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RESEARCH ARTICLE

Managing repugnance: how core-stigma shapes firm behavior

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Abstract

This article argues for the need for the empirical analysis of how firms manage repugnance and core-stigmatization. To develop our empirical perspective, we compare the work on repugnance with the existing empirical literature in management on core-stigma and argue that core-stigmatization results from the mobilized repugnance. The core-stigmatized firm faces higher transaction costs. We demonstrate, through a case-study of the strategies of MindGeek/Pornhub in the online pornography market, how transaction costs economics can explain the choice of strategies to deal with core-stigma. Under most conditions, the increased transaction costs lead to vertical and lateral integration of the firm. In a dynamic setting, rival firms might use stigmatization to prevent the entry of a new competitor. Our second case-study on the early decades of the mail-order company Sears, Roebuck, and Company illustrates that repugnance, including racial discrimination, was mobilized by competitors to block the entry of the firm into the market.

Key words: Competition; core-stigma; discrimination; pornography; repugnance

JEL classification: D23; L14; L25

1. Introduction

This paper analyzes through two case-studies how repugnance impacts the behavior of suppliers on markets. Repugnance is defined as a socially constructed disapproval of market transactions expressed in moral terms by third parties. We focus on a set of goods which are legally traded on markets but whose consumption is widely considered ‘repugnant’ or ‘undesirable’. This are goods such as gambling, pornography, fast food, or goods with recognized negative externalities, such as air-travel.

The economic literature on repugnance has primarily focused on normative issues or the engineering of alternative institutional mechanisms of provision. The normative aspect has received the most attention and has focused on which repugnant goods should and should not be exchanged on markets (Brennan and Jaworski, 2015; Hodgson, 2021; Sandel, 2012; Satz, 2010). Another part of the literature has dealt with allocation mechanisms which seek to overcome or sidestep repugnance; for instance, the work of Alvin Roth (2007, 2015) on organ exchanges and other non-market or semi-market mechanisms. Related studies have used surveys and experimental methods to measure the level or the origin of repugnance (Lacetera and Macis, 2018; Leider and Roth, 2010). To our best knowledge, no economic studies have analyzed the impact of repugnance on the functioning of firms.

There are good reasons to be interested in repugnant firms. The moral and social opposition to both suppliers and consumers may cause various inefficiencies in markets (Roth and Wang, 2020: 19792). But to understand these properly we must first empirically investigate how repugnance influences firm behavior. This is even more relevant in a social context in which an increasing number of firms is facing moral opposition, for instance for insufficiently inclusive hiring policies, unsustainable production methods, ties to corrupt regimes or simply for selling goods which are considered repugnant.

In management there already exists a considerable literature which studies *core-stigmatized* firms (Vergne, 2012). Core-stigmatized firms are defined as firms whose core activities, who they are, what they sell, how they produce, or who they sell to, draw significant social disapproval (Hudson, 2008: 253). The central question in this literature is not whether certain goods should or should not be sold, but how firms manage the core-stigma attached to their activities. In this article, we argue that the economic literature about repugnance can benefit from the insights provided by this management literature about core-stigma, which adopts a more firm-centered perspective, and emphasizes the role of the different stakeholders in the opposition to certain transactions. Our first contribution is to connect these two disparate literatures with each other, by theorizing the relation between repugnance and core-stigma (second section).

The management literature about core-stigma has identified several strategies which firms have employed to succeed on the market despite widespread core-stigma. These strategies include specialization to avoid that core-stigma impacts unproblematic activities, concealment to avoid social disapproval, and attempts to challenge the core-stigma experienced by firms (a 'de-stigmatization' strategy). We show that transaction costs economics provides a systematic framework to explain when these different strategies are chosen. Core-stigmatization increases transaction costs faced by the core-stigmatized firm, which tends to lead to vertical and lateral integration, because other organizations will charge a premium for dealing with a core-stigmatized firm.

To demonstrate these points, we adopt a similar methodology to the management literature on core-stigma, namely the use of case-studies of firms. The first case-study on MindGeek, the mother company of Pornhub, analyzes how increased transaction costs resulting from a stable level of core-stigmatization shape a firm's strategy, limit its ability to find non-stigmatized business partners, and in most cases lead to vertical and lateral integration (third section). The second case-study on Sears, Roebuck, and Company analyzes a dynamic setting in which the level of core-stigmatization changes over time. Roth already noted the potential strategic use of repugnance, 'to recruit allies who would not respond to a clear appeal to narrower motives such as rent seeking' (2007: 53), but he did not provided evidence of this phenomenon. We analyze the mobilization of repugnance by the competitors of Sears, as well as the counter-campaign to de-stigmatize mail-order companies. We argue that in a dynamic setting repugnance or core-stigma cannot be treated as an external constraint (fourth section).

2. Repugnance and core-stigma

In this section, we first discuss repugnance as used in the economic literature, then compare this to the concept of core-stigma as used in the management literature. This allows us to theorize how repugnance, when mobilized, leads to core-stigma.

2.1 Repugnance

Leider and Roth state: 'We use "repugnant" in its economic sense – in a repugnant transaction the participants are willing to transact, but third parties disapprove and wish to prevent the transaction' (2010: 1221). An essential element in this definition is the concept of third parties not directly involved in the exchange, who approve or disapprove the transaction (Dekker and Kuchař, 2017; Kliemt, 1997), even if they do not 'face any easily measurable negative externalities themselves from the transactions in question' (Roth and Wang, 2020: 19792).

Externalities are the natural category for the study of effects on third parties and repugnance can be conceptualized as a moral externality which consists of 'mental suffering' resulting from allocation in the ordinary market (Calabresi, 2016: 27). The moral dimension is essential in the definition of repugnance. If a firm enters the market, its competitors may be harmed and wish to prevent the transactions

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between this firm and their consumers. However, this is not a situation of repugnance, as the wish to prevent the transactions is not associated with a moral externality.

Repugnance can be motivated by several factors and Roth lists three of them in his seminal paper (2007). First, commercialization of some goods can alter their symbolic meaning (Sandel, 2012), by introducing them in an inadequate 'sphere of justice'. This situation is sometimes referred as a 'taboo trade-off' (Fiske and Tetlock, 1997). Notably, the use of money in some transactions can be considered repugnant, while 'in-kind' transfers are not considered repugnant (Lacetera and Macis, 2018). Second, the willingness of some individuals to participate in the transactions can be doubted, and the perceived absence of consent or autonomy is a source of repugnance. This is true for markets often accused of exploitation and human trafficking, like the pornography market studied in the first case-study. Finally, some transactions can be considered repugnant because they offend morality, they deteriorate the relationships between communities or they impact negatively the 'quality of life in neighborhoods where [the good] is sold' (Roth, 2007: 40). Rival firms can use the resulting repugnance feeling to taint their competitors and obtain a competitive advantage on the market, as we demonstrate in the second case-study.

Third parties can try to prevent transactions directly, by protesting or requiring stringent regulation, or indirectly, by increasing the guilt of market participants. As Adam Smith already highlighted, individuals typically seek to be praiseworthy and direct prevention might not be necessary if the moral disutility of engaging in transactions is sufficiently high for market participants (Smith, 1984; Smith and Wilson, 2019). Notably, Roth notices that some transactions can be described as 'distasteful, inappropriate, unfair, undignified, or unprofessional' (2007: 40), and these terms clearly indicate that individuals or firms who engage in these transactions will face social and moral disapprobation. There exist several instances in which repugnance is encoded in law, and which prohibit the exchange of certain goods. But repugnance does not directly depend on the legal status of markets (Leuker *et al.*, 2021; Roth and Wang, 2020). In this article, we limit our analysis of firm behavior to cases where the market exchanges are legal but considered repugnant, and thus exclude illegal businesses.

Roth treats repugnance as a social fact, a constraint which cannot be altered in the short run. He compares it to a technological barrier which cannot be overcome (2007: 53). Although he does not want to preclude that certain transactions could become more acceptable over time, he clearly expects more from alternative market designs to circumvent the actual repugnance associated with transactions. The analogy between repugnance and a technological barrier suggests that repugnance can be understood as an additional cost for firms, an expensive, possibly preventively expensive technology. This cost differs according to the intensity of repugnance and represents a way for third parties to internalize the moral externalities associated with transactions.

2.2 Core-stigma

The notion of stigma is based on the work by the sociologist Erving Goffman, who theorized stigma as personal attributes which are perceived as deeply discrediting. These can be '"physical deformities" (e.g., gender, age, or disability), "character blemishes" (e.g., sexual orientation, mental disorder) and "tribal" associations (race, ethnicity, nationality)' (Goffman, 1963; Mirabito *et al.*, 2016: 1). For Goffman stigma was a 'spoiled identity' and later work on the subject has emphasized that what is stigmatized is dependent on place and time, and what is stigmatized at a given place and time will differ between social groups (Slade Shantz *et al.*, 2019: 1263), a point which has also repeatedly been made in the economic literature on repugnance.

In the management literature, core-stigmatized firms are defined as firms whose core activities, who they are, what they sell, how they produce, or who they sell to, draw significant social disapproval (Hudson, 2008: 253). There is an ongoing debate in this literature over whether core-stigmatization is, or is not, a strong form of a lack of legitimacy for the firm (Patterson *et al.*, 2019). Settling that debate is beyond our scope here. However, the definition of Hudson alerts us to the possibility that the social disapproval attached to transactions originates from the customer group which is served.

A concrete implication is that two firms operating in the same industry might be perceived quite differently based on their respective clientele. This dimension has been neglected in the economic literature on repugnance, which does not adopt a firm-centered perspective, and which focuses on the disapproval attached to the type of goods exchanged or the presence of money in the transactions (Ambuehl *et al*., 2015). In the case-study on Sears, we will see that repugnance does not arise from the type of goods which are sold or the monetary nature of the exchange.

The management literature on core-stigma also highlights that firms can be reluctant to deal with the core-stigmatized firm to avoid 'stigma-transfer' (Hudson and Okhuysen, 2009). The majority of this literature accepts that core-stigma exists on a continuum and can differ in intensity, and several articles have successfully identified the strategies used by firms to succeed on the market despite core-stigma. They observed that firms occasionally enlarge the scope of their product to generate a 'stigma dilution' (Vergne, 2012). Likewise, they noted the active participation of firms in the public debate to 'de-stigmatize' their activity (Mirabito *et al*., 2016). They also identified a concealment strategy of firms, which aims to reduce the core-stigma perceived by stakeholders and public audience (Wolfe and Blithe, 2015). This concealment strategy is often combined with the development of specific narratives which alter the signification of the core-stigma (Coslor *et al*., 2020). Such narratives can be seen as analogous to the design of alternative non-market mechanisms promoted by Roth, in which the renouncement of money alters the meaning of the transaction and lowers the repugnance attached to it.

A strength of the management literature on core-stigma is the attention to the perspective of different stakeholder groups. Devers *et al*. (2009) present one of the most comprehensive accounts of organizational stigma and extensively discuss the perspectives of different stakeholder groups, including the fact that the same organizational identity might have quite different meanings to different social groups. But their lens is primarily sociological, as they perceive stigma as a form of social control, and they ignore the economic interests' side of the matter. In this article, we demonstrate that stigma can also be mobilized for economic reasons.

2.3 Repugnance and core-stigma

Core-stigmatization of a firm is a consequence of mobilized repugnance. Because third parties want to prevent the transactions, and because they fail in banning the transactions, market participants are stigmatized. Core-stigma is the result of third parties acting upon the moral externalities they experience, by stigmatizing a firm and its consumers. To be effective, core-stigmatization requires the mobilization of groups experiencing moral externalities. Therefore, in its most basic form, the mobilization of repugnance is a collective action problem. The hurt party incurs further costs for stigmatizing the transacting parties, while other non-contributing harmed individuals benefit from the stigmatization. Consequently, there is no one-to-one relationship between the level of repugnance and the degree of core-stigmatization. The circumstances under which moral externalities give rise to core-stigmatization is a question for further research.

Core-stigmatization can be studied in a static or dynamic setting. In a static setting, for a given level of moral externalities experienced by third parties and a given level of mobilization, firms must manage the core-stigma attached to their activity (Healy and Krawiec, 2017; Rossman, 2014). Core-stigmatized firms experience higher transaction costs because other firms and consumers are reluctant to deal with them. These higher transaction costs are a way to internalize the moral externalities experienced by third parties. In the first case-study on MindGeek, the mother company of Pornhub, we study the management of core-stigma in a static setting. In a dynamic setting, the core-stigmatization experienced by a firm can change, for instance because social norms have evolved, which impact the moral externalities associated with transactions. However, it can also change because some individuals or firms strategically seek to increase or decrease the level of core-stigmatization, for instance through public shaming or Public Relations campaigns aimed at de-stigmatization. Therefore, the degree of repugnance and the level of core-stigma faced by a firm should not simply be considered as constraint on the market, but also as a potential outcome of strategic market behavior. An empirical study of the effect of repugnance on firms must therefore conceptualize repugnance as a continuous variable, ranging from mild dislike to strong feelings of abhorrence and be open to the endogenize the level of repugnance. The dynamic endogenous setting is analyzed in the second case-study on Sears, Roebuck, and Company.

3. MindGeek/Pornhub and managing repugnance

This case-study focuses on the firm MindGeek. This firm was founded in 2004 and owns major pornographic websites (Pornhub, RedTube, YouPorn, etc.) and major movie studios (Babes.com, Brazzers, Men.com, etc.). Pornography is a classic example of repugnant product (Roth, 2007: 39), and several studies have underlined how repugnance has shaped the pornography industry, notably due to anti-pornography movements (Voss, 2015). Pornhub and its mother company MindGeek have been stigmatized repeatedly over the past decade. In this section we analyze how the firm responded to the core-stigma resulting from repugnance. We rely on transaction costs economics to systematize the strategies identified in the management literature, specifically firm integration, de-stigmatization, and concealment.

3.1 Core-stigma, transaction costs, and firm integration

MindGeek is a firm which exhibits a high degree of vertical and lateral integration (Rodeschini, 2020: 4; Tarrant, 2016: 44). It possesses a dozen pornographic websites, movie studios, an online advertising device, a branch devoted to statistics, a music label, and several other activities. According to IBISWorld data, MindGeek owns 70% of the market share of adult websites. Moreover, as underlined by Gail Dines: 'MindGeek controls eight of the top ten most travelled free porn sites in the world, controlling most of the distribution side of the value chain. Its top three free porn sites attract close to 100 million visitors and over 488 million page views a day' (Canadian House of Commons, 2017: 1115).

This situation is at odds with an oft-repeated suggestion in the management literature on core-stigma that firms will tend to remain small to limit public scrutiny (Hudson, 2008: 261). Instead, from a transaction costs perspective we should expect that repugnance increases firm size, through vertical and lateral integration. Coase (1937) and Williamson (1979) have suggested that if the cost of contracting on the market is too high, then firms will prefer vertical and lateral integration (Grossman and Hart, 1986). Core-stigmatized firms will make other market participants reluctant to deal with them, primarily out of concern for their own reputation, but also because they might also directly feel the repugnance. This situation increases costs of using the market and makes in-house production more attractive for the firm. The existence of these costs has been well-documented in related empirical literature. Firms with a poor reputation tend to pay higher interest rates (Goss and Roberts, 2011), higher wages (Schneider *et al.*, 2020), and their financial assets must promise higher returns (Hong and Kacperczyk, 2009).

By producing in-house, the firm *internalizes* the negative reputational effects which partners incur from engaging in relationships with a core-stigmatized firm. Thus, if the core-stigma experienced by a firm increases, the negative reputational effects will be higher, and as a result the cost of contracting on the market will increase. Depending on relative costs, this might induce the firm to adopt a de-stigmatization strategy to lower the cost of contracting. This strategy, through public relations for instance, will itself be costly. One alternative possibility is that the repugnant firm contracts with other stigmatized firms because the negative reputational effects will be lower for firms already experiencing core-stigma.

The vertical and lateral integration of MindGeek is indeed a result of difficulties to find partners on the market. A good example is its difficulties to rely on financial intermediaries such as credit card companies. American Express refuses since several years to be used on pornographic websites (Reuters, 2020). Likewise, PayPal refuses that payments on users' accounts serve for the remuneration

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of pornographic performances. Therefore, when PayPal discovered that MindGeek was remunerating the members of its 'Pornhub Model program' through PayPal transfers, the company suspended the payments emanating from this program (Bambrough, 2019). As a result, MindGeek encouraged (along with other solutions) models to use the 'Verge' crypto money, a crypto money also accepted on Pornhub as a mean of payment. MindGeek actively promoted the use of crypto moneys on its websites to circumvent the difficulties to find financial partners, but also to increase the privacy of transactions, which is a central issue for repugnant markets. Notably, in an instance of humorous advertising, Pornhub promoted the use of the 'titcoin' crypto currency, which was used for a brief period in the pornography industry (Hay, 2018).

The firm faced similar obstacles in the advertising department. Pornhub and other (pornographic) websites depend heavily on advertising revenues. According to MindGeek executives, 50% of the firm revenues come from advertising (Canadian House of Commons, 2021: 13h11m51s). However, most brands do not want to be associated with Pornhub or other pornographic websites, even though the few brands such as *Diesel* and *Eat24* that have advertised their products on pornographic websites have emphasized the success of these campaigns for their products (Rodeschini, 2020: 5). In fact, most advertising agencies explicitly promise to avoid the diffusion on pornographic websites (Goichman, 2018). Consequently, MindGeek opted to develop its own advertising device, TrafficJunky. The creation of an advertising department is a clear example of vertical integration of the firm.

However, the establishment of this advertising branch did not lower the reluctance of most brands to be associated with the company and Pornhub frequently ended up with inferior quality ads, including a lot of malware and other dubious advertisers, which contributed to the deterioration of the service quality of the website (Hern, 2017). This situation demonstrates how repugnant firms and markets tend to become associated with each other, often unwillingly. MindGeek also often resorted to the promotion of pornographic content produced by its own studios. Because it possesses many studios, MindGeek was able to direct users to other branches of their own company, further reinforcing the tendency toward integration of the firm.

Pornhub must also advertise itself on other markets to attract customers. However, like many core-stigmatized firms it has proven difficult to advertise their presence. For instance, Google Ads, one of the main online advertising platforms, places huge restrictions on advertisements related to sexual content (Google, 2022). Offline there are a few examples of advertising campaigns such as the non-sexual ads displayed in Times Square as well as the free memberships that were given out during the lockdowns related to the pandemic of 2020. However, a non-sexual commercial created by Pornhub for broadcast during the Super Bowl of 2013 was ultimately not authorized (Rodeschini, 2020: 6). Pornhub has also tried to sponsor several sports teams, notably water polo and football teams, but this type of partnership has inevitably been criticized and some teams have even been excluded from their leagues due to this partnership (ibid.; Eurosport, 2015). It is thus clear that stigma transfer is a significant concern, and the resulting increased transaction costs for the core-stigmatized firm are a major reason for firm integration.

3.2 Other strategies to deal with core-stigma

We now turn to the other strategies identified in the management literature on core-stigma: de-stigmatization and concealment. These should be understood as alternative strategies to deal with increased transaction costs experienced by core-stigmatized firms.

A special instance of de-stigmatization is stigma dilution. MindGeek began to diversify its activity, by broadening the scope of products it offered, with the hope of reducing the association between the firm and pornography. During a conference in 2012, MindGeek's president underlined the necessity for the firm, if it wanted to be introduced on the stock market, to diversify its activity, because investors would be reluctant to finance a firm focused exclusively on pornography (Morris, 2012). MindGeek has decided to not go public despite its sizable profits: $460 million in 2018 (Nilsson, 2020). This decision was influenced by the 'taboo' of investors regarding pornographic content, related to the core-stigma associated with this activity (Lord, 2021: 58). This is an illustration of the lower valuation of 'sin stocks' (Hong and Kacperczyk, 2009), and pornography is listed on 'negative screens employed by socially responsible mutual funds' established by Geczy *et al.* (2021: 320).

Even though the firm has not gone public, the development of activities such as a music label (*Pornhub Records*) can be understood as an attempt to associate the Pornhub brand with other activities than pornography and normalize its business operations through a positive influence on its brand-name capital (Rodeschini, 2020: 6). The development of the publication of *Pornhub Insights*, a report compiling data about the consumption of pornography worldwide, which generates extensive media attention every year, should be understood along the same lines (ibid.: 8). It is a way for the firm to advertise its content, while normalizing its presence in media (Holt, 2017). The form of the business report also contributes to normalizing the porn business as just another industry, attractive for investors because of current market trends. It is hoped that this reinforces the idea that MindGeek offers 'customer behavior analysis', and not just pornography (Rodeschini, 2020: 3). All these additional activities, aimed at stigma dilution, further increased the size of the firm, in line with the effects observed above.

A core-stigmatized firm can also engage in a direct strategy to de-stigmatize its activity, with the objective of reducing the costs associated with the core-stigma. MindGeek pursued this strategy and sought to demonstrate that pornography should be 'something that's acceptable to talk about' as Corey Price, then vice-president of Pornhub phrased it in an interview (Monllos, 2014). It sought to continue a longer development to normalize pornography which started in the 1960s (Berns, 1999; Wilner and Huff, 2017). Notably, MindGeek organized award ceremonies and awareness campaigns. For instance, in 2018 the firm managed to book Kanye West, who had been open about his extensive consumption of pornography, as the master of ceremony of the 'Pornhub Awards' (Rodeschini, 2020: 7). A related effort was a fundraising campaign for breast cancer in 2012 (based on Pornhub's 'big tits' and 'small tits' research) which was both a way for Pornhub to advertise its brand and to associate the brand with more positive causes (ibid.).

This de-stigmatization strategy is costly for the firm and if successful will also benefit their competitors in the pornography industry. Therefore, de-stigmatization can be regarded as a collective action problem. When a repugnant market is composed of multiple small firms, it is less likely that de-stigmatization efforts will be worthwhile for individual firms. In this situation, a market leader would clearly be at an advantage because its private benefits might outweigh the private costs of fighting stigma and altering the social norms which give rise to repugnance. This is another reason why, in the medium run, we should expect lateral integration in the market, at least if the market has growth potential. If this is not the case, it could be a stable equilibrium for numerous small firms to engage in concealment without attempting to de-stigmatize the industry.

Given the current size of MindGeek concealment is not feasible. But earlier in the history of the firm we can identify instances of this strategy, which seeks to sidestep the higher transaction costs associated with core-stigmatization by remaining small or incurring other costs to conceal (some of) the activities of the firm. To obtain a loan for Manwin, the former name of MindGeek, its president Fabian Thylmann revealed that he insisted on the fact that the firm was a 'tech company', not an adult entertainment or pornography firm (Rodeschini, 2020: 4). This separation between the technological aspect of the firm and the nature of the content exchanged is at the core of the firm's strategy: 'MindGeek presents itself as a firm offering tools for e-commerce, online visibility and customer behavior analysis' (ibid.: 3), and during conferences, its president asserted that 'in essence, Manwin is a tech company' (Morris, 2013: 1). This strategy enabled MindGeek to recruit highly qualified tech-workers, whose activities are, as much as possible, separated from the content the firm produces and distributes (Rodeschini, 2020: 4). This strategy can be understood as a way to reduce the extra costs associated with 'sin wages' (Lopes, 2018) and follows from the same transaction costs logic we analyzed above. To stigmatize a firm, opponents frequently rely on the opposite strategy of concealment: exposing the inner workings of the business, or the concealed side-effects of the product.

4. Sears, Roebuck, and Company and stigmatization as a competitive strategy

In the MindGeek case-study it was largely unproblematic to conceptualize core-stigma as a constraint for the firm. However, as we suggested above, the conceptualization of core-stigma as a constraint is not always warranted. Repugnance can be mobilized as a competitive strategy on the market, in which case core-stigma results from strategic market behavior. In such instances competitors of the repugnant firm seek to increase the transaction costs experienced by a firm in the same or closely related industry.

For this analysis we rely on another illustrative case-study, this time of the early decades of Sears, Roebuck, and Company (hereafter Sears). The analysis we provide of Sears is one instance of a much broader opposition to large disruptive firms and chain-stores. The so-called anti-chain store movement in the United States reached its peak in the interwar period (Schragger, 2004). But it is still visible today in the opposition to Wal-Mart (Carden *et al.*, 2009), and Amazon, which for instance in France has led to legislation aimed at protecting local bookstores. The major new entrants upset the existing industry and harmed small storeowners, generating what is sometimes called a pecuniary externality. But the disappearance of local stores and a more community-oriented ethic, as well as new strategies and clienteles served by the major stores also create moral externalities, which are mobilized by small storeowners to stigmatize the new major competitor.

4.1 Mobilizing repugnance

Sears and its main competitor Montgomery Ward were found in the final quarter of the 19th century and especially sold their products to people living in the countryside, where most Americans lived at the time (Stanger, 2018). Their clientele included many former slaves, and historian Louis Hyman in an op-ed piece drew attention to the important emancipatory role Sears played for the consumption of African-Americans under the Jim Crow laws (Hyman, 2018). In this section we analyze the organized social opposition experienced by the company because of this.

Around 1900 most American towns had one general store which also served as the local post-office. This store had a kind of monopoly over the local market. Thus, the mail-order companies were a disruptive force which challenged the business operations of many general-purpose stores and the supply-chains attached to it (Michael, 1994). It loosened the strong connection between social life in the town and the commerce being done there. Local churches, bars, and general stores were places where racial and social inequalities were enacted and reinforced. Black customers had to wait before all the whites were served and were refused the right to purchase certain goods (Fox, 2006: 147). Sears and other mail-order companies were instrumental in the growth of the range of consumer goods that (black) rural families had access to. Moreover, goods that sometimes themselves were considered repugnant became accessible, such as 'sanitary napkins, bad-breath extinguishers, depilatories, and deodorants' (Cohn, 1976: 503–509).

The disruption which Sears caused was both economic and social, and hence generated both economic and social opposition. The challenge that Sears posed to traditional ways of doing business as well as the undesired emancipation of consumption led to large campaigns in opposition to the mail-order company. Around the end of the 19th century Sears could no longer rely on regional newspapers to advertise its goods, because opposition was mounting, and most regional newspapers no longer accepted their ads. It then moved to so-called mail-order magazines and started relying more on its own catalogue (Rips, 1938: 76–78). National magazines, too, often refused Sears' ads under the pretense that the ads were crude and vulgar (Emmet and Jeuck, 1950: 89). In hindsight it is difficult to establish what kind of repugnance this referred to: the way it undermined local general stores, the fact that they sold to African-Americans or the direct innovative rhetorical style of the advertisements. But it was clear that the refusal of the magazines was phrased in moral terms such as in the book *Merchants and Manufacturers on Trial* which presented a complete range of arguments against the mail-order companies. The preface stated that it: 'furnishes the retail merchant and the dealer the weapons with which to make a fight for the preservation of his business (…) [it] is the first soldier in the battle against the mail order evil' (Sullivan, 1914: 10–12).

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The competitors of Sears had an active interest in mobilizing the social opposition to Sears. Rumors were spread which build on pre-existing racist prejudices, and smear campaigns alleged that Richard Sears and Alvah Curtis Roebuck were black. Montgomery Ward was nicknamed Monkey Ward, while homophobia was mobilized by the nickname Rears and Soreback, for Sears and Roebuck. The smear campaigns benefitted from the fact that customers had no direct interactions with the company, and the accompanying rumors that suggested that the entrepreneurs sought recourse to the mail-order business precisely to hide their skin color (Weil, 1977: 63). The company responded in the 1890s by sending out full-color pictures of Richard Sears with its catalogue, a costly practice which for that reason was abandoned after a few years (Asher and Heal, 1942: 5). Later when Julius Rosenwald joined the management of Sears anti-Semitic sentiments were also mobilized against the company, even though Rosenwald, even as CEO, consciously kept his name out of the catalogue to avoid such smear campaigns (Ascoli, 2006: 74).

Competitors also appealed to the fact that Sears destroyed communities, local business, and jobs. It is the most common version of the moral argument against big business, especially when the big firm is foreign or not local. Small shopkeepers, helped by the editors of local newspapers, started to argue for the value of buying local, which would help sustain local communities they argued. Those who ordered from mail-order companies were made out to be traitors or sneak thieves of the community.

The resulting dynamic in which small shopkeepers teamed up with local organizations and media outlets to stigmatize Sears has clear parallels to the way in which bootleggers during the prohibition era formed a coalition with the 'Baptists' to ensure that liquor remained illegal (Yandle, 1983). The Baptists provided the moral case for prohibition, while the bootleggers benefitted from the opportunities in the illegal market in liquor which emerged because of prohibition. In our case there are few attempts at legislation against Sears but the social and moral opposition against the firm has analogous effects as legislation would have had. Sears did not operate in the black market, like the bootleggers, but the coalition of economic interests and moral advocates was similar: 'The editorial columns of every town paper were open to the accusations of small-town dealers who joined in a *concerted war* against the mail order firms' (Asher and Heal, 1942: 105, emphasis added). During the first decade of the 1900s, local community leaders even organized book-burnings of the Sears catalogue, which symbolize well the vigor of the emotions involved.[1] The organizers of these rituals against Sears urged their fellow citizens to bring catalogues to the book-burnings, and kids were offered small rewards for bringing one. It was a potentially effective strategy since ordering a new catalogue was costly, they were priced at a dollar a piece. Sears had to respond to this new threat to its business-model and lowered the price a few times, first to half a dollar, then to ten cents. Finally, the catalogue became free, although the distribution was done with care and led to innovations in customer management databases. Producing the catalogue itself cost between 80 cents and 1.5 dollars, so Sears wanted to make sure that when it sent the free copies they ended up with actual potential customers (Cohn, 1976: 547). To put it differently, reaching consumers became harder, and this is a clear instance of increased transaction costs resulting from core-stigmatization.

The repugnance which was mobilized against Sears built on pre-existing moral beliefs, but it became more vigorous through an organized campaign. The case of Sears illustrates that competitors can mobilize this social opposition in a bootleggers-and-Baptists coalition to increase the costs of doing business for the new entrant, or stronger to prevent their entry into the market. Sears had to respond, both in adapting its business strategy, but also by opposing the repugnance by changing the moral discourse around the firm, a situation also observed for the Cook's travel agency for instance (Hampel and Tracey, 2017).

4.2 Fighting repugnance

Sears relied on concealment in the first decades of operation. The company removed any mention of Sears from their packaging to limit the stigmatization that its buyers might experience from neighbors

[1]A history later fictionalized in George Milburn's 1936 novel *Catalogue*.

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or local storeowners. In their catalogue of 1905, they suggested this was done because both merchants, who used Sears to purchase inventory, and townspeople did not want others to know that they bought at Sears: 'we have learned that thousands of our customers need the protection that omitting the name affords. This applies especially to townspeople' (Asher and Heal, 1942: 109). But the company also increasingly sought to challenge the repugnant image it had, by presenting itself as a virtuous organization.

To counter the idea that it was destroying local communities it started including endorsements of community members in their ads and catalogues, one of them of 1918 opened: 'We are an organization of individuals – folks like you and your neighbor – who have the same feelings as other folks'. And concluded: 'We want you to think of us as just "plain folks" – men and women who do the best that is possible to do. As folks – as neighbors – as friends, we thank you for your many kindnesses' (Cohn, 1976: 512). Another response was the fact that the catalogue was promoted as the thrift book of the Nation, with an image of the president Theodore Roosevelt who had suggested that: 'thrift is common sense applied to spending'.

A particularly significant form of repugnance was the racism which had been mobilized by the opposition. Montgomery Ward challenged the opposition head-on in 1902 with an editorial 'The Tyranny of Villages': 'Mail-order business has solved the problem for the farmer and released him from his serfdom'. Sears was well-known for his more subtle approach and bragged that many general stores in fact bought their supplies from the company, but also argued: 'the country merchant who undertakes to antagonize the catalogue house really antagonizes his own customers, he really questions the right of his customers to spend their money where they like' (both cited in Emmet and Jeuck, 1950: 160–161). By 1906 Sears had enough confidence to also explicitly address the fact that it treated every customer, including African-Americans the same. In what historians Emmet and Jeuck describe as Lincolnian terms the CEO argued: 'With malice towards none and charity for all, we extend to all mankind our sincere wishes for greater prosperity and happiness (…) [the customer] has a right to buy where he likes and every seller has the same right to solicit his trade' (Emmet and Jeuck, 1950: 162). Since Sears and Montgomery Ward dominated the mail-order industry, this costly strategy of de-stigmatization was likely to outweigh the private costs.

The increased awareness that Sears was contributing to an emancipatory cause was not only visible in the public pronouncements it made. In 1895 Julius Rosenwald had joined the company, and he did much to professionalize and standardize business practices, under his leadership Sears became the biggest mail-order company in the United States. In 1908 Julius Rosenwald became president of the company. He had already supported Jewish philanthropic causes, but after 1910 he also started funding black YMCAs in Chicago, at a time when black people arriving in the city had very few places to stay. Around that period, he attempted to hire more African-American employees, a policy that was opposed from within the company and which Rosenwald subsequently dropped (Werner, 1939: 115–116). Rosenwald grew into the largest philanthropist for black education in the United States, the Rosenwald schools are an institution until this day. The biographies of his life, surprisingly, make no explicit connection with the fact that Sears had an important African-American clientele, and they only point to the inspiration he drew from Booker T. Washington (for nuances see Ascoli, 2006; Mjagkij, 1992).

The Rosenwald schools were, however, an attempt to improve the image of Sears. The schools should not be understood as a confrontational strategy and indeed Rosenwald did not seek to challenge the Jim Crow system head-on (Morey, 2017). The best way to think of Rosenwald's increasing philanthropic interests was to regard them as a burgeoning public relations campaign. In the early 20th century this became a prime concern for the company. But this required different things to different regions. In Chicago and the Mid-West, where there were relatively fewer African-Americans and the political and social situation was more equal, the philanthropic efforts of Rosenwald functioned well. This was not true in the southern states. Julian Haynes was hired as director of public relations for the southern territories, where racist repugnance was the most important obstacle for Sears. He explained that the efforts of Rosenwald were perceived quite differently in the South: 'He

[Rosenwald] opened the door to the South and got into this racial thing… (white) people associated him and they did not like him. He was Jewish. He was helping the Negro more than he helped the white and they didn't like it. [W]e did some of the first public relations work' (quoted in Hancock, 2008: 51).

The mobilization of repugnance against Sears involved attempts to taint the image of the company and the stigmatization of those who shopped at Sears or did business with them. The company concealed its transactions and developed other, more costly, strategies to reach its consumers, but it also challenged the grounds on which the repugnance was based. This illustrates the important political-economic dimension of repugnance. Repugnance scholars have already drawn attention to the underlying grounds for 'justified' and 'intolerant' kinds of repugnance (Khalil and Marciano, 2018). In the management literature stigmatization has been theorized at the level of stakeholders and social groups. But to complete the analysis it is necessary to explicitly include a dynamic analysis of stigmatization and de-stigmatization. This dynamic includes broader social changes, as the moral opposition to Sears drew on existing form of stigmatization against black people and Jews in American society.

The dynamic in the case of Sears in which the company is ultimately able to succeed is in line with Becker's (1993) theory of discrimination in markets, which in its simplest form argues that discrimination is a costly preference which is likely to be competed away in markets. Discrimination in the case of Sears is a costly preference for local firms, who forgo consumers. It is also costly for consumers who refuse to buy at Sears and are willing to pay higher price at the local general-purpose store. The new competitor Sears makes this preference more costly to hold and since the firm succeeded eventually, Becker and the historian Hyman are right when they suggest that competition had emancipatory effects. Sears explicitly relied on emancipatory language to justify its business practices of selling to all individuals regardless of skin-color or beliefs and presented its catalogue as the 'thrift Bible'. But in both the short and medium run the competitors of Sears mobilized repugnance and attempted to reinforce and strengthen discriminatory beliefs to keep Sears out of the market. This campaign made doing business for Sears more costly and could have made it too costly to continue. In that case market competition would have heightened racist beliefs and improved the core-stigmatization of certain groups, without any other benefits, a scenario that complicates Becker's optimistic conclusion.

In a dynamic setting, repugnance cannot be considered as a given constraint, but must be understood as part of the competitive process. First, because repugnance must be organized to stigmatize a particular firm, industry, or group of consumers. Second, because the degree of repugnance might be heightened through the oppositional campaign, which will not only draw on existing moral beliefs, but also seek to reinforce or radicalize them.

In the case of Sears, the material interests of general-purpose stores were harmed. This might lead to the conclusion that the mobilization of repugnance is only driven by material concerns. But we believe that the same logic might apply in other, moral, settings. A recent study examines the motives underlying the moral arguments against markets in kidneys (Lemennicier and Wenzel, 2021). The authors of this study suggest that the mobilization of repugnance in opposition to kidney markets does not arise from parties materially affected. Instead, existing voluntary donors have mobilized the repugnance because the introduction of monetary exchange for kidneys undermines their ability to engage in altruistic behavior, which they value. This suggests that strategic mobilization of repugnance can also take place when no material interests are involved.

5. Conclusion

In this paper we have argued that the management of core-stigma, resulting from repugnance, is a concern for firms in a wide variety of industries, although further studies must analyze the effects on consumers and entire industries. The economic literature on repugnance has been unjustifiably narrow thus far. It has focused on normative issues or alternative institutional designs to sidestep repugnance. We have shown how transaction costs economics can systematize the strategies identified

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in the management literature to deal with repugnance. Core-stigmatization increases the costs of transacting on the market because other actors wish to avoid stigma-transfer. Core-stigmatization increases the cost of the 'buy' option and makes it more likely that the repugnant firm opts for 'make', resulting in vertical and lateral integration of the repugnant firm. We have further suggested that de-stigmatization of the activity poses a collective action problem for the firm, which limits the attractiveness of this strategy, except for market leaders.

Existing economic studies have considered repugnance as an economic datum, a constraint. In a dynamic setting, repugnance can be mobilized for strategic reasons by third parties to stigmatize a competitor, and the core-stigmatized firm might seek to lower the level of repugnance associated with its activity, and thereby lower the costs arising from core-stigmatization. In our case-studies we have analyzed this dynamic in analogy with the bootleggers-and-Baptists logic in which small retailers joined forces with community leaders to mobilize repugnance against certain firms. In doing so they drew on and reinforced existing forms of social prejudice against African-Americans and Jews to stigmatize Sears.

In certain instances, stigmatization might be socially beneficial and reinforce legal rules which govern markets, in other instances the mobilized stigma draws on, and reinforces existing forms of discrimination and stigmatization of social groups. In yet other instances, it might be an illustration of what Sen has called meddlesome preferences (Sen, 1970). A proper welfare analysis of the effects of repugnance cannot sidestep the question of the legitimacy of different forms of repugnance. Or to frame it constructively, a political economic perspective on repugnance cannot ignore the importance of toleration for the functioning of markets.

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