

Prof Briana CHANG  
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Dec 5 Friday  
9-10:30am

Title:

"Impact Trickles Down: Exit, Engagement and Firm-Stakeholder Relationships"

Abstract:

We develop a general equilibrium model to address the debate on whether exit or engagement by values-driven stakeholders is more effective in mitigating firm harm. Firm and stakeholders form relationships, trading off production complementarities and mitigation costs. Using a novel characterization of the matching equilibrium, we show how a values shock leads stakeholders to either optimally break (exit) or maintain prior relationships (engage). Treated high-productivity stakeholders choose exit, reallocating toward firms that already mitigate, whereas low-productivity stakeholder choose engagement. While exit has limited direct effect compared to engagement, it induces equilibrium reallocation by lower-productivity stakeholders unaffected by the shock, which in turn incentivizes new firms to mitigate. A calibration suggests that the aggregate impact of exit has been understated relative to engagement, once spillovers are accounted for.