

Corporate Endorsement of Controversial Nationalist Movement: Influences of Divergent Customers and Consequences

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A growing body of research has revealed that firms leverage nationalism in their strategies. However, it is unclear why some firms are more likely to do so than others. This paper uses institutional theory to address this question and examines the influences of domestic and foreign customers. We study firms' responses to nationalist movements, a type of sociopolitical mobilization arising in response to international controversies. We argue that as firms attempt to maintain legitimacy with their customers, those with more domestic customers are more likely to endorse nationalist movements, whereas those with more foreign customers from antagonistic countries are less likely to do so. Furthermore, reputation-sensitive customers exert a stronger influence than other customers. However, when firms have foreign customers who are targets of nationalist movements, they face an urgent need to demonstrate their patriotism and hence are more likely to endorse nationalist movements. We find support for these theoretical propositions in a study of

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Chinese firms' endorsements of a nationalist movement. Chinese firms that endorsed the movement obtained short-term gains in the stock market and domestic sales but no significant growth in overall sales. These findings contribute to the research on antecedents of firms' strategic leverage of nationalism, organizational responses to institutional complexity, and corporate side-taking in sociopolitical controversies.

Keywords: *nationalist movement; sociopolitical controversy; firm strategy; customers; supply chain*

Introduction

The popular media have referred to nationalism, a sociopolitical principle prioritizing a nation's interests, as “the ideology of our age” (Brown, 2022) and the “most powerful force in the world” (Mounk, 2018; Walt, 2019). Nationalism has been rising across the globe (Council on Foreign Relations, 2021) as countries elect leaders and political parties that champion nationalist ideologies, withdraw from international agreements to seek greater sovereignty, or engage in trade wars and geopolitical conflicts to protect national interests and security. Against this backdrop, many firms have increasingly embraced nationalism in their business strategies and endorsed nationalist movements in their domestic societies.

Nationalist movements are social and political movements that attempt to defend a country's autonomy, interest, and identity. Such movements were historically prominent during extraordinary periods, such as decolonization and state formation, but now frequently emerge as routine responses to international controversies sparked by governments' stances and policies (Bonikowski, 2016). For example, in 2019, Korean firms joined the anti-Japan movement during the trade dispute between the two countries (Kim, 2019). More recently, a military conflict at the China–India border prompted some Indian companies to stop issuing contracts to Chinese companies (BBC News, 2020; Rapoza, 2020). Endorsing a nationalist movement can serve as an impression management strategy, enabling firms to affirm their membership in a national community and consequently reinforce their identity connection with citizens domestically. Yet, such endorsements might entail costs if they suggest misalignment with their foreign stakeholders' interests and values. Therefore, such an impression management strategy introduces both opportunities and challenges for firms.

Understanding how firms navigate these strategic decisions requires examining firms' needs to maintain legitimacy with domestic and foreign stakeholders and the resultant short-term and long-term outcomes. Theoretically, investigating these issues enriches the emerging literature on firms' strategic use of nationalism (e.g., Ertug, Cuypers, Dow, & Edman, 2024; Lubinski, 2023; Lubinski & Wadhvani, 2020; Shi, Gao, & Aguilera, 2021; Shi, Hoskisson, & Zhang, 2016; Yue, Zheng, & Mao, 2024) by revealing *antecedents*, especially regarding why nationalism is not universally advocated in the corporate world. Practically, studying these questions addresses some of the most significant challenges for firms in the modern era regarding the growth of nationalism (Alvarez & Rangan, 2019; Luo, 2022), the rise of international controversies (Li, Shapiro, Peng, & Ufimtseva, 2022), and the clash between different national values (Teece, 2022).

In this paper, we investigate Chinese textile firms' responses to the Support Xinjiang Cotton Movement, which arose in March 2021 in response to one of the most significant sociopolitical controversies of the contemporary era. In 2020, after human rights groups accused the Chinese government of "detaining Uyghurs" in Xinjiang and using them for "forced labor,"¹ the U.S. government announced that it would block cotton imports from Xinjiang (Graham-Harrison, 2020). Western brands, such as H&M and Nike, followed and publicly announced that they would stop using Xinjiang cotton. Beijing, however, denied these accusations. On March 24, 2021, an earlier statement issued by H&M that it had cut the use of Xinjiang cotton started spreading through Chinese social media. A nationalist movement erupted in China to boycott H&M and other Western brands that had banned Xinjiang cotton and the associated NGO, Better Cotton Initiative (BCI), for spreading rumors (BBC News, 2021). During the movement, 33 of 112 Chinese public firms in the textile and clothing sector issued statements endorsing the movement. The Support Xinjiang Cotton movement thus provides a setting for studying firms' responses to an exogenous nationalist movement.

Our theoretical argument expands on institutional theory, which posits that firms seek to conform to the norms and expectations of their institutional environments to gain legitimacy (DiMaggio & Powell, 1983; Heugens & Lander, 2009; Meyer & Rowan, 1977). Therefore, firms engage into impression management to create a favorable public image and align their actions with the values of important stakeholders (Mitchell, Agle, & Wood, 1997; Oliver, 1991). While firms can have a variety of stakeholders, we focus on the influence of customers. Customers are critical stakeholders because their purchases drive firms' profitability and market share (Shi & Wei, 2023; Wang, Aggarwal, & Wu, 2020). Chinese firms tend to be upstream in the global value chain (Kee & Tang, 2016) and serve as suppliers for foreign companies in addition to selling directly to the domestic market. This dichotomy in serving both domestic and foreign customers thus provides a good context to test the potentially divergent influence of different groups of customers. We argue that having domestic customers will make Chinese firms more likely to endorse the Support Xinjiang Cotton Movement, whereas having foreign customers from countries that have condemned the Chinese government's policy in Xinjiang will have the opposite effect. These opposing effects would be strengthened if these domestic (foreign) customers are reputation-sensitive organizations that have a greater need to keep alignment with the dominant value system in their respective geopolitical spheres. However, the influence of foreign customers is reversed when they become targets of the domestic nationalist movement. The liability of being associated with salient targets of a nationalist movement will motivate firms to distance themselves from these foreign customers and side with the nationalist movement. Finally, we provide supplementary evidence regarding the consequences of endorsing a nationalist movement and show that although backing Xinjiang cotton may boost firms' domestic sales and cause short-term surges in stock prices, these benefits are not sustained in the long term.

Our paper makes three contributions to the literature. First, it contributes to a growing body of work at the intersection of corporate strategy and nationalism (e.g., Ertug et al., 2024; Lubinski & Wadhvani, 2020; Mohr & Schumacher, 2019; Shi et al., 2016; Yue et al., 2024) by pointing out the divergent influence of domestic and foreign customers and the conditions under which having foreign customers can backfire and intensify a firm's tendency to endorse nationalist movements. Second, it contributes to the literature on organizations' responses to institutional complexity (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011;

Kostova & Roth, 2002; Pache & Santos, 2010, 2021) by revealing public endorsement as one tactic used by firms to manage relationships with important stakeholders and revealing the economic consequences associated with firms' impression management strategy. Third, it contributes to the nascent literature on corporate side-taking in sociopolitical controversies (Branicki, Brammer, Pullen, & Rhodes, 2021; Burbano, 2021; Hou & Poliquin, 2023; Minefee & Yue, forthcoming; Mohliver, Crilly, & Kaul, 2023; Nalick, Josefy, Zardkoohi, & Bierman, 2016) by expanding the scope of investigation to firms from non-Western countries.

Theory and Hypotheses

Firms' Response to Nationalist Movements

Nationalist movements rooted in international controversies involving diverging government opinions and policies are prevalent. International power struggles, trade wars, military conflicts, and contradictory beliefs, policies, or practices on global issues can cause tension between two or more countries (Arikan & Shenkar, 2013; Li et al., 2022). In such cases, nationalist movements that endorse a focal country's policy standing often arise. Nationalism is "a political principle, which holds that the political and the national unit should be congruent" (Gellner, 1983: 1), centering the state in nationalist aspirations. Thus, endorsing the domestic government's policy can be perceived as endorsing a nation's collective will. Although a government might sponsor nationalist movements to show off its domestic constituents' solidarity, these movements might also spontaneously arise from grassroots efforts to condemn foreign hegemony. However, all nationalist movements strive to defend a nation's autonomy, interests, and identity in the international community. By emphasizing a collective goal standing in contrast to those of foreign entities, such movements can be especially effective in fostering a strong emotional bond among members of a national community and encouraging them to support one another.

As such, firms strategically respond to nationalist movements. They can use endorsement as an impression management strategy to signal their membership in a national community and relate to fellow citizens and domestic business partners (Lubinski & Wadhvani, 2020; Shi et al., 2016; Yue et al., 2024). However, endorsing nationalist movements might also signal that the firm's values and interests do not align with those in countries adopting an antagonistic attitude toward the same controversies, potentially alienating overseas stakeholders (Mohr & Schumacher, 2019; Yue et al., 2024). Moreover, nationalist movements arising from international controversies are salient events that attract attention from both domestic nationalists and overseas activists. These activists can initiate naming and shaming campaigns to blacklist firms for having business relationships with foreign entities perceived to violate a society's prevailing norms and values (Kim & Davis, 2016; Minefee & Bucheli, 2021; Soule, Swaminathan, & Tihanyi, 2014). Hence, endorsing a nationalist movement rooted in an international controversy can bring substantial sociopolitical risks to firms' overseas business partners. The reverse is also true: Firms that fail to endorse a nationalist movement can be perceived to trade loyalty for money if they are associated with foreign business partners that are salient targets of the movement. Yet, despite the prevalence of nationalist movements, questions remain regarding how firms' domestic and overseas stakeholders might affect their responses to a nationalist movement and how they resolve the dilemma of balancing these conflicting stakeholder demands.

The extant research on firms and nationalist movements, mostly in the economics and finance literature (e.g., Ashenfelter, Ciccarella, & Shatz, 2007; Barwick, Li, Wallace, & Weiss, 2019; Chavis & Leslie, 2009; Fisman, Hamao, & Wang, 2014; Heilmann, 2016), has focused on documenting the impacts of such movements on firms rather than how firms respond to them. Further, corporate strategy researchers have only recently started to study how nationalism and patriotism can be deployed in a firm's strategy. They have shown that firms can leverage nationalism to disadvantage market rivals (Lubinski & Wadhvani, 2020; Yue et al., 2024), legitimize unrelated diversification (Takeda, 2021), or absorb external resource constraints (Mohr & Schumacher, 2019). When on the receiving end of other firms' strategic deployment of nationalism, firms face obstacles in their overseas expansions (Shi et al., 2016), cross-border collaborations (Ertug et al., 2024), and patent litigations (Choudhury, Jandhyala, & Nandkumar, 2024). Therefore, when making decisions regarding entering overseas markets, collaborating with foreign partners, or choosing a court in another country, firms prefer those demonstrating lower levels of nationalism. In general, these studies have taken firms' strategic deployment of nationalism as a given and have not investigated why some firms are more likely to leverage nationalism than others. The question remains, if a firm can effectively incorporate nationalism into its strategy, why is nationalism not universally adopted? Further, given that firms can strategically choose to work with foreign partners demonstrating lower levels of nationalism, what are the factors that discourage these partners from an overtly nationalistic strategy?

We tackle this question from the institutional theory perspective and focus on the influence of customers. Institutional theory argues that organizations are embedded in their institutional environments, consisting of norms, values, beliefs, and regulations, that shape their actions and practices (DiMaggio & Powell, 1983; Heugens & Lander, 2009; Meyer & Rowan, 1977). Conforming to institutional norms and expectations is crucial for firms to obtain legitimacy, which in turn helps them to gain support and resources from key stakeholders (Mitchell et al., 1997; Oliver, 1991). As buyers of a firm's products and services, customers are critical to revenue generation and are the primary source of cash flow. Firms engage into impression management to stay aligned with the values and norms that their customers care about in order to maintain an image of being trustworthy and credible. Conversely, firms that violate customers' norms and values not only risk losing sales to these customers but also face boycotts that damage their reputation (Ingram, Rao, & Yue, 2010; Rao, Yue, & Ingram, 2011). Research has documented customer relationships as a channel for customers to exert institutional influence on suppliers. For example, overseas customers in the international context exerted critical influence on a supplier's adoption and implementation of global norms and standards such as the ISO 9000 (Christmann & Taylor, 2001, 2006). In the domain of corporate social responsibility (CSR), a recent study of the global supply chain demonstrated that although customer firms can infuse socially responsible business behaviors in supplier firms, supplier firms have no impact on customer firms (Dai, Liang, & Ng, 2021).

When confronting a sociopolitical controversy, firms can uphold their legitimacy with customers by aligning themselves with the values and norms cherished by these customers. Such an approach is an impression management strategy through which firms influence their stakeholders' perceptions (Leary & Kowalski, 1990). Researchers have shown that firms frequently employ tactics such as foreshadowing critical corporate decisions (Busenbark, Lange, & Certo, 2017), announcing unrelated news to create noise (Graffin, Carpenter, & Boivie, 2011), or displaying agentic values (DesJardine & Shi, 2023), to create positive

impression or weaken negative assessment by external stakeholders. In the context of nationalist movements rooted in international controversies, domestic customers might expect firms to exhibit patriotism and support nationalistic causes, whereas foreign customers, especially those from countries at odds with the focal nation, might view such endorsements as misaligned with their values and interests. Complexity in the institutional environment creates a dilemma for firms, forcing them to balance conflicting demands from different stakeholder groups. As such, firms' responses to nationalist movements are therefore not uniform, even within the same country. The need to maintain legitimacy with either domestic or overseas customers significantly influences their strategic choices.

Influence of Domestic/Foreign Customers

We expect that firms with more customers that are domestic firms are more likely to endorse a nationalist movement whereas those with more customers that are foreign firms from countries whose governments adopt an antagonistic attitude toward the international controversy (hereafter abbreviated as "foreign firms from antagonistic countries") are less likely to endorse the movement. This is because endorsing a nationalist movement helps a firm enhance the legitimacy of a shared national identity with their domestic customers and rally their support. A country's reputation can have a significant impact on the perception of its firms. If a nation's government is accused of human rights abuses, the country's firms might be viewed as complicit or as beneficiaries of those actions and thus be stigmatized. Endorsing a nationalist movement that counteracts the negative news or information helps restore the reputation of all firms in the country. Grassroots endorsement signals that the government's policy is both legitimate and backed by public support. It also serves to reflect public discontent toward external accusations, helping to discredit them. In addition, by protesting foreign entities perceived to be smearing the national identity, a nationalist movement helps strengthen the shared common identity for all members of the country. As de Tocqueville (2000) wrote, "there is nothing in the world but patriotism and religion that can make the universality of citizens advance for long toward the same goal" (p. 89). Highlighting a shared, legitimate national identity facilitates trust among business partners and rallies their support for one another.

In addition, endorsing a nationalist movement enables firms to position themselves as defenders of national interest, signaling that they would prioritize domestic interests when facing uncertain business environments. Firms in countries involved in international controversies may face more uncertainties in their operations due to the hazards of trade restrictions or international sanctions. When international markets become more unpredictable, securing relationships with domestic firms can be especially important. Conversely, the same action signals that a firm's values are incongruent with those of its foreign customers from antagonistic countries. Foreign customers will perceive that they are likely to receive a lower priority from the supplier firm when their interests conflict with those of the supplier's domestic customers (Mohr & Schumacher, 2019). Moreover, in a turbulent environment of international controversy, foreign customers might worry that their business relationships could be weaponized by an overtly nationalistic supplier to advance a nationalistic agenda. Such a supplier could sacrifice the interests of its foreign business partners and cause hazards in the supply chain or theft of intellectual property (Lee, 2022; Farrell & Newman, 2022).

Foreign customers may also face the liability of being affiliated with a supplier that openly endorses a policy stance that is widely opposed or stigmatized in their home countries.

Associating with such a supplier damages a customer's reputation and invites external pressure from the public, activists, and NGOs (Bartley & Child, 2014). Moreover, for an international controversy resulting from divergent policy standings of different countries' governments, regulatory and compliance issues are likely to be involved as well. A supplier that openly endorses a policy that is banned in a focal country may be perceived as engaging in illegal activities or violating industry regulations. Associating with such a supplier can expose customers to legal and compliance risks. Therefore, from the perspective of upholding legitimacy with customers, we predict that a firm with more foreign customers from antagonistic countries is less likely to endorse a nationalist movement whereas one with more domestic customers is more likely to do so.

Hypothesis 1: A firm is more (or less) likely to publicly endorse a nationalist movement arising from an international controversy if it has more customers that are firms from the domestic country (or if it has more customers that are foreign firms from antagonistic countries).

Reputation-Sensitive Customers

Customers vary in their sensitivity to reputation. Reputation-sensitive firms are typically those that are highly esteemed within their institutional environments. These firms face higher expectations from their stakeholders to uphold ethical behavior, social responsibility, and transparency. Additionally, these firms often have high public visibility. As a result, any misstep can quickly attract media attention and become public knowledge, amplifying the consequences of any stigma that might harm their legitimacy.

Reputation-sensitive customers will avoid a supplier associated with a controversial action that could compromise their reputation in their institutional environments. Reputable firms are particularly attuned to the controversial actions of their suppliers (Kim & Davis, 2016). For example, when forest conservation groups accused the Malaysian palm oil producer IOI Group of deforestation, major brands such as Nestlé, Kellogg, Mars, and Unilever suspended purchases from the producer (Burrows, 2016). These customer firms severed ties because they can be affected by their supply-chain relationships and are potentially vulnerable to activist attacks if they are not sufficiently proactive. In fact, social movement activists have developed tactics to pressure reputation-sensitive customer firms to pursue changes in contexts where targeting supplier firms directly is not feasible (Liu & Heugens, 2024).

Therefore, the influence of reputation-sensitive customers on supplier firms is stronger than that of other customers. For domestic customers, the positive influence of reputation-sensitive customers on a firm's tendency to endorse a nationalist movement arising from an international controversy will be stronger than that of other domestic customers. Similarly, for foreign customers from antagonistic countries, the negative influence of reputation-sensitive customers on a firm's tendency to endorse a nationalist movement arising from an international controversy will also be stronger than that of other foreign customers from antagonistic countries.

Hypothesis 2: The positive (negative) influence of reputation-sensitive domestic customers (foreign customers from antagonistic countries) on a firm's tendency to endorse a nationalist movement arising from an international controversy will be stronger than the influence of other domestic customers (other foreign customers from antagonistic countries).

Boycotted Foreign Customers

While we expect that having foreign customers from antagonistic countries will generally reduce a firm's tendency to endorse a nationalist movement, the presence of foreign customers targeted by the movement can reverse this relationship. Firms with foreign customers directly targeted by a nationalist movement arising from an international controversy face a complex situation. Foreign firms often become targets of nationalist movements for various reasons. Sometimes, they are targeted for economic concerns, such as competition with domestic firms or accusations of local resource exploitation. Other times, they are targeted for political motivations and can be viewed as instruments of foreign influence or control. Political leaders or parties with nationalist agendas often use anti-foreign rhetoric to target foreign firms, gaining popular support and diverting attention from other domestic issues (Shi et al., 2016).

When a firm has foreign customers that are salient targets of a nationalist movement, it faces the reverse liability of being associated with these foreign firms. It can be perceived as an accomplice contributing to the influence of foreign entities and thus as being unpatriotic. As such, a firm with foreign customers directly targeted by a nationalist movement faces the dilemma of balancing its legitimacy with these foreign firms against the liability of being associated with the movement's targets.

We argue that a nationalist movement urgently demands a domestic firm to side with it. A domestic firm's primary stakeholders are usually located in the focal country (Mitchell et al., 1997; Wood, Mitchell, Agle, & Bryan, 2021). If a firm is not proactive enough, it will likely face pressure from multiple stakeholder groups and might even become a secondary target of the same nationalist movement. Moreover, among the multiple stakeholder groups, the domestic government is especially powerful (Odziemkowska & Henisz, 2021). The government could legitimately take coercive actions to punish a firm perceived as unpatriotic for failing to support its policies. Endorsing the nationalist movement allows firms to clearly signal that they prioritize national interest over their own economic benefits. Although this action may sever ties with foreign customers, the resulting loss could be at least partly offset by domestic customers who identify with their patriotism and therefore increase their patronage (Global Times, 2022). Therefore, we predict that when a firm's foreign customers are salient targets of a nationalist movement, the firm is likely to sacrifice its legitimacy with these customers to appease domestic nationalists and publicly endorse the nationalist movement.

Hypothesis 3: A firm is more likely to publicly endorse a nationalist movement arising from an international controversy if it has foreign customers that are targets of the nationalist movement.

Research Context

The Nationalist Movement Supporting Xinjiang Cotton

The Xinjiang Uygur Autonomous Region is China's principal cotton-producing area, accounting for more than 80% of the country's and 20% of the world's cotton production (Zhou, 2021). From 2017 to 2020, the government set up camps in Xinjiang and described them as programs providing vocational education and training. The governments of Western countries and human rights activists, however, criticized these camps for "indoctrinating and

abusing Uyghurs and other minorities” (Graham-Harrison, 2020). Because the camps were often co-located with factory complexes, these entities suspect that there is a direct pipeline between “arbitrary detention” in Xinjiang and “forced labor” (Graham-Harrison, 2020). Western media, think tanks, and NGOs published photographs, documents, and analyses bolstering accusations of controversial labor practices in Xinjiang.

The Chinese government has dismissed these accusations and defended its camps as skill training and counter-terrorism centers designed to thwart violence and ideological infiltration by extremists and separatists. It argues that vocational training is necessary to increase job opportunities and combat poverty. Among the government’s claims about the camps’ positive outcomes are that they have helped individuals from rural areas start their own businesses or secure factory jobs and that terrorist attacks abated in recent years. Beijing argues that Western governments’ rising concerns over human rights in Xinjiang are part of a strategy to destabilize China (Lo & Zheng, 2021).

In March 2020, the Australian Strategic Policy Institute reported that 83 well-known consumer brands (e.g., Nike, Adidas, and Sketchers) had suppliers associated with “forced labor” in Xinjiang. In addition, BCI, an NGO promoting better standards in cotton farming and practices worldwide, announced that it would suspend issuing Better Cotton licenses to Xinjiang cotton. On September 14, 2020, the U.S. government announced import restrictions on Xinjiang cotton. Many global brands that sell in the U.S. market immediately followed suit, reducing their use of Xinjiang cotton. On September 16, 2020, H&M announced the termination of its relationship with a Chinese yarn supplier because the factory’s products were suspected of being produced by “forced labor” in Xinjiang. This statement went viral on Chinese social media on March 24, 2021, prompting outrage from Chinese citizens who accused the company of spreading rumors and smearing China.

This outrage spurred the Support Xinjiang Cotton Movement, which called for consumers to boycott Western companies that had cut ties with Xinjiang cotton. Other major state media echoed this call. *People’s Daily*, the ruling party’s official paper, created a hashtag referring to the movement (#ISupportXJCotton) on the social media platform Weibo. By March 25, 2021, the hashtag had generated 1.5 million posts and been viewed 700 million times. At the same time, dozens of Chinese apparel and textile companies issued public statements supporting Xinjiang cotton. Also, some firms that were affiliated with the protest targets (e.g., H&M, Nike, Adidas, and BCI) had faced the pressure from movement activists and publicly informed investors that they would support Xinjiang cotton and defend the nation’s interests. The *Global Times* (2022) reported that firms endorsing Xinjiang cotton profited handsomely from this market opportunity. For example, Chinese sports and fashion brand Li-Ning, an endorser of Xinjiang cotton, reported a 56% increase in year-over-year revenue and a 136% increase in profit in 2021. Similarly, Xtep, another apparel company that supported Xinjiang cotton, reported a 22.5% growth in revenue and a 77.1% increase in profit in 2021.

Method

Data and Sample

Our sample included all the Chinese public firms that the Chinese Public Company Association classified as industries handling textiles, apparel, leather, fur, feathers and their products, and footwear, as well as synthetic fiber manufacturing (industry codes 17, 18, 19,

and 28). Both cotton (a natural fiber) and synthetic fibers are important raw materials for textile industries. We collected data about these companies from news reports, social media, the China Stock Market and Accounting Research (CSMAR) database, firms' annual reports, and other online sources. Of the 132 public firms involved in these industries, 20 firms had missing data, leaving a sample of 112 firms. These companies' customer data are collected from the FactSet Revere Supply Chain Relationships database, which systematically collects companies' supply chain information from primary public sources, such as SEC 10-K annual filings, investor presentations, and press releases. Covering more than 31,000 publicly traded companies worldwide, the dataset offers "the most comprehensive networks of relationship interconnections" (also see Crosignani, Macchiavelli, & Silva, 2023) and has been used in recent studies on the global supply chain (Dai et al., 2021; Lu, Peng, Shin, & Yu, 2023).

Dependent Variable and Estimation

Our dependent variable was a firm's public endorsement of Xinjiang cotton in the two weeks after March 24, 2021. We manually searched each firm's official accounts on Weibo and WeChat, China's two most popular social media platforms, which function like Twitter (now named X) and Facebook. Most Chinese public firms have official accounts on these two platforms and use them to make official announcements and interact with the public. For the comprehensiveness of data collection, we searched for company-related news in the China Core Newspapers Full-text Database and Baidu, the most popular web search engine in China, to code whether a firm or its executives had publicly expressed support for Xinjiang cotton via other channels in that same period. Although we found news reports of CEOs or subsidiaries endorsing Xinjiang cotton, we found no cases in which these entities endorsed the movement but their companies did not. Thus, we can view the endorsement as a company-wide decision rather than one made by a subsidiary or an executive.

Two weeks was a sufficient observation window. The nationalist movement prompted urgent responses from firms, with 30 firms issuing public statements within 48 hours of the official denouncement of H&M by the *People's Daily*. Only three additional companies issued public statements after the first two days but within the first week, and none did so in the second week. We coded a dummy variable as 1 for a firm voicing support ("endorsed") and 0 for a firm's silence ("non-endorsed"). Of the sample's 112 public textile and apparel firms, 33 issued public endorsements, and 79 were silent. Because a firm's public endorsement of the nationalist movement is a dummy variable, we applied a logistic regression model for estimation.

Independent Variables

To test Hypothesis 1, we measured the *number of domestic customers* of Chinese public firms in the FactSet database.² We denoted the variable as *Domestic Customer*. Following Wu, Zhang, and Zhou. (2022), we identified a firm's customers as those having relationships with the firm within a year. Specifically, we constructed the variable using the period March 24, 2020–March 24, 2021 (a one-year period before the movement) and included customers with an active relationship with the firm during this period. We also measured the *number of foreign customers from antagonistic countries* by counting their customer firms from the 39 countries³ that participated in a joint statement submitted to the UN General Assembly's

Third Committee (on Social, Humanitarian and Cultural Issues) in 2019 to condemn the Chinese government's policies in Xinjiang. Similarly, we calculated the number of foreign customers from these 39 countries in March 24, 2020–March 24, 2021 (a one-year period before the movement). We denote the variable as *Western Customer*.

To test Hypothesis 2, we first split customers into reputation-sensitive and non-reputation-sensitive. Specifically, we utilized the lists developed by *Fortune* to identify reputation-sensitive customers. For domestic customers, we utilized *Fortune*'s 2021 list of the China's Most Admired Companies. *Fortune*'s list of China's Most Admired companies covers companies only from China and is rated by Chinese enterprise managers. For foreign customers, we utilized *Fortune*'s 2021 list of the World's Most Admired Companies, which covers companies from a global scale and is rated by executives, directors, and analysts with firsthand knowledge or opinions. All the customers in our sample that are on the World's Most Admired Companies list are from Western antagonistic countries. *Fortune*'s lists have been widely used to measure firms' reputations (e.g., King, 2008). We measured the number of domestic customers that are reputation-sensitive (non-reputation-sensitive) by counting the number of domestic customers that are (not) listed in *Fortune*'s 2021 list of the China's Most Admired Companies. We denoted the variables as *Reputational Domestic Customer* and *Non-Reputational Domestic Customer*, respectively. Similarly, we measured the number of Western customers that are reputation-sensitive (non-reputation-sensitive) by counting the number of Western customers that are (not) listed in the *Fortune*'s 2021 list of the World's Most Admired Companies. We denoted the variables as *Reputational Western Customer* and *Non-Reputational Western Customer*.

To test Hypothesis 3, we measured *foreign customers protested* in the nationalist movement in March 2021. We thoroughly searched China's major news and social media and identified 33 boycotted brands and companies.⁴ We then calculated the number of a firm's Western customers that are protested or not protested. We denote the variables as *Protested Western Customer* and *Non-Protested Western Customer*.

Control Variables

We controlled for factors that may have affected a firm's public endorsement of the nationalist movement or reflected a firm's fundamental characteristics. First, we controlled for whether a firm was a *member of the BCI*, a target of the Chinese protest in March 2021, which may have affected the firm's likelihood of publicly endorsing Xinjiang cotton. We obtained the BCI's member list from this organization and manually checked whether any firm in our sample was a member of BCI before the movement. We created a dummy variable equal to 1 if the firm was a BCI member before the movement and 0 otherwise.

Second, we controlled for *firm size* because larger firms would have been under greater scrutiny and may thus have faced stronger pressure to endorse the nationalist movement. We measured this variable as the natural log of a firm's total assets in 2020 obtained from the CSMAR database.

Third, we controlled for *firm performance* because firms may have been motivated to boost their performance by endorsing this nationalist movement. We measured firm performance based on a firm's 2020 return on assets, the most commonly used indicator of a firm's financial performance. We also controlled a firm's *sales* (logged) in 2020 to indicate its cash flow.

Fourth, we controlled for a firm's *private share* percentage because private firms may have stronger incentives to support the nationalist movement for legitimacy needs (e.g., Marquis & Qian, 2014). We calculated this variable as the percentage of a firm's total stock held by nongovernment entities in 2020. We also controlled for a firm's *CSR performance* because firms with alternative sources of legitimacy may not have strong incentives to support the nationalist movement. Following Marquis and Qian (2014), we collected CSR scores from the Hexun database (hexun.com; also see Ren, Sun, & Tang, 2023). There is one missing value in our sample's CSR score, reducing our sample size (by 1) to 111.

Fifth, given that the Support Xinjiang Cotton Movement endorsed the Chinese government's policy, a firm's dependence on government resources may increase its tendency to endorse the movement. Following the literature (e.g., Jiang, Jia, Bai, & Bruton, 2021; Luo, Huang, & Zhu, 2021), we measured dependence as the total *subsidies* a firm received from the government in 2020. We scaled this variable by the firm's sales in 2020 to reflect the extent to which the subsidy influenced its cash flow. We obtained these data from the CSMAR database.

Sixth, we controlled for a firm's *political connections*. Studies have shown that top managers' political connections help firms obtain resources and enhance their performance (e.g., Li & Zhang, 2007; Peng & Luo, 2000). Further, political connections may be more likely to endorse the government's policy. Following recent studies of firms' political ties in China (Yue, Wang, & Yang, 2019), we created a political connection dummy variable equal to 1 if a firm's CEO was a member of the People's Congress or the People's Political Consultative Conference Association at the provincial level or above in 2020. We manually collected this information from the 2020 annual reports of all companies.

Seventh, we controlled for a firm's domestic consumer brand because domestic customers exhibited strong support for Xinjiang Cotton during the event, and firms may align their stance with the preferences of their domestic consumers. Therefore, we created a binary variable, denoted as *Domestic Consumer Brand*, which takes a value of 1 if the firm possessed a domestic consumer brand and 0 otherwise. We obtained the data on consumer brands from the firms' annual reports for the preceding year. Publicly traded companies typically disclose information about their subsidiaries and brands in these reports.

Finally, to account for the heterogeneity among industries, we included *industry-fixed effects* in all models. Additionally, we included *fixed effects for the region* where the firm's headquarters are located to capture the regional variations. Summary statistics and correlations for all important variables are shown in Table 1.

Results

Antecedents of Firms' Public Endorsement of Xinjiang Cotton

Table 2 summarizes the results of the effect of a firm's domestic and foreign customers on its response to the Xinjiang cotton issue. The results from Model 1, which includes control variables, show that firms with better cash flow (i.e., larger sales), smaller size, domestic brands, and more relationship with the government (i.e., received more government subsidy and having political connections) were significantly more likely to publicly endorse Xinjiang cotton. Model 2 tested the influence of domestic customers and foreign customers, both of which show significant effects. We followed the literature to interpret the effect size via

Table 1
Summary Statistics and Correlation Table. Panel A. Summary Statistics

Variable Name	Obs	Mean	SD	P25	P75
(1) <i>Endorsement</i>	112	0.295	0.458	0.000	1.000
(2) <i>BCI membership</i>	112	0.107	0.311	0.000	0.000
(3) <i>Firm size</i>	112	22.096	1.177	21.259	22.637
(4) <i>Political connection</i>	112	0.143	0.351	0.000	0.000
(5) <i>Gov. Subsidy</i>	112	0.014	0.032	0.004	0.014
(6) <i>ROA</i>	112	0.012	0.124	0.001	0.075
(7) <i>Private share</i>	112	59.015	18.464	46.065	73.235
(8) <i>Domestic Consumer Brand</i>	112	0.536	0.501	0.000	1.000
(9) <i>Domestic Customer</i>	112	0.301	0.544	0.000	0.693
(10) <i>Western Customer</i>	112	0.419	0.809	0.000	0.347
(11) <i>Reputational Domestic Customer</i>	112	0.047	0.186	0.000	0.000
(12) <i>Non-Reputational Domestic Customer</i>	112	0.277	0.517	0.000	0.693
(13) <i>Reputational Western Customer</i>	112	0.094	0.315	0.000	0.000
(14) <i>Non-Reputational Western Customer</i>	112	0.382	0.772	0.000	0.000
(15) <i>Protested Western Customer</i>	112	0.080	0.296	0.000	0.000
(16) <i>Non-Protested Western Customer</i>	112	0.402	0.773	0.000	0.347
(17) <i>CSR Performance</i>	111	4.896	4.409	2.290	8.690
(18) $CAR_{[0,-3]}$	110	0.017	0.061	-0.019	0.038
(19) $CAR_{[-3,-1]}$	110	-0.007	0.054	-0.020	0.018
(20) <i>Alpha</i>	110	0.073	0.467	-0.113	0.071
(21) <i>Return volatility</i>	110	0.032	0.038	0.020	0.031
(22) $Sales_{2020}$	112	21.412	1.390	20.620	21.991
(23) $Sales_{2021}$	111	21.590	1.342	20.713	22.188
(24) $Sales_{2022}$	109	21.577	1.376	20.675	22.097

Note. Logarithmic transformations are applied to the independent variables (i.e., variables 9-16) due to their nature as count variables.

Panel B. Correlation Table.

Var	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	
(1)	1.00																								
(2)	-0.03	1.00																							
(3)	0.06	0.31	1.00																						
(4)	0.13	-0.06	-0.01	1.00																					
(5)	-0.02	0.10	-0.05	-0.05	1.00																				
(6)	-0.18	0.02	0.12	0.11	0.04	1.00																			
(7)	0.19	-0.11	0.11	0.11	-0.21	0.24	1.00																		
(8)	0.56	-0.08	-0.18	-0.03	-0.10	-0.14	0.09	1.00																	
(9)	-0.07	0.02	0.21	0.04	-0.09	0.02	0.09	0.01	1.00																
(10)	-0.25	-0.08	-0.15	0.08	-0.01	0.02	-0.12	-0.16	0.34	1.00															
(11)	-0.02	0.02	-0.03	-0.01	-0.05	-0.02	0.13	0.10	0.53	0.32	1.00														
(12)	-0.08	0.01	0.23	0.03	-0.09	0.01	0.08	-0.02	0.98	0.29	0.39	1.00													
(13)	-0.19	-0.10	-0.17	-0.12	-0.04	-0.07	-0.09	0.01	0.19	0.63	0.31	0.15	1.00												
(14)	-0.24	-0.06	-0.13	0.10	-0.01	0.03	-0.11	-0.18	0.32	0.98	0.31	0.27	0.52	1.00											
(15)	-0.14	-0.09	-0.09	-0.01	-0.02	0.02	0.00	-0.04	0.10	0.69	0.26	0.08	0.70	0.68	1.00										
(16)	-0.25	-0.07	-0.16	0.08	-0.01	0.02	-0.13	-0.16	0.34	1.00	0.32	0.30	0.61	0.98	0.65	1.00									
(17)	0.02	0.07	-0.06	0.05	0.07	0.54	0.23	0.04	-0.05	-0.04	0.08	-0.07	-0.11	-0.02	-0.03	-0.04	1.00								
(18)	0.39	-0.05	-0.12	-0.13	-0.05	-0.28	0.08	0.21	-0.04	-0.03	0.03	-0.04	0.04	-0.03	-0.02	-0.03	-0.07	1.00							
(19)	0.21	0.05	-0.39	0.06	0.05	-0.11	-0.12	0.17	-0.37	-0.05	-0.12	-0.38	-0.06	-0.06	-0.04	-0.05	0.05	-0.01	1.00						
(20)	-0.08	-0.11	0.05	0.06	-0.06	0.22	0.29	0.07	0.26	0.04	-0.04	0.28	-0.08	0.05	-0.04	0.04	0.07	-0.21	-0.44	1.00					
(21)	-0.10	-0.10	-0.14	0.07	-0.01	0.07	0.21	0.11	0.17	0.04	-0.04	0.19	-0.08	0.05	-0.06	0.04	-0.02	-0.14	-0.35	0.91	1.00				
(22)	0.13	0.21	0.86	0.00	-0.16	0.17	0.23	-0.06	0.19	-0.15	-0.04	0.21	-0.10	-0.14	-0.07	-0.15	0.00	-0.04	-0.38	0.08	-0.11	1.00			
(23)	0.07	0.19	0.91	0.00	-0.17	0.20	0.18	-0.17	0.22	-0.10	-0.03	0.25	-0.08	-0.09	-0.04	-0.10	-0.01	-0.13	-0.43	0.07	-0.15	0.96	1.00		
(24)	0.02	0.18	0.91	-0.01	-0.17	0.25	0.14	-0.23	0.21	-0.09	-0.06	0.24	-0.09	-0.08	-0.03	-0.10	-0.03	-0.20	-0.42	0.09	-0.15	0.95	0.98	1.00	

Note. The absolute values of correlation coefficients greater than 0.18 are statistically significant at $p < 0.05$.

Table 2
Antecedents Analysis

	(1)	(2)	(3)	(4)	(5)
	Endorsement	Endorsement	Endorsement	Endorsement	Endorsement
<i>BCI membership</i>	0.807 (0.718)	-0.555 (-0.481)	-0.915 (-0.805)	-0.725 (-0.670)	-0.747 (-0.644)
<i>Firm size</i>	-1.529** (-1.964)	-1.698* (-1.915)	-1.662* (-1.805)	-1.910* (-1.937)	-1.778* (-1.955)
<i>Political connection</i>	2.772*** (3.635)	4.030*** (3.766)	3.534*** (3.802)	3.703*** (3.960)	3.802*** (4.060)
<i>Gov. Subsidy</i>	63.36*** (4.081)	80.93*** (4.042)	84.86*** (3.879)	81.56*** (3.918)	87.93*** (3.975)
<i>Sales₂₀₂₀</i>	2.237*** (2.949)	2.421*** (2.730)	2.397*** (2.583)	2.588*** (2.671)	2.486*** (2.772)
<i>ROA</i>	-1.509 (-0.549)	-2.028 (-0.691)	-1.576 (-0.540)	-1.699 (-0.587)	-2.135 (-0.722)
<i>Private share</i>	0.0189 (1.232)	0.00465 (0.345)	0.00308 (0.221)	0.000806 (0.0596)	0.00416 (0.327)
<i>CSR Performance</i>	-0.0556 (-0.969)	0.00981 (0.133)	-0.0111 (-0.149)	-2.10e-05 (-0.000283)	0.0114 (0.151)
<i>Domestic Consumer Brand</i>	4.589*** (4.341)	3.486*** (3.585)	3.039*** (3.136)	3.179*** (3.694)	3.351*** (3.727)
<i>Western Customer</i>		-2.147*** (-3.494)	-2.587*** (-3.278)		
<i>Domestic Customer</i>		1.758** (2.537)		2.105** (2.491)	2.134*** (2.973)
<i>Reputational Domestic Customer</i>			4.146** (2.165)		
<i>Non-Reputational Domestic Customer</i>			1.552* (1.866)		
<i>Reputational Western Customer</i>				-6.815*** (-5.095)	
<i>Non-Reputational Western Customer</i>				-2.064*** (-3.446)	
<i>Protested Western Customer</i>					3.601*** (2.812)
<i>Non-Protested Western Customer</i>					-3.005*** (-3.594)
<i>Constant</i>	-21.65*** (-3.233)	-20.34*** (-2.800)	-19.99*** (-2.786)	-18.72** (-2.527)	-19.85*** (-2.724)
Industry FE	True	True	True	True	True
Region FE	True	True	True	True	True
<i>N</i>	111	111	111	111	111
<i>Pseudo R-squared</i>	0.683	0.738	0.743	0.744	0.745

Note. Robust z-statistics in parentheses.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

average marginal effect (Berrone, Fosfuri, Gelabert, & Gomez-Mejia, 2013; Lyngsie & Foss, 2017). This approach accounts for the non-linear nature of the logistic function by averaging the marginal effects across all observations, giving a more comprehensive understanding of the variable's impact on the model. Specifically, a standard deviation increase in the logged

value of *Domestic Customer* will increase a firm's probability of endorsing Xinjiang cotton by 8.52% on average. Meanwhile, a standard deviation increase in the logged number of *Western Customer* will decrease a firm's probability of endorsing Xinjiang cotton by 15.48% on average. This supports Hypothesis 1: A firm is more likely to publicly endorse a nationalist movement if it has more domestic customers and less likely to do so if it has more foreign customers from antagonistic countries.

We then investigated the effect of reputation-sensitive customers on a firm's endorsement of Xinjiang cotton. Specifically, in Model 3, we divided *Domestic Customer* into *Reputational Domestic Customer* and *Non-Reputational Domestic Customer*. We then examined whether reputation-sensitive domestic customers will exhibit a stronger effect on a firm's decision to publicly endorse Xinjiang Cotton. We found that both *Reputational Domestic Customer* and *Non-Reputational Domestic Customer* show significant positive effect (at least at $p < 0.1$ level), while *Reputational Domestic Customer* is with a larger magnitude than *Non-Reputational Domestic Customer* (statistically different at $p < 0.1$ level). Specifically, a standard deviation increase in the logged number of *Non-Reputational Domestic Customer* will increase a firm's probability of endorsing Xinjiang cotton by 6.99% on average, while the same value increase of *Reputational Domestic Customer* will increase a firm's probability of endorsing Xinjiang cotton by 18.65% on average. Similarly, in Model 4, we divided *Western Customer* into *Reputational Western Customer* and *Non-Reputational Western Customer*. We found that both *Reputational Western Customer* and *Non-Reputational Western Customer* show significant negative effect (at $p < 0.01$ level), while *Reputational Western Customer* is with a larger magnitude than *Non-Reputational Western Customer* (statistically different at $p < 0.01$ level). Specifically, a standard deviation increase in the logged number of *Non-Reputational Western Customer* will decrease a firm's probability of endorsing Xinjiang cotton by 13.92% on average, while the same value increase in *Reputational Western Customer* will decrease a firm's probability of endorsing Xinjiang cotton by 45.96% on average. Thus, Hypothesis 2 is supported.

Model 5 presents the results of how firms react to foreign customers facing protests. We first divided *Western Customer* into *Protested* and *Non-Protested Western Customer*. We found that *Protested Western Customers* have a significant positive effect ($p < 0.01$), while *Non-Protested Western Customers* have a significant negative effect ($p < 0.01$). Specifically, a standard deviation increase in the logged number *Non-Protested Western Customer* will decrease a firm's probability of endorsing Xinjiang cotton by 20.04% on average, while the same value increase in *Protested Western Customer* will increase a firm's probability of endorsing Xinjiang cotton by 24.02% on average. The coefficient of *Protested Western Customer* is also statistically larger than the coefficient of *Non-Protested Western Customer* at $p < 0.01$ level. This suggests that while firms with foreign customers are less likely to endorse the Xinjiang Cotton event, they are more likely to do so if the foreign customers face protests. Thus, Hypothesis 3 is supported.

We conducted two tests to evaluate the potential influence of unobserved variables on the validity of our results. First, we examined coefficient changes after including control variables (Altonji, Elder, & Taber, 2005; Assenova & Sorenson, 2017). Intuitively, a stable estimate of the treatment effect before and after the inclusion of the observed controls can be taken as evidence of limited omitted variable bias. We calculated the coefficient change ratio (ρ) as follows:

$$\rho = \frac{\beta^F}{|\beta^R - \beta^F|},$$

where β^F represents the coefficient estimate for our hypothesized variable in the fully specified model, and β^R refers to the same parameter estimate in a model with fewer control variables. As Altonji et al. (2005) indicated, an estimate is considered robust to the presence of unobserved factors if $\rho > 1$ and the control variables possess sufficient predictive power. In our case, we compared models with all controls (Models 2-5) with models excluding all control variables but retaining the independent variables to predict a firm's public endorsement. We found the ρ values of our independent variables are all greater than 1, indicating robustness to unobserved variables. Moreover, our control variables contributed incremental pseudo- R^2 values of 0.2823, 0.2837, 0.2753 and 0.2888 to Models 2-5, respectively, indicating their relevance and appropriateness of selection (Altonji et al., 2005).

The second test aimed to determine the magnitude of correlation that an unobserved variable would need to have with the theorized variables to invalidate the theorized outcome (Busenbark, Yoon, Gamache, & Withers, 2022; Xu, Frank, Maroulis, & Rosenberg, 2019). Using the *konfound* routine in Stata (Xu et al., 2019), we found that to invalidate the estimated effect of our independent variables—*Western Customer*, *Domestic Customer*, *Reputational Western Customer*, *Non-Reputational Western Customer*, *Reputational Domestic Customer*, *Non-Reputational Domestic Customer*, *Protested Western Customers* and *Non-Protested Western Customers*—the omitted variable would have to be correlated with both the dependent variable and the independent variables at least at 0.544, 0.403, 0.580, 0.553, 0.261, 0.236, 0.406 and 0.535. Given that none of our existing control variables satisfy these criteria, it is unlikely that such an unobservable variable exists. Together, these results indicate that our findings are unlikely to be affected by unobserved variables.⁵

Consequences of Firms' Public Endorsement of Xinjiang Cotton

We conducted additional analyses to test the consequences of a firm's public endorsement of Xinjiang cotton in terms of short-term stock market reactions and long-term sales performance. Endorsing a nationalist movement can both create opportunities for firms to bond with domestic customers and risk offending foreign firms. We thus did not make *ex ante* predictions. Because a firm's decision regarding endorsement is not random, we adopted the IPWRA method to account for selection (Bruce, de Figueiredo, & Silverman, 2019; Cattaneo, 2010; Parker-Lue & Lieberman, 2020). This method assigns to each observation a weight that is inverse to its probability of receiving the treatment. As such, the weighted samples constitute a pseudo-population in which the distribution of confounding variables is balanced between the treated and control groups. We used Model 2 to estimate the probability.⁶ Following the practice in the literature (e.g., Bruce et al., 2019), we additionally included covariates associated with the focal outcomes to estimate the probability. Specifically, when analyzing the effect on stock market reaction, we included a firm's historical stock market performance (i.e., pre-event stock return and volatility); when analyzing the effect on sales performance, we included the corresponding sales from previous years.

Stock market reactions. We first examined how the stock market reacted to corporate responses. The dependent variable is a firm's stock cumulative abnormal return (CAR), constructed using the event study method following the onset of the Support Xinjiang Cotton movement. To exclude the influence of the movement event, we followed Schuler, Shi, Hoskisson, and Chen (2017), obtaining each firm's return data for 200 trading days up to 10 trading days before March 24. We thus used the data in the time window of $[-210, -11]$ days to estimate the standard market return model:

$$R_t = \alpha + \beta \times R_{mt} + \epsilon_t,$$

where R_t is the raw stock return on day t , R_{mt} is the daily total value-weighted congregated market return on day t , α is the intercept capturing the average excess return during the estimation window, β is the risk coefficient of the stock to the market, and ϵ_t is the error term of the regression model.

AR_t , the abnormal return for the firm on day t , was calculated as the difference between the company raw stock return on day t and its expected return, $E(R_t)$:

$$AR_t = R_t - E(R_t) = R_t - [\alpha + \beta \times R_{mt}].$$

The CAR for the period of interest period, $CAR_{(t_1, t_2)}$, was calculated by summing the abnormal returns:

$$CAR_{(t_1, t_2)} = \sum_{t=t_1}^{t_2} AR_t.$$

We used March 24, 2021, the date the movement started, as Day 0.⁷ Given that this movement lasted for several days (the last of the firms' actions in our sample occurred after the market close of Day 2), we selected an event window of $[0, +3]$ to cover and capture investors' reactions. The market reaction for each public firm was measured as the CAR on trading days $[0, +3]$, denoted as $CAR_{[0, +3]}$. To examine whether firms that remained silent on the Xinjiang cotton issue will continue to be underpriced by investors for an extended period relative to endorsing firms, we also employed longer event windows ranging from $[0, 4]$ to $[0, 20]$ to construct dependent variables: $CAR_{[0, +4]}$, \dots , $CAR_{[0, +20]}$.

We then investigated the association between public endorsement and stock market performance during the event period.⁸ We controlled for an additional set of variables that could affect a firm's abnormal return. Following finance and management studies on firms' abnormal returns (e.g., Jegadeesh & Titman, 1993; Schuler et al., 2017), we controlled for the pre-event return momentum (*alpha*), the pre-event return volatility, and the CAR in the three trading days before the protest event ($CAR_{[-3, -1]}$).

The results are shown in Table 3. The results from Model 6 show that a firm's endorsement of Xinjiang cotton increased its abnormal return in three days by 4.29% ($p=0.001$). To exclude the potential effect of confounding events on stock market performance during the movement, we followed Werner's (2017) approach, omitting firms that experienced unusual events⁹ during the movement. We identified 20 firms that experienced at least one confounding event during the period. When we omitted these 20 firms and replicated the analysis (Models 7), we obtained consistent results.

Table 3
Stock Market Performance.

	(6)	(7)
	$CAR_{[0,+3]}$	$CAR_{[0,+3]}$
$CAR_{[-3,-1]}$	-0.440** (-2.565)	-0.392** (-2.254)
<i>Alpha</i>	-0.0827** (-2.170)	-0.0918* (-1.964)
<i>Return volatility</i>	0.556 (1.294)	0.759 (1.446)
<i>BCI membership</i>	0.00283 (0.171)	-0.00476 (-0.231)
<i>Firm size</i>	-0.00720 (-0.786)	-0.00685 (-0.778)
<i>Political connection</i>	-0.0309** (-2.206)	-0.0312** (-2.009)
<i>Gov. Subsidy</i>	-0.0305 (-0.344)	-0.0379 (-0.390)
<i>Sales</i> ₂₀₂₁	0.000769 (0.115)	0.00245 (0.247)
<i>ROA</i>	0.0275 (0.787)	0.0260 (0.615)
<i>Private share</i>	4.76e-05 (0.127)	-3.31e-05 (-0.0651)
<i>CSR Performance</i>	-0.00167 (-1.221)	-0.000901 (-0.522)
<i>Endorsement</i>	0.0429*** (3.833)	0.0405*** (3.061)
<i>Constant</i>	0.140 (0.981)	0.0911 (0.530)
Industry FE	True	True
Region FE	True	True
<i>N</i>	109	89
adj. <i>R</i> ²	0.297	0.221

Note. *T*-statistics in parentheses.

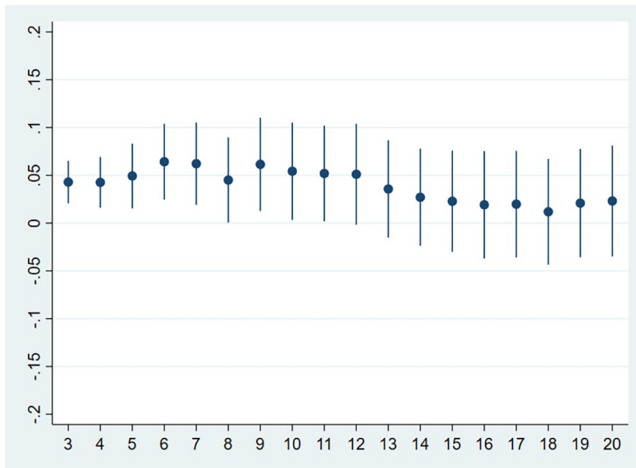
* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

We further investigated the lasting effect of firms' public endorsement of Xinjiang cotton on market reactions. Specifically, we regressed for the CAR from Day 3 to Day 20 in Models 8 and 10, using the weighted sample. That is, for each constructed sample, we ran the regression 18 times, using $[CAR_{[0,+3]}, \dots, CAR_{[0,+20]}]$ as dependent variables. We then recorded the estimated coefficients and variances to analyze the effect on market reactions across time. Figure 1 plots the estimated coefficients and their 95% confidence intervals using CARs in different time windows. The figure shows that publicly endorsing Xinjiang cotton resulted in higher stock returns in the short term. However, this effect diminished over time, becoming statistically insignificant after Day 12.

Figure 1
Lasting Effect of Stock Abnormal Return (with 95% Confidence Intervals)



Note. IPWRA-weighted Sample.

We also addressed the possibility that firms' endorsement was leaked to the public ahead of a formal announcement of it. To do so, we constructed the dependent variables (CAR) using time windows of $[-1]$, $[0]$, and $[-1, 0]$. The results did not reveal significant effects, suggesting that information leakage was unlikely. Together, the analyses of stock market reactions show positive short-run returns for firms endorsing the movement.

Sales performance. We next investigated the effect of a firm's public endorsement of Xinjiang cotton on its sales performance.¹⁰ We used three variables of a firm's sales—*overall*, *domestic*, and *overseas*—in the year that the Xinjiang cotton movement occurred (2021) and the following year (2022) as the dependent variables. Because Chinese public firms do not usually publish their country-specific sales data, overseas sales include sales to the 39 countries that condemned China and other foreign countries. We took the logarithm of the respective sales amount to reduce the skewness of the variable and collected the data from the CSMAR database. We used ordinary least square regressions to estimate our models and controlled the respective sales performance in the prior year to account for potential serial correlation.

Table 4 summarizes the results when a firm's sales performance is used as the dependent variable. The results from Model 8 and 9 show that public endorsement generates a statistically insignificant positive effect of endorsement on overall sales in 2021 and the following year. Model 8 and 9 report the analysis of a firm's domestic sales and show that endorsing Xinjiang cotton significantly increased a firm's domestic sales in the event year. However, the positive effect becomes insignificant for the following year. These results are consistent with Liaukonytė, Tuchman, and Zhu's (2023) finding that consumers' support for firms aligned with their political views is not long-lasting. Finally, Model 10 and 11 report the analysis of a firm's overseas sales and show consistent negative effects across models and

Table 4
Market Performance.

	(8)	(9)	(10)	(11)	(12)	(13)
	<i>Sales</i> ₂₀₂₁	<i>Sales</i> ₂₀₂₂	<i>Domestic Sales</i> ₂₀₂₁	<i>Domestic Sales</i> ₂₀₂₂	<i>Oversea Sales</i> ₂₀₂₁	<i>Oversea Sales</i> ₂₀₂₂
<i>BCI membership</i>	-0.0599 (-0.700)	-0.00657 (-0.0575)	-0.0593 (-0.720)	-0.0532 (-0.380)	1.355 (1.200)	1.362 (1.200)
<i>Firm size</i>	0.153*** (2.845)	0.252*** (3.123)	0.158** (2.203)	0.257** (2.545)	-2.151* (-1.939)	-2.291* (-1.911)
<i>Political connection</i>	0.0154 (0.261)	0.0134 (0.134)	-0.106 (-1.122)	-0.227 (-1.339)	-0.573 (-0.801)	-0.519 (-0.617)
<i>Gov. Subsidy</i>	-0.845 (-1.517)	-1.752 (-1.510)	-1.005 (-1.521)	-1.973 (-1.107)	8.743 (1.391)	4.994 (0.569)
<i>Sales</i> ₂₀₂₀	0.834*** (16.20)	0.739*** (9.482)	-0.110 (-0.943)	0.0451 (0.240)	1.800* (1.676)	2.055* (1.773)
<i>ROA</i>	0.780*** (2.742)	1.952*** (5.582)	0.782*** (2.831)	1.776*** (5.706)	7.901 (1.617)	9.107* (1.753)
<i>Private share</i>	-0.000155 (-0.0963)	-0.000393 (-0.150)	-0.000192 (-0.0935)	0.00192 (0.613)	0.0204 (0.988)	0.00414 (0.157)
<i>CSR Performance</i>	0.00115 (0.175)	0.000992 (0.0878)	0.00221 (0.304)	0.00992 (0.751)	0.0224 (0.302)	0.0859 (0.895)
<i>Domestic Sales</i> ₂₀₂₀			0.944*** (10.37)	0.688*** (3.982)		
<i>Oversea Sales</i> ₂₀₂₀					0.992*** (6.728)	0.959*** (6.189)
<i>Endorsement</i>	0.0865 (1.344)	0.0514 (0.597)	0.137* (1.792)	0.212 (1.445)	-2.701 (-1.632)	-2.681 (-1.551)
<i>Constant</i>	0.246 (0.365)	0.0788 (0.0806)	0.0913 (0.137)	-0.263 (-0.250)	11.255* (1.757)	9.970 (1.345)
<i>Industry FE</i>	True	True	True	True	True	True
<i>Region FE</i>	True	True	True	True	True	True
<i>N</i>	108	108	108	108	108	108
<i>Adj R²</i>	0.963	0.924	0.961	0.906	0.856	0.787

Note. *T*-statistics in parentheses.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

years, although these effects are statistically insignificant. Again, due to data limitations, we could not test the effect of endorsing the movement on sales performance from countries that adopted an antagonistic attitude. However, we expect the effect to be more negative.

Together, the sales analyses suggest that firms that endorsed Xinjiang cotton experienced sales increases from the domestic market in the movement year, but no evidence suggests that their overall sales increased as a result. The domestic advantages did not last for a long period.

The Effect of Suppliers

We also explored the effect of suppliers on Chinese textile firms' endorsement of Xinjiang cotton. We calculated the number of a firm's suppliers that are domestic firms or foreign firms from antagonistic countries and found that these variables are not related to a firm's likelihood of endorsing the nationalist movement. The results are consistent with Dai et al.'s (2021) finding that customers exert more influence on suppliers than the other way around. In addition, the results may also be explained by the fact that Chinese textile firms tend to locate at the upstream of the global value chain and thus are more subject to the influence of customers than suppliers.

Discussion and Conclusion

In this paper, we studied the effect of customers on firms' responses to a nationalist movement arising from an international controversy, using the context of Chinese textile firms' endorsement of the Support Xinjiang Cotton Movement. Consistent with institutional theory, we found that firms with more domestic customers were more likely to endorse the movement, whereas those with more foreign customers from antagonistic countries were less likely to endorse it. Moreover, the divergent influence is even stronger for domestic or foreign customers that are more reputation-sensitive than other customers from the same geopolitical sphere. However, the influence of foreign customers from antagonistic countries is reversed if they are salient targets of the nationalist movement. Our supplementary analyses also show that endorsing the nationalist movement brings firms greater short-term stock market returns and sales growth in the domestic market. However, these advantages do not endure in the long term. Our findings contribute to research at the intersection of corporate strategy and nationalism, have implications for research on firms' responses to institutional complexity, and expand the nascent literature on corporate side-taking in sociopolitical controversies to the international sphere. In the subsections that follow, we elaborate on these contributions, discuss the limitations of our study, and identify directions for future research.

Customer Influence on Firms' Strategic Leverage of Nationalism

By studying the antecedents of firms' endorsement of a nationalist movement, our paper contributes to a growing body of literature investigating the intersection of corporate strategy and nationalism. After decades of seeming retreat, nationalism has resurged in many parts of the globe (Brown, 2022; Mylonas & Tudor, 2021; Yue et al., 2024). Sociopolitical mobilizations to defend a nation's identity, autonomy, and interests in international controversies have become increasingly prevalent (Day, 2003; Kim, 2019; Rapoza, 2020). Despite this,

corporate strategy research has only recently begun to explore how firms employ nationalism and associated events to obtain competitive advantages (Edman, Cuypers, Ertug, & Aguilera, 2024; Lubinski, 2023; Lubinski & Wadhvani, 2020; Mohr & Schumacher, 2019; Takeda, 2021) and strategically avoid being victimized by working with business partners or other entities that refrain from using nationalism to disadvantage them (Choudhury et al., 2024; Ertug et al., 2024; Shi et al., 2016). This creates a theoretical gap. Given that nationalism can confer competitive advantages for firms, it is unclear why nationalism is not universally embraced.

Our paper seeks to fill this gap by investigating the influence of customers on firms' decisions to endorse a nationalist movement arising from an international controversy. We argue that although demonstrating a high level of nationalism helps a focal firm leverage its shared national identity with fellow citizens and domestic business partners, it can also alienate stakeholders in countries that do not share those values or have an opposing attitude toward the controversy. Through testing H1, we not only demonstrate that customers are a critical influencing force for firms to leverage nationalism in their strategy but also provide evidence regarding the divergent influence of domestic customers and foreign customers from antagonistic countries.

Additionally, our paper highlights customer heterogeneity. Customers that are more reputation-sensitive exert a stronger demand for legitimacy upon their suppliers. Chinese textile firms that supplied to *Fortune's* most admired companies in China were even more likely to endorse Xinjiang cotton, whereas those supplying to *Fortune's* most admired companies in the West were even less likely to do so. Therefore, the moderating hypothesis regarding reputation (H2) shows that reputation is a local construct. When located in opposing geopolitical spheres, customers exemplifying social values in their respective spheres can further enlarge the divergent effects they exert on common suppliers. Another aspect of customer heterogeneity is related to divergent preferences of different consumer groups which we elaborate below.

Organizations' Response to Institutional Complexity: External Determinants and Consequences

Our theoretical argument on the influence of customers is grounded in institutional theory. We argue that firms strive to maintain legitimacy with stakeholders but also navigate complex institutional environments where different stakeholders impose divergent demands (H3). In the context of a nationalist movement, firms face the dilemma of having foreign customers who are salient targets of the movement. Although firms aim to please their foreign customers, we find that those whose foreign customers become prominent movement targets are more likely to endorse Xinjiang cotton. Domestic firms face multiple stakeholders in their home country, and failing to cut ties with targets of a nationalist movement can pose enormous sociopolitical risks. Under these conditions, firms prioritize maintaining legitimacy with their domestic stakeholders over their foreign customers.

This behavior pattern is not limited to firms. Celebrities, who are subject to close public scrutiny, often act similarly, sometimes incurring steep economic losses. During the Support Xinjiang Cotton Movement, more than 40 Chinese celebrities who had served as marketing spokespersons for the boycotted foreign brands immediately announced they were suspending cooperation, even when doing so resulted in personal economic losses of up to 60 million

RMB (roughly \$9.5 million USD); (Sina News, 2021). Western multinational corporations with supplier ties to Xinjiang faced similar pressures from their domestic societies. Their choice to cut ties with Xinjiang cotton suggests that they, too, might prioritize their sociopolitical legitimacy over economic gains.

Our findings contribute to the literature on organizational responses to institutional complexity (e.g., Greenwood et al., 2011; Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008; Pache & Santos, 2010, 2021) in two ways. First, it shows that public endorsement is an impression management tactic for firms to deal with institutional complexity. While the impression management literature has explored a set of tactics, including releasing unrelated information (Graffin et al., 2011), foreshadowing potential future actions (Busenbark et al., 2017), and displaying agentic values (DesJardine & Shi, 2023), we add to this list by showing that publicly endorsing nationalist movements is yet another tactic for firms to obtain favorable impressions from stakeholders. Yet, this tactic differs from those studied in the prior literature in that it has a clear downside: endorsing one group of stakeholders can offend another group of stakeholders in a context with institutional complexity.

Second, our paper addresses the lack of studies on *the consequences of organizational responses to competing demands*. As Pache and Santos (2021: 646) lamented in their recent review, “[d]espite the growing number of studies discussing organizational responses to competing institutional demands, surprisingly few papers have discussed the consequences of these responses.” Our empirical analyses of Chinese public firms’ short- and long-term stock market returns and sales performance address this important gap in the literature. We find that domestic investors and customers reward firms that endorse a nationalist movement. In general, our paper suggests that the global surge in nationalism may provide more research opportunities to study firms’ responses to competing demands from stakeholders in different countries and the consequences of these responses.

Firm Side-Taking in International Sociopolitical Controversies

Our paper has implications for the growing body of literature on corporate side-taking in sociopolitical controversies. Corporate side-taking refers to firms’ public stances on controversial sociopolitical issues in both domestic and international contexts. As firms increasingly take sides on various issues—including gun control, immigration and border control, LGBTQ rights, and abortion rights—a vibrant line of research has emerged to explore the antecedents and consequences of side-taking (e.g., Branicki et al., 2021; Burbano, 2021; Eilert & Nappier Cherup, 2020; Hou & Poliquin, 2023; Mohliver et al., 2023; Nalick et al., 2016). However, these studies have predominantly focused on *domestic* controversies in Western democracies (Minefee & Yue, forthcoming), leaving questions about whether firms in non-Western countries can engage in sociopolitical controversies and, if so, what form that engagement takes. Our paper suggests that firms in a non-Western country may adopt a unique form of engagement in sociopolitical controversies. The lack of political pluralism in such contexts leads firms to focus on *international* controversies and align their public stance with the government if they choose to speak up. Future research on corporate side-taking should consider that non-Western firms may express their inclinations on sociopolitical controversies differently from their Western counterparts.

Our paper also highlights the complex *consequences* of firms taking sides in an international controversy. The literature on corporate side-taking generally reports *negative* outcomes, such as decreases in a firm's stock price (Bhagwat, Warren, Beck, & Watson, 2020; Pasirayi, Fennell, & Follmer, 2022), employee morale (Burbano, 2021), or store sales (Hou & Poliquin, 2023). In contrast, looking at an international controversy, we find that corporate side-taking can generate short-term *positive* stock market returns and domestic income. These results also confirm prior research findings regarding the rewards for firms that deploy nationalism in their corporate strategy (Lubinski & Wadhvani, 2020; Mohr & Schumacher, 2019; Yue et al., 2024). However, these advantages are short-lived: abnormal stock market returns disappeared after 7 to 12 trading days, and domestic market income growth was confined to the event year. We find little evidence that firms' overall income benefited from endorsing the nationalist movement, likely due to the loss of sales to foreign customers from antagonistic countries. Given that firms in Western countries also engage in international controversies, future research should test whether the positive returns of endorsing a domestic nationalist movement also hold for firms in these countries.

Limitations and Future Research

Our study has limitations that suggest directions for future research. First, although our institutional theory-based framework has general applicability, our empirical setting is limited to firms' responses to a nationalist movement in one country. Future research should expand the empirical scope to test our theory across different contexts. Nevertheless, our chosen setting offers specific advantages. Focusing on one episode of international controversy allows us to leverage an exogenous shock, effectively eliminating unobserved country- and issue-level heterogeneity. Additionally, the Xinjiang cotton controversy is one of the most significant sociopolitical controversies in recent years. While firms' responses to this controversy have garnered substantial media attention (e.g., Fujikawa, 2018; Oltermann, 2022; Stevenson & Maheshwari, 2022), knowledge has been limited to anecdotal stories reported by journalists. Our study is the first to adopt rigorous quantitative methods to examine the influence of domestic and foreign customers on Chinese firms' responses to the controversy. We find that supply-chain relationships with Western firms, especially reputable ones, substantially reduced Chinese firms' likelihood of endorsing Xinjiang cotton.


Second, our study focuses on only one stakeholder type from a single theoretical perspective. Although the influences of domestic and foreign customers are likely the most relevant for our sample of Chinese textile firms, firms may be resource-dependent on a wide range of stakeholders. Future research should explore whether the influences of other stakeholders—such as investors, suppliers, and employees—are more relevant in different empirical settings. Additionally, expanding the theoretical scope to investigate customer influence could be beneficial. Resource Dependence Theory (RDT) is particularly relevant for examining power relationships between suppliers and customers (Lomi & Pattison, 2006; Pfeffer & Salancik, 1978; Xia, Wang, Lin, Yang, & Li, 2018). One limitation of our paper is that we cannot precisely observe firms' economic dependence on different types of customers. Future research that have access to more fine-grained data should measure resource dependence between organizations and incorporate RDT into the theoretical framework.

Finally, our study is limited to exploring one type of nationalist event: a social movement defending a country's policy stance in an international controversy. When responding to such nationalist movements, firms must balance the competing demands of domestic and foreign customers. However, in other types of nationalist events, firms may not need to take sides to signal their patriotism. For example, firms can sponsor or participate in gatherings and ceremonies that promote national culture, honor a nation's history, or celebrate national sports team victories (Depetris-Chauvin, Durante, & Campante, 2020). Future research could explore whether firms strategically participate in various events and the potential advantages and disadvantages of such participation.

Conclusion

Firms' strategic leverage of nationalism, the most powerful ideology in the modern era, presents fertile ground for future research. Our understanding of how firms respond to nationalist events, lobby politicians to adopt protectionist policies, or use xenophobia to disadvantage market rivals is only beginning. Scholars should examine why some firms are more likely than others to embrace nationalism in their strategies and the resulting profits and costs of such actions.

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Notes

1. In this paper, terms such as "forced labor" and "arbitrary detention" are placed in quotation marks to indicate that they are descriptions commonly used by Western media. It is important to note that there is no direct evidence to confirm the existence of these practices.

2. In our study, we take logarithm to all count-based independent variables to mitigate their skewness. We also plus the number by 1 before taking logarithmic transformation to avoid invalid calculation.

3. These countries are Albania, Australia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Denmark, Estonia, Finland, France, Germany, Haiti, Honduras, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, the Marshall Islands, Monaco, Nauru, the Netherlands, New Zealand, North Macedonia, Norway, Palau, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

4. The list includes Nike, UNIQLO, GU, Zara, Pull&Bear, Bershka, Bear, COS, Other Stories, Cheap Monday, Weekday, Monki, ARKET, Divided, ONLY, VERO MODA, SELECTED, Converse, Reformation, Ralph Lauren, Lacoste, CA, Tommy Hilfiger, Gap, Adidas, Decathlon, Puma, Reebok, Kappa, IKEA, Ralph Lauren, Walmart, and MUJI.

5. We obtained consistent results (1) when simultaneously testing Hypotheses 1 and 2 in one model, (2) when additionally controlling for Reputational Western Customer while testing Hypothesis 3, and (3) when clustering the standard errors by province.

6. We obtained consistent results when using Model 3 and 4, in which a company's customers are disentangle into sub-groups, to estimate the probability. We also obtained consistent results when using the original unweighted samples.

7. The results are consistent if we use the date of firms' public endorsement as the reference date for those firms making public endorsement eventually and the movement starting day as the reference date for those firms not making public endorsement eventually.

8. Two firms experienced trade suspension during this period, leading to two missing observations.
9. Confounding events include corporate restructuring, joint ventures, acquisitions, litigation, executive changes, layoffs, major price changes in services/products, new product/service announcements, dividends or earnings announcements, changes in forecasted earnings, debt-related events, and contract awards.
10. One firm was delisted in 2021, and two were delisted in 2022, leading to three observations with missing values. To examine the effect of endorsement on sales performance over the years and eliminate potential bias caused by removing observations with missing values, we omitted these three firms from all regressions for future sales performance. In addition, when we omitted these three firms in regressions assessing stock market reactions, we obtained consistent results.

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