

Investor Reaction to Corporate Activism

A Stock Market Event Study of LGBT Rights and Immigration Activism*

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Abstract

In two analyses, this paper evaluates whether investors incentivize corporate activism. Exploiting an event study of large firms' stock prices, the first analysis finds no evidence of abnormal returns following corporate activism on LGBT rights and immigration, indicating that investors do not believe that activism helps or hurts a company's value. However, the second analysis finds modest evidence that corporations that receive higher returns after engaging in activism are more likely to engage in activism again in the future. These results suggest that while the average corporation does not appear to face a stock market incentive to engage in social activism, corporations that *perceive* that they do are more likely to continue their social advocacy. In a profound interaction of economics with cultural politics, businesses' positions on social issues can be explained by the perceived preferences of their shareholders.

Keywords:

corporate political activity; corporate activism; workplace diversity; stock market event study

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In 2012, Starbucks became one of the first major corporations to support same-sex marriage. But there was a potential cost to this activism, since the company was boycotted by the National Organization for Marriage and tens of thousands of people allegedly joined the boycott. As a result, shareholders voiced their concerns that the company was harming profits by advocating for social change. At the March 2013 annual shareholders meeting, Starbucks CEO Howard Schultz brushed off criticism over the firm's social activism and told disgruntled investors that they "could sell [their] shares at Starbucks and buy shares in other companies" (Smith 2013).

Corporate activism—businesses supporting public policy change on social issues—is a recent phenomenon that has yet to be studied extensively by social science scholars. It is unknown to what extent the example of Starbucks, aggrieved investors, and the irreverent CEO can generalize to other instances of corporate activism. Previous research has documented that investors react positively to conservative political activity supporting the Republican Party (Werner 2017) and that social issues engagement harms shareholder value (Hillman and Keim 2001). Because of this, we might expect investors to react negatively to firm social issues engagement—as many did with Starbucks. On the other hand, liberals are more likely than conservatives to increase or decrease their consumption of a company's goods and services because of the firm's socio-political stances (Chatterji and Toffel 2019; Endres and Panagopoulos 2017; Newman and Bartels 2011). Corporate social practices have also been linked to increased employee recruitment, retention, and productivity (Bode, Singh, and Rogan 2015; Burbano 2016; Carnahan, Kryscynski, and Olson 2017; Flammer and Luo 2017; Turban and Greening 1997). Thus, activism could lead to downstream increases in firm value and investors might then react *positively* to activism. To solve this puzzle and adjudicate between these two possibilities, I ask the following questions. First, how do investors react to social activism in the short-term? And second, how do stock market reactions to past activism affect the likelihood of future social issue engagement?

In the first analysis, I use a dataset of social activism on LGBT rights and immigration in the form of Supreme Court *amicus* briefs and business coalitions by large U.S. corporations from 2013 to 2017 (Maks-Solomon and Drewry 2019) and perform an event study of daily stock market returns. Results indicate that abnormal returns following social activism are not statically different from zero. Activism neither helps nor hurts a company's value in the short term; it incurs neither a penalty nor incentive from the stock market. However in the second analysis, I determine whether returns from activism have an effect on future activism engagement. And surprisingly, companies with positive [or negative] abnormal returns are more [or less] likely to engage in activism in the future. Although the average corporation does not seem to face a stock market incentive to engage in social activism, firms that *perceive* that they do are more likely to engage in activism again.

While social activism has no immediate effect on a firm's value, managers' perceptions of the situation are all that matters. Since corporate activism can be predicted by previous stock market reactions to activism, firms are learning from economic reactions to past political behavior. In a profound interaction of the economy with politics, the political positions taken by corporations can be explained by the (perceived) desires of their shareholders. Indirectly and imperfectly, shareholders have a say in U.S. public policymaking.

ECONOMIC INCENTIVES FOR CORPORATE ACTIVISM

The standard assumption in the literature on corporate political activity (CPA) is that corporate political decision-making is motivated by self-interest. Drutman (2015, 119), for example, argues that "At the most reductionist level, it seems safe to assume that managers want to take political actions that will improve corporate profits..." When it comes to CPA on social issues, it's possible that corporations advocate for social change for the purpose of increasing their customer base and the dedication of employees—which in turn increases profits. Activism is an effort to associate the company with an inclusive, liberal brand.

Since young liberal consumers are more likely to engage in political consumerism than older conservative consumers (Chatterji and Toffel 2019; Endres and Panagopoulos 2017;

Newman and Bartels 2011), corporate activism should lead to a net increase in customers. Corporate social practices can also improve employee recruitment, retention, and productivity (Bode et al. 2015; Burbano 2016; Carnahan et al. 2017; Flammer and Luo 2017; Turban and Greening 1997). If corporate activism improves a firm's ability to court young liberal customers and improve relations with employees, then firm value should increase following social activism, since activism leads to downstream financial gains.

To determine whether a firm's value increases following social issues engagement, I employ an event study of stock market prices. According to McWilliams and Siegel (1997, 626-627):

“Stock prices are supposed to reflect the true value of firms, because they are assumed to reflect the discounted value of all future cash flows and incorporate all relevant information. Therefore, event studies, which are based on stock price changes, should measure the financial impact of [an event] more effectively than a methodology that relies upon accounting returns [like revenue or profit].”

However, investors—whether they be institutional or individuals—are boundedly rational, as they can only respond to the information available to them (Schijven and Hitt 2012). Short-term stock market event studies reflect the “collective opinions of investors” (Oler, Harrison, and Allen 2008, 172), gauging investors' immediate responses to events with those reactions often based upon socially-constructed notions of financial success (Zajac and Westphal 2004). These socially-constructed notions of success may vary between investors. And over time, as investors gain new information that confirms or contradicts their previous assessments, they will update their perceptions of a firm's value, potentially washing out the effect of an individual event (Oler et al. 2008).

Even still, if profit-seeking investors currently believe that a stock is over-valued, they will sell it; if under-valued, they buy. A change in stock price therefore reflects a change in the collective assessment of the firm's value. Consequently, if investors *perceive* that social activism has an effect on the long-term financial viability of the firm, perhaps by improving rela-

tions with customers or employees, demand for the stock should increase immediately following an activism event. As a result, firms should see positive abnormal returns—and therefore an increase in the firm’s relative value—after engaging in liberal social activism.

Hypothesis 1 *Corporate social activism leads to positive abnormal returns (an immediate increase in the firm’s relative value).*

Although, it is plausible that the opposite is true and corporate activism leads to negative abnormal returns. Werner (2017) found that investors reacted positively to the accidental disclosure of a list of corporations that financially supported the (conservative) Republican Party through independent expenditures. Another study found that social issues engagement harms shareholder value (Hillman and Keim 2001), but the study examined stock market valuations from the 1990s. Given the rise in corporate activism and the literature described above that strongly suggests firms could financially benefit from activism, I argue that it is more plausible that investors react positively—not negatively—to activism.

The stock market itself can also serve as an economic incentive. In a small survey of major corporations, the Public Affairs Council found that 36% of companies engaged in social activism in order to please shareholders (Pinkham 2016). In line with this survey evidence, I argue that corporations should be learning from previous stock market reactions to activism.

Managers care a great deal about their stock price and their relationships with shareholders. First, corporate executive compensation is tied to corporate performance, typically through granting shares in the company’s stock or through stock options. As summarized by Stanford’s Corporate Governance Research Initiative (Larcker and Tayan 2017, 12), “CEO compensation packages are dominated by incentive-based pay (bonus, stock, and options) whose ultimate value depends on performance” and performance-based pay has become a greater share of compensation in recent years. Therefore, it is in the immediate self-interest of executives to increase their corporations’ stock price. Second, companies often have to engage with shareholders directly—through shareholder resolutions for example—and frequently succumb to the socio-political demands of their shareholders (e.g., Clark and Crawford 2012;

Clark, Bryant, and Griffin 2017; Min and You 2019). Given the fact that a firm will be judged by its stock price (which provides one way of valuing a company) and because executives have a personal financial interest in the firm's stock price, executives pay close attention to their stock and try to please shareholders.

The perceptual pathways for learning exist. First, CEOs are thoroughly involved in the political activities of their firms (Rudy and Johnson 2019; Foundation for Public Affairs 2008, cited in Rudy and Johnson 2019). In the dataset used in this study, 22% of the time, CEOs themselves are signees to social activism on behalf of their company. Second, corporations are aware of the timing of when their joint activism is publicized. For the activism events included in this study, I have identified at least 14 instances of press releases or tweets wherein a company announces that they joined one of the activism events in the database (on or shortly after the activism was made public).

This discussion leads to the second hypothesis, regarding stock market reactions and future activism. In essence, corporations are expected to learn from past behavior:

Hypothesis 2 *Greater abnormal returns after engaging in social activism increase the likelihood that a corporation engages in activism again in the future.*

Theoretically, there should be heterogeneity in this hypothesized effect, since managers' backgrounds and predispositions affect their assessments of situations (Hambrick and Mason 1984; Hambrick 2007) and CEOs, executives, and other managers within companies are constantly changing. Nonetheless, the focus of this study is on institutional learning—when something becomes common knowledge for actors throughout the organization—that outlasts any given manager.¹

¹ An interesting avenue for future research should be to investigate whether the effect of previous abnormal returns on the likelihood of future activism is conditional upon the political ideology of upper echelons managers. Perhaps conservative CEOs—who are not predisposed to

ANALYSIS 1: STOCK MARKET REACTIONS TO ACTIVISM

To test Hypothesis 1, I employ an event study of daily stock market prices. Data on corporate activism comes from replication data from Maks-Solomon and Drewry (2019). Collecting data for a variety of forms of political activity, Maks-Solomon and Drewry study corporate activism on LGBT rights from 2011 to 2017. Their replication data also include activism on immigration issues—not examined in their original paper. Their sample of corporations comes from the largest 500 publicly-traded U.S. companies by revenue in each year between 2012 and 2016.

Since I am interested in political activity that will garner media attention causing investors to notice, I only include joint forms of political activity where multiple companies engaged in activism together—namely Supreme Court *amicus* briefs and open letters or business coalitions that sought to bring about policy change. (And indeed, there was often substantial press coverage of the activism included in this event study.) Appendix A provides more information on the events used in this study. Out of 28 events, seven were briefs while the rest were business coalitions. Seven related to immigration issues (DACA or the Muslim travel ban) while the rest related to LGBT issues (same-sex marriage or LGBT discrimination). Since these forms of activism are joint, an individual corporation would not be able to influence the actual timing of the activism disclosure, which typically would be controlled by a third party such as a law firm or interest group. The set of events in the study were also not widely anticipated beforehand (i.e., investors did not know that these corporations were going to engage in these specific activism events).

corporate activism—would be more likely than liberal CEOs to let a decrease in abnormal returns diminish the likelihood of future activism engagement. Unfortunately, there is too little variation in CEO ideology relative to the small sample size used to test Hypothesis 2 (130 firms) to be able to investigate this additional hypothesis.

For each company-activism combination, I search for potential confounding events such as earnings releases, investigations by government officials/agencies, major changes in products/services, lawsuits from other companies, announcements related to acquisitions/mergers and debt, or changes in leadership. I drop observations from the sample if one of these confounding events took place within the [-2,2] event window.²

Data on daily stock prices are obtained from CRSP (Center for Research in Security Prices 2019). I use the standard market model to estimate abnormal returns. In an OLS regression, I first estimate Equation 1 for each company-event combination over the course of 253 trading days (roughly one year) beginning 30 trading days before the event itself. Put differently, I estimate the market model over the window of time from 30 trading days prior to the event to 282 trading days prior to the event.³

A stock is expected to follow the market (CRSP's value-weighted market index excluding dividends) in a predictable way. For any given trading day, a firm's return (excluding dividends) is a function of a baseline constant (b_0) plus some quantity that is a percentage of how the rest of the stock market is doing ($b_1 \times \text{Market return}_t$):

$$\text{Firm return}_{it} = b_0 + (b_1 \times \text{Market return}_t) + e_t \quad (1)$$

The parameters from the market model are then extrapolated to estimate predicted returns for days 0 through 9 (the day of the event until the 9th day after the event). Essentially,

² Dropping confounding events over a wider window (like [-4,4], for example) would have removed almost all observations from the sample. The firms in the sample are large corporations that receive constant media attention and are often announcing new products and acquisitions.

³ I began with a dataset of all daily stock returns from 2010 to 2017 for each company that engaged in activism. To accommodate the fact that companies can experience multiple events, company-days are duplicated for the number of times the firm engaged in activism. This allows for the calculation of a unique market model for each time that a company engaged in activism.

firm abnormal returns are equal to the error term from Equation 1, the variance in returns that cannot be explained by the market model. Formally, abnormal returns are the firm's return on a given day minus predicted returns derived from the market model:⁴

$$\text{Firm abnormal return}_{it} = \text{Firm return}_{it} - \widehat{\text{Firm return}}_{it} \quad (2)$$

One hundred and eighty-two (182) companies in the original Maks-Solomon and Drewry sample engaged in a joint activism event between 2011 and 2017. Six companies were then excluded from the analysis because stock market prices weren't available for long enough to estimate the market model, and 24 companies were dropped due to the presence of proximate confounding events. The final event study sample size is 335 observations with 152 unique corporations. An activism event taking place in 2011 was completely dropped from the sample due to confounding events, so the observations in the event study only occur from 2013 to 2017.⁵

To determine whether investors react positively to activism, I sum abnormal returns over various multiple-day event windows—because it could take time for investors to become aware of the activism event. Cumulative abnormal returns (CAR) are calculated for the [0,1], [0,3], [0,5], [0,7], and [0,9] event windows. For example, CAR over the [0,1] event window is simply the sum of abnormal returns on day 0 (the day of the event) and day 1 (the day after

⁴ Results of the event study are nearly identical if including dividends in the definition of stock returns or if defining abnormal returns simply as the difference between the company's stock returns and the value-weighted index returns. All three measures—no dividends, dividends, and simple abnormal returns—all correlate with each other near 0.99.

⁵ In the original Maks-Solomon and Drewry dataset, joint activism occurred from 2011 to 2017; there was one joint activism event in 2011 and no joint activism events in 2012. All observations for the activism event in 2011 were dropped because of the presence of confounding financial events, leaving the final sample as 2013 to 2017.

the event). Histograms displaying the distribution of CAR are located in Figure B.1 in Appendix B. Over each event window, returns are fairly normally distributed around zero, suggesting that activism causes no difference in stock price for the average company.

Figure 1 presents the results of a univariate linear regression with robust standard errors clustered by company.⁶ The constant in this regression is plotted, surrounded by a 95% confidence interval. With such small effect sizes, over none of the event windows in Figure 1 are CAR meaningfully different from zero. Contrary to the predictions of Hypothesis 1, activism has no short-term effect on a firm's value since, on balance, investors do not react positively or negatively to activism events.

Insert Figure 1 about here

Results are robustly null across a wide variety of specifications. Presented in Appendix C.1 are multiple robustness checks. Results essentially remain null even if the sample is subset to only include the first time a company engages in activism, where the firm has no prior reputation for social advocacy in these forms. Appendix C.1 also includes analyses using multiple specifications of standard errors. CAR for multiple different subsets of the data—across different issues and forms of activism—are also presented. Other robustness checks drop activism events that occurred proximately to one another and omit observations with outlier CAR (greater than 10% or less than -10%). I also demonstrate that CAR are not meaningfully different from zero regardless of firm size, name recognition, record for supporting diversity in the workplace, or consumer-orientation. Across every alternative specification, CAR are never

⁶ This model is essentially a t-test of whether CAR are statistically different from zero, adding robust standard errors.

meaningfully different from zero and they are almost always statistically insignificant at the 0.05 level.⁷

ANALYSIS 2: PREDICTING FUTURE ACTIVISM

Although the average corporation that engages in social activism sees no difference in their stock price after an activism event, it's managers' perceptions that ultimately shape their behavior. As Hypothesis 2 suggests, corporations that see an increase [or decrease] in their stock price after engaging in activism should be more likely [or less likely] to engage in activism in the future. To test this hypothesis, I use the same dataset as above.

While there is variation in CAR, there do not appear to be any systematic reasons why some companies see positive returns after engaging in activism while others see negative returns. I argue that returns are unrelated to activism engagement, since CAR are not statistically different from zero across any subset of corporations or alternative specification. In this sense, abnormal returns are as-if-random with respect to activism. And indeed, CAR are almost perfectly randomly distributed around zero, as can be seen in Figure B.1 in Appendix B.

In the analysis presented in this section, the outcome variable is a dichotomous measure of whether or not the company engages in activism again (using all joint activism data from 2013 to 2017). For each instance of activism in the dataset, I determine whether that same company engaged in activism at least one other time after that. For example, if a company signed a brief in 2015 but did not participate in joint activism again at any point in the future, the outcome variable takes the value of zero for that 2015 activism event; but if a company signed a brief in 2015 and then joined a business coalition in 2017, then the outcome variable

⁷ Werner (2017) finds positive abnormal returns of 9% when the *New York Times* disclosed names of companies that supported the Republican Governors' Association through covert independent expenditures. None of my results—across all of the robustness checks—are near that magnitude, even when they are occasionally statistically significant.

takes the value of one for that 2015 activism event. A table displaying the distribution of the outcome variable across time is presented in Appendix A.

The treatment variable, and only covariate included in the main models, is CAR. Therefore, the regression analysis determines the effect of CAR on the likelihood of future activism. The analysis excludes observations in 2017, leaving companies with many opportunities to engage in future activism in the dataset. Because of this, the models presented in this section determine whether CAR from activism in 2013 to 2016 can predict whether a company will engage in activism in the future (any time from 2013 to 2017). There are 152 companies (335 observations) in the sample before dropping 2017, 133 companies (231 observations) after dropping 2017, and 130 companies (227 observations) after dropping companies that didn't exist in 2017.

Insert Figure 2 about here

Since the outcome is binary, I use logistic regression and present marginal effects (changes in predicted probability). Standard errors are clustered by company. Figure 2 presents the effect of increasing CAR by 5% on the likelihood of future activism surrounded by a 95% confidence interval. Across all but one event window, the coefficient on CAR is positive and statistically significant at the 0.05 level. Confirming the predictions of Hypothesis 2, there is a positive relationship between CAR and the likelihood of future activism. The results indicate that higher abnormal returns following activism increases the likelihood that a firm will engage in activism again in the future; and lower abnormal returns following activism decreases the likelihood that a firm will engage in activism again in the future. Specifically, if CAR are 5% after corporate activism, the probability that the company will engage in activism again in the future increases by about 0.5 (a 50 percentage point greater likelihood).

Across various alternative specifications presented in Appendix C.2, results are usually similar. One important robustness check is to limit the sample to the firm's first joint activism

engagement so that there is only one observation per company. Investors don't expect these companies to engage in social activism so the stock market's reaction may be more consequential to future behavior. The effect of CAR is still positive but only statistically significant at the 0.05 level for the [0,5] event window. I also analyze the same sub-sample using a linear probability model and the effect size shrinks drastically.

Another important robustness check adds a variable for the annual percentage change in profit to the model. The intent behind this alternative specification is to account for the fact that activism could affect or be affected by the firm's profitability and the firm's profitability might correlate with the likelihood of future activism. (For example, corporate activism might increase the firm's profitability and a CEO that presides over a profitable company might have more flexibility to engage their firm in more activism.) The effect of CAR on future activism engagement is still statistically significant across all but one event window even after adding the profit variable to the model. Therefore, the effect of CAR on future activism is attributable to the market's immediate reaction to activism, not a change in some downstream, broader metric of financial performance such as the profitability of the firm.

Other robustness checks include adding a time trend, limiting the sample to 2015 and 2016, and dropping outlier CAR. In every robustness check, CAR have a statistically significant effect on the likelihood of future activism for at least one event window. In sum, there is an inconclusive effect of CAR on future activism but the results are highly suggestive of a positive effect.

SUMMARY AND DISCUSSION

The question of whether corporations face a stock market incentive to engage in certain types of political activism has profound implications for the nature of the political economy. Using the setting of a stock market event study, this paper has sought to determine whether, on balance, investors update their evaluations of corporate financial performance in response to firm social advocacy. If the stock market encourages companies to engage in liberal social activism, then investors are able to influence public policy debates (albeit indirectly). However,

I find no evidence that the average investor's perception of overall firm financial viability is influenced by social activism, since stock market abnormal returns are not statistically different from zero after companies engage in activism. Thus, corporate activism does not increase a company's value in the short term and there is no stock market penalty or incentive for corporate activism.

Three limitations of the event study should be noted. First, as aforementioned, there are multiple biases to how investors evaluate firm financial performance so this study cannot determine that there is no *objective* economic rationale to engage in activism, only that investors believe there to be none. While I found consistent evidence that firm social activism was covered by the press, it is still possible that investors do not become immediately aware of the activism. Second, this study can only determine whether there is a *short-term* reaction by the stock market. It is possible that, over time, stock prices begin to “bake in” corporate activism if firms consistently engage with social issues. Third and finally, while I have analyzed many different subsets of the data, it's possible that there are moderators of stock market reaction that I have not been able to identify. *Certain types* of companies may indeed see an increase in their stock price when engaging in *certain types* of activism, but I have not been able to identify any conditions that predict returns following activism.

Interestingly, while the average corporation does not see positive or negative abnormal returns immediately following social activism, companies appear to attribute changes in their stock price to their activism, since companies that see positive abnormal returns are somewhat more likely to engage in activism again in the future. In the end, this means that the stock market *can* encourage companies to engage in activism—but this incentive is based upon managers' possible misperceptions of the situation. This result suggests evidence of institutionalized learning: The political positions taken by a corporation can be predicted by reactions to previous activism.

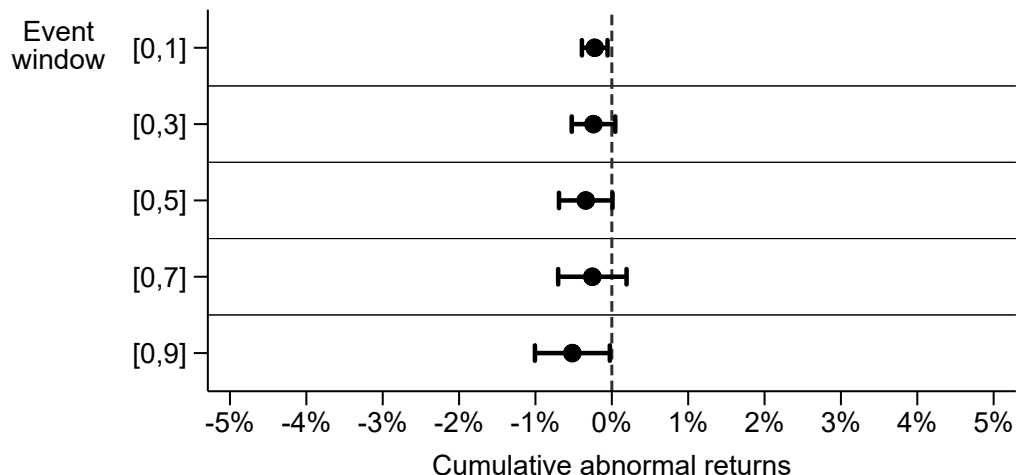
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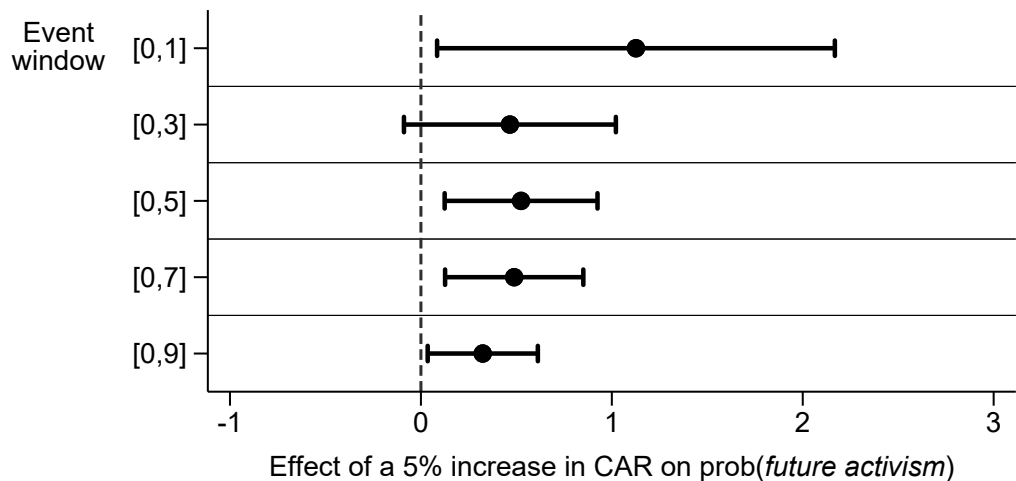
FIGURES

FIGURE 1. Stock market reactions to activism



Coefficient plots shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 335$)

FIGURE 2. Predicting future activism



The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. Results for each event window are statistically significant at the 0.05 level. ($N = 227$)

APPENDIX A. CORPORATE ACTIVISM DATA

Since it is assumed that—all else equal—joint activism will receive more attention from the media and investors, the event study focuses on Supreme Court *amicus* briefs with multiple *amici* and open letters to government officials (which might also be called business coalitions). Data for corporate activism come from replication data from (Maks-Solomon and Drewry 2019). Maks-Solomon and Drewry (henceforth MD) originally studied the internal organizational forces that give rise to LGBT rights activism. Their replication data also include activism relating to immigration. Readers are referred to their online appendix for more details on data collection, but the present appendix section briefly summarizes their data collection effort and describes the events included in this study.

MD collect Supreme Court briefs, lobbying disclosures, PAC contributions, tweets, press releases, op-eds, speeches, and open letters to government officials (which are usually signed by multiple companies at once). Activism is only included in the database if it is attributed to the company itself or its CEO acting on behalf of their company. If an Executive Vice President (for example) signs onto a brief, that event is not included in the database. From the wide range of activism collected by MD, I only include briefs and open letters in the event study analysis.⁸ All other forms of activism are either not joint activism or they are not high-profile events that receive substantial media coverage. Issues included in the MD dataset include LGBT non-discrimination, same-sex marriage, Deferred Action for Childhood Arrivals, and the Trump Muslim travel ban. Table A.1 presents a timeline along with a corresponding description of the event.

A frequency table of the future activism outcome variable is presented in Table A.2. Once companies engage in activism, they frequently do so again in the future. However, when

⁸ Only open letters or business coalitions where multiple companies participated were included in the data analysis. Companies didn't have to engage together with other companies in the sample, just with any other corporation.

only examining companies' first activism (Table A.3), it is clear that many corporations engage in activism for the first time without engaging in activism again.

TABLE A.1. Description and timeline of events

Event	Date	N firms	Issue	Description
1	Wednesday, February 27, 2013	18	Same-sex marriage	Amicus brief in U.S. v. Windsor
2	Thursday, February 28, 2013	17	Same-sex marriage	Amicus brief in Hollingsworth v. Perry
3	Monday, February 24, 2014	1	LGBT discrimination	Multiple letters sent to AZ governor re: RFRA
4	Thursday, April 17, 2014	39	LGBT discrimination	HRC business coalition for workplace fairness
5	Thursday, March 5, 2015	41	Same-sex marriage	Amicus brief in Obergefell v. Hodges
6	Monday, March 30, 2015	2	LGBT discrimination	Letter sent to Mike Pence and IN state legislature re: RFRA
7	Wednesday, April 1, 2015	5	LGBT discrimination	Join statement from Indiana tech leaders re: RFRA (1st version)
8	Thursday, April 2, 2015	1	LGBT discrimination	Join statement from Indiana tech leaders re: RFRA (2nd version)
9	Monday, April 6, 2015	2	LGBT discrimination	Join statement from Indiana tech leaders re: RFRA (3rd version)
10	Wednesday, April 15, 2015	23	LGBT discrimination	TX business coalition against LGBT discrimination
11	Thursday, January 7, 2016	26	LGBT discrimination	GA business coalition against LGBT discrimination
12	Friday, January 22, 2016	7	LGBT discrimination	FL business coalition against LGBT discrimination
13	Tuesday, March 8, 2016	1	DACA	Amicus brief in U.S. v. Texas*
14	Thursday, March 10, 2016	21	LGBT discrimination	HRC business coalition supporting Equality Act (original members only)
15	Tuesday, March 29, 2016	24	LGBT discrimination	NC business coalition against HB2
16	Monday, April 4, 2016	3	LGBT discrimination	MO business coalition against LGBT discrimination
17	Friday, January 13, 2017	1	LGBT discrimination	IL business coalition against LGBT discrimination
18	Tuesday, February 7, 2017	1	Muslim travel ban	Open letter by biotech companies opposing travel ban
19	Tuesday, February 21, 2017	3	LGBT discrimination	TX business coalition against LGBT discrimination
20	Wednesday, March 1, 2017	7	LGBT discrimination	Amicus brief in Gloucester County School Board v. G.G.
21	Wednesday, July 19, 2017	4	LGBT discrimination	Letter to TX governor against ant-LGBT legislation
22	Thursday, August 31, 2017	27	DACA	FWD.us DACA letter to Trump and Congress (1st version)
23	Monday, September 18, 2017	10	Muslim travel ban	Amicus brief in Trump v. Hawaii
24	Wednesday, September 20, 2017	15	DACA	FWD.us DACA letter to Trump and Congress (2nd version)
25	Thursday, October 26, 2017	10	DACA	Full page ad from businesses in Politico supporting DACA
26	Monday, October 30, 2017	8	LGBT discrimination	Amicus brief in Masterpiece Cakeshop v. Colorado Civil Rights Commission
27	Thursday, November 16, 2017	16	DACA	Coalition for the American Dream (original members only)
28	Thursday, December 7, 2017	2	LGBT discrimination	WI business coalition against LGBT discrimination

If a business coalition or open letter was updated to include additional participants, any subsequent entries in the dataset only include firms that were not original signees onto the coalition or letter. The source of each activism event is noted in the replication dataset, available from the author upon request.

Note: *In this instance, the brief specifically mentions that the CEOs are representing themselves and not their corporations. The only CEO in the sample to sign the brief was Mark Zuckerberg of Facebook. As the founder of Facebook, and such a prominent public figure, it would seem arbitrary and capricious to exclude it from the sample of activism. For this reason, Maks-Solomon and Drewry (2019) include this observation in the dataset.

TABLE A.2. Future activism outcome variable (entire dataset)

Active again?	2013	2014	2015	2016	2017
No (0)	1	8	22	46	77
Yes (1)	34	32	49	35	150
Total	35	40	71	81	227

TABLE A.3. Future activism outcome variable (firm's first activism engagement)

Active again?	2013	2014	2015	2016	2017
No (0)	1	8	14	21	44
Yes (1)	25	18	10	3	56
Total	26	26	24	24	100

APPENDIX B. CALCULATING ABNORMAL RETURNS

Cumulative abnormal returns (CAR) are then summed over multiple event windows.

For each activism event that a given firm (i) engaged in:

$$\text{Cumulative abnormal returns } [0,1] = \sum_{t=0}^1 \text{Firm abnormal return}_{it}$$

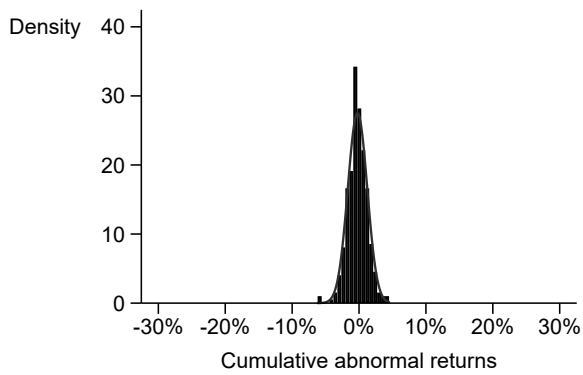
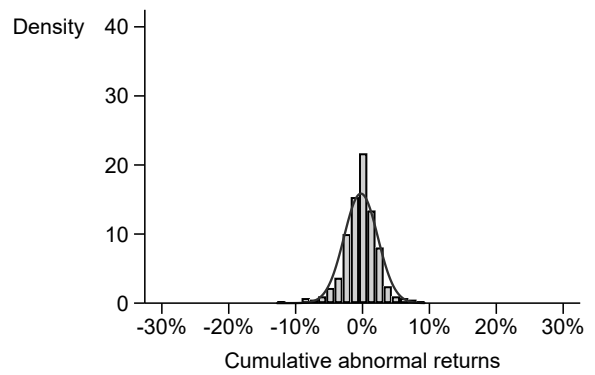
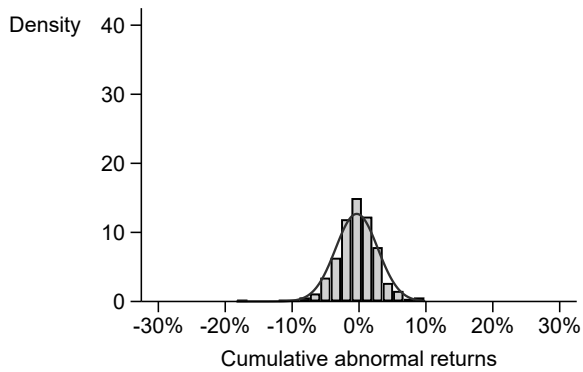
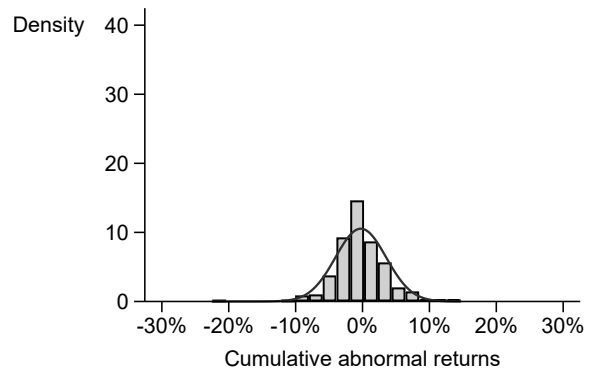
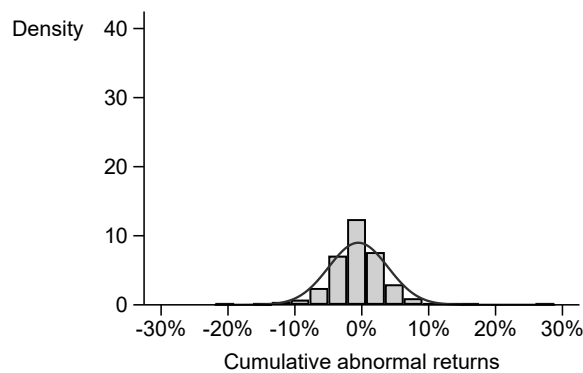
$$\text{Cumulative abnormal returns } [0,3] = \sum_{t=0}^3 \text{Firm abnormal return}_{it}$$

$$\text{Cumulative abnormal returns } [0,5] = \sum_{t=0}^5 \text{Firm abnormal return}_{it}$$

$$\text{Cumulative abnormal returns } [0,7] = \sum_{t=0}^7 \text{Firm abnormal return}_{it}$$

$$\text{Cumulative abnormal returns } [0,9] = \sum_{t=0}^9 \text{Firm abnormal return}_{it}$$

The distribution of CAR can be viewed in Figure B.1 below. Regardless of the event window, CAR are fairly normally distributed around zero. As is to be expected, the wider the event window, the more variation there is in CAR.

FIGURE B.1. Cumulative abnormal returns over various event windows**(a) [0,1] window****(b) [0,3] window****(c) [0,5] window****(d) [0,7] window****(e) [0,9] window**

Histograms display the distribution of cumulative abnormal returns over various event windows. A normal distribution is overlaid on top of the histograms (the line).

APPENDIX C. ALTERNATIVE SPECIFICATIONS

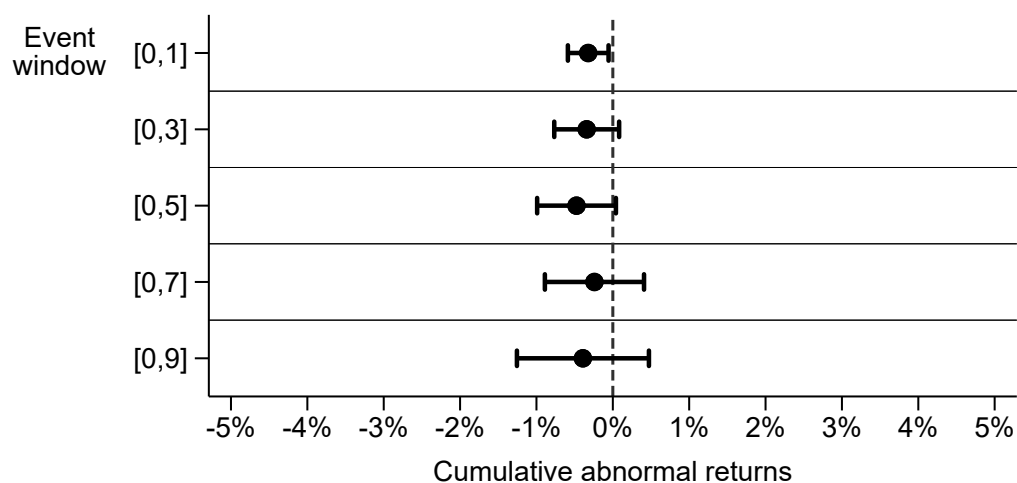
Robustness checks for the first analysis are presented in the first subsection while robustness checks for the second analysis are presented in the second.

C.1 Stock Market Reactions to Activism

This section details robustness checks of the analysis of stock market reactions to activism. Like in Figure 1, average stock market abnormal returns are presented for the [0,1], [0,3], [0,5], [0,7], and [0,9] event windows. CAR are not statistically and substantively different from zero in any of the models presented in this section.

Figure C.1 subsets the dataset to only include companies engaging in activism for the first time (in the dataset). Here, there is only one observation per corporation so there is no multilevel structure to the data; because of this, standard errors are normal robust standard errors (not clustered standard errors). Since this analysis only includes firms' first activism, the stock market would be reacting without any expectations; investors do not expect these specific companies to engage in activism as they do when corporations engage for the second time. Results are still null in this robustness check.

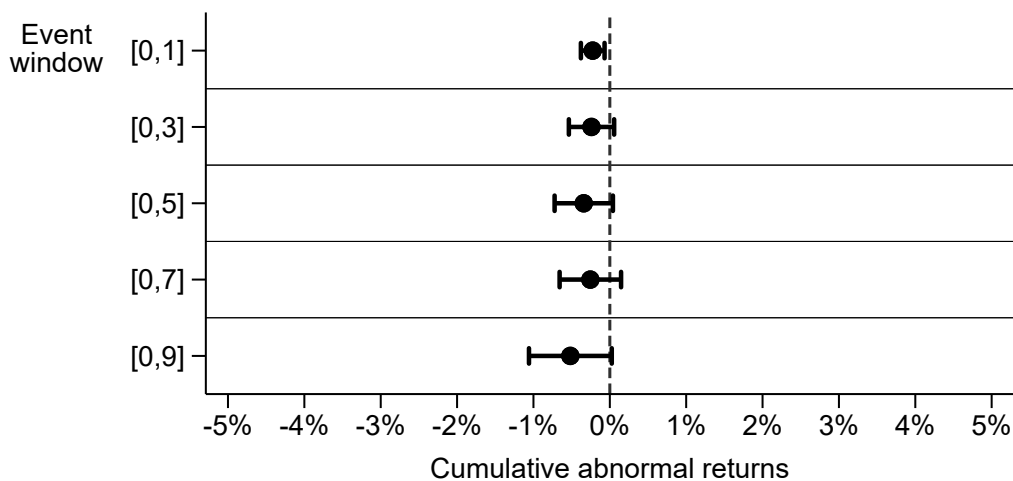
FIGURE C.1. Firm's first activism engagement only



Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 116$)

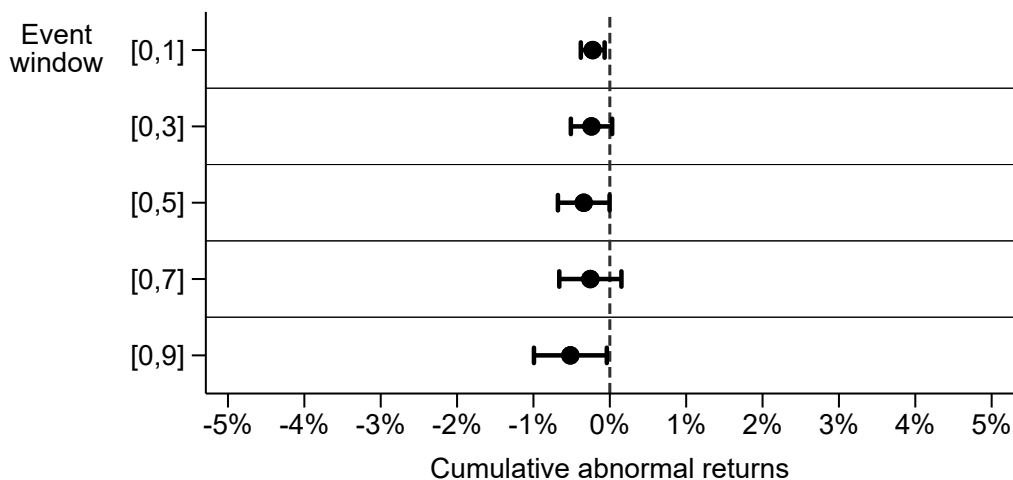
Figures C.2 and C.3 replicate the analyses presented in Figure 1 but in C.2 standard errors are clustered by event and in C.3 normal robust standard errors are used (not clustered by company). These robustness checks don't meaningfully change the size of the confidence intervals.

FIGURE C.2. Cluster SEs by event



Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 335$)

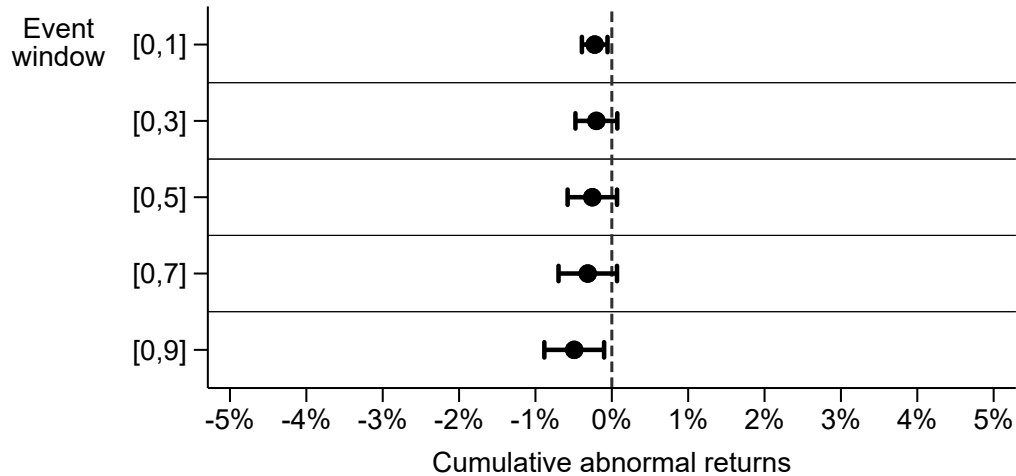
FIGURE C.3. Non-clustered robust SEs



Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 335$)

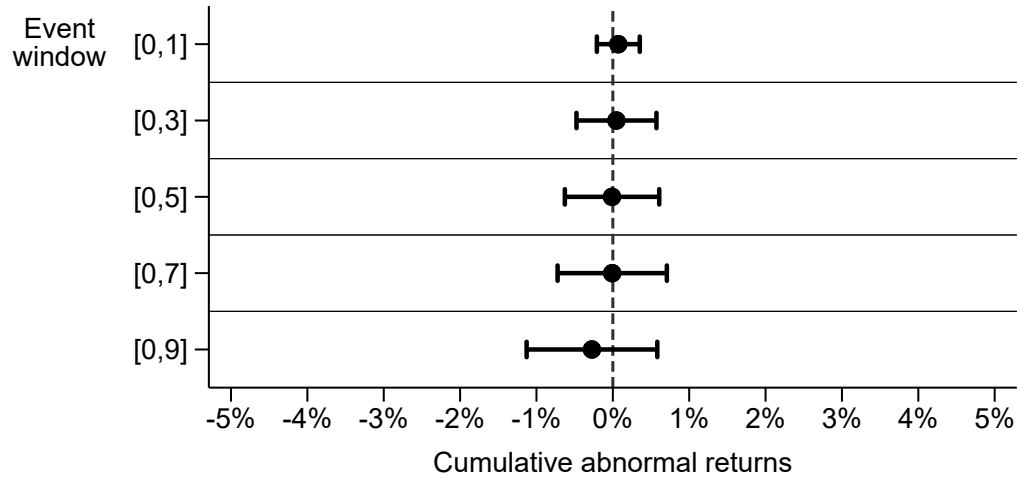
CAR presented in Figure C.4 omit observations with outliers. Specifically, observations where CAR were greater than 10% or less than -10% were omitted from the analysis.

FIGURE C.4. Omitting outlier CAR

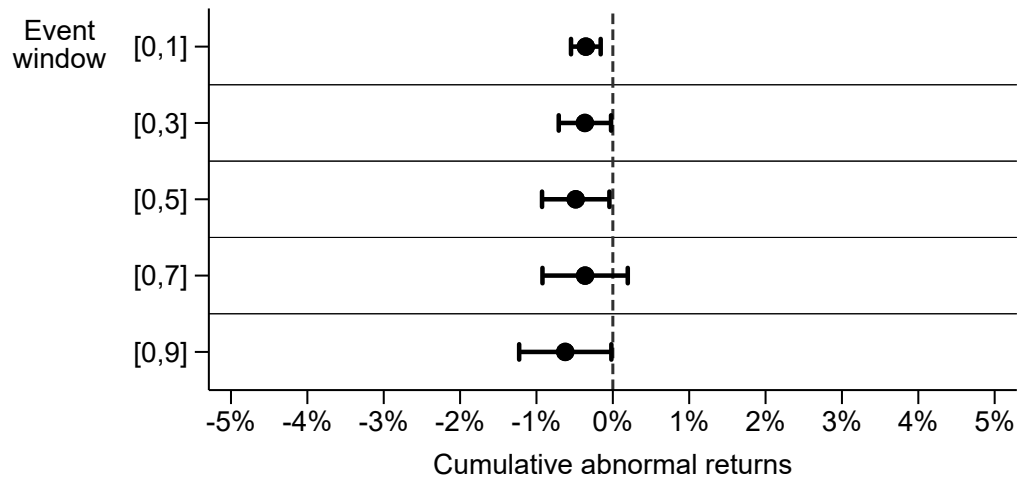


Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. (*N* varies by event window, ranging from 323 to 335.)

Figures C.5 through C.10 show CAR for different types of activism. C.5 presents CAR only for activism in the form of Supreme Court briefs while C.6 presents CAR only for activism in the form of open letters or business coalitions. C.7 presents CAR only for activism on LGBT issues while C.8 presents CAR only for activism on immigration issues. C.9 presents CAR only for activism attributed to the CEO—acting on behalf of their company—while C.10 presents CAR only for activism attributed to the company itself (not its CEO). For no subset of the activism data are CAR statistically and meaningfully different from zero.

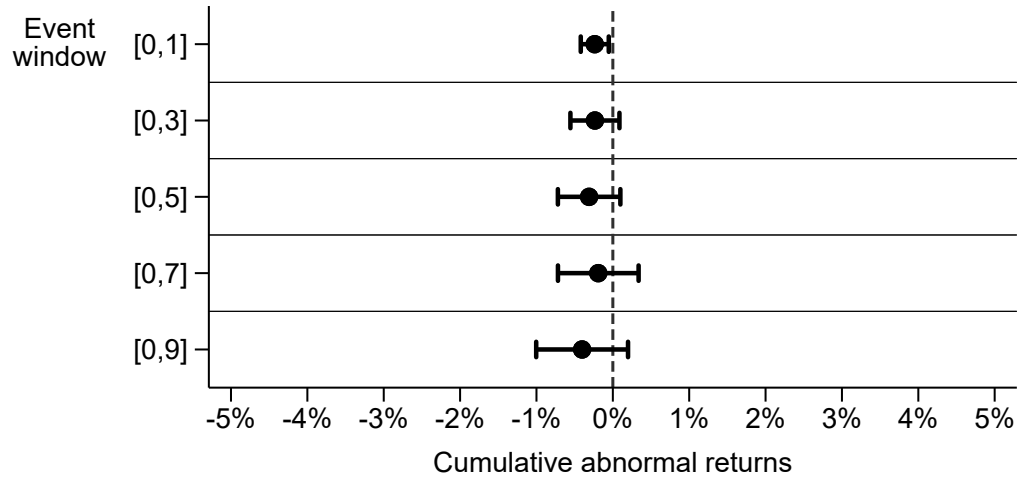
FIGURE C.5. Briefs only

Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 102$)

FIGURE C.6. Business coalitions only

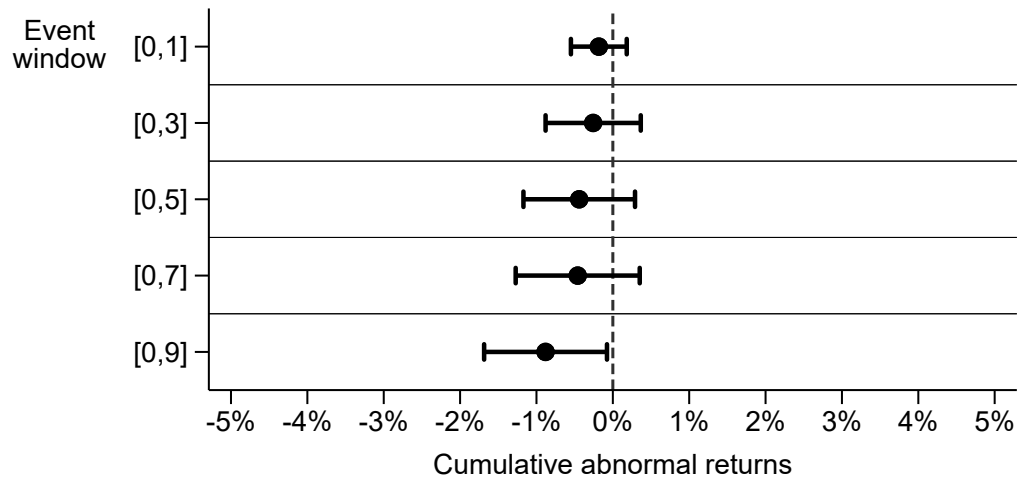
Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 233$)

FIGURE C.7. LGBT issues only

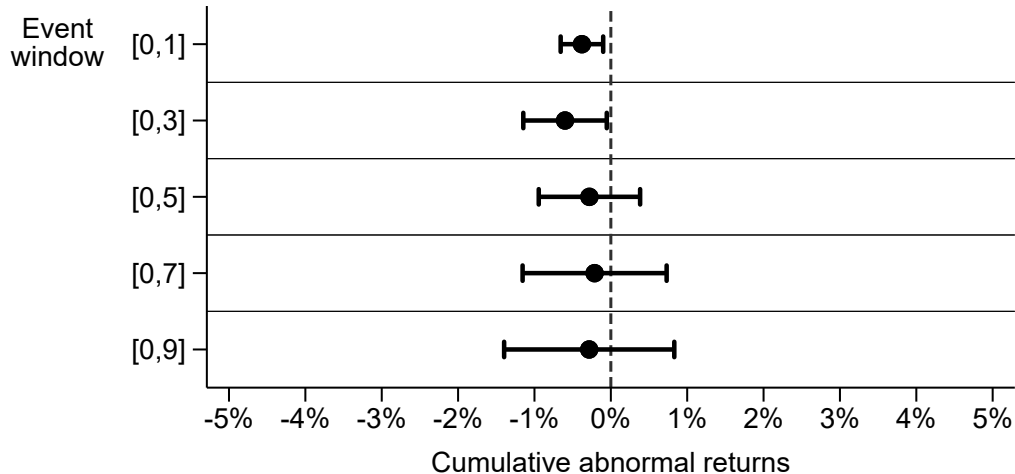


Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 255$)

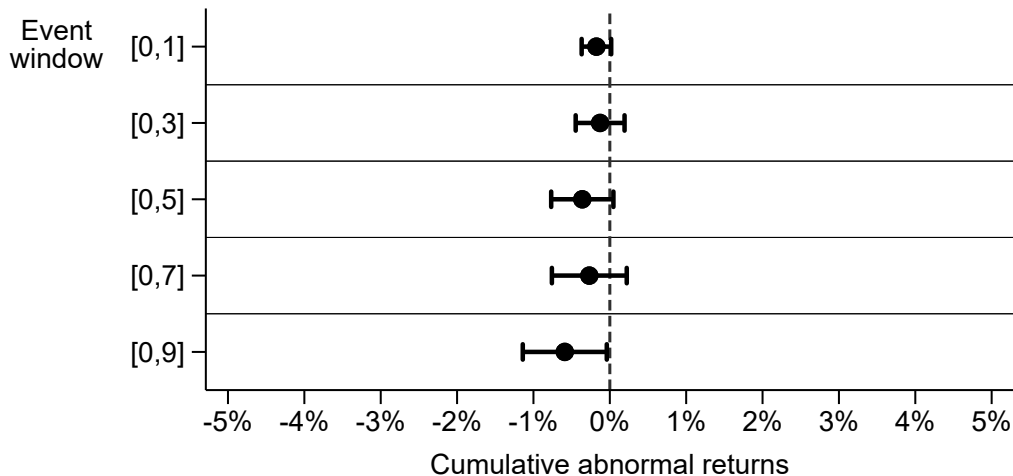
FIGURE C.8. Immigration issues only



Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 80$)

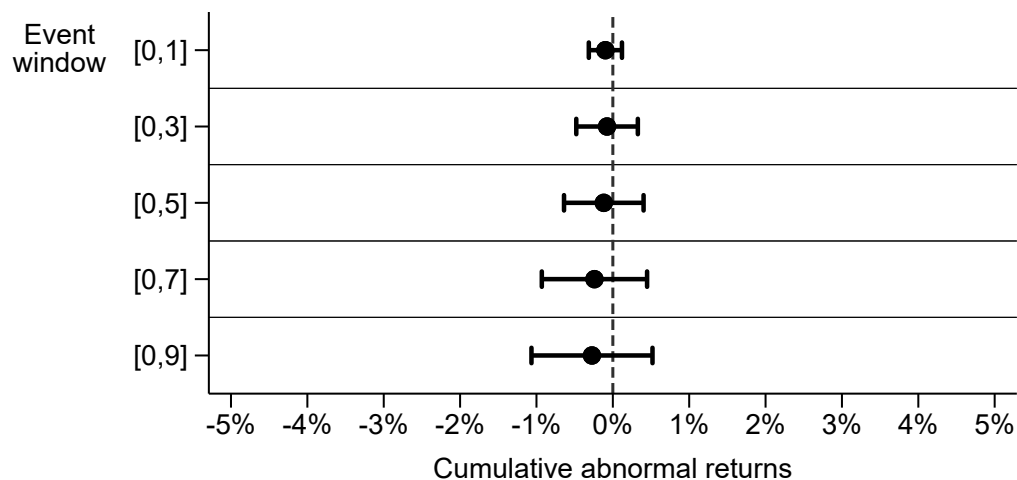
FIGURE C.9. Activism attributed to CEO only

Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 80$)

FIGURE C.10. Activism attributed to company only

Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 255$)

A unique feature of this event study is that companies can engage in activism more than once. An issue that arises is that multiple events may occur around the same time, and CAR could be conflating the effect of another, proximate event. Figure C.11 drops events that took place closely to one another (within the [0,9] event window), dropping 17 events. CAR are still virtually zero in this model.

FIGURE C.11. Excluding events that took place near others

Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 170$)

Figures C.12 through C.15 show CAR for different types of companies by adding variables to the basic regression model. None of these variables are statistically significant, indicating that none of these factors correlate with the CAR a company experiences after engaging in activism.

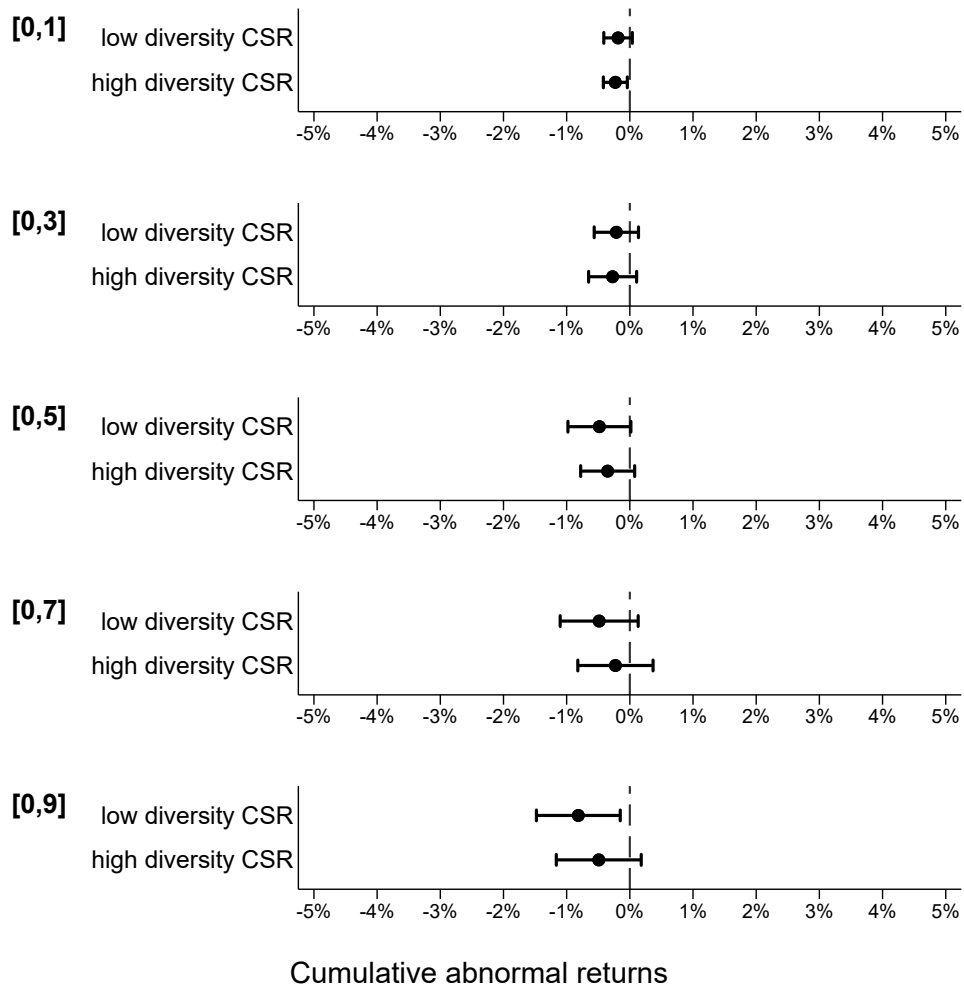
Investors might only reward activism when it subverts expectations, like when a company that does not have a record for internally supporting diversity advocates for social liberalism. Using the firm diversity index from MD replication data, the analysis used to generate Figure C.12 estimates CAR at low and high levels of diversity-related corporate social responsibility (CSR). Low diversity CSR is the 25th percentile on the diversity CSR index while high diversity CSR is the 75th percentile (among the treated companies in this sample). Investors do not react differently based upon the firm's diversity reputation.

More-recognizable firms might be more likely to receive media coverage for their activism. Also using replication data from MD, Figure C.13 presents CAR by whether companies were one of the 60 or 100 most recognizable firms according to the Harris Poll. The results indicate that investors do not react differently based upon the firm's recognizability.

Another possibility is that the stock market only rewards activism when it can help companies increase their customer base. If investors only reward attempts to win over customers, the effect of activism events on CAR should be concentrated among companies in consumer-oriented economic sectors. Figure C.14 presents companies by whether they are consumer-oriented—defined here as being a part of the Consumer Discretionary or Consumer Staples GICS economic sectors. Results indicate that investors do not react more-positively to activism for companies that have an economic interest in winning over consumers.

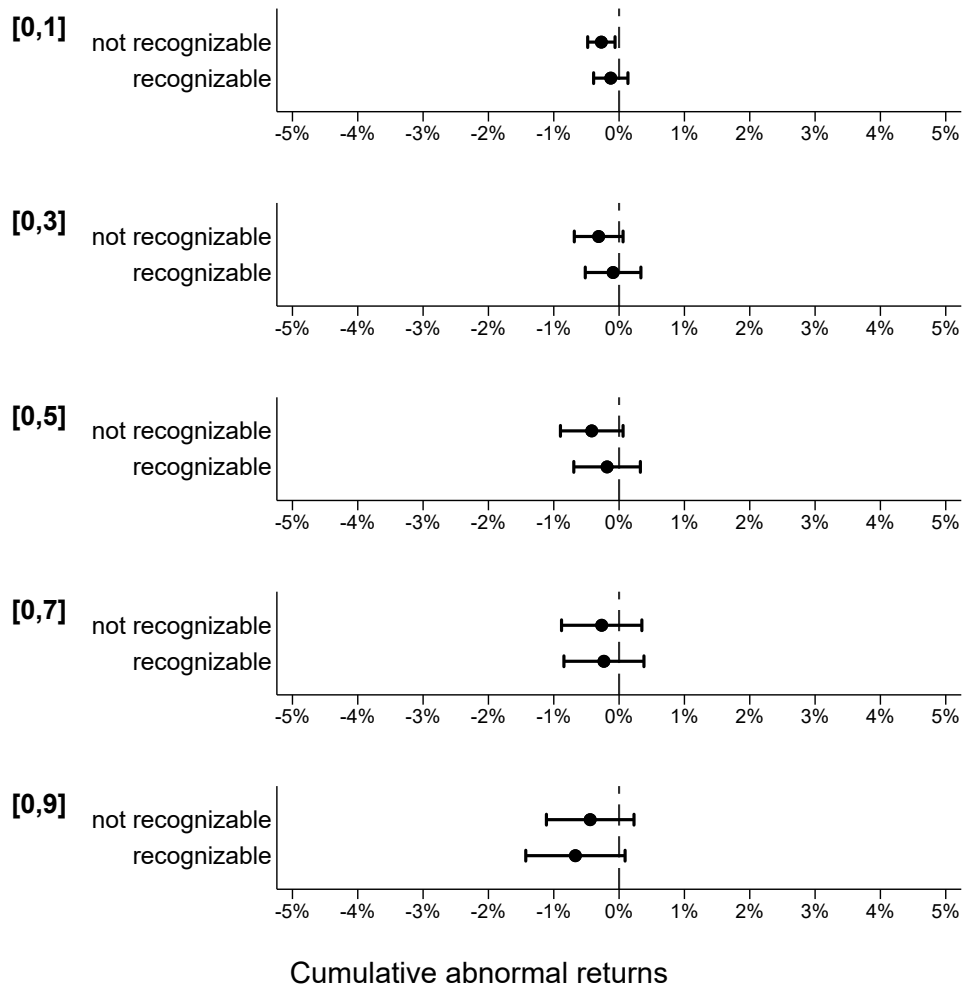
Finally, Figure C.15 divides companies by whether or not they were one of Fortune's 10 largest companies between 2011 and 2017. Since larger companies have more resources and a higher profile, activism might only come to the attention of investors when it's large companies that engage. The analysis simply adds a dummy variable for whether (1) or not (0) the company's revenue was greater than or equal to that of the 10th largest company in 2011 according to the Compustat database (Standard & Poor's/Compustat 2019). As the results show, investors react the same regardless of company size.

FIGURE C.12. Differential effects by firm diversity reputation



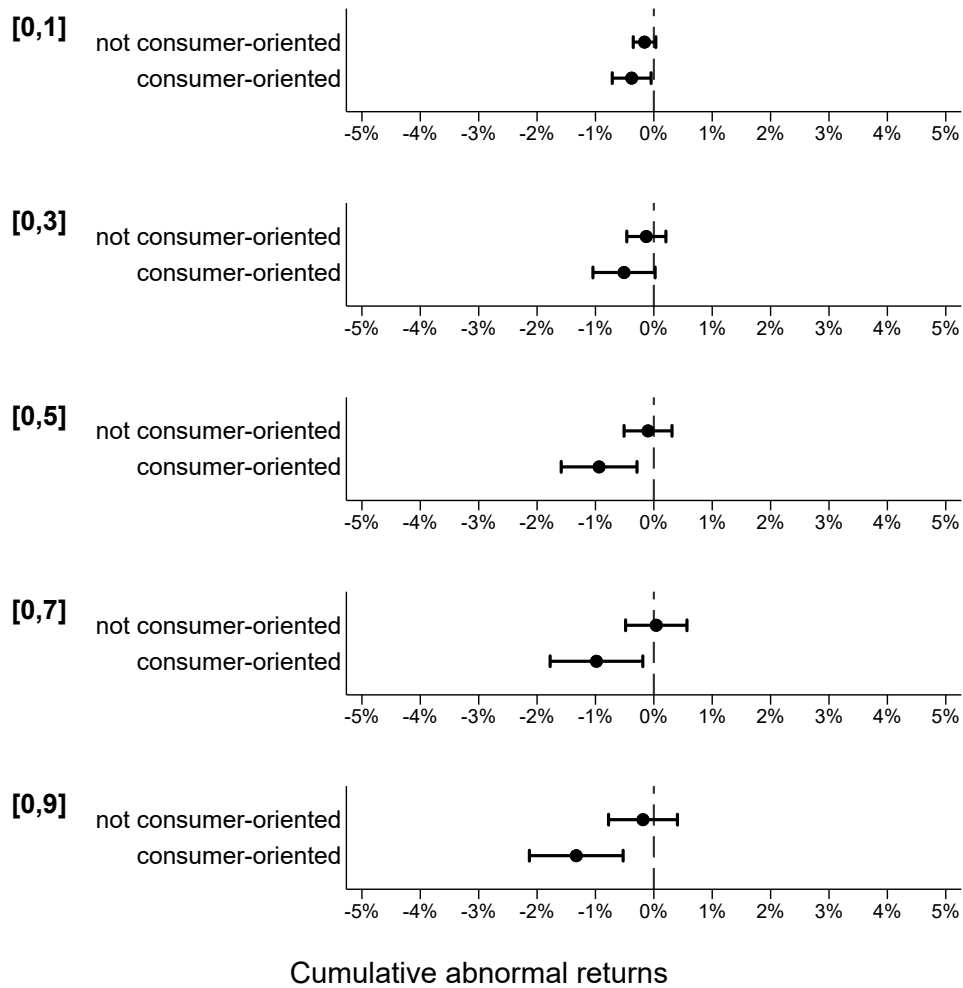
Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 319$)

FIGURE C.13. Differential effects by firm name recognition



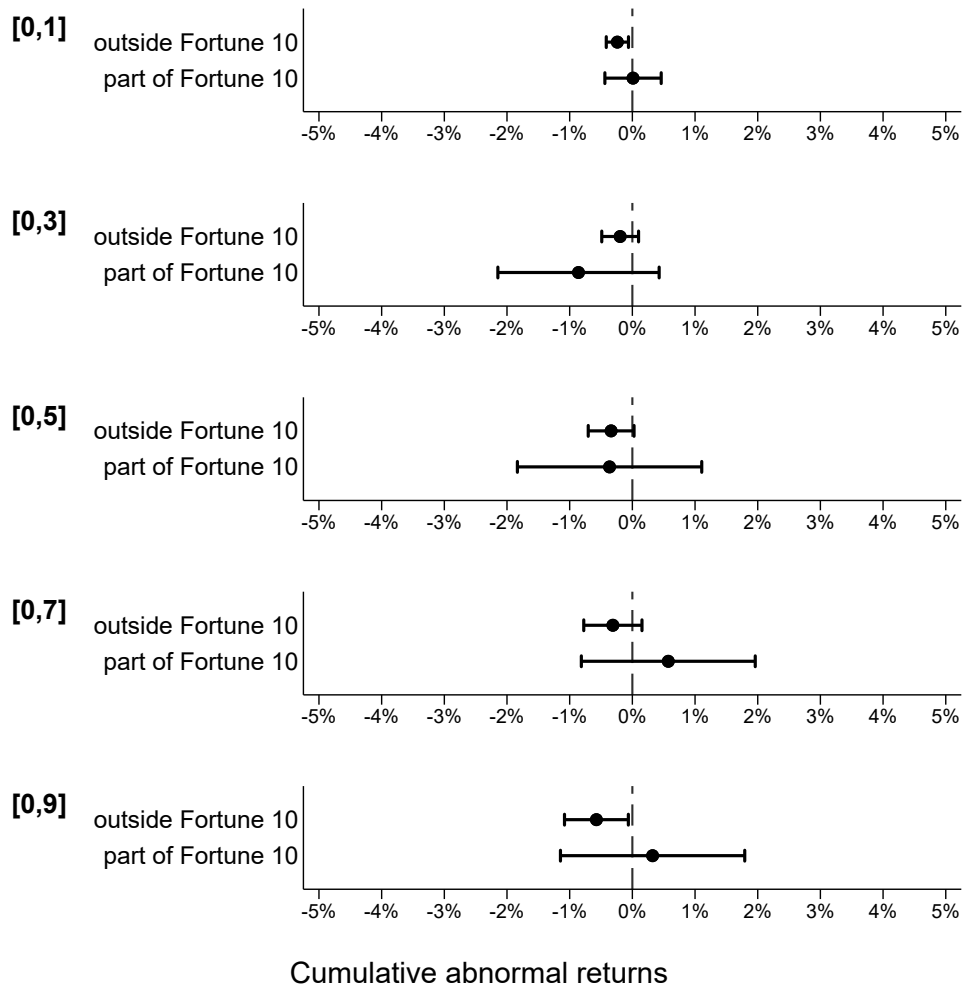
Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 335$)

FIGURE C.14. Differential effects by firm consumer orientation



Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 334$)

FIGURE C.15. Differential effects by firm size



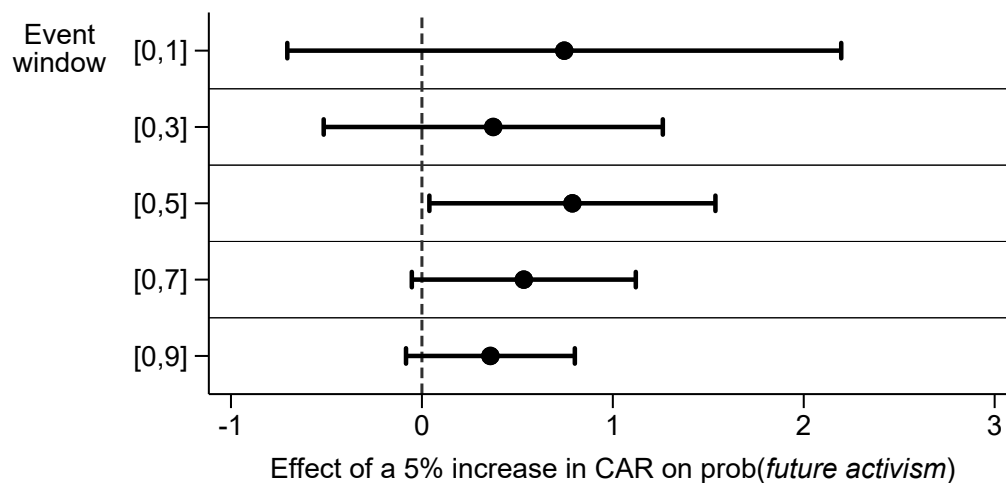
Coefficient plot shows cumulative abnormal returns over various event windows. Estimates are surrounded by a 95% confidence interval. ($N = 334$)

C.2 Predicting Future Activism

This section details robustness checks of the analysis using CAR to predict future activism engagement. Like in Figure 2, the effect of a 5% increase in CAR on the likelihood of future activism is presented for the [0,1], [0,3], [0,5], [0,7], and [0,9] event windows. Across each robustness check, the effect of CAR is positive and it is statistically significant for at least one event window per figure.

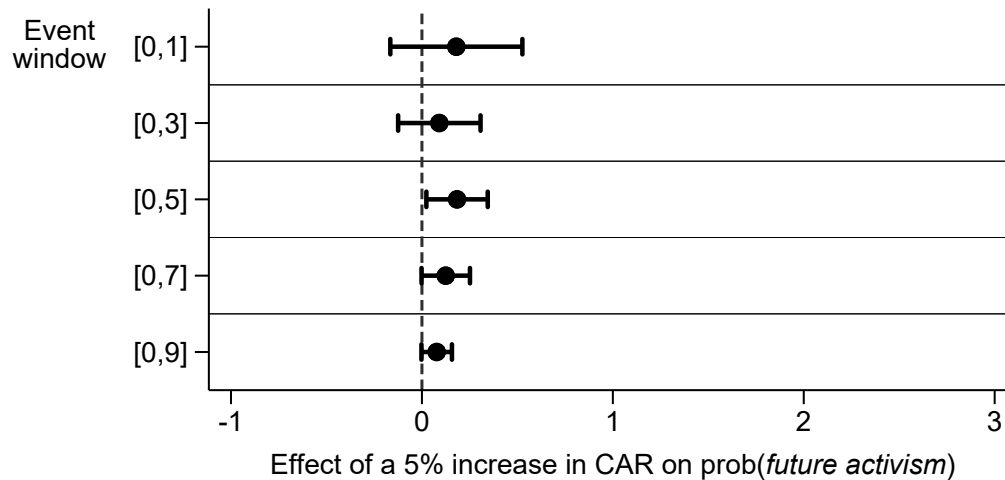
Figure C.16 presents logistic regression marginal effects among the sub-sample of observations where firms are engaging in their first activism event. Stock market reactions to the first activism engagement are likely to be as-if-random—to a greater extent than reactions to subsequent activism engagement. There is only one observation per company so there is no concern that unobserved heterogeneity is confounding results. Since the results in Figure C.16 are based upon the analysis of a small sample size making logistic regression potentially problematic, Figure C.17 presents the same analysis instead using an OLS regression—and effect sizes shrink drastically.

FIGURE C.16. Predicting future activism sub-setting to firm’s first activism engagement



The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. ($N = 100$)

FIGURE C.17. Predicting future activism using OLS and sub-setting to firm’s first activism engagement



The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. ($N = 100$)

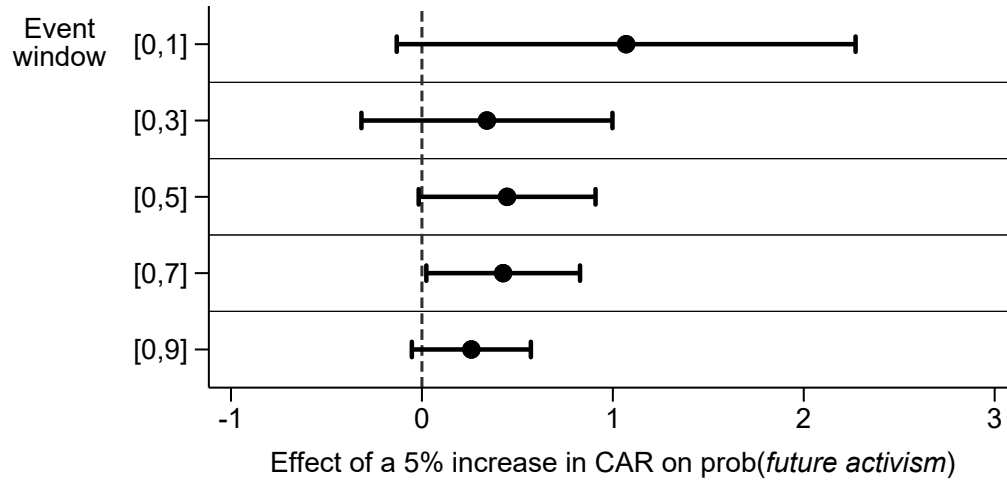
The remaining robustness checks use the full sample of activism events, as does the analysis presented in Figure 2. The results presented in Figure C.18 add a time trend to the model, to control for the possibility that the likelihood of future activism changes across time.

The results presented in Figure C.19 add to the model a variable for the percentage change in profit from the previous fiscal year to control for the fact that abnormal returns might correlate with the corporation’s overall financial well-being. Profit data were obtained from the Compustat database (Standard & Poor’s/Compustat 2019).

The analysis used to create Figure C.20 subsets the dataset to only include observations in 2015 and 2016 in case companies have a short “memory” for stock market reactions to previous activism engagement. Therefore, the analysis seeks to determine whether stock market reactions to activism that took place in 2015 and 2016 can predict whether companies again engaged in activism in 2015, 2016, or 2017.

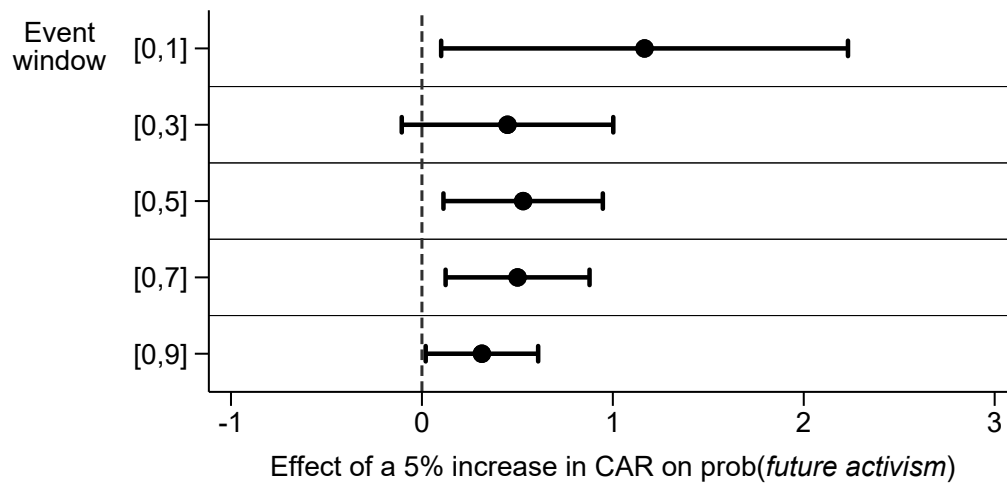
Finally, the results presented in Figure C.21 drop extreme outlier values of CAR, the treatment variable. If CAR across any event window are greater than 10% or less than -10%, they are omitted from the analysis.

FIGURE C.18. Predicting future activism adding a time trend

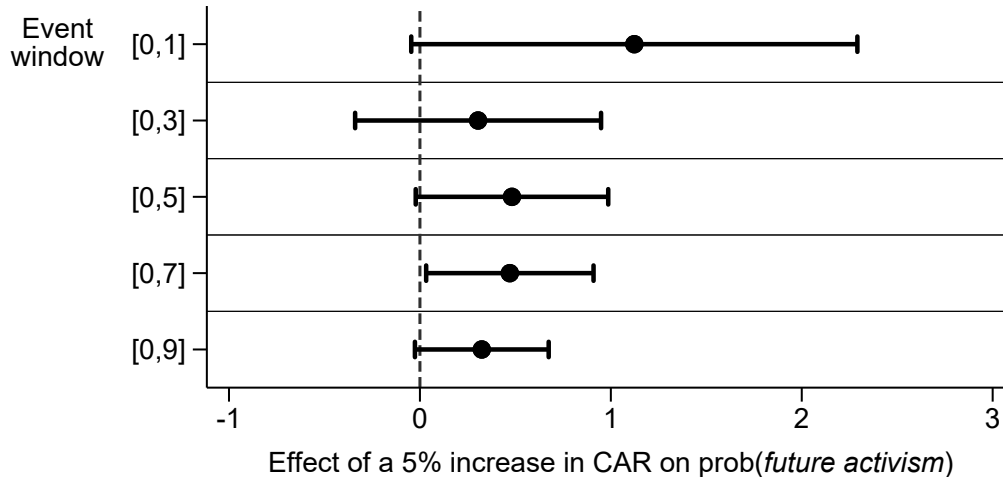


The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. ($N = 227$)

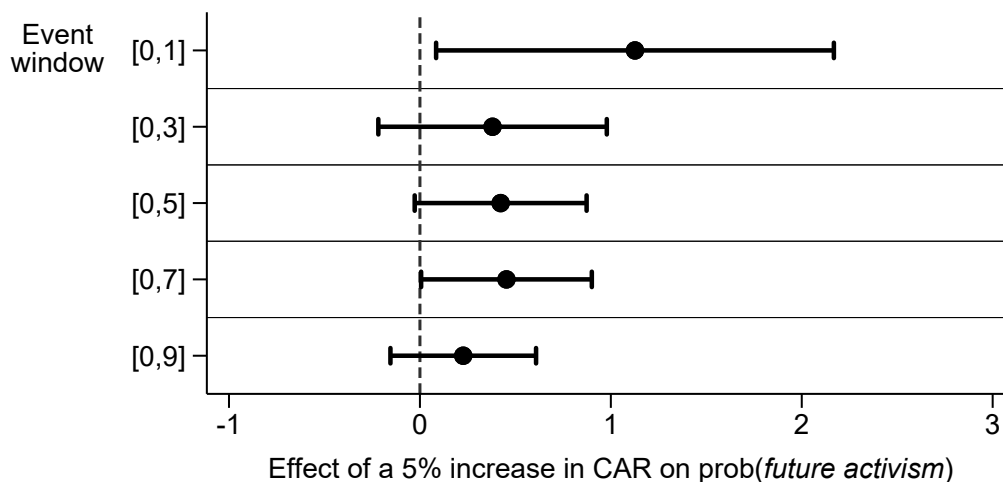
FIGURE C.19. Predicting future activism adding change in profit



The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. ($N = 227$)

FIGURE C.20. Predicting future activism for 2015 and 2016 only

The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. ($N = 152$)

FIGURE C.21. Predicting future activism omitting outlier CAR

The figure shows the marginal effect of a 5% increase in cumulative abnormal returns (CAR) over various event windows on the likelihood of future activism. The outcome variable is dichotomous and takes the value of one if the firm engaged in future activism in the dataset and zero otherwise, omitting observations for events that took place in 2017. Estimates are surrounded by a 95% confidence interval. (N varies by event window, ranging from 219 to 227.)