not for alignment), the firm's equilibrium production decision shifts strictly in the regime's favor in the bad state.

Our second result shows that the equilibrium level of alignment is increasing in the risk of the bad state occurring:

Proposition 2. *The equilibrium level of alignment α^* is increasing in p.*

Proposition 2 illustrates how public alignment can be interpreted as *insurance*. To avoid expropriation, the firm commits to making production decisions that are more favorable to the regime, which reduces the regime's "loss" in the bad state à la Rothschild and Stiglitz (1976). As the bad state occurs with higher probability, the regime demands higher "coverage" through higher levels of alignment.

However, this analogy to insurance is imperfect for at least two reasons. First, the realized payoff divergence between the regime and the firm depends on the chosen production decision; hence, the regime's "loss" is endogenously determined. Second, the regime derives part of its

payoff from the firm's profit; hence, "coverage" through higher levels of alignment is costly to the regime as well.

Motivated by these differences, we examine how equilibrium alignment varies with the disagreement between the regime and the firm and with the firm's profitability. To flexibly accommodate different payoff divergence and profit functions without making functional form assumptions, we define partial orders to compare disagreement and profitability.

Definition 1 (comparing disagreement)**.** *For any two increasing functions* $\Delta_H, \Delta_L : \mathcal{X} \to \mathbb{R}$*, disagreement is* higher *under* Δ_H *than* Δ_L *(written* $\Delta_H \succeq_\Delta \Delta_L$*) if, for every* $x \in \mathcal{X}$*,*

(i) $\Delta_H(x) \leq \Delta_L(x)$*; and*

(ii) $\dfrac{\partial \Delta_H}{\partial x_i}(x) \leq \dfrac{\partial \Delta_L}{\partial x_i}(x)$*, for all* $i \in \{1, \ldots, n\}$.

Definition 1 states that disagreement is higher if, for every production decision, the payoff divergence function and its component-wise derivatives are pointwise lower. Intuitively, the regime's preferences over the firm's production decision are more *inelastic* when disagreement is higher. We formalize this intuition in Claim 1 of Appendix B by showing that a sufficient condition for disagreement to be higher by Definition 1 is that Δ is more inelastic, subject to a normalization of its gradient under expropriation (at $x = 0$).

Using this partial order on disagreement, we show that the equilibrium level of alignment is increasing with respect to disagreement.

Proposition 3. *The equilibrium level of alignment* α^* *is increasing in disagreement (i.e., in the partial order* $\succeq_\Delta$*).*

As Proposition 3 shows, more disagreement increases the firm's incentive to publicly align with the regime. Indeed, the more inelastic the regime's preferences over the firm's production decision, the more the firm must commit to distorting its production decision through alignment to prevent expropriation.

Definition 2 (comparing profitability)**.** *For any two functions* $\Pi_H, \Pi_L : \mathcal{X} \to \mathbb{R}$*, profitability is* higher *under* Π_H *than* Π_L *(written* $\Pi_H \succeq_\Pi \Pi_L$*) if, for every* $x \in \mathcal{X}$*:*

(i) $\Pi_H(x) \geq \Pi_L(x)$*; and*

(ii) $\dfrac{\partial \Pi_H}{\partial x_i}(x) \geq \dfrac{\partial \Pi_L}{\partial x_i}(x)$*, for all* $i \in \{1, \ldots, n\}$.

Definition 2 states that profitability is higher if, for every production decision, both profit and marginal profit (with respect to each component of its production decision) are higher. This definition is intuitive: for example, multiplying the firm's profit function by a scalar larger than 1 increases its profitability.

Using this partial order on profitability, we show that the equilibrium level of alignment is decreasing with respect to profitability.

Proposition 4. *The equilibrium level of alignment* α^* *is decreasing in profitability (i.e., in the partial order* $\succeq_\Pi$*).*

As Proposition 4 shows, increased profitability reduces the firm's incentive to publicly align with the regime. In this sense, profitability is a *substitute* for alignment: as profitability increases, the regime internalizes a higher opportunity cost of alignment, resulting in demand for a *lower* level of equilibrium alignment.

4 Measuring Public Alignment

Next, we move from the model to the data. To evaluate modeling choices and theoretical predictions, we need a firm-level measure of public alignment that is transparent, generalizable, and captures regime-specific language. Moreover, it should be reproducible from public sources. As a form of firm speech, annual reports fit these needs: they are publicly available, widely archived, and written for external audiences such as investors, regulators, and other stakeholders. We therefore

build a simple text-based index. We first collect phrases distinctive to official regime speech. We then search for these phrases in firms' annual reports and aggregate them to the firm–year level.

Our sample consists of firms listed in China. This is an ideal setting for at least two reasons. First, China is the world's largest autocracy, both in terms of population and GDP. Second, it provides corpora of comparable texts that span a large number of firms and regime speech over a long period of time. However, our measure is not specific to any context and can easily be generalized to other settings.

Overview. Our measure relies on two corpora. The first contains regime speech and the second contains firm speech in the form of annual reports. We estimate firm-level public alignment with language specifically associated with the Chinese Communist Party (CCP). We begin by algorithmically identifying 50 phrases that distinguish official Party language relative to standard Mandarin. We then search Chinese listed firms' annual reports for occurrences of these phrases. Finally, we aggregate this information to the firm–year level by taking the first principal component of the 50 phrase indicators.[22]

Regime corpus. The corpus of CCP publications contains three document types: (i) State Council circulars and General Office circulars that announce policies and implementation guidelines; (ii) Central Committee plenary reports that record meeting minutes from major CCP meetings; and (iii) articles from the *People's Daily*, the official newspaper of the CCP. The combined corpus covers 1973–2023, with dense coverage after the early 2000s. It contains 248 circulars, 36 reports from plenary sessions, and 617,937 articles from the People's Daily. Our baseline corpus uses publications in the People's Daily from 2003–2023; we use alternative corpora in robustness checks.

[22] We also aggregate phrase usage using simple averages as a transparent alternative.

Phrase scoring and normalization. Within each document, we segment Chinese text into phrases (multi-character tokens) using the `jieba` dictionary[23]. For a phrase i in document j of type t, we compute a term-frequency-inverse-document-frequency (tf-idf) score

$$\text{tfidf}_{ijt} \;=\; \text{tf}(i,j) \times \left(\ln\!\left(\frac{1+n_t}{1+\text{df}(i)_t} \right) + 1 \right),$$

where $\text{tf}(i,j)$ is the within-document frequency, n_t is the number of documents of type t, and $\text{df}(i)_t$ is the number of type-t documents containing i (Pedregosa et al., 2011; Ramos, 2003). We then average so that no single source dominates due to volume:

$$\text{Corpus tfidf}_i \;=\; \frac{1}{T} \sum_{t=1}^{T} \frac{1}{J_t} \sum_{j=1}^{J_t} \text{tfidf}_{ijt}, \qquad T = 3,$$

where T is the total number of document types (i.e., $T = 3$), and J_t is the number of documents of type t. To isolate phrases distinctive to Party discourse relative to standard Mandarin, we subtract baseline frequency from the default `jieba` dictionary:

$$\text{Final tfidf}_i \;=\; \text{Corpus tfidf}_i - \text{Mandarin Frequency}_i.$$

Intuitively, a high Final tfidf_i score indicates that a phrase appears frequently in regime publications relative to general publications in Mandarin.

Dictionary construction. We rank candidate phrases by Final tfidf_i and remove very short tokens (length ≤ 2 characters), consistent with evidence that multi-word units outperform unigrams for classification (Hassan et al., 2019; Bekkerman and Allan, 2004; Tan et al., 2002). Our baseline Party dictionary consists of the top 50 phrases, which we list in Table 1. These include names of senior leaders (e.g., Xi Jinping, Zhao Leji, Wang Huning, Li Keqiang); Party institutions (e.g., the Central Secretariat, the Party Central Committee); and hallmark policies (e.g., Party Building,

[23] We use the default `jieba` dictionary for both the segmentation and the Chinese language usage frequency. For information on the `jieba` dictionary, see https://github.com/fxsjy/jieba.

Reform and Opening). Some phrases (e.g., "further") can appear in non-political contexts, even if they are, by construction, more common in political speech. For instance, "further" is frequently used in Party language to describe the continuation or intensification of an existing policy, as in Xi's call to "further deepen reform comprehensively." In any case, we do not construct an indicator for using any of the top 50 phrases to avoid false positives for aligned speech and opt instead for continuous measures.

Table 1: Machine-Picked Phrases

Phrase	**English Translation**	**TF-IDF Diff** $\times 10^3$	**Phrase**	**English Translation**	**TF-IDF Diff** $\times 10^3$
贯彻落实	ensure effective implementation	9.678	建立健全	establish and improve	6.526
习近平	Xi Jinping	8.994	各族人民	people of all ethnic groups	6.470
重要讲话	important speech	8.164	党的建设	Party building	6.341
总书记	general secretary	8.100	主持会议	chair a meeting	6.266
党中央	Party Central Committee	8.016	充分肯定	fully affirm	6.062
深化改革	deepen reform	7.466	宏观调控	macroeconomic regulation	5.987
发展观	outlook on development	7.444	中共中央	CCP Central Committee	5.980
全体会议	plenary session	7.421	相结合	integrate	5.944
充分发挥	fully leverage the role of	7.294	管理体制	governance system	5.886
三个代表	Three Represents	7.281	伟大旗帜	great banner	5.814
改革开放	Reform and Opening Up	7.274	全党全国	the whole Party and the nation	5.797
负责同志	responsible officials	7.204	社会保障	social security	5.780
中央委员	Central Committee member	7.201	党的领导	Party leadership	5.671
中央纪律检查委员会	Central Commission for Discipline Inspection	7.144	讨论稿	draft for discussion	5.598
体制改革	institutional reform	7.068	公共服务	public services	5.583
中央政治局	Politburo	7.043	中央书记处	Central Secretariat	5.557
中央委员会	Central Committee	6.948	中央军事委员会	Central Military Commission	5.504
经济社会	economy and society	6.886	认真贯彻	rigorously implement	5.470
列席会议	attend the meeting	6.875	积极性	initiative	5.467
邓小平理论	Deng Xiaoping Theory	6.862	直属机构	directly affiliated institutions	5.413
党和国家	the Party and the state	6.816	各部委	ministries and commissions	5.412
常务委员会	standing committee	6.810	姓氏笔画	surname stroke count	5.363
小康社会	moderately prosperous society	6.807	坚定不移	unswerving	5.293
进一步	further	6.740	现代化	modernization	5.269
胡锦涛	Hu Jintao	6.561	各项事业	various undertakings	5.263

Notes: This table reports the 50 phrases with the highest final TF-IDF scores in our corpus of Chinese Communist Party documents. Scores are computed by averaging TF-IDF across the three document types and subtracting a baseline frequency from standard Chinese usage to isolate Party-specific terminology. Higher scores indicate phrases that are frequent in Party documents but rare in standard Chinese usage.

Firm corpus. We obtain the annual reports of Chinese A-share firms from WIND. These reports are standardized by securities regulation and contain narrative sections in addition to financial statements. In 2021, A-share firms accounted for approximately 47.8% of China's GDP. Our dataset includes 49,282 reports from 4,096 unique firms. Online Appendix C presents further details on the firm corpus.

Public alignment. For each firm-year, we create 50 indicators equal to one if a Party dictionary phrase appears in any report released by that firm in that calendar year. The underlying dictionary is constructed from phrases that are disproportionately common in central Party documents and relatively rare in ordinary corporate filings, so it targets language characteristic of CCP rhetoric rather than generic references to politics or policy. As a result, our measure is best interpreted as capturing public rhetorical alignment or loyalty to the CCP, firms echoing Party language in their own disclosures, rather than broader exposure to political risk as in measures that flag any discussion of political topics (e.g., Hassan et al., 2019).

From these indicators, we construct two complementary measures of public alignment. The first, the *Phrase Count*, is the unweighted mean of the 50 indicators, i.e., the share of Party phrases used by the firm that year. This measure is transparent and interpretable on $[0, 1]$. The second, the First Principal Component (PC1), is the first principal component of the 50 indicators. PC1 implicitly places higher weight on phrases that co-move most strongly across firms and years. In our data, the first component explains 7.12% of total variance across phrases, and we use its standardized score as our primary alignment index.[24]

To display the intensity of alignment across firms and over time, Figure 1(a) plots the 10^{th}, 25^{th},

[24] To ensure the quality of this aggregation approach, we check the signs of the phrase weights. 46 of the 50 phrase loadings are positive for the first principal component. The mean of weights across phrases is 0.1028. There are four negative weights, but each has a very small magnitude and each is on a fairly apolitical term. Specifically, the phrases with negative weights are: "attend the meeting" (−0.0055), "host a meeting" (−0.0137), "surname strokes" (−0.0043), and "macroeconomic control" (−0.0015). These weights are 8–75 times smaller than the average positive weight and 5–46 times smaller than the median positive weight.

50^{th}, 75^{th}, and 90^{th} percentiles of phrase counts per firm–year. The median number of phrases rises from 3 in 2003 to 7 in 2021. The entire distribution shifts upward and widens: the interquartile range expands from $[2, 5]$ in 2003 to $[4, 12]$ in 2021. Figure 1(b) plots the annual 10^{th}, 25^{th}, 50^{th}, 75^{th}, and 90^{th} percentiles of the PC1 from 2003 to 2021. The distribution drifts up through the 2000s, pauses around 2011–2014, and then accelerates after 2016. Gains are concentrated in the upper tail: the 75^{th} and especially the 90^{th} percentiles rise steeply, while the median and lower percentiles move only modestly. Dispersion widens accordingly, consistent with a growing share of firms exhibiting strong alignment while many remain low.

In our model, an increase in alignment over time is consistent with shifts in a small set of primitive parameters. One candidate explanation is an increase in the potential disagreement between firm and regime interests, for example, due to the growing size and complexity of the Chinese private sector (Jordan, 2024) or rising domestic and geopolitical tensions. Another is that the government's perceived probability of the "bad" state in which it needs firms' assistance has increased over time, making ex ante risk-sharing through public alignment more attractive.[25]

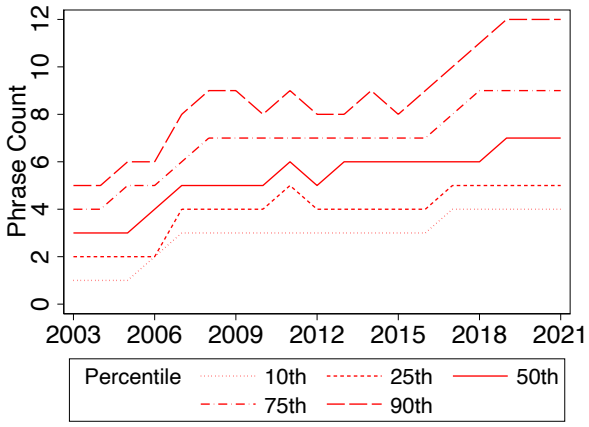
We check the robustness of our measure against alternative dictionary construction choices. First, in Figure A.1, we use only the first 30,689 words in each annual report (1 SD of the average report length) to proxy for the idea that early mentions of Party phrases are more likely to capture the firm's emphasis on political alignment, and to hedge against the possibility that increasing alignment is simply due to increasing annual report lengths. Second, in Figure A.2, we use keyword counts instead of indicators to capture the intensity of political alignment rather than just its presence.

Other data. We use several additional data sources, including firm-level accounting, ownership, and stock returns data, as well as information on regulatory penalties and antitrust investigations.

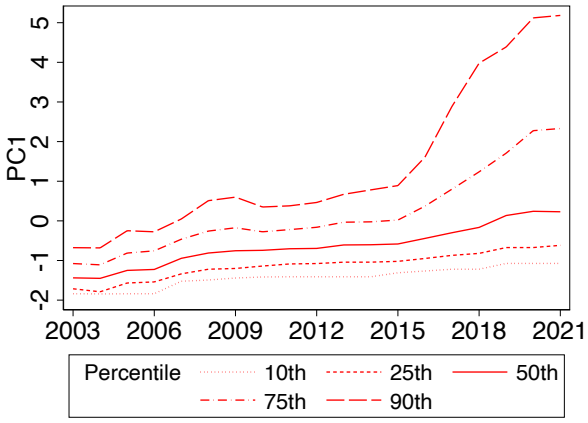
[25] While explaining the observed increase in alignment over time is outside the scope of this paper, one benefit of our model is that it clarifies which parameters are most informative for such an exercise and thus guides scholars toward the key forces they should examine when seeking explanations for the rise in public alignment of Chinese firms.

Figure 1: Public Alignment Over Time

(a) Phrase Count



(b) PC1



Notes: This figure plots the public alignment of listed Chinese firms from 2003 to 2021. The unit of observation is a firm-year, where firm annual reports are obtained from the WIND Financial Terminal. The 50 Party-related keywords are identified using TF-IDF analysis on a corpus of Chinese Communist Party documents. In both panels, each line represents a different percentile of the firm-year distribution: the 10th (dotted), 25th (short-dashed), 50th (solid), 75th (dash-dot), and 90th (long-dashed) percentiles. Panel 1(a) displays the average number of Party-related phrases (out of 50) mentioned in a firm's annual report. Panel 1(b) displays the average first principal component of the phrase counts.

These data sources are described in Online Appendix C. Table A.1 provides an overview of the variables used in this paper and their sources, and Table A.2 reports summary statistics.

5 Empirical Analysis

Next, we evaluate the model's implications using our public alignment measure. Column (2) of Table 2 summarizes the empirical implications of the model. Column (3) reports the corresponding empirical test, which we describe in each subsection below.

Table 2: Empirical Implications of the Model

(1)	(2) Model Implication	(3) Empirical Test
Modeling Choice:	Payoffs of more-aligned firms depend more on regime payoffs	Payoffs of more-aligned firms fall more after a political scandal
Proposition 1:	Alignment is associated with regime-preferred actions in bad states	Employment in more-aligned firms is relatively higher after local unrest
Proposition 2:	Alignment increases with expropriation risk	Alignment increases after regulatory investigations
Proposition 3:	Alignment is positively associated with disagreement	Alignment is positively correlated with strategic industries, firm size, and cross-listing
Proposition 4:	Alignment is negatively associated with profitability	Alignment is negatively correlated with profitability

5.1 Modeling Choice: Alignment Links Firm and Regime Payoffs

In this subsection, we evaluate our key modeling choice: that public alignment ties firm payoffs to those of the regime. Specifically, we ask whether the payoffs of publicly aligned firms respond more to political shocks to the regime. We study the Sun Zhengcai scandal as an event that plausibly worsened public perceptions of the regime—and thus expected regime payoffs—for reasons orthogonal to firm fundamentals. We identify this event through a systematic, algorithmic search for political scandals over the period for which we observe stock market prices and other variables (2013–2023). Concretely, we begin from a ChatGPT-generated list of public scandals involving high-ranking CCP officials and then manually verify each case's relevance and the

timing of its public disclosure. Among the scandals occurring within our sample period, the Sun Zhengcai case is the most prominent and the only one involving a top Party official.[26] Sun Zhengcai was a rising political star and former Chongqing Party leader. On July 24, 2017, the Central Commission for Discipline Inspection (CCDI) announced that Sun would be placed under investigation for violating Party discipline, effectively ending his political career. Sun had been viewed as a potential successor to Xi Jinping, and the investigation prompted public speculation about a power struggle within the senior Party leadership.[27]

We conduct an event-study analysis using weekly stock returns of Chinese firms around this date. The key empirical specification examines how stock returns responded in the weeks before and after the Sun scandal for publicly more versus less aligned firms:[28]

$$\text{Stock Returns}_{i,t} = \sum_{k=-2}^{2} \beta_k \left(\text{Alignment}_i \times \text{Scandal}_{t+k}\right) + \zeta_i + \tau_k + \varepsilon_{i,t}. \quad (1)$$

We measure stock returns as a firm's weekly return in week t and, alternatively, as the cumulative abnormal return over the $(0, 1)$ window. Alignment_i denotes firm i's *PC1*, which we describe in Section 4, fixed at the last available annual report before the event. τ_k and ζ_i denote event-week (relative time) and firm fixed effects, respectively. We cluster standard errors at the firm level.

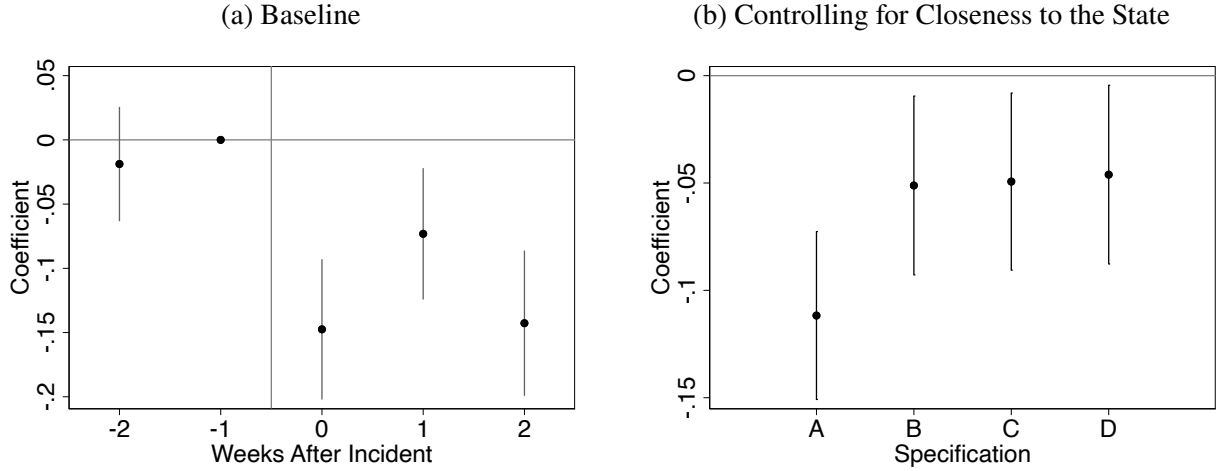
Figure 2(a) shows that publicly aligned firms experienced significantly lower weekly stock returns in the three weeks during and after the scandal, relative to less aligned firms. Appendix Figure A.3(a) documents similar patterns for cumulative abnormal returns, and Appendix Table A.3 reports the corresponding regression estimates. Appendix C.7 provides details on the standard methods from the finance literature that we use to compute returns (MacKinlay, 1997). Taken together, these results support the model's prediction that the payoffs of more publicly aligned

[26] The motivation and implementation of our empirical strategy is similar to that in (Liu et al., 2017), which investigates the impact of the Bo Xilai scandal in 2012 on the stock returns of politically sensitive firms.

[27] See https://thediplomat.com/2017/07/chinese-politician-sun-zhengcai-is-under-party-investigation/.

[28] The recent econometrics literature has identified potential issues with heterogeneous treatment effects in two-way fixed effects specifications. This concern primarily applies to settings with staggered treatment timing, unlike the case with a single event here.

Figure 2: Weekly Stock Returns After Political Shock



Notes: This figure examines stock returns around the Sun Zhengcai scandal for listed Chinese firms. The unit of observation is a firm-week. For each firm and calendar week, weekly stock returns are constructed from daily CSMAR data as the simple total return from holding the stock over all trading days in that week. The sample is restricted to an event window from two weeks before to two weeks after the scandal. Both the outcome and the alignment measure (the first principal component of Party-related keyword counts) are standardized within this window. Panel A presents an event study, plotting coefficients on the interaction between firm-level alignment and week-to-event dummies; the x-axis shows weeks relative to the scandal, and the regression includes week-to-event and firm fixed effects. Panel B reports coefficients on the interaction term $\text{Post}_t \times \text{Alignment}_i$, where Post_t is an indicator for $t \geq 0$. We report four specifications: (A) with week-to-event and firm fixed effects; (B) additionally interacting Post with SOE status; (C) additionally interacting Post with political connections; and (D) additionally interacting Post with the presence of a Party cell. Standard errors are clustered at the firm level. Bars show 95% confidence intervals.

firms are more tightly linked to regime payoffs than those of less aligned firms.

One potential alternative interpretation is that alignment proxies for other forms of state closeness with which firms' stock returns could vary in response to a political shock (Fisman, 2001). We therefore control for interactions of the event with state ownership, political connections, and whether the firm mentioned establishing a Party cell.[29]

Figure 2(b) plots the estimated coefficient on the interaction term $\text{Post}_t \times \text{Alignment}_i$ and its 95% confidence intervals across four specifications, labeled A–D. Here, Post_t is an indicator equal

[29] State ownership is a dummy constructed using the Equity Nature data provided by CSMAR. The measure for political connections is kindly provided by Fan (2021) and indicates whether a firm had at least one politically connected director as of October 2013, before politically connected directors were banned from holding board positions of listed firms. The Party cell variable indicates whether a firm's corporate charter has mentioned establishing a Party cell (data from WIND).

to one for the event week and all subsequent weeks ($t \geq 0$). Specification A includes the baseline fixed effects and controls; B adds interactions between the post-event indicator and state-owned status; C adds interactions between the post-event indicator and political connections; and D adds interactions between the post-event indicator and the mentioning of a Party cell. We focus on the sign of these coefficients rather than their magnitudes, since alignment is constructed as a principal component and therefore its units are not cardinally interpretable. The sequence A–D makes transparent how the sign, magnitude, and precision of the coefficient evolve as we absorb progressively richer controls.

Figure 2(b) shows that state ownership attenuates but does not eliminate the effect: aligned firms still experience lower returns in the post-scandal period. Results for cumulative abnormal returns are similar (Appendix Figure A.3(b)). Appendix Tables A.4 and A.5 report the corresponding estimates in table form.

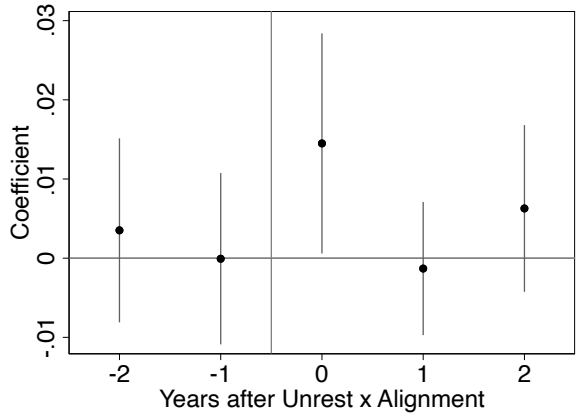
5.2 Proposition 1: Alignment and Firm Action in Bad States

Our theory predicts that publicly aligned firms choose more regime-preferred actions in bad states, such as periods of social unrest. In the absence of alignment, unrest creates a tension between the interests of profit-maximizing firms and those of the regime: while unrest is typically associated with low demand for firms' output and thus lower labor demand, the regime prefers firms to expand employment to help maintain social stability (Wen, 2025). If public alignment leads firms to internalize regime preferences, then, during periods of social unrest, more aligned firms should have higher employment than less aligned firms.

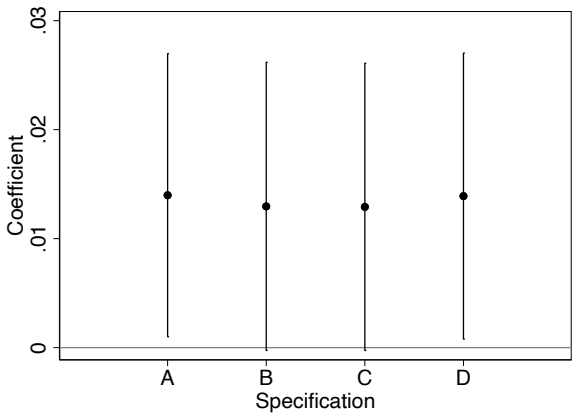
To test this model implication, we regress firm employment on the interaction between labor unrest shocks in the firm's home prefecture and its public alignment, controlling for uninteracted

Figure 3: Employment Response to Unrest by Public Alignment

(a) Baseline



(b) Controlling for Closeness to the State



Notes: This figure examines the relationship between labor unrest and firm employment for listed Chinese firms. The unit of observation is a firm-year. Panel 3(a) presents a distributed lag model, plotting coefficients on the interaction between city-level labor unrest in year t and firm-level public alignment (the first principal component of Party-related keyword counts) across different leads and lags, controlling for uninteracted unrest (all leads and lags), alignment, and firm and province-year fixed effects. Panel 3(b) reports coefficients on unrest interacted with alignment across four specifications: (A) the baseline with uninteracted unrest (all leads and lags), alignment, and firm and province-year fixed effects; (B) additionally interacting unrest (all leads and lags) with ownership fixed effects; (C) additionally interacting unrest with political connection fixed effects; and (D) additionally interacting unrest with Party cell fixed effects. Standard errors are clustered at the firm level. Bars represent 95% confidence intervals.

unrest and alignment (using a similar specification and unrest data as Mueller, 2025):

$$\begin{aligned} \text{Employees}_{i,t} \;=\; & \sum_{k=-2}^{2} \beta_k \left(\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t+k}\right) \\ & + \; \gamma_A \; \text{Alignment}_{i,t} \; + \; \sum_{k=-2}^{2} \gamma_{U,k} \; \text{Unrest}_{c(i),t+k} \\ & + \; \zeta_i \; + \; \xi_{pt} \; + \; \varepsilon_{i,t}. \end{aligned} \tag{2}$$

where i indexes firms and t years. The outcome is the firm's total number of employees, from the China Listed Firms' Corporate Governance Research Database in CSMAR (2003–2020). The variable $\text{Alignment}_{i,t}$ is the first principal component of indicators for whether firm i mentioned each of 50 keywords in year t. $\text{Unrest}_{c(i),t}$ is the number of unrest events in firm i's city $c(i)$ in year t from the China Strikes dataset (China Labour Bulletin, 2019; Elfstrom, 2017) (2003–2021). $\mathbf{X}_{it}$

is a vector of firm-year-specific controls, ζ_i denotes firm fixed effects, and ξ_{pt} denotes year fixed effects that are allowed to vary by province. The firm fixed effects account for the fact that some firms naturally have more employees, higher alignment, or are in cities experiencing more unrest. The year fixed effects account for potential (nonlinear) trends common to employment, unrest and alignment within a province. Standard errors are clustered at the city level.

Figure 3(a) plots the estimated coefficients. We find that employment increases more among publicly aligned firms relative to other firms in the year local unrest takes place. Reassuringly, future unrest is not associated with higher employment today, mitigating potential concerns related to spurious trends and reverse causality. Moreover, the result is robust to controls for state ownership, political connections, Party cells, and to including interactions of each with $\text{Unrest}_{c(i),t}$, as Figure 3(b) shows. Appendix Tables A.6 and A.7 show the corresponding estimates in table form.

Taken together, these findings are consistent with our model's prediction that publicly aligned firms choose more regime-preferred actions in bad states, such as periods of social unrest.

5.3 Proposition 2: Alignment Increases With Expropriation Risk

We next test the model's prediction that increases in expropriation risk—as perceived by firms—should increase alignment. We proxy for expropriation risk by considering regulatory investigations.[30] Following the announcement of a regulatory investigation, a firm's perceived probability of the bad state realizing (where expropriation occurs absent alignment in the model) rises, which should lead to increased public alignment.

To empirically validate this prediction, we let $\text{Alignment}_{i,t}$ denote public alignment for firm

[30] Investigations data are compiled from two sources: (1) regulatory penalties from the China Securities Regulatory Commission (CSRC), covering enforcement decisions for violations of securities trading regulations from 2001 to 2025 (1,809 unique cases), and (2) antitrust investigations from the State Administration for Market Regulation (SAMR) from 2013 to 2025 (410 unique cases). Firms are matched to investigation records by searching for each firm's full and abbreviated names within decision texts; cases are retained only if they pertain to the company itself, its management, or its majority shareholders, then collapsed to the firm-year level.

i in year t and let $\text{Investigation}_{i,t}$ be an indicator equal to one if either the State Administration for Market Regulation (SAMR) or the China Securities Regulatory Commission (CSRC) has an open investigation against firm i in year t, which we interpret as proxies for a firm's heightened expropriation risk. We estimate a distributed lag specification with firm and year fixed effects:[31]

$$\text{Alignment}_{i,t} = \sum_{k=-2}^{2} \beta_k \, \text{Investigation}_{i,t+k} + \zeta_i + \tau_t + \varepsilon_{i,t}, \tag{3}$$

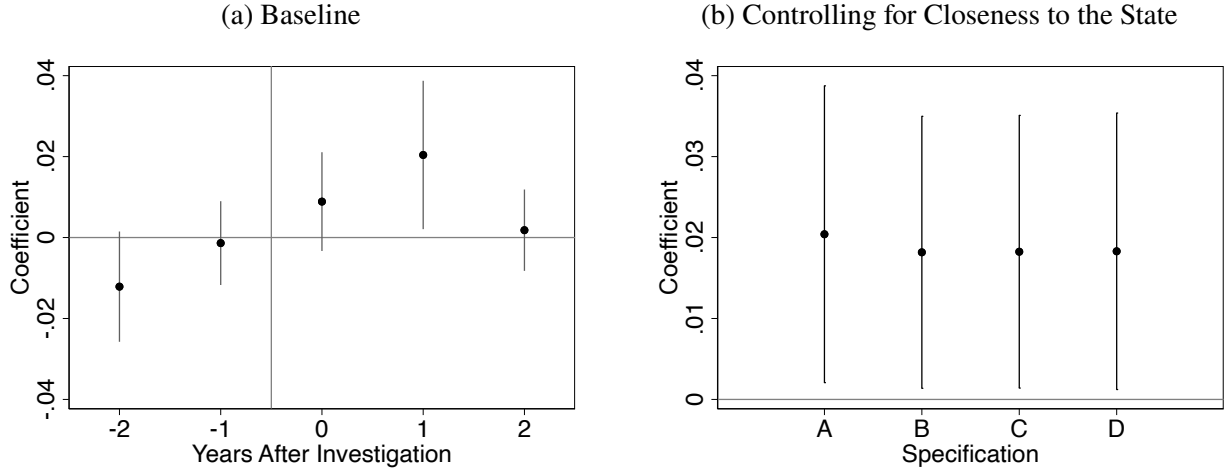
including two annual leads ($k = -2, -1$), the contemporaneous term ($k = 0$), and two lags ($k = 1, 2$). Identification comes from within-firm timing, net of common year shocks. The firm fixed effects account for the fact that some firms tend to be under investigation to a higher degree and tend to display more alignment due to fixed characteristics, such as their sector. The year fixed effects account for potential (non-linear) trends common to both investigations and alignment. Standard errors are clustered at the firm level.

Figure 4(a) shows that alignment increases in the year of an investigation and especially in the subsequent year. The lead coefficients serve as placebo tests for pre-trends, while the post-t coefficients trace the dynamic response to heightened expropriation risk. The pattern is highly robust to including ownership-by-year fixed effects, political-connection-by-year fixed effects, and Party-cell-by-year fixed effects: see Figure 4(b). Appendix Tables A.8 and A.9 show the corresponding estimates in table form.

Taken together, these results are consistent with the model's prediction that heightened expropriation risk is associated with an increase in public alignment by firms.

[31] The recent concerns in the econometrics literature about heterogeneous treatment effects primarily apply to staggered difference-in-differences specifications. In contrast, this specification is a distributed lag model with continuous, repeated treatments. At the time of writing, no estimator has been published that addresses this specific case (Roth et al., 2023).

Figure 4: Public Alignment Increases After Regulatory Investigations



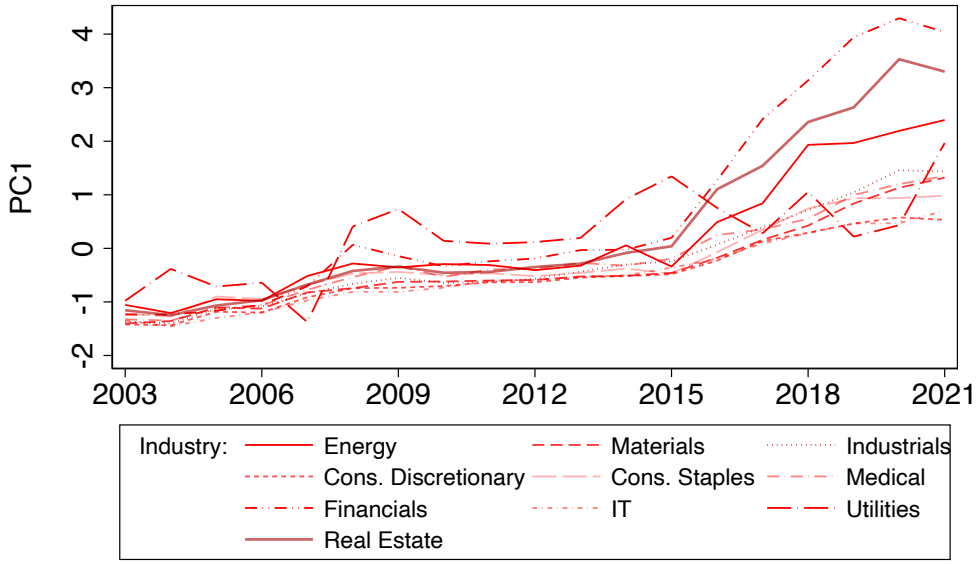
Notes: This figure examines the relationship between regulatory investigations and firm-level public alignment for listed Chinese firms. The unit of observation is a firm-year, where firm annual reports are obtained from the WIND Financial Terminal. Public alignment is measured as the first principal component of Party-related keyword mentions in the firm's annual report. Panel 4(a) presents the coefficient on an indicator for whether the firm was under investigation in year t. Panel 4(b) reports the coefficient on the one-period lag of the investigation indicator across four specifications: Specification A includes the baseline coefficient with firm and year fixed effects; Specification B adds ownership-by-year fixed effects; Specification C adds political-connection-by-year fixed effects; Specification D adds Party-cell-by-year fixed effects. Bars represent 95% confidence intervals.

5.4 Proposition 3: Alignment Increases With Disagreement

Proposition 3 of the model states that firms with higher disagreement, i.e., firms whose actions off the equilibrium path could lead to larger deviations from the regime's preferred outcomes, exhibit higher public alignment. To verify this, we document how public alignment differs with firm characteristics that are associated with higher disagreement.

In Figure 5, we plot alignment by industry. We find the highest levels of public alignment in financials, real estate, and energy firms, all strategic sectors, in which the actions of firms have particularly large potential implications for regime goals. In contrast, sectors that produce few externalities, such as consumer discretionary goods and staples, exhibit the lowest levels of public alignment.

Figure 5: Public Alignment by Industry



Notes: This figure plots the average public alignment by industry across listed Chinese firms from 2003 to 2021. The unit of observation is a firm-year, where firm annual reports are obtained from the WIND Financial Terminal. For each firm-year, we record whether the annual report mentions each of the 50 Party-related keywords, then compute the first principal component of these keyword indicators, which captures the common variation in publicly-aligned language across firms. The 50 keywords are identified using TF-IDF analysis on a corpus of Chinese Communist Party documents. Each line represents the average first principal component for a given industry over time.

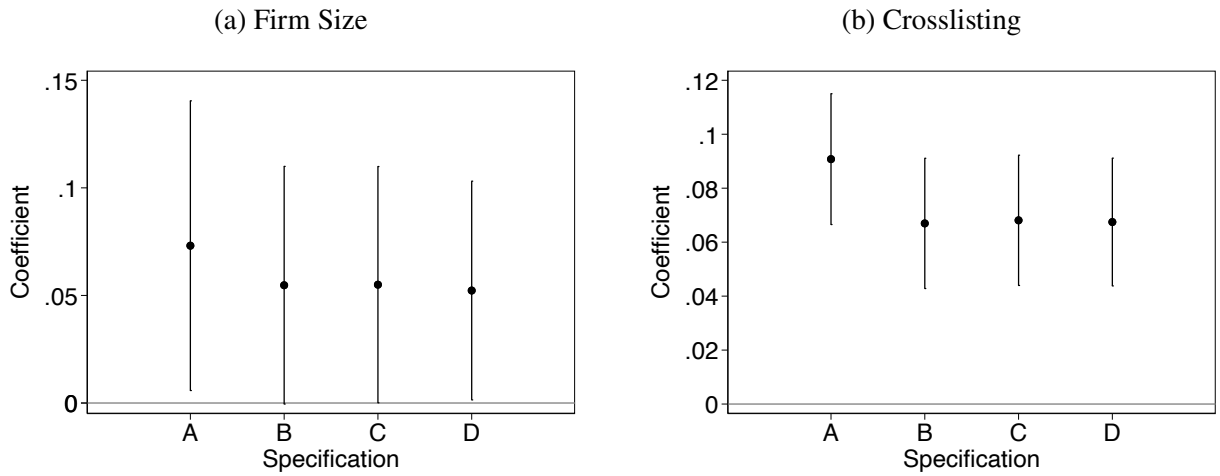
In Figures 6(a) and 6(b), we plot correlations between public alignment and firm sales[32] and cross-listing status,[33] again successively controlling for other measures of closeness to the state. See Appendix Tables A.10 and A.11 for the corresponding estimates in table form. We find higher levels of alignment among larger firms, and more alignment among firms cross-listed on foreign stock exchanges. While there are other possible interpretations of these relationships, large firms are likely to have high strategic importance to the regime and cross-listed firms are likely to have greater disagreements with the regime. We also note that the positive association with foreign cross-listing is particularly informative in light of the concern that alignment should be dampened

[32] CSMAR China Stock Market Financial Statements Database (2004–2021)

[33] A-share companies that are simultaneously listed on the Frankfurt, Hong Kong, London, NASDAQ, NYSE, or Singapore exchanges.

by potential international backlash: if anything, one might expect firms with foreign exposure to align less, yet we find that they align more.

Figure 6: Public Alignment and Disagreement



Notes: This figure examines whether public alignment increases in disagreement. The unit of observation is a firm-year. Public alignment is measured as the first principal component of Party-related keyword mentions in the firm's annual report. Both the dependent variable and the independent variables are standardized to have a mean of zero and a standard deviation of one. Panel A presents the coefficient on firm size, measured as annual sales (operating revenue). Panel B reports the coefficient on a hand-collected indicator for cross-listed firms. Coefficients are reported across four specifications: Specification A includes year fixed effects; Specification B adds ownership (SOE-by-year) fixed effects; Specification C adds political-connection-by-year fixed effects; Specification D adds Party-cell-by-year fixed effects. Standard errors are clustered at the firm level. Bars represent 95% confidence intervals.

Taken together, these results are consistent with the model's prediction that firms with higher disagreement, such as those of strategic importance to the regime, exhibit higher levels of public alignment on average.

5.5 Proposition 4: Alignment is Negatively Associated With Profitability

Our model predicts that in equilibrium, public alignment and firm profitability are negatively correlated across firms. We examine this prediction by estimating a sequence of regressions with public alignment as the dependent variable and profitability as the key regressor, where profitability is defined as profit (in thousands of RMB) divided by revenue.[34] Both variables are standardized,

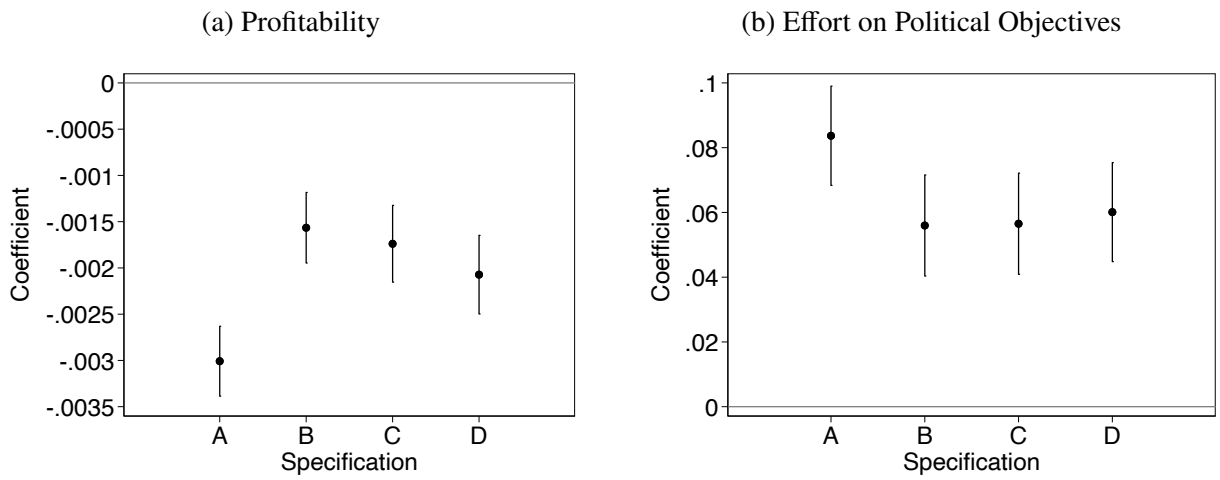
[34] Data from CSMAR China Stock Market Financial Statements Database (2004–2021).

and standard errors are clustered at the firm level.

Figure 7(a) plots the estimated coefficients and 95% confidence intervals from four specifications, labeled A–D. As above, specification A includes year fixed effects; B adds fixed effects for state-owned status; C adds fixed effects for political connections; and D adds fixed effects for the presence of a Party cell. The corresponding estimates are reported in Appendix Table A.12.

Consistent with our model's prediction, we find a negative relationship between public alignment and firm profitability. This relationship is not explained by observable covariates of alignment and profitability that are not explicitly modeled, including proxies for state proximity.

Figure 7: Public Alignment and Profit Maximization



Notes: This figure examines the relationship between public alignment and firm outcomes at the firm-year level. Public alignment is measured as the first principal component of Party-related keyword mentions in the firm's annual report. The left panel uses firm profitability as the dependent variable; the right panel uses the CSR score. Coefficients are reported for four specifications: (A) year fixed effects; (B) additionally SOE fixed effects; (C) additionally political-connection fixed effects; and (D) additionally Party-cell fixed effects. Standard errors are clustered at the firm level. Bars display 95% confidence intervals.

One prediction of the model (Proposition 1) related to this setup is that there should be a positive correlation between public alignment and firm performance on regime-salient non-financial objectives. We measure this performance with CnOpen Data's overall CSR index, which aggregates environmental, social, and governance practices into a single score (higher scores imply better

performance). Figure 7(b) plots the analogous correlations and the corresponding coefficients are shown in Appendix Table A.13. As expected, we find a positive and robust correlation between public alignment and performance on non-financial objectives.

6 Discussion of Alternative Explanations

In this section, we discuss common alternatives to the risk-sharing view of public alignment—cheap talk, simple patronage, and political connections—and show how each can be nested in our framework. While these mechanisms may well operate for some firms, we argue that, on their own, they cannot account for the full set of patterns we document for the population of listed firms.

We define *cheap talk* as costless, non-binding rhetoric that neither alters firm choices in bad states nor changes the regime's expropriation incentives. In the model, this corresponds to alignment that imposes no cost on the firm and does not embed the regime's payoff in the firm's objective. If words were costless, alignment would not respond to increases in expropriation risk; however, we observe that alignment increases after CSRC/SAMR investigations (Section 5.3). Cheap talk also does not imply the tighter link between firm and regime payoffs that we find in the data: aligned firms' returns fall more after adverse political shocks to the regime (Section 5.1). Qualitative evidence in Section 2 likewise documents material costs, further undermining a costless-speech interpretation.

We next consider *simple patronage*. In this view, alignment purchases discrete favors (e.g., permits, subsidies, contracts, or regulatory forbearance) because speech provides direct utility to the regime (e.g., legitimacy or consumption value), without requiring firms to undertake costly contingent actions. In our framework, this is equivalent to transfers from the regime without internalizing the regime's payoff in the firm's objective. This narrative does not explain all the facts. If alignment mainly buys business favors, more aligned firms should earn higher, not

lower, profits, contrary to Section 5.5. Simple patronage also does not naturally predict the *post*-investigation rise in alignment we document (Section 5.3), nor does it require costly real responses in bad states, whereas we observe larger employment expansions by aligned firms following unrest (equation 2). We therefore conclude that neither cheap talk nor simple patronage alone can explain the patterns we document.

Finally, our results suggest that public alignment is not fully explained by other forms of closeness to the regime. While public alignment is correlated with observable political connections, our main results are robust to flexible controls for a wide range of political-connection measures, suggesting that public alignment reflects an additional strategic choice rather than only underlying connections.

7 Conclusion

We study a pervasive but understudied form of corporate political speech in autocracies: public alignment with the ruling regime. We develop a simple model that highlights a risk-sharing role for such speech and derives empirical implications. We then construct a transparent, replicable measure of firm-level alignment based on regime-specific phrases in firm annual reports and implement it for Chinese listed firms.

Our results are consistent with the model assumptions and implications and suggest that public alignment is a means for firms to publicly commit to help the regime when their interests conflict, in exchange for protection from expropriation. Empirically, we show that: (1) after negative political shocks to regime reputation, more-aligned firms experience larger stock price declines, consistent with their payoffs being more tightly tied to regime payoffs; (2) in bad states, more-aligned firms undertake more costly, regime-favored actions, such as maintaining or expanding employment; (3) alignment rises following increases in expropriation threat due to the initiation of regulatory

investigations; (4) alignment is stronger in settings where regime-preferred actions conflict more with profit maximization; and (5) conditional on other forms of state proximity, alignment is negatively related to firm profitability.

Our findings also open several avenues for future work. First, our model clarifies which primitive parameters, such as the extent of disagreement between firm and regime objectives or the perceived likelihood of "bad" states, can rationalize the observed rise in alignment over time, providing a framework for interpreting temporal trends in corporate political speech. Second, the same logic can be used to compare autocracies and democracies: while expropriation risk may be less powerful in democratic settings, our framework suggests conditions under which similar risk-sharing motives could still operate. Third, our results point to speech as a strategic tool that firms deploy alongside investment, lobbying, and corporate governance choices, raising the question of how firms optimally allocate influence across these different margins. Finally, our analysis highlights public alignment as one instrument in a broader toolkit that autocracies use to balance political objectives with economic growth; characterizing how this instrument interacts with others, such as ownership stakes, regulation, and targeted subsidies or penalties, is an important task for future research.

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Appendix

A Additional Background

In this section, we document additional cases from the Chinese context in which perceived political alignment generates costs for aligned firms.

Foreign investors, who accounted for 3.7% of the total market capitalization on the Shanghai and Shenzhen exchanges in 2020,[35] have at times responded sharply to Chinese state actions by withdrawing capital or repricing firms viewed as politically exposed. In November 2020, for example, the U.S. government issued Executive Order 13959, prohibiting American investments in companies identified as supporting China's military-industrial complex.[36] More recently, in May 2025, U.S. lawmakers urged the Securities and Exchange Commission to delist several Chinese firms over alleged ties to the Chinese military and involvement in human rights abuses.[37] These episodes illustrate how foreign investors can impose costs on firms whose public profile links them to the regime.

Foreign consumers also penalize firms perceived as closely aligned with the Chinese state. Chinese technology companies such as Huawei and ZTE have faced sustained global backlash, including calls for consumer boycotts and restrictions on their products, due to their perceived connections to the Chinese Communist Party (CCP) and their role in advancing state interests abroad.[38] In these cases, firms' apparent political alignment has translated into reputational damage in overseas markets.

Domestic investors respond similarly when political objectives reshape firms' business models. China's major state-owned banks, including the Industrial and Commercial Bank of China (ICBC),

[35] See https://www.elibrary.imf.org/view/journals/001/2023/026/article-A001-en.xml.
[36] See https://en.wikipedia.org/wiki/Executive_Order_13959.
[37] See https://www.ft.com/content/8d87d093-3fad-4ee0-af16-2f1e835ef286.
[38] See https://en.wikipedia.org/wiki/Boycotts_of_Chinese_products.

the Agricultural Bank of China, and the Bank of China, have long been regarded as relatively safe investments due to strong state backing and reliable dividends. Recent shifts in national policy, however, have expanded their mandate to include supporting struggling sectors such as real estate and extending below-market loans to small and medium-sized enterprises. These policy mandates compress margins and have raised concerns among investors about the long-run profitability of institutions that are expected to prioritize policy goals alongside, and sometimes ahead of, shareholder returns.[39]

Domestic consumers may also retaliate against firms viewed as overly responsive to political imperatives. In 2022, home-buyers across China organized a widespread mortgage boycott in protest against unfinished housing projects developed by major property developers, such as China Evergrande Group. Part of the discontent reflected the perception that these firms, which were closely intertwined with local governments, had prioritized developmental objectives over consumer welfare and contractual obligations.[40]

B Additional Theoretical Analyses and Omitted Proofs

B.1 Equilibrium Analysis

We solve the model using the equilibrium concept of subgame perfect equilibrium (SPE).

To begin, we consider the problem faced by a firm that wishes to avoid expropriation. On one hand, the firm seeks to maximize its expected profit, or, equivalently, minimize the expected cost of alignment. On the other hand, the firm must choose a level of alignment α such that the regime will not expropriate it:

$$\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta) \right] = p u_R(x^*(1 \mid \alpha), 1) + (1 - p)\, u_R(x^*(0 \mid \alpha), 0) \geq 0.$$

[39] See https://www.ft.com/content/954135ee-f280-49d7-a7af-d5d34dbe22ac.
[40] See https://en.wikipedia.org/wiki/Chinese_mortgage_boycott.

We can thus write the firm's problem as a constrained optimization problem:

$$\min_{\alpha\in[0,1]} \{c(\alpha) : \mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] \geq 0\}. \tag{P}$$

We now demonstrate the firm's tradeoff by showing how its expected cost and the regime's expected payoff vary with public alignment.

Lemma 1. *The firm's expected cost, $c(\alpha)$, is nondecreasing in α.*

Proof. It suffices to show that $\Pi(x^*(\theta \mid \alpha))$ is nonincreasing in α for each $\theta \in \{0, 1\}$. To this end, observe that the aligned firm chooses $x^*(\theta \mid \alpha)$ to maximize an as-if payoff of

$$u_F(x, \theta \mid \alpha) = (1 - \alpha)\,\Pi(x) + \alpha u_R(y, \theta) = \Pi(x) + \alpha\theta\Delta(x).$$

Fix $\alpha_H > \alpha_L$. Since $x^*(\theta \mid \alpha) \in \arg\max_{x\in\mathcal{X}} u_F(x, \theta \mid \alpha)$, we obtain:

$$\Pi(x^*(\theta \mid \alpha_H)) + \alpha_H\theta\Delta(x^*(\theta \mid \alpha_H)) \geq \Pi(x^*(\theta \mid \alpha_L)) + \alpha_H\theta\Delta(x^*(\theta \mid \alpha_L)), \tag{4}$$

$$\Pi(x^*(\theta \mid \alpha_L)) + \alpha_L\theta\Delta(x^*(\theta \mid \alpha_L)) \geq \Pi(x^*(\theta \mid \alpha_H)) + \alpha_L\theta\Delta(x^*(\theta \mid \alpha_H)). \tag{5}$$

By adding inequalities (4) and (5) and rearranging, we deduce that

$$(\alpha_H - \alpha_L)\left[\Delta(x^*(\theta \mid \alpha_H)) - \Delta(x^*(\theta \mid \alpha_L))\right] \geq 0.$$

Thus, $\Delta(x^*(\theta \mid \alpha))$ is nondecreasing in α for each $\theta \in \{0, 1\}$. In turn, combining this with inequality (5) yields

$$\Pi(x^*(\theta \mid \alpha_L)) \geq \Pi(x^*(\theta \mid \alpha_H)) + \alpha_L\theta \underbrace{\left[\Delta(x^*(\theta \mid \alpha_H)) - \Delta(x^*(\theta \mid \alpha_L))\right]}_{\geq 0} \geq \Pi(x^*(\theta \mid \alpha_H)).$$

Since this holds for any $\alpha_H > \alpha_L$, $\Pi(x^*(\theta \mid \alpha))$ is nonincreasing in α, as desired. We conclude that $c(\alpha)$ is nondecreasing in α, as claimed. □

Lemma 2. *The regime's expected payoff, $\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right]$, is nondecreasing in α.*

Proof. It suffices to show that $u_R(x^*(\theta \mid \alpha), \theta)$ is nondecreasing in α for each $\theta \in \{0, 1\}$. To this end, fix $\alpha_H > \alpha_L$ and observe that

$$u_R(x, \theta) = \Pi(x) + \theta\Delta(x) = u_F(x, \theta \mid \alpha_H) + (1 - \alpha_H)\,\theta\Delta(x).$$

Since $x^*(\theta \mid \alpha) \in \arg\max_{x \in \mathcal{X}} u_F(x, \theta \mid \alpha)$, we obtain:

$$\begin{aligned} u_R(x^*(\theta \mid \alpha_H), \theta) - u_R(x^*(\theta \mid \alpha_L), \theta) &= \underbrace{u_F(x^*(\theta \mid \alpha_H), \theta \mid \alpha_H) - u_F(x^*(\theta \mid \alpha_L), \theta \mid \alpha_L)}_{\geq 0} \\ &\quad + (1 - \alpha_H)\,\theta\,\underbrace{[\Delta(x^*(\theta \mid \alpha_H)) - \Delta(x^*(\theta \mid \alpha_L))]}_{\geq 0} \\ &\geq 0. \end{aligned}$$

Here, the latter inequality holds because $\Delta(x^*(\theta \mid \alpha))$ is nondecreasing in α for each $\theta \in \{0, 1\}$, as shown in our proof of Lemma 1. Thus, $u_R(x^*(\theta \mid \alpha), \theta)$ is nondecreasing in α for each $\theta \in \{0, 1\}$. □

Lemmas 1 and 2 show that the firm's expected cost and the regime's expected payoff are nondecreasing in alignment. Notably, these results do not rely on any monotonicity or shape restrictions (e.g., concavity) on the firm's profit function or the regime's payoff function, neither of which we have imposed. Consistent with our qualitative discussion in Section 2, an aligned firm forgoes profit because it is compelled to make production decisions that favor the regime. Lemmas 1 and 2 formalize the intuitive result that the more favorable these decisions are to the regime, the more costly they are for the firm. Put differently, the level of alignment α determines not only the weight the firm assigns to the regime's payoff *in the as-if payoff function (u_F) that it maximizes*, but also the degree to which the regime's interests are internalized at the expense of the firm's profit *in realized outcomes*.

Together, Lemmas 1 and 2 allow us to simplify the firm's problem. By Lemma 1, the firm

equivalently minimizes the level of alignment α, subject to the regime's expected payoff being nonnegative so as not to get expropriated. In particular, Lemma 2 implies that the equilibrium level of alignment α^* exists and solves the firm's problem (P), where

$$\alpha^* \coloneqq \min \{\alpha \in [0,1] : \mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] \geq 0\}. \tag{6}$$

Under Assumption 1, this completely characterizes the firm's chosen level of alignment in every SPE. In particular, the minimum in equation (6) is attained:

Lemma 3. *If* $\alpha_n \downarrow \alpha$ *and* $\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha_n), \theta)\right] \geq 0$*, then* $\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] \geq 0$*.*

Proof. Since $\mathcal{X}$ is compact, $x^*(\theta \mid \alpha_n)$ must have a convergent subsequence by the Bolzano–Weierstrass theorem; denote its limit by $x^*_\infty(\theta)$. By continuity of $u_R(\cdot, \theta)$, $\mathbf{E}_\theta \left[u_R(x^*_\infty(\theta), \theta)\right] \geq 0$. Moreover, Berge's maximum theorem implies that $x^*_\infty(\theta)$ maximizes $u_F(\cdot, \theta \mid \alpha)$. Given that $x^*(\theta \mid \alpha)$ is defined to be the maximizer of $u_F(\cdot, \theta \mid \alpha)$ that yields the highest payoff for the regime, we obtain

$$\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] \geq \mathbf{E}_\theta \left[u_R(x^*_\infty(\theta), \theta)\right] \geq 0. \qquad \square$$

Our analysis shows why a firm might choose not to publicly align with the regime. No alignment ($\alpha^* = 0$) is optimal if

$$\mathbf{E}_\theta \left[u_R(x^*(\theta \mid 0), \theta)\right] \geq 0.$$

That is, if the payoff divergence between the regime and the firm is sufficiently small, the regime's expected payoff from the firm's profit-maximizing production decisions might be nonnegative anyway, so the regime would not preemptively expropriate the firm.

B.2 Proof of Proposition 1

Proof. Since Δ is increasing, the firm's as-if payoff function has increasing differences in (x, α):

$$u_F(x, \theta \mid \alpha) = \Pi(x) + \alpha\theta\Delta(x).$$

Thus, $\alpha \mapsto \arg\max_{x \in \mathcal{X}} u_F(x, \theta \mid \alpha)$ is nondecreasing in the strong set order for every $\theta \in \{0, 1\}$. By the monotone selection theorem of Milgrom and Shannon (1994), $x^*(\theta \mid \alpha)$ is nondecreasing in α for every $\theta \in \{0, 1\}$.

Next, recall that

$$x^*(\theta \mid \alpha^*) \in \arg\max_{x \in \mathcal{X}} u_F(x, \theta \mid \alpha^*) = \arg\max_{x \in \mathcal{X}} \left[\Pi(x) + \alpha^*\theta\Delta(x)\right].$$

Since Δ is increasing and $\alpha^* > 0$ by assumption, the objective function, $u_F(x, \theta \mid \alpha^*) = \Pi(x) + \alpha^*\theta\Delta(x)$, satisfies the strict single-crossing condition in (x, θ). We conclude that $x^*(\theta \mid \alpha^*)$ is increasing in θ. □

B.3 Proof of Proposition 2

Proof. A sufficient condition for our result is that for any fixed $\alpha \in [0, 1]$, $u_R(x^*(\theta \mid \alpha), \theta)$ is decreasing in θ. Indeed, if this condition holds, then

$$\mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] = u_R(x^*(0 \mid \alpha), 0) + p \underbrace{\left[u_R(x^*(1 \mid \alpha), 1) - u_R(x^*(0 \mid \alpha), 0)\right]}_{<0}$$

is decreasing in p. This means that the set $\{\alpha \in [0, 1] : \mathbf{E}_\theta \left[u_R(x^*(\theta \mid \alpha), \theta)\right] \geq 0\}$ is decreasing in p, so its minimum element α^* must be increasing in p.

We now show that this sufficient condition holds. Recall that for any production decision $x \in \mathcal{X}$,

the regime strictly prefers the good state to the bad state:

$$u_R(x, 1) < u_R(x, 0) = \Pi(x).$$

Consequently, we deduce that

$$u_R(x^*(1 \mid \alpha), 1) \leq \sup_{x \in \mathcal{X}} u_R(x, 1) \leq \sup_{x \in \mathcal{X}} \Pi(x) = u_R(x^*(0 \mid \alpha), 0).$$

Notice that equality cannot hold: the compactness of $\mathcal{X}$ implies that

$$\sup_{x \in \mathcal{X}} u_R(x, 1) = u_R(x_R^*, 1) < u_R(x_R^*, 0) \leq \sup_{x \in \mathcal{X}} u_R(x, 0).$$

Thus, it follows that

$$u_R(x^*(1 \mid \alpha), 1) < u_R(x^*(0 \mid \alpha), 0).$$

We conclude that the desired sufficient condition holds. Hence, the equilibrium level of alignment α^* is increasing in p. □

B.4 Proof of Proposition 3

Proof. Consider increasing functions $\Delta_H, \Delta_L : \mathcal{X} \to \mathbb{R}$, such that $\Delta_H \succeq_\Delta \Delta_L$. For $i \in \{H, L\}$, let $x_i^*(\alpha)$ denote the firm's optimal production decision when the payoff divergence between the regime and the firm is Δ_i. Now, for $t \in [0, 1]$, define

$$v_F(t, x \mid \alpha) \coloneqq \Pi(x, 1) + \alpha \Delta_H(x) + \alpha t \left[\Delta_L(x) - \Delta_H(x)\right].$$

Observe that v_F has increasing differences in (t, x) since

$$\frac{\partial \Delta_L}{\partial x_j}(x) - \frac{\partial \Delta_H}{\partial x_j}(x) \geq 0, \qquad \forall\, j \in \{1, \ldots, n\}.$$

By construction, $x_H^*(\alpha)$ and $x_L^*(\alpha)$ maximize $v_F(0,\cdot \mid \alpha)$ and $v_F(1,\cdot \mid \alpha)$, respectively. Consequently, by the monotone selection theorem of Milgrom and Shannon (1994), $x_L^*(\alpha) \geq x_H^*(\alpha)$.

Next, we show that for every alignment level $\alpha \in [0,1]$, the regime's payoff is lower under Δ_H than Δ_L: $\Pi(x_H^*(\alpha)) + \Delta_H(x_H^*(\alpha)) \leq \Pi(x_L^*(\alpha)) + \Delta_L(x_L^*(\alpha))$. Since $x_L^*(\alpha)$ maximizes the firm's as-if payoff function $\Pi(x) + \alpha\Delta_L(x)$,

$$\Pi((x_L^*(\alpha)) + \alpha\Delta_L(x_L^*(\alpha)) \geq \Pi(x_H^*(\alpha)) + \alpha\Delta_L(x_H^*(\alpha)).$$

Rearranging, we obtain

$$\begin{aligned}\Pi(x_L^*(\alpha)) + \Delta_L(x_L^*(\alpha)) \geq \Pi(x_H^*(\alpha)) + \Delta_H(x_H^*(\alpha)) + \alpha \underbrace{\left[\Delta_L(x_H^*(\alpha)) - \Delta_H(x_H^*(\alpha))\right]}_{\geq 0} \\ + (1-\alpha) \underbrace{\left[\Delta_L(x_L^*(\alpha)) - \Delta_H(x_H^*(\alpha))\right]}_{\geq \Delta_L(x_L^*(\alpha)) - \Delta_H(x_L^*(\alpha)) \geq 0} \\ \geq \Pi(x_H^*(\alpha)) + \Delta_H(x_H^*(\alpha)).\end{aligned}$$

Thus, for every $\alpha \in [0,1]$, the regime's payoff is lower under Δ_H than Δ_L, as claimed.

Therefore, for every $\alpha \in [0,1]$, the regime's *expected* payoff is lower under Δ_H than Δ_L. It follows that the firm's equilibrium alignment level is higher under Δ_H than Δ_L. □

B.5 Proof of Proposition 4

Proof. Consider profit functions $\Pi_H, \Pi_L : \mathcal{X} \to \mathbb{R}$, such that $\Pi_H \succeq_\Pi \Pi_L$. For $i \in \{H, L\}$, let $x_i^*(\theta \mid \alpha)$ denote the firm's optimal output when the firm's profit function is Π_i in state θ. For $t \in [0,1]$, define

$$v_F(t, x, \theta \mid \alpha) := \Pi_L(x) + \alpha\theta\Delta(x) + t\left[\Pi_H(x) - \Pi_L(x)\right].$$

Observe that v_F has increasing differences in (t, x) since

$$\frac{\partial \Pi_H}{\partial x_j}(x) - \frac{\partial \Pi_L}{\partial x_j}(x) \geq 0, \qquad \forall\, j \in \{1, \ldots, n\}.$$

By construction, $x_L^*(\theta \mid \alpha)$ and $x_H^*(\theta \mid \alpha)$ maximize $v_F(0, \cdot, \theta \mid \alpha)$ and $v_F(1, \cdot, \theta \mid \alpha)$, respectively. Thus, by the monotone selection theorem of Milgrom and Shannon (1994), $x_H^*(\theta \mid \alpha) \geq x_L^*(\theta \mid \alpha)$ for each $\theta \in \{0, 1\}$.

Next, we show that for every alignment level $\alpha \in [0, 1]$ and state $\theta \in \{0, 1\}$, the regime's payoff is higher under Π_H than Π_L:

$$\Pi_H(x_H^*(\theta \mid \alpha)) + \theta\Delta(x_H^*(\alpha)) \leq \Pi_L(x_L^*(\alpha)) + \theta\Delta(x_L^*(\alpha)).$$

Since $x_H^*(\theta \mid \alpha)$ maximizes the firm's as-if payoff function $\Pi_H(x) + \alpha\theta\Delta(x)$,

$$\Pi_H(x_H^*(\theta \mid \alpha)) + \alpha\theta\Delta(x_H^*(\theta \mid \alpha)) \geq \Pi_H(x_L^*(\theta \mid \alpha)) + \alpha\theta\Delta(x_L^*(\theta \mid \alpha)).$$

Rearranging, we obtain

$$\begin{aligned}
\Pi_H(x_H^*(\theta \mid \alpha)) + \theta\Delta(x_H^*(\theta \mid \alpha)) \geq\ & \Pi_L(x_L^*(\theta \mid \alpha)) + \theta\Delta(x_L^*(\theta \mid \alpha)) \\
& + \underbrace{\Pi_H(x_L^*(\theta \mid \alpha)) - \Pi_L(x_L^*(\theta \mid \alpha))}_{\geq 0} \\
& + (1 - \alpha)\,\theta\,\underbrace{\left[\Delta(x_H^*(\theta \mid \alpha)) - \Delta(x_L^*(\theta \mid \alpha))\right]}_{\geq 0} \\
\geq\ & \Pi_L(x_L^*(\theta \mid \alpha)) + \theta\Delta(x_L^*(\theta \mid \alpha)).
\end{aligned}$$

Thus, for every $\alpha \in [0, 1]$ and $\theta \in \{0, 1\}$, the regime's payoff is higher under Π_H than Π_L, as claimed.

Therefore, for every $\alpha \in [0, 1]$, the regime's *expected* payoff is higher under Π_H than Π_L. It follows that the firm's equilibrium alignment level is lower under Π_H than Π_L. □

B.6 Sufficient Condition for Higher Disagreement (Definition 1)

In Section 3, we described how Definition 1 is intuitively satisfied when the regime's preferences over the firm's production decision are more inelastic. We now formalize that intuition.

Claim 1. *Consider two increasing continuous functions $\Delta_H, \Delta_L : \mathcal{X} \to \mathbb{R}$ such that*

$$\lim_{x \to 0^+} \frac{\Delta_H(x)}{\Delta_L(x)} = 1.$$

Suppose that the regime's preferences over the firm's production decision are more inelastic under Δ_H than Δ_L: for every $x \in \mathcal{X}$ and $i \in \{1, \ldots, n\}$,

$$\varepsilon_{H,i}(x) := \frac{\partial \log \Delta_H}{\partial \log x_i}(x) \leq \frac{\partial \log \Delta_L}{\partial \log x_i}(x) =: \varepsilon_{L,i}(x).$$

Then disagreement is higher under Δ_H than Δ_L.

Proof. Let $\delta(x) := \log \Delta_H(x) - \log \Delta_L(x)$ for each $x \in \mathcal{X}$. By the elasticity condition, we infer that δ is a nonincreasing function. Since $\lim_{x \to 0^+} \delta(x) = 0$ by assumption, we infer that $\delta(x) \leq 0$—and so $\Delta_H(x) \leq \Delta_L(x)$—for any $x \in \mathcal{X}$. Moreover, we compute that

$$\frac{\partial \Delta_H}{\partial x_i}(x) - \frac{\partial \Delta_L}{\partial x_i}(x) = \frac{1}{x_i} \left[\left[\varepsilon_{H,i}(x) - \varepsilon_{L,i}(x) \right] \Delta_L(x) + \left[\Delta_H(x) - \Delta_L(x) \right] \varepsilon_{H,i}(x) \right] \leq 0.$$

As such, we conclude that the conditions of Definition 1 are satisfied; hence, $\Delta_H \succeq_\Delta \Delta_L$. □

C Additional Measurement Details

C.1 CSMAR

We obtain firm-level accounting, ownership, and market variables from the China Stock Market & Accounting Research (CSMAR) database. The database provides annual data from financial statements and balance sheets for listed firms from 2004–2021, from which we select profit, sales,

and the number of employees. Ownership data cover 2003–2019. With the data, we classify each firm as state-owned, private, or foreign. Stock market data are available at the daily frequency from January 2015 through December 2022. Using the stock price, we compute weekly returns and construct cumulative abnormal returns (CARs).

C.2 WIND

We use the WIND Financial Database to construct a firm-year panel for all listed stocks in Shanghai Stock Exchange and Shenzhen Stock Exchange, from 2003–2021, covering 3,701 firms as of 2021. From WIND we download the full set of annual reports and apply the keyword search procedure of the words listed in Table 1.

Beyond texts, WIND supplies other basic firm information that we use for sample construction and controls, including a firm's industry, registered location, listing date, legal/English name, etc.

C.3 Unrest

The main explanatory variable in Subsection 5.2 is a firm's public alignment interacted with the number of labor unrest events in the firm's city in a given year. We combine data on labor unrest events across Chinese cities from two independent sources: *China Strikes* (Elfstrom, 2017), covering 2003 to 2011, and *China Labour Bulletin* (CLB) (China Labour Bulletin, 2019), covering 2012 to 2022. The data are compiled based on worker reports as well as various media outlets.

It is important to consider the quality of the unrest data in light of potential misreporting and censorship (King et al., 2013). We believe the data are appropriate for the purposes of this paper for several reasons. First, the datasets have been verified and used by many economists and policy analysts (e.g., Mueller, 2025; Campante et al., 2023; Qin et al., 2019). Second, the Chinese central government generally tolerates reporting on local labor strikes, arguably increase accountability of local government officials (Campante et al., 2023; Beraja et al., 2023; Lorentzen, 2014). Third, as

Campante et al. (2023) show, trends in the *CLB* data are highly correlated with official records on the number of labor dispute cases submitted to the government for arbitration. Fourth, we include city and year fixed effects to capture classical measurement error and time trends in reporting.

C.4 CSRC (Regulatory Penalties)

We obtain data on regulatory penalties from a repository of enforcement decisions from the China Securities Regulatory Commission (CSRC). These penalties target firms or personnel for violations of securities trading regulations and cover 2001 to 2025. We obtain the universe of decisions from two sections of the CSRC's official website, "Administrative Penalties Decisions" and "Supervision Measures."[41] The former category involves more severe penalties such as fines and trading bans, while the latter includes softer measures like warnings and consultations. We identify and eliminate duplicate listings and obtain a final sample of 1,809 unique cases.

We match CSRC data to the set of listed firms by searching for each firm's full and abbreviated names within all decision texts. If a firm's name is found, ChatGPT 4o-mini reads the decision text to determine whether the penalty concerns the company itself, its management, or its majority shareholders. Cases unrelated to these three stakeholder groups are excluded. For further analysis, we then collapse the universe of cases to the firm-year level, the level of other firm observables.

C.5 SAMR (Antitrust Investigations)

We obtain data on anti-trust decisions from the State Administration for Market Regulation (SAMR) from 2013 to 2025. The dataset is sourced the SAMR's official website[42] and contains the title and full text of all decisions. In nearly all cases, the decisions include the date the anti-trust investigation was first initiated and the date the final decision was issued. When the initiation date

[41] http://www.csrc.gov.cn/csrc/c101971/zfxxgk_zdgk.shtml
[42] https://www.samr.gov.cn/fldes/tzgg/xzcf/index.html

is not separately reported, we use ChatGPT 4o-mini to identify the initiation date from the text. If this process does not yield an initiation date, we use the issuance date as a proxy. We omit twenty listings that announced investigation terminations. This process yields 410 unique anti-trust cases.

We match the SAMR data with our firm data by searching for each firm's full and abbreviated name within the decision text. We then use ChatGPT 4o-mini to verify whether the penalty pertains directly to the firm, its management, or its majority shareholders. Cases not relevant to these groups are omitted from the analysis. We aggregate the data to a firm-year level for subsequent analysis.

C.6 Corporate Social Responsibility (CSR) Data

We obtain data on corporate social responsibility (CSR) performance from CN Open Data, covering the period from 2010 to 2020. The primary source of this dataset is the professional CSR evaluation system developed by Hexun, a leading Chinese financial information provider. Hexun bases its scores on data disclosed in annual reports and CSR reports published by firms listed on the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE).

The Hexun evaluation framework assesses listed firms across five primary dimensions: (1) Shareholder Responsibility, (2) Employee Responsibility, (3) Supplier, Customer, and Consumer Rights Responsibility, (4) Environmental Responsibility, and (5) Social Responsibility. These dimensions are decomposed into 13 secondary indicators (e.g., profitability, compliance, innovation, environmental governance) and 37 tertiary indicators (e.g. return on equity, tax contribution ratios, environmental management system certification, safety training programs). The tertiary indicators comprise both numerical metrics derived from financial statements and logical metrics based on the existence and detail of qualitative disclosures.

The system employs an industry-adjusted weighting scheme to calculate the total score. Under the default setting, Shareholder Responsibility carries the highest weight (30%), followed by Environmental and Social Responsibilities (20% each). However, these weights are adjusted to

reflect sector-specific priorities.[43]

For our main analysis, we utilize the aggregate variable *Overall CSR Score*. This continuous variable represents the weighted sum of the five dimension scores, providing a comprehensive measure of a firm's overall social responsibility performance. We merge this dataset with our firm-level financial data using stock codes and fiscal years.

C.7 Abnormal Returns

We calculate firms' weekly stock returns and cumulative abnormal returns using weekly stock market data. Our sample covers Chinese A-share firms, 2015-2022.

We calculate abnormal returns with this equation:

$$AR_{it} = R_{it} - E(R_{it}|X_t),$$

where i indexes the given stock and t the time period (week). R_{it} is the stock's realized return in week t,[44] and $E(R_{it}|X_t)$ is the expected return in week t.

We follow the index model of MacKinlay (1997), where the expected return is assumed to have a linear relationship with the market return:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}).$$

R_{mt} is the market return for A-shares Chinese firms in week t.

For each stock i, α_i and β_i are determined by regressing R_{it} on R_{mt} using stock returns at least

[43] **Manufacturing Sector:** The weight for Environmental Responsibility is increased to 30%, while Social Responsibility is reduced to 10%.

Service Sector: The weight for Environmental Responsibility is reduced to 10%, while Social Responsibility is increased to 30%.

Consumer Sector: The weight for Supplier, Customer, and Consumer Rights is increased to 20%, and Employee Responsibility is adjusted to 10%.

[44] $R_i t = \frac{P_{end} - P_{start}}{P_{start}}$, where P_{start} is the stock's opening price on the first trading day of the week and P_{end} is the stock's closing price on the last trading day of the week.

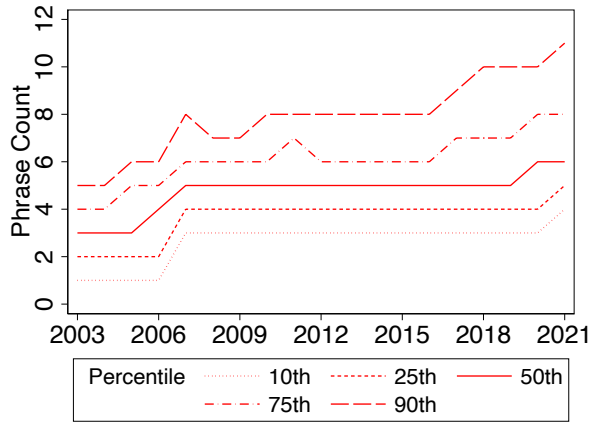
four weeks before the event took place. AR_{it} is calculated for all firms from the first to the last week in the sample. Using the abnormal returns calculated, we then compute the cumulative abnormal returns for each stock 1 week before and after the event:

$$\text{CAR}[1] = \sum_{t=-1}^{T=1} AR_{it}.$$

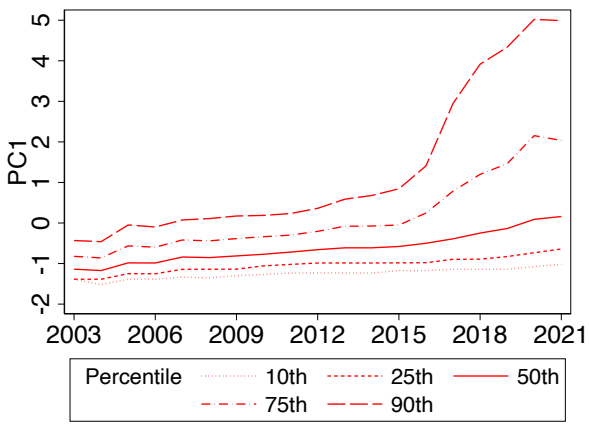
Appendix Tables and Figures

Figure A.1: Public Alignment Over Time, Using First 30,689 (1 SD of Average Report Length) Words in Annual Reports

(a) Phrase Count

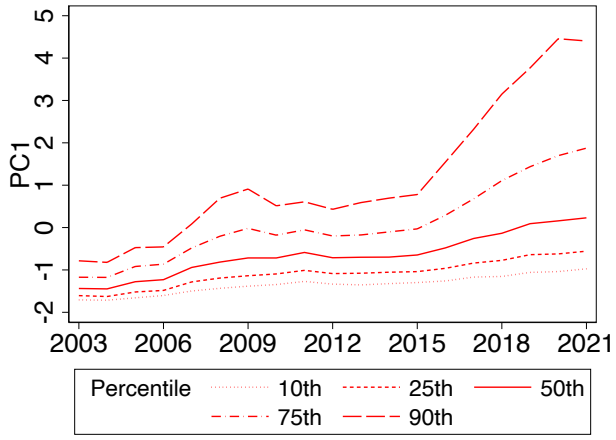


(b) PC1



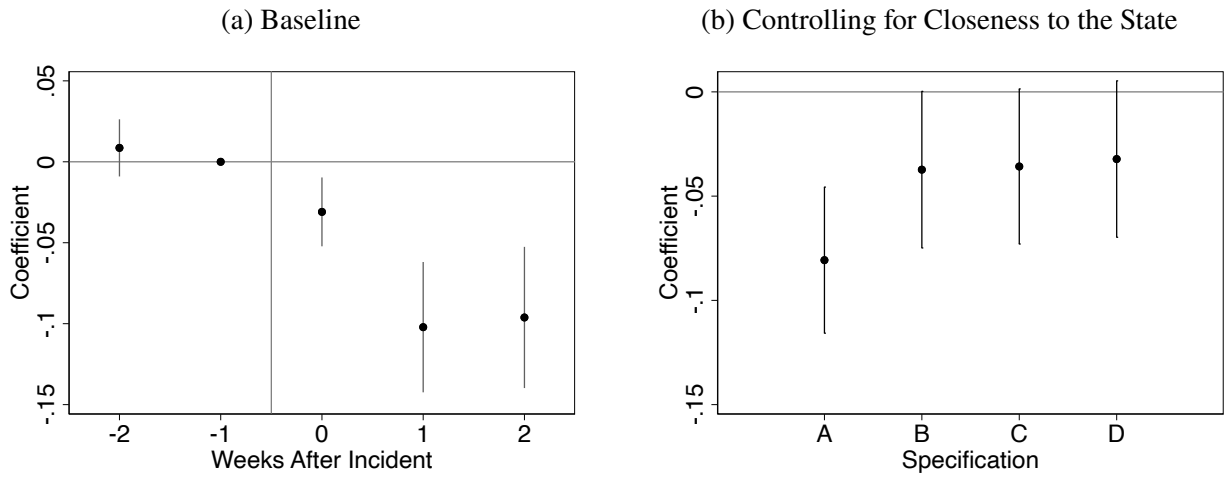
Notes: This figure plots the distribution of public alignment across listed Chinese firms from 2003 to 2021. The unit of observation is a firm-year, where firm annual reports are obtained from the WIND Financial Terminal. For each firm-year, we record whether the first 30,689 words of the annual report (approximately one standard deviation of average report length) mention each of the 50 Party-related keywords. The 50 keywords are identified using TF-IDF analysis on a corpus of Chinese Communist Party documents. In both panels, each line represents a different percentile of the firm-year distribution: the 10th (dotted), 25th (short-dashed), 50th (solid), 75th (dash-dot), and 90th (long-dashed) percentiles. Panel A.1(a) displays the number of Party-related phrases (out of 50) mentioned. Panel A.1(b) displays the first principal component of the keyword indicators, which captures the common variation in publicly-aligned language across firms.

Figure A.2: Public Alignment Over Time, Using Keyword Counts Instead of Indicators



Notes: This figure plots the distribution of the first principal component of publicly-aligned keyword counts across listed Chinese firms from 2003 to 2021. The unit of observation is a firm-year, where firm annual reports are obtained from the WIND Financial Terminal. For each firm-year, we count the number of mentions of each of the 50 Party-related keywords in the annual report, then compute the first principal component of these 50 keyword counts, which captures the common variation in publicly-aligned language across firms. The 50 keywords are identified using TF-IDF analysis on a corpus of Chinese Communist Party documents. Each line represents a different percentile of the firm-year distribution: the 10th (dotted), 25th (short-dashed), 50th (solid), 75th (dash-dot), and 90th (long-dashed) percentiles.

Figure A.3: Cumulative Abnormal Returns After Political Shock



Notes: This figure examines the market reaction to the Sun Zhengcai scandal conditional on firm-level public alignment. The unit of observation is a firm-week. Public alignment is measured as the first principal component of Party-related keyword mentions in the firm's annual report. Both the dependent variables (cumulative abnormal returns) and the public alignment measure are standardized to have a mean of zero and a standard deviation of one. Panel A presents the coefficients on the interaction between public alignment and time indicators ranging from two weeks prior ($t-2$) to two weeks after ($t+2$) the scandal event, controlling for firm and event-week fixed effects. Panel B reports the coefficient on the interaction between public alignment and a *Post* indicator (equal to one for weeks $t \geq 0$) across four specifications: Specification A includes firm and event-week fixed effects; Specification B adds Post $\times$ ownership (SOE) fixed effects; Specification C adds Post $\times$ political-connection fixed effects; Specification D adds Post $\times$ Party-cell fixed effects. Standard errors are clustered at the firm level. Bars represent 95% confidence intervals.

Table A.1: Variable Definitions, Sources, and Units

Variable	Description	Source	Unit / Type
Public Alignment	Aggregates vector of occurrences of 50 keywords related to Chinese regime speech from firm *i*'s annual report in year *t*.	Keywords were identified from corpus of regime speech using TF-IDF. Baseline corpus includes 617,937 *People's Daily* articles published in 2003–2023.	Principal Component/count
Scandal	Indicates exposure to the Sun Scandal (pre/post).	Coding by the authors as described in the paper.	Dummy
Unrest	Number of labor unrest events in firm *i*'s home city in year *t*.	Elfstrom (2017) for 2003–2011 and China Labour Bulletin (2019) for 2012–2022.	Count
Employees	Total number of employees of firm *i* in year *t*.	Shenzhen CSMAR Data Technology Co., Ltd (2024), 2003–2020.	Count
SAMR Case	Indicator of whether firm *i* is subject to an investigation or case by the State Administration for Market Regulation (SAMR) in year *t*.	Scraped by the authors from the official SAMR website (State Administration for Market Regulation, 2025).	Dummy
CSRC Case	Indicator of whether firm *i* is subject to an investigation or case by the China Securities Regulatory Commission (CSRC) in year *t*.	Scraped by the authors from the official CSRC website (China Securities Regulatory Commission, 2025).	Dummy

Ownership	Indicates whether firm *i* is state owned in year *t*.	Shenzhen CSMAR Data Technology Co., Ltd (2024).	Dummy
Political Connection	Indicates whether firm *i* had at least one politically connected director before Regulation No. 18 in October 2013, which banned politically connected directors from the boards of listed firms. Politically connected directors include CPC and government officials, National People's Congress (NPC) deputies, Chinese People's Political Consultative Conference (CPPCC) representatives, and leaders of state-owned enterprises and public / non-profit institutions (universities, research institutes, hospitals, etc.).	Fan (2021)	Dummy
Party Cell	Indicates whether firm *i*'s corporate charter in year *t* mentions establishing a Party cell.	Charter amendments from Wind Information Co., Ltd. (2025); text search for "Party cell", 2003–2021.	Dummy
Sector	Firm *i*'s primary industry sector, defined using the first-level industry code in WIND (11 sectors in total).	Wind Information Co., Ltd. (2025), first-level industry classification.	Categorical

Sales	Firm i's annual sales (operating revenue) in year t.	Shenzhen CSMAR Data Technology Co., Ltd (2024), 2004–2021.	Continuous
Crosslisted	Indicates whether firm i is cross-listed on an overseas stock market (detailed definition provided in the paper).	Collected by the authors.	Dummy
Profitability	Firm i's profitability ratio in year t, defined as profitability = $\text{profit}_{w2}/\text{sales}_{w2}$, where both profit_{w2} and sales_{w2} are winsorized at the 0.1 and 99.9 percentiles.	Own calculation based on Shenzhen CSMAR Data Technology Co., Ltd (2024), 2004–2021.	Continuous
CSR score	Firm i's CSR score in year t.	CnOpenData (2025), 2010–2020.	Continuous
Weekly return	Simple stock return for firm i in calendar week w, constructed by compounding daily stock returns over all trading days in week w, reinvesting within the week.	Shenzhen CSMAR Data Technology Co., Ltd (2024) (daily stock returns).	Continuous

CAR	Cumulative abnormal stock return around the annual report week, equal to the sum of weekly abnormal returns over the window including the weeks before and after the event.	Calculation by the authors based on weekly returns from Shenzhen CSMAR Data Technology Co., Ltd (2024) and annual report dates from WIND Financial Terminal.	Continuous

Table A.2: Summary Statistics

Variable	Mean	SD	N	Min	Max	Year coverage
Panel A: Firm Characteristics						
Public Alignment	-0.000	1.886	45,061	-2.586	15.097	2003–2021
Unrest	13.215	18.224	45,061	0	100	2003–2021
Employees (Thousands)	5.861	23.462	38,977	0	553	2003–2020
SAMR Case	0.014	0.394	45,061	0	30	2003–2021
CSRC Case	0.103	1.534	45,061	0	109	2003–2021
Ownership	0.440	0.496	37,646	0	1	2003–2020
Political Connection	0.331	0.471	45,061	0	1	2003–2021
Party Cell	0.097	0.296	45,061	0	1	2003–2021
Sales (Billion RMB)	9.514	74.027	43,365	0	3,220.2	2004–2021
Crosslisted	0.037	0.189	45,061	0	1	2003–2021
Profitability	1.809	289.87	38,080	0	56,532	2004–2021
CSR score	23.682	15.861	31,559	-18.450	90.870	2010–2020
Panel B: Market Returns						
Weekly Return	0.002	0.072	1,356,542	-0.896	19.769	2015–2022
CAR	-0.004	0.119	1,352,592	-3.045	19.873	2015–2022

Notes: This table reports summary statistics for the variables used in the empirical analysis. Panel A presents firm-year-level characteristics. Employees is measured in thousands, and Sales is measured in billion RMB. Ownership, Political Connection, Party Cell, and Crosslisted are indicator variables equal to one if the respective condition is met, and zero otherwise. SAMR Case and CSRC Case refer to cases involving the State Administration for Market Regulation and the China Securities Regulatory Commission, respectively. Panel B reports firm-week-level market return statistics, where CAR denotes Cumulative Abnormal Returns.

Table A.3: Stock Returns After Political Shock, Event Study

	(1) Weekly return	(2) CAR
$\text{Alignment}_{i,t} \times \text{Scandal}_{t-2}$	-0.0188	0.00859
	(0.0227)	(0.00900)
$\text{Alignment}_{i,t} \times \text{Scandal}_{t-1}$	0	0
	(.)	(.)
$\text{Alignment}_{i,t} \times \text{Scandal}_{t}$	-0.147***	-0.0309***
	(0.0278)	(0.0108)
$\text{Alignment}_{i,t} \times \text{Scandal}_{t+1}$	-0.0731***	-0.102***
	(0.0261)	(0.0205)
$\text{Alignment}_{i,t} \times \text{Scandal}_{t+2}$	-0.143***	-0.0962***
	(0.0288)	(0.0222)
Observations	15,373	15,373
R-squared	0.268	0.596

Notes: This table examines the market reaction to the Sun Zhengcai scandal conditional on the firm's public alignment. The unit of observation is a firm-week. Public alignment is measured as the first principal component of Party-related keyword mentions in the firm's annual report. To facilitate interpretation, both the dependent variables and the public alignment measure are standardized to have a mean of zero and a standard deviation of one within the regression sample. Column (1) presents the results where the dependent variable is the weekly stock return. Column (2) presents the results using the cumulative abnormal return (CAR) around the annual report week. The reported coefficients represent the interaction between the standardized public alignment score and time indicators ranging from two weeks prior ($t-2$) to two weeks after ($t+2$) the event. All specifications include firm fixed effects and event-time (weeks relative to scandal) fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.4: Stock Returns After Political Shock, Robustness to the Closeness to the State

	(1) Weekly return	(2) Weekly return	(3) Weekly return	(4) Weekly return
$\text{Post}_t \times \text{Alignment}_{i,t}$	-0.112***	-0.0512**	-0.0493**	-0.0461**
	(0.0199)	(0.0212)	(0.0210)	(0.0212)
Observations	15,373	15,373	15,373	15,373
R-squared	0.268	0.277	0.281	0.281
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Event-week FE	Yes	Yes	Yes	Yes
Post × SOE FE	No	Yes	Yes	Yes
Post × Political Connection FE	No	No	Yes	Yes
Post × party committee FE	No	No	No	Yes

Notes: This table examines the robustness of the market reaction to the Sun Zhengcai scandal after controlling for other firm characteristics interacting with the event window. The unit of observation is a firm-week, and the sample covers a five-week window $[-2, +2]$ centered on the scandal event. The dependent variable is the weekly stock return. The independent variable of interest is the interaction between the firm's public alignment and a *Post* indicator, which equals one for weeks on or after the scandal event ($t \geq 0$) and zero otherwise. Public alignment is measured as the first principal component of Party-related keyword mentions. Both the dependent variable and the public alignment score are standardized to have a mean of zero and a standard deviation of one within the regression sample. Results are reported across four specifications with increasing controls for firm heterogeneity in the post-event period. Specification 1 includes firm, year, and event-week fixed effects. Specification 2 adds Post × SOE fixed effects. Specification 3 adds Post × political-connection fixed effects. Specification 4 adds Post × Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.5: Cumulative Abnormal Returns After Political Shock, Robustness to the Closeness to the State

	(1) CAR	(2) CAR	(3) CAR	(4) CAR
$\text{Post}_t \times \text{Alignment}_{i,t}$	-0.0807***	-0.0373*	-0.0358*	-0.0322*
	(0.0179)	(0.0191)	(0.0190)	(0.0191)
Observations	15,373	15,373	15,373	15,373
R-squared	0.596	0.600	0.603	0.604
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Event-week FE	Yes	Yes	Yes	Yes
Post × SOE FE	No	Yes	Yes	Yes
Post × Political Connection FE	No	No	Yes	Yes
Post × party committee FE	No	No	No	Yes

Notes: This table examines the robustness of the market reaction to the Sun Zhengcai scandal after controlling for other firm characteristics interacting with the event window. The unit of observation is a firm-week, and the sample covers a five-week window $[-2, +2]$ centered on the scandal event. The dependent variable is the cumulative abnormal return (CAR). The independent variable of interest is the interaction between the firm's public alignment and a *Post* indicator, which equals one for weeks on or after the scandal event ($t \geq 0$) and zero otherwise. Public alignment is measured as the first principal component of Party-related keyword mentions. Both the dependent variable and the public alignment score are standardized to have a mean of zero and a standard deviation of one within the regression sample. Results are reported across four specifications with increasing controls for firm heterogeneity in the post-event period. Specification 1 includes firm and event-week fixed effects. Specification 2 adds Post × SOE fixed effects. Specification 3 adds Post × political-connection fixed effects. Specification 4 adds Post × Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.6: Employment Response to Unrest by Public Alignment

	(1)
	# Employees
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t-2}$	0.00352
	(0.00593)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t-1}$	-0.0000722
	(0.00552)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t}$	0.0145**
	(0.00709)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t+1}$	-0.00131
	(0.00429)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t+2}$	0.00628
	(0.00537)
Observations	33,051
R-squared	0.951

Notes: This table examines the relationship between labor unrest and firm employment levels, conditional on the firm's public alignment. The unit of observation is a firm-year. The dependent variable is the total number of employees. The independent variables of interest are the interactions between the firm's public alignment (measured as the first principal component of Party-related keyword mentions) and indicators for labor unrest in the firm's city ranging from two years prior ($t - 2$) to two years after ($t + 2$) the current year. To facilitate interpretation, the dependent variable, the public alignment score, and the unrest variables are standardized to have a mean of zero and a standard deviation of one within the estimation sample. The specification controls for uninteracted unrest (all leads and lags), alignment, firm and province-year fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.7: Employment Response to Unrest by Public Alignment

	(1)	(2)	(3)	(4)
	# Employees	# Employees	# Employees	# Employees
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t-2}$	0.002	0.003	0.003	0.003
	(0.005)	(0.005)	(0.005)	(0.005)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t-1}$	0.001	0.001	0.001	-0.000
	(0.005)	(0.005)	(0.005)	(0.005)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t}$	0.014**	0.013*	0.013*	0.014**
	(0.007)	(0.007)	(0.007)	(0.007)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t+1}$	-0.001	-0.002	-0.002	-0.001
	(0.004)	(0.004)	(0.004)	(0.004)
$\text{Alignment}_{i,t} \times \text{Unrest}_{c(i),t+2}$	0.007	0.007	0.007	0.006
	(0.005)	(0.005)	(0.005)	(0.005)
Observations	33,051	33,051	33,051	33,051
R-squared	0.951	0.951	0.951	0.951
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Unrest × SOE FE	No	Yes	Yes	Yes
Unrest × Political Connection FE	No	No	Yes	Yes
Unrest × Party committee FE	No	No	No	Yes

Notes: This table examines the relationship between labor unrest and firm employment levels, conditional on the firm's public alignment. The unit of observation is a firm-year. The dependent variable is the total number of employees. The independent variables of interest are the interactions between the firm's public alignment (measured as the first principal component of Party-related keyword mentions) and indicators for labor unrest in the firm's city ranging from two years prior ($t-2$) to two years after ($t+2$) the current year. To facilitate interpretation, the dependent variable, the public alignment score, and the unrest variables are standardized to have a mean of zero and a standard deviation of one within the estimation sample. Results are reported across four specifications. Specification 1 controls for uninteracted unrest (all leads and lags), alignment, firm and province-year fixed effects. Specification 2 adds Unrest × SOE fixed effects, defined as the interaction of the SOE indicator with the full set of unrest leads and lags. Specification 3 adds Unrest × political-connection fixed effects. Specification 4 adds Unrest × Party-cell fixed effects. Standard errors are clustered at the city level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.8: Public Alignment Increases After Regulatory Investigations

	(1)
	PC1
Any Investigation$_{i,t-2}$	0.00182
	(0.00512)
Any Investigation$_{i,t-1}$	0.0204**
	(0.00935)
Any Investigation$_{i,t}$	0.00888
	(0.00622)
Any Investigation$_{i,t+1}$	-0.00137
	(0.00528)
Any Investigation$_{i,t+2}$	-0.0121*
	(0.00695)
Observations	29,800
R-squared	0.488

Notes: This table examines the dynamic relationship between regulatory investigations and firm's public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. To facilitate interpretation, the dependent variable is standardized to have a mean of zero and a standard deviation of one within the estimation sample. The independent variables are indicators for whether the firm was subject to an investigation (by either the CSRC or SAMR) in a given year, including leads and lags ranging from two years prior ($t-2$) to two years after ($t+2$) the investigation. The specification includes firm fixed effects and year fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.9: Public Alignment Increases After Regulatory Investigations

	(1)	(2)	(3)	(4)
	PC1	PC1	PC1	PC1
$\text{Investigation}_{i,t-2}$	0.002	0.002	0.002	0.001
	(0.005)	(0.005)	(0.005)	(0.005)
$\text{Investigation}_{i,t-1}$	0.020**	0.018**	0.018**	0.018**
	(0.009)	(0.009)	(0.009)	(0.009)
$\text{Investigation}_{i,t}$	0.009	0.007	0.006	0.006
	(0.006)	(0.006)	(0.006)	(0.007)
$\text{Investigation}_{i,t+1}$	-0.001	-0.002	-0.002	-0.001
	(0.005)	(0.005)	(0.005)	(0.005)
$\text{Investigation}_{i,t+2}$	-0.012*	-0.010	-0.010	-0.009
	(0.007)	(0.006)	(0.006)	(0.006)
Observations	29,780	29,780	29,780	29,780
R-squared	0.488	0.514	0.515	0.516
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Year × SOE FE	No	Yes	Yes	Yes
Year × Political Connection FE	No	No	Yes	Yes
Year × Party committee FE	No	No	No	Yes

Notes: This table examines the dynamic relationship between regulatory investigations and firm public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. To facilitate interpretation, the dependent variable is standardized to have a mean of zero and a standard deviation of one within the estimation sample. The independent variables are indicators for whether the firm was subject to an investigation (by either the CSRC or SAMR) in a given year, including leads and lags ranging from two years prior ($t-2$) to two years after ($t+2$) the investigation. Results are reported across four specifications. Specification 1 includes firm and year fixed effects. Specification 2 adds ownership (SOE-by-year) fixed effects. Specification 3 adds political-connection-by-year fixed effects. Specification 4 adds Party-cell-by-year fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.10: Correlates of Public Alignment With Sales

	(1) PC1	(2) PC1	(3) PC1	(4) PC1
$\text{Sales}_{i,t}$	0.073**	0.055*	0.055**	0.052**
	(0.034)	(0.028)	(0.028)	(0.026)
Observations	36,087	36,087	36,087	36,087
R-squared	0.162	0.199	0.199	0.221
Year FE	Yes	Yes	Yes	Yes
SOE FE	No	Yes	Yes	Yes
Political Connection FE	No	No	Yes	Yes
Party committee FE	No	No	No	Yes

Notes: This table examines the relationship between firm sales and public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. The independent variable is firm sales. To facilitate interpretation, both the dependent variable and the independent variable are standardized to have a mean of zero and a standard deviation of one within the estimation sample. Results are reported across four specifications. Specification 1 includes year fixed effects. Specification 2 adds ownership (SOE) fixed effects. Specification 3 adds political-connection fixed effects. Specification 4 adds Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.11: Correlates of Public Alignment With Crosslisting Status

	(1) PC1	(2) PC1	(3) PC1	(4) PC1
Crosslisted$_i$	0.091***	0.067***	0.068***	0.067***
	(0.012)	(0.012)	(0.012)	(0.012)
Observations	37,646	37,646	37,646	37,646
R-squared	0.180	0.214	0.215	0.238
Year FE	Yes	Yes	Yes	Yes
SOE FE	No	Yes	Yes	Yes
Political Connection FE	No	No	Yes	Yes
Party committee FE	No	No	No	Yes

Notes: This table examines the relationship between firms' cross-listing status and public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. The independent variable is an indicator for whether the firm is cross-listed on a major international exchange. To facilitate interpretation, both the dependent variable and the independent variable are standardized to have a mean of zero and a standard deviation of one within the estimation sample. Results are reported across four specifications. Specification 1 includes year fixed effects. Specification 2 adds ownership (SOE) fixed effects. Specification 3 adds political-connection fixed effects. Specification 4 adds Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.12: Correlates of Public Alignment With Profitability

	(1) PC1	(2) PC1	(3) PC1	(4) PC1
$\text{Profitability}_{i,t}$	-0.003***	-0.002***	-0.002***	-0.002***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	32,084	32,084	32,084	32,084
R-squared	0.158	0.199	0.199	0.221
Year FE	Yes	Yes	Yes	Yes
SOE FE	No	Yes	Yes	Yes
Political Connection FE	No	No	Yes	Yes
Party committee FE	No	No	No	Yes

Notes: This table examines the relationship between firm profitability and public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. The independent variable is firm profitability, defined as the ratio of annual profit to sales. To facilitate interpretation, both the dependent variable and the independent variable are standardized to have a mean of zero and a standard deviation of one within the estimation sample. Results are reported across four specifications. Specification 1 includes year fixed effects. Specification 2 adds ownership (SOE) fixed effects. Specification 3 adds political-connection fixed effects. Specification 4 adds Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.

Table A.13: Correlates of Public Alignment With CSR Score

	(1) PC1	(2) PC1	(3) PC1	(4) PC1
Overall CSR Score$_{i,t}$	0.084***	0.056***	0.057***	0.060***
	(0.008)	(0.008)	(0.008)	(0.008)
Observations	27,905	27,905	27,905	27,905
R-squared	0.113	0.159	0.160	0.183
Year FE	Yes	Yes	Yes	Yes
SOE FE	No	Yes	Yes	Yes
Political Connection FE	No	No	Yes	Yes
Party committee FE	No	No	No	Yes

Notes: This table examines the relationship between firms' Corporate Social Responsibility (CSR) performance and public alignment. The unit of observation is a firm-year. The dependent variable is the firm's public alignment, measured as the first principal component of Party-related keyword mentions. The independent variable is the firm's overall CSR score. To facilitate interpretation, both the dependent variable and the independent variable are standardized to have a mean of zero and a standard deviation of one within the estimation sample. Results are reported across four specifications. Specification 1 includes year fixed effects. Specification 2 adds ownership (SOE) fixed effects. Specification 3 adds political-connection fixed effects. Specification 4 adds Party-cell fixed effects. Standard errors are clustered at the firm level. Significance levels are indicated by * p<0.10, ** p<0.05, *** p<0.01.