Companies Taking a Stand: The Effect of Corporate Activism on Wall Street

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Abstract

Some companies have begun to take a stand on controversial social and political issues. These initiatives, which are defined as "corporate activism", are part of a complex context that is characterised by distrust in public institutions and governments. This paper analyses the impact of corporate activism on the companies that have implemented it, as well as the variables that have an influence on whether that impact is positive or negative. To this end, a wide sample of corporate activism cases were analysed using an event analysis approach to identify the effect of two key variables: (i) the controversial nature of the sector, and (ii) the type of activism. The results show that corporate activism actions have positive effects when the sector is not perceived as controversial, and negative when the type of activism is based on social rights.

Keywords: corporate activism, brand activism, finance corporate valuation, event analysis

62% of consumers base their brand choice decisions on the position that the company takes on social issues that is important to consumers, and 49% agree that brands can solve the problems of our society better than governments themselves (Edelman Trust Barometer, 2019). This trend coincides with the increasingly active role that companies occupy in today's society as corporate citizens (Altman & Vidaver-Cohen, 2000; Matten & Crane, 2005). The notion of specific companies defending immigration, supporting the integration of groups with different sexual orientations or encouraging people to vote for certain political parties in elections was inconceivable only a few years ago. This phenomenon, now known as "corporate activism" consists of "business efforts to promote, impede, and/or environmental reform or stasis with the desire to promote or impede improvements in society" (Kotler & Sakar, 2018, p.568). Moreover, due to these business public stands, societal change is coming through new attitudes and behaviours (Eilert & Nappier, 2020). This concept is one of the most hotly debated today in academic and professional circles. The question, therefore, is not whether companies should incorporate a social component into their strategies, but how to do it (Weinzimmer & Esken, 2016).

It is not easy to find empirical research regarding corporate activism, and there are not many contributions addressing its impact on companies' financial results (Bhagwat, Warren, Beck & Watson IV, 2020). However, recent studies have shown that brand activism cause changes on consumer attitudes towards the brand and, therefore, it has to have some effects on corporate results (Mukherjee & Althuizen, 2020; Korchurn, Rafieian, Aggarwal & Swain, 2019; Parcha & Kingsley, 2020).

This area of study is tremendously relevant because it could redefine the role of companies in society and generates a profound debate about the responsibilities of states, the general public's distrust of institutions and the emergence of companies as active agents in the

search for social justice. It is therefore not just an economic question, but one that requires the exploration of a phenomenon that can influence the structures of our society.

Furthermore, brand activism is considered as natural and faster evolution of "corporate social responsibility" (Kotler & Sarkar, 2018) and "corporate ethics" concepts that have resulted in a broad theoretical and empirical body of literature that is rich in ideas (Maon, Lindgreen & Swaen, 2009), from purely conceptual approaches to others more focused on the effects of social responsibility decisions on the financial results of a broad range of companies (Tsoutoura, 2004; Cochran & Wood, 1984).

Unfortunately, an empirically grounded under-standing of how companies that decide to adopt public stances affects stakeholders and/or could have negative and positive effects on their income statements, is still missing in the academic literature. The results obtained to date are rather inconclusive (Parcha & Kingsley, 2020) or, in many cases, focused on theoretical approaches that have not yet been empirically tested (Eilert & Nappier, 2020; Vredenburg, Kapitan, Spry & Kemper, 2020).

We aim to examine the effect of corporate activism on financial results by analysing shareholder responses. We will use the concept of corporate activism instead of brand activism because a single company can have multiple brands, and activism initiatives are carried out by the company as a whole and not by its brands individually. In this regard, our work seeks to answer two fundamental questions: (i) what kind of reaction, positive or negative, does the brand activism of an organisation generate in its shareholders? and (ii) what factors determine the adoption of a strategy based on brand activism?

The contribution of our study to the scarce literature on corporate activism is twofold. First, from a database of 58 cases of corporate activism, we empirically determine its economic impact on companies that have adopted this form of social participation. Second,

our study analyses the variables that explain the positive or negative impact that these actions have had on the companies that adopted them.

The structure of this work is as follows: first we analyse the principles of corporate activism and the theories that support them. Secondly, the literature related to the financial effects of social activism is reviewed, and thirdly, an empirical methodology for testing the hypotheses raised is proposed. Lastly, the limitations of the research are discussed, and new lines of work are proposed to answer the questions that arise from the results.

Literature Review

Background of Corporate Activism

There are many notions and terms that approach activism from different perspectives; one that has acquired more relevance in the public relations environment over recent years is "corporate social advocacy" (CSA), which refers to companies that adopt a specific stance on a political or social issue (Park & Berger, 2004; Austin, Gaither & Gaither, 2019). For example, Coca Cola supported Martin Luther King, the Nobel Peace Prize winner in 1964; Levi Strauss and Facebook opposed the use of public toilets assigned to a specific gender, preventing transgender people from using the bathroom they preferred; and 50 years later Disney and Unilever positioned themselves against discriminatory practices (Krebel-Chang, 2017).

CSA is also related to other highly relevant concepts in public relations management, also connected to corporate activism. Among them is the concept of strategic issues management (SIM), which is linked to strategic business planning and good social responsibility practices, which affect companies' stakeholders (Heath & Palenchar, 2008). This aspect reinforces "corporate diplomacy", which encompasses the political responsibility

of companies and their international relations in the field of pacification (Westermann-Behaylo, Rehbein & Fort, 2015) or “organisational legitimacy”, which proposes that the actions of a company must be framed within a system of socially accepted norms, values or beliefs (Suchman, 1995; Sen & Morwitz, 1996). Even “conflict or problem management” and “corporate social responsibility” are often associated with CSA (Dodd & Supa, 2014).

From the point of view of communication, CSA also uses means to express positions on a controversial issue through “controversy advertising” or “corporate advocacy advertising” (Cutler & Muehling, 1989; Haley, 1996), which can have an economic or governmental impact, in addition to reflecting a desire for social improvement, which can attract activist groups (Heath & Palenchar, 2008; Dodd & Supa, 2014). Starbucks and Budweiser took a stand against President Trump's immigration ban executive order in 2017, giving rise on social media to a network of boycotters and a network of advocates for both brands; the boycotters turned out to be more active, also integrating into the advocates' social networks and calling for boycotts of brands that opposed the president's policy (Rim, Lee & Yoo, 2020).

In this way, CSA can influence public opinion effectively, as is the case with politicians (Chatterji & Toffel, 2016) and has been shown to be a communication-based strategy for strengthening relationships and increasing public support for organisations (Browning, Lee, Park, Kim & Collins, 2020). This has led to a rise in the commitment of companies, similar to the increase in the social, legal or political issues in which it is possible to take part. Indeed, executives of the likes of Mark Zuckerberg (CEO of Facebook) and Tim Cook (CEO of Apple) have taken stances in favour of or against social issues. So, CEO activism is based on taking a public stance on an issue unrelated to the core business of their companies, intervening in controversial issues that generate controversy (Chatterji & Toffel,

2015) and this can, in turn, be beneficial to companies (Park & Berger, 2004; Beauchamp & O'Connor, 2012; Chatterji & Toffel, 2016; Krebel-Chang, 2017; Hinterecker, Kopel & Ressi, 2018). Thus, Mayer (2017) argues that corporations and their CEOs have a right and a duty to make their views known on relevant social issues, even if the company's management ideals are sometimes overlooked. As a result, there is controversy over whether companies should take a stance on these issues of conscience, as individuals do, and whether it is appropriate for them to involve themselves in issues traditionally reserved for governments (Dodd & Supa, 2014; Krebel-Chang, 2017; Lin, 2018; Dodd, 2018).

Furthermore, as will be seen later, it is necessary to consider the relationship between taking a position and company results. In the case of corporate activism, it has been shown that, if the public agrees on the stance taken by a company, their intention to purchase will be greater (Robinson, Irmak, & Jayachandran, 2012; Corcoran et al., 2016; Krebel-Chang, 2017), even in less popular industries, such as fast food and alcohol (Kim & Lee, 2012) or in non-governmental organisations (Cornwell & Coote, 2005). Indeed, the existence of this positive relationship between corporate social responsibility and the purchase intentions of consumers has been confirmed (David, Kline, & Dai, 2005; Lee & Shin, 2010; Kim & Lee, 2012; Baksh-Mohammed, Callison, & Choi, 2012), although they perceive differently actions related to strategic aspects of the organisation, considered to be more selfish, and those that are associated with social values of other stakeholders of interest, considered to be more positive (Ellen, Webb, & Mohr, 2006).

Ultimately, if companies and their executives take a position of conscience on social matters, beneficial consequences can result, both for the company and its consumers, so, because of this, it is necessary to explain from a theoretical and financial point of view the consequences of practices associated with corporate and brand activism.

Theoretical approaches to Corporate Activism

The phenomenon of activism has been studied from the perspective of public relations using various theories. On the one hand, the situational theory of stakeholders (STP; Grunig & Hunt, 1984) focuses on the fact that stakeholders seek and pay attention to a problematic situation without too many obstacles, and that they have a high level of participation, this being a dominant approach to understanding the active participation of stakeholders in collective behaviour such as protest (Kim, 2018). On the other hand, the revised situational theory of problem solving (STOPS; Kim & Grunin, 2011) recognises the importance of motivating variables to connect with situations that drive public activism (Kang, Kin & Cha, 2018; Kim & Grunig, 2011) as long as there is dialogic communication. PR has not, however, been able to explain the irrationality and fervour of activists (Dozier & Lauzen, 2000), and most studies have not focused on the individual characteristics of the members of the activist group (Kang, Kin & Cha, 2018; Kim, 2018) while academic papers have focused heavily on government PR (Kim, 2018).

On another note, the rise of corporate activism suggests that academics need to theorise about the role of public relations, especially focusing on how organisations publicly communicate their stances on social issues in an attempt to get stakeholders involved in contentious issues (Ciszek & Logan 2018). Given that there are multiple factors to understanding the stakeholders that are involved, it is essential that communication professionals enhance the co-creation processes through which individuals associate particular meanings with organisations (Kim, 2018), as well as harnessing the power of brands to inspire social and environmental change (Eyada, 2020). Moreover, it is not only the effect that corporate support for social causes has on consumers; Cova (2020) analysed how initial advocates react to companies' political activity to influence regulations. To do so, he

analysed retailer Carrefour's March'e Interdit campaign in 2017-18, which promoted the liberalisation of agricultural seed cultivation, and the position of the initial advocate of that cause, R'eseau Semences Paysannes. The campaign promoted a new law on the issue but generated a sense of hijacking of the cause from its initial advocate, as well as internal problems.

Other theoretical approaches, such as corporate political advocacy (CPA), are also possible. CPA is defined as public support for individuals, groups, ideals or values that seek to persuade others to do the same (Wettstein & Baur, 2016) and is therefore considered a form of activism. CPA is also similar to three other frameworks previously used to examine corporate commitment: CSR, corporate social advocacy (CSA) and corporate social performance (CSP), although, for its authors, CPA takes a more radical position, abandoning the communicative consensus and transcending the economic commitments of the organisation (Ciszek & Logan, 2018; Ferguson 2018) to focus on social change (Ciszek & Logan, 2018). In addition, there is a link between PR through dialogic communication and CSP to generate a positive impact on society through dialogue. Under this approach, stakeholders can differentiate between the reasons and results and judge the authenticity of corporate behaviour (Uysal, 2018). Furthermore, political activity acts as a buffer mechanism for companies developing CPA strategies, preventing them from entering into agreements with external social activists who try to influence their business policies (Hadani, Doh & Schneider, 2019).

Taking into consideration the above theories and concepts, we can see that the terms related to corporate activism are closely interrelated, and in turn, can refer to different types of strategies and situations in companies as well as in public organisations and institutions. Some

of them may apply to corporations, others to commercial brands, or both; in other cases, they may refer to the political environment, the social environment, or both.

This leads to great disparity and confusion, so we have tried to build a conceptual hierarchy based on previous literature. As shown in Figure 1, we have considered corporate activism as the core of the current activist phenomenon; brand activism focuses on the specific activism of a brand, while CEO activism implies an activist way of acting in the corporate environment (exclusive relationship). Finally, the concepts corporate social advocacy, corporate political activity and corporate political advocacy use activism to achieve their objectives, although they can also be managed with a different approach to the one we are using in our work (i.e. an approach more oriented towards CSR, public relations, or avoiding support for controversial causes) (shared relationship).

Insert Figure 1 about here

In addition to these theories, closer to the field of public communication, corporate activism relies on other approaches from other disciplines. On the one hand, it can be based on Festinger's theory of cognitive dissonance (1957), which states that situations that conflict with the values and beliefs of an individual can lead to incongruity (or disharmony) which generates new ideas or beliefs that can lead to a change in attitude. Therefore, companies that use activist campaigns should avoid creating cognitive dissonance among consumers who have prior beliefs about the company or its brands in order to avoid contradictions between what they expect from them and what is advocated in those activist actions. Previous studies in the area of communication and marketing have already shown how public opinion can change if there is a discrepancy between the degree of credibility of a communicator and the communication itself (Choo, 1964), or between poor packaging of food products and subsequent repurchase (Wilkins, Beckenuyte, & Butt, 2016). This theory has also been used

to explain dissonance in the purchase of ethical products (Peloza, White, & Shang, 2013) or organic products (Lee, 2015).

In this way, Palazzo and Basu (2007) developed a conceptual model with four situations of dissonance/congruence, which related the fundamental values supported by companies to the consumption values of the brands, according to the consistency of all of their activities. The different situations that were created could lead to success or activism against brands because, at times, the consumption values of brands and the vital values supported by the company were perceived as positive and consistent, and, on other occasions, either of the two could be perceived as inappropriate, creating an incongruity that led to certain opposition. Other works have also examined the association between bad corporate social responsibility and disappointment among the target audience of companies (Zyglidopoulos, 2002) or the positive identification that occurs when the values of the consumer and companies are similar (Bhattacharya & Sen, 2003).

In a complementary way, citizenship, conceived as a set of individual rights (Faulks, 2000), can be classified as follows: (i) social rights, which are enjoyed by living in society, (ii) civil rights, which provide autonomy to individuals and defend them from the power of the state, among others, and (iii) political rights, which promote active participation in society (Marshall, 1965). In principle, these rights are not considered to be related to business organisations, although they can currently be reflected in the corporate activism campaigns of some of them (Anker, 2017), since globalisation meant that companies acquired more relevance and they will become more responsible for the rights of citizens (Falk, 2000; Wood & Logsdon, 2001). They began to assume roles, therefore, that were previously associated with governments (Hertz, 2002; Bernal, 2015; Tsai et al., 2015), giving rise to corporate citizenship, leading to higher levels of employee engagement, customer loyalty and business

performance (Maignan, Ferrell & Hult, 1999), as well as a potential solution to the world's social and environmental problems, rather than part of the problem (Marsden, 2000).

In this context, Matten and Crane (2005) explain how individual rights are managed by organisations: (i) companies have a supplier role in providing social services to citizens, (ii) they also have a training role by enhancing or restricting civil rights, and (iii) companies have a channelling role by acting as an additional channel when citizens exercise their political rights. This classification of individual rights managed by organisations it is interesting for organising the topics discussed in corporate activism campaigns.

The financial results of CSR and Corporate Activism.

The effects that corporate social responsibility has had on the financial results of organisations have been analysed for more than 30 years (Bowman & Haire, 1975; McGuire, Sundgren, & Schneeweis, 1988; Griffin & Mahon, 1997; Roman, Hayibor, & Agle, 1999; Margolis, Elfenbein, & Walsh, 2009; Brower & Mahajan, 2013), showing that, overall, the effects are positive (Cochran & Wood, 1984; Carroll, 1991; Simpson & Kohers, 2002; Tsoutsoura, 2004; Mackey, Mackey, & Barney, 2007; Duh, 2009; Coombs & Holladay, 2011). This was confirmed by Margolis et al. in their review of more than 200 studies that related corporate social responsibility to financial results (Margolis et al., 2009), or by the meta-analysis of Orlitzky, Schmidt, and Rynes (2003), which focused on 52 studies that confirmed the relationship between corporate social performance (CSP) and the organisation’s corporate financial performance (CFP). More specifically, the impact of communication on financial objectives has also been analysed (Kim, 2001). Certain authors, however, have detected that some analyses have theoretical deficiencies (Schuler & Cording, 2006) or do not adequately specify the model to be used (McWilliams, Siegel, & Wright, 2006).

However, there are still no conclusive results on how companies' public stances can affect their financial performance (Parcha & Kingsley, 2020) and many studies have focused on theoretical approaches without empirical application (Eilert & Nappier, 2020; Vredenburg, Kapitan, Spry & Kemper, 2020). Regarding corporate activism, there is also little empirical research that clarifies whether its use is desirable or whether it has a financial impact on organisations as, unlike CSR, activism can lead to a breakdown in stakeholder engagements and an uncertain outcome for investors (Bhagwat, Warren, Beck & Watson IV, 2020).

In this regard, M.G. Dodd (2018) and M.D. Dodd and Supa (2015) analysed how corporate positions on social or political issues affected the financial results of the organisation through consumer purchase intentions, and for this they used an experimental study; they identified companies that had publicly taken diverse stances on three controversial social issues: gay marriage, healthcare reform and emergency contraception. Participants were asked how these stances affected their purchase intentions, and whether their attitude was congruent or not with what the companies had said. Subsequently, participants in both groups were categorised according to their congruent or incongruent attitude to what the organisations had said about these three issues and analysed whether this had significantly affected the consumers' purchase intentions. The results showed that the participants had a greater purchase intention when they were exposed to messages that coincided with their own attitudes towards the social issues advocated by the organisations than when the messages did not coincide with their attitudes, so the financial results could be better in the first situation. For their research, the authors used Ajzen's theory of planned behaviour as a basis (Ajzen, 1991; Ajzen, 2005), based on the assumption that audiences take into account available information and consider the implications of their actions, as many specific studies on this aspect have shown (Ajzen & Driver, 1992; East, 1993; Conner & McMillan, 1999; Hrubes, Ajzen, & Daigle, 2001).

For their part, Weinzimmer and Esken (2016) reviewed how taking a specific stance on a sensitive social issue could affect the financial performance of companies. When a company does so, there may be an impact on its image, employees may be affected, and it may also influence the purchasing behaviour of consumers. The financial result can, however, be positive. These authors found that both taking the stance on a controversial issue and the way that the leader takes it are significant. Similarly, Bedendo and Siming (2021) studied how CEO activism could affect the value of their companies' shares by looking at the resignation of a group of business leaders as advisors to President Trump. In this case, shareholders reacted negatively for fear that their company would have less political influence. Furthermore, the results of the study revealed that CEOs' public stances were driven more by their personal ideology than by the involvement of their companies.

In the field of communication, it has been believed that news that contradicts the feelings of investors causes dissonance, and that this also results in a slowdown in the dissemination of such news (Antoniou, Doukas, & Subrahmanyam, 2013). It has also been found that cognitive dissonance is generated towards negative news published in financially optimistic periods (Hong & Stein, 1999), and that dissonance is more likely to arise in small and unsophisticated investors (Odean, 1999; Malmendier & Shanthikumar, 2007). Other contributions confirm the existence of informative distortions resulting in cognitive errors (Rabin & Schrag, 1999), in such a way that abnormal attitudes towards information are caused by the investors themselves sometimes choosing to be ignorant to reorientate their future behaviour (Carrillo & Mariotti, 2000). It has also been found that information can be interpreted differently according to cognitive dissonance: in this way, investors can use the information to improve their decision-making, but this is also related to their beliefs. If the investor’s beliefs come with an expected utility, they may decide to ignore or reinterpret the information in order to preserve those beliefs (Akerlof & Dickens, 1982; Yariv, 2002).

In this same line of work, Karlsson, Loewenstein, and Seppi (2004) proposed a belief manipulation model that takes into account two psychological states that start from cognitive dissonance: in unfavourable times, investors choose not to be attentive to information about their investments, while, in favourable times, they prefer to be attentive, since the information obtained will be in accordance with what they expect (Bnabou, 2012). In addition, a well performing stock market generates more sales of financial newspapers, in a manner consistent with the theory of cognitive dissonance (Argentesi, Ltkepohl, & Motta, 2010).

The first two hypotheses of our study would, therefore, be formulated in the following way:

H1: The adoption of corporate activism stances has a positive and significant influence on the financial returns of companies that adopt this type of strategy.

H2: Corporate activism has a positive and significant effect on the standing of a company in the market, regardless of the type of activism (social, political, or civil).

Brand Activism and Controversy

Brand activism seems to be intimately linked with what is controversial. Controversy is defined as [...] products, services or concepts that, for reasons of delicacy, decency, morality or even fear, tend to provoke reactions of disgust, offence or outrage when they are mentioned or presented openly (Wilson & West, 1981). Based on this concept, there are sectors that are considered uncontroversial, such as information technology, telecommunications, consumption and distribution, manufacturing and entertainment in general (Cai, Jo, & Pan 2012; Kilian & Hennigs, 2014) and, there are industries that are controversial: alcohol, tobacco, gambling, arms, pharmaceuticals, adult entertainment, cement, steel, energy, biotechnology, transport (Lee & Hutchison, 2005; Palazzo & Richter,

2005; Waller, Fam, & Erdogan, 2005; Byrne, 2010; Cai et al., 2012; Kilian & Hennigs, 2014; Østergaard, Hermansen, & Fitchett, 2015; Gosh, 2017). The first three (alcohol, tobacco and gambling) are the so-called "Triumvirate of Sin" (Trinks & Scholtens, 2017), and the others have been added for their harming of vulnerable groups, impact on the environment, or association with moral or ethical scandals. In this regard, financial services began to be considered controversial in 2008, due to their unethical and corrupt behaviour in the crisis that arose at that time (Kilian & Hennigs, 2014). Previous classifications should be seen as dynamic, because unpredictable events, such as the COVID-19 global pandemic, could affect consumers' perceptions of some industries.

Furthermore, there is also research linking the controversy of the industry with the point of view of the investor. This is precisely the approach of Brammer, Brooks, and Pavelin (2006), Cai et al. (2012), Kilian and Hennigs (2014), Gosh (2017) and Aouadi and Marsat (2018) who analyse the association between the value of a company and its participation in CSR, concluding that controversial companies develop CSR more to increase their value, respond to the demands of their stakeholders (mostly investors and consumers, who are more demanding than in non-controversial companies), manage firm risk better (Jo & Na, 2012) or because their CEOs follow the trend in terms of commitment to CSR, albeit not as a long-term strategy. In this regard, Gosh (2017) proposes a model linking corporate social performance and reputation, where the moderator of this relationship is the type of industry in which the company participates, although its results only point to the fact that for companies that harm the environment more, the type of industry in which the business is operating is more important. To sum up, companies from controversial industry that pursue CSR activities could be perceived as contradictory by their stakeholders (Hmaittane, Bouslah & M'Zali, 2019) because there are few results on the low probability of investors responding equally in all events (Bartley & Child, 2011).

Taking into account the above literature related to the CSR concept and controversial industries, it seems that sinful companies has a particular challenge given their business model. Thus, shareholders could penalize those controversial companies in the stock market, not only because of their lack of legitimacy (Reuber & Morgan-Thomas, 2017), but also because brand activism could be considered a risk action by investors. That is, it has not perceived yet as a CSR initiative that decreases firm's risk (Hmaittane et al., 2019)

Regarding relationship between brand activism and non-controversial industries, such as FMCG or distribution, the effect is negative if companies' social stances are significant for investors or consumers who perceive a breach of morality and they understand that they have to act against the brand (Bartley & Child, 2011; Romani, Grappi, Zarantonello, & Bagozzi, 2015). That is, it seems essential to avoid incongruent communication so that there are no negative effects as an anti-corporate or anti-sweatshop campaigns (Bartley & Child, 2011; Den Broek, Langley, & Hornig, 2017), anti-brand campaigns (Romani et al., 2015; Østergaard et al., 2015) or online protests has also carried out by consumers and investors (Cheng, 2020, Groening & Kanuri, 2013; Den Broek et al., 2017) with regard to specific companies belonging to non-controversial sectors. For example, Wal-Mart, Gap, Nike (Bartley & Child, 2011) or Amazon, McDonalds, Facebook, Google (Østergaard et al., 2015). However, when the stance taken by the company (i.e. Chick-fil-A, Hobby Lobby, Nike, Starbucks) was congruent with costumer values and their political preference a buycott occurs (Neureiter & Bhattacharya, 2021) and, therefore, a brand activism action will be a positive effect on non-controversial sector.

Ultimately, the impact of the social stances of companies on the reaction of investors presents many possibilities for significant development within the concept of controversial industry vs. non-controversial industry, which we will try to apply in the empirical model of

this work. Based on this previous research, the formulation of the third hypothesis of our work, which complements and delves deeper into the previous two, is as follows:

H3: The positive or negative rating of companies that undertake brand activism actions depends on the degree of controversy of the sector in which these companies are located.

H3a: If the company belongs to a non-controversial industry, its corporate activism initiatives will be positively evaluated by the market.

H3b: If the company belongs to a controversial industry, its brand activism actions will be negatively evaluated by the market.

Methodology and Results

Data

The universe of this study consists of a sample of publicly traded companies that have adopted some kind of communication strategy based on brand activism. To find this information, the FACTIVA database, newspaper libraries and other historical news archives were used. The stock market data of each company was obtained from the Thompson Reuters Datastream database, and the time period studied covers the period from the 2008 Renault campaign supporting the gay community up to June 2020 with the Apple statement supporting the "Black Lives Matter" movement. Most companies identified, however, had implemented activism strategies within the last five years (2015-2020). The final number of campaigns identified was 58 by companies on the main stock market indices (NYSE, IBEX, NASDAQ, DOW JONES, DAX, etc.).

Consistent with previous research we recruited 24 university students to classify companies' statements into the main activism topics: political, social rights and civil rights (MacInnis, Rao, & Weiss, 2002; Guitart, Gonzalez & Stremersch, 2018). This task was easier than expected because most of the activism initiatives fell into three types: immigration statements (social rights), diversity statements related to gender or race (civil rights), and other more political related issues (climate change, political independence, or free speech). The inter-coder agreement was rather high with a mean Cohen's Kappa index of 0.92 ($p=0.000$).

Following the criteria proposed by McWilliams and Siegel (1997) in the field of event models, possible contemporary coincidences of events or circumstances that could confuse the effect of the communication campaign on the estimation of results were analysed. In none of the companies analysed were these effects found, so the database definitively consisted of the total number of campaigns identified. Although it would have been desirable to have a greater number of cases, there are empirical applications for the study of events in the financial field that have been carried out with a much lower number of cases (Samitas, Kenourgios, & Zounis, 2008). Beyond the formal requirements of the model applied, the number of campaigns carried out does not represent a limitation that could call into question the results obtained.

Modelling Approach

The construction of the empirical model consists of two phases: (i) proposal of an event analysis model for the calculation of cumulative abnormal returns (CAR) of each of the companies studied, and (ii) construction of a generalised linear model (GLM) to study the relationships between the cumulative abnormal returns and explanatory variables presented in the theory: industry controversy, and thematic focus of activism.

To calculate the cumulative abnormal returns, we used one of the classic methodologies in the study of financial events, which has been applied satisfactorily in most studies with similar objectives (Becchetti, Ciciretti, & Hasan, 2007; Brammer et al., 2006; Davidson & Worrel, 1988; Godfrey, Merrill, & Hansen, 2009; McWilliams & Siegel, 1997; Schnietz & Epstein, 2005). The basis of this methodology can be found in the principle of market efficiency (Fama, 1970) and basically seeks to identify if a given isolated event in time produces abnormal returns (positive or negative returns different to those expected in a normal market situation) in the shares of a corporation. In the case of this work, the event of interest is the launch of a corporate activism campaign, and it is assumed that the arrival of that information to the market could be assimilated in some way by the shareholders, having a positive or negative impact (if there is any at all) on the price of the corporation's shares. Abnormal returns would be, in this way, a measure of the impact of a brand activism campaign on the price of the shares of the company making the announcement. Formally, rate of return R on a company's share price i on day t can be expressed as follows (McWilliams, Siegel, & Teoh, 1999):

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

where:

R_{it} = rate of return on company share price i on day t,

R_{mt} = rate of return of stock market index m on day t,

α = constant of the additive model,

β = systematic risk of index i,

ϵ_{it} = error.

From calculation of the previous parameters, the abnormal returns (AR) of company i on day t can be estimated with the following expression:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt})$$

where a_i and b_i are the parameters obtained from the previous regression model on period estimation window T_e prior to the launch of the corporate activism campaign. In short, it is about subtracting the expected or normal returns from the returns observed in the market. Any deviation, positive or negative, can be considered an abnormal or atypical return. Now, it is possible to calculate the standardised abnormal returns accumulated throughout event window T_v, which usually includes the anticipated effect (t days before the event) and the deferred effect of the event under study (m days after the event).

$$CAR_i = \frac{1}{T_v^{0.5}} \sum_{t=1}^{T_c} \frac{AR_{it}}{\sigma}$$

In the event analysis model developed in this work, estimation window T_e, used in the calculation of normal returns, is between 250 days and 50 days before the launch of the communication campaign, while event window T_v is between -5 days before the campaign, and +5 days after its launch. Choice of the estimation window is based on the review of similar previous models (Cobbs, Groza, & Pruitt, 2012; Lane & Jacobson, 1995; McWilliams & Siegel, 1997), and empirical evidence.

Results

Event analysis. To determine the most appropriate event window, in addition to the methodological references of the above authors, the cumulative abnormal returns (CAR) were calculated over various possible windows. In the selection of these windows, the methodological approaches of other authors were taken into account, as were the specific characteristics of the phenomenon studied. It was considered, for example, that rumours about the strategies that some companies can adopt on certain political or social issues, such as

immigration, before the campaign appears in the media are possible. In addition, it is also usual for shareholders not to make a decision to buy or sell shares immediately (on the same day as the launch of the activism campaign), but to delay it for a few days. This delay may be due to simple calendar issues (opening or closing of markets) or waiting for reactions from executives of the organisation or the industry or related industries, and consumers themselves and opinion leaders.

Table 1 shows the estimate of the cumulative abnormal returns of ten different event windows, ranging from 7 days prior to the launch of the communication campaign, and 7 days after it (-7, +7), up until the window (0, +7) in which the possibility of having information prior to the launch of the campaign is not considered, and its effect may occur within 7 days of its launch. According to these estimates, it is interesting to observe how window (-5 +5) and window (-3, +3) are the only ones that show a statistically significant result with ($p < 0.05$) and ($p < 0.1$) respectively. In any case, the differences between the coefficients of the two windows are similar, showing a negative effect of brand activism campaigns on the price of the shares of the companies making the announcements.

Insert Table 1 about here

According to the results obtained, the estimation window that will be used for the calculation of the GLM model will be event window (-5, +5), as it is the one that appears most frequently in similar studies, and the one that has obtained a higher degree of significance.

Cross-sectional generalised linear model. After the estimation of the CAR of each of the companies in the study, information was collected regarding the type of activism adopted by the brand, and the company's membership in a controversial industry. The type of activism

was coded as (i) social activism, (ii) political activism and (iii) civil activism, and membership in a controversial industry was coded as a dichotomous variable (Yes/No).

We estimated a generalized linear model (GLM) (McCullagh, 1984; Nelder & Baker, 1972), in which the dependent variable contained the cumulative abnormal returns (CAR), and the independent variables are the type of activism, and whether they belong to a controversial industry. For the design of the model, given the distribution of the variances and the nature of the variables used, a Gaussian distribution was chosen, with identity link. We found some inconsistencies and counterintuitive results in our first model (four outliers according to Cook's distance), and a closer look to those outliers revealed that year 2020 showed an erratic behaviour compared with previous years. Obviously, the COVID-19 global pandemic was our first guess, so we included a dummy variable to isolate its possible effects. As a matter of fact, the pandemic changed the stock exchange buying behaviour and even the industry controversy perception might have been affected (for instance, pharmaceuticals or finance companies, often controversial, now could be seen as part of the solution). For this reason, we also included an interaction effect between industry controversy and the global pandemic dummy variable.

Analysis of residuals of the GLM model shows an approximately normal arrangement, and Cook’s distance has no extreme values that compromise the estimation of the model parameters. Although GLM models are more robust with respect to significant variations in the variance of the analysed groups, the homogeneity of the variance of Levene’s test (Levene, 1961) was applied without finding evidence that can skew the estimation of the model (Levene’s test for the “Activism” variable:$F = 1.02$; $p = 0.36$. Levene’s test for the “Controversy” variable: $F = 2.91$; $p = 0.10$). In the same way, checks of the assumption of normality were carried out using the Shapiro test (Shapiro & Wilk, 1965), showing acceptable

values ($w = 0.97$; $p = 0.19$). Taking into account the comparison of the full model against the null model, it showed that the full model was clearly superior, with $F = 2.94$ and $p < 0.02$, with an estimated overall fit of the model of $D^2 = 0.22$ (Guisan & Zimmermann, 2000).

Table 2 shows the estimation of parameters, with the main fit indicators. The model yields that corporate activism based on social rights shows a negative influence on CAR (β = -0.013; $p =$ 0.04), while messages based on political or civil rights activism have no influence on the behaviour of investors ($p >$ 0.05). On the other hand, controversial industries show a negative and significance statistical effect on stock returns (with and without the COVID-19 interaction effect).

Insert Table 2 about here

Therefore, the first hypothesis (H1), which proposed that the adoption of corporate activism stances should have a positive and significant influence on the financial returns of the companies, is partially fulfilled. According to the results obtained, corporate activism practices influence the financial results of companies, but not always in a positive way, nor in all types of activism. In this regard, the second hypothesis (H2) is rejected, given that it proposed that these types of practices should have a positive and significant effect on the rating of a company in the market, regardless of the type of activism (social, political, or civil). Our results show that the type of activism is relevant, and that the effects they produce are different depending on their nature. The third hypothesis (H3) and its two sub-hypotheses (H3a, H3b) proposed that positive or negative assessments of companies that undertake corporate activism actions would depend on the degree of controversy of the sector in which these companies are located. This hypothesis cannot be rejected and, indeed, our results show that companies that belong to non-controversial sectors have positive results, while those that belong to controversial sectors obtain negative ratings from the stakeholders studied.

Discussion

Given the new role of companies acting as corporate citizens, both, policy makers and companies could promote better social change together. Moreover, companies could design more effective corporate activism strategies working with institutions (Eilert & Nappier, 2020) because policy makers should be more aware of the public benefit than private companies. Conversely, investors are undoubtedly more likely to trust companies than government; therefore, a shared legitimacy could be paramount according to Vredenburg et al. (2020).

Corporate activism proposes a new form of relationship between companies and society. Understanding how these actions are viewed by the public, and which variables are those that determine their acceptance or rejection, is key for all of the social agents involved. Our study shows that the controversial nature of a sector is a fundamental variable for understanding the way in which corporate activism actions are viewed, and that the choice of cause to adopt is not indifferent. Our results show that controversial sectors should stay clear of this kind of practice because, rather than improving the public image of the company, it produces exactly the opposite effect. In addition, our study shows that social rights-based activism produces a negative effect on stock returns.

There are several management implications of these findings. First of all, companies now have an applied framework that offers some clear guidance on the conditions that need to exist before corporate activism actions are undertaken. Secondly, the results encourage responsible behaviour in the industry. Industries not committed to good practices, which are perceived as controversial industries, are increasingly keeping clear of the preferences of the public. Thirdly, our results show that companies that wish to become involved in causes

related to corporate activism should avoid those that are more related to social rights (immigration, etc.). Finally, the empirical hallmark of these findings provides an unusual perspective to this type of work and offers an interesting discussion framework to continue deepening understanding of the phenomenon.

The limitations of this study lie in two aspects that could be the focus of future research. First, estimations are limited to the short-term effects of this type of action. It would be interesting to observe the effects of corporate activism in the medium and long term, and determine exactly its effects on shareholders, consumers, employees, suppliers and other kinds of public. Furthermore, most of the cases studied are limited to the United States, it being the country in which companies have more readily adopted these practices. In other countries, mainly in Europe, more and more companies are adopting corporate activism, and it would be interesting to study the effect of variables such as cultural distance and the political tradition of those countries.

Academics and practitioners can define a new role for corporate communication and public policy in which it helps organisations to define their values, communicate them strategically and become involved in public initiatives beyond their business interests.

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Tables

Table 1. Event window estimation

Event	Coef.	Robust Std. Error	t	p>|t|	Lower 95% CI	Upper 95% CI
-7, +7	2.113	2.124	0.990	0.326	-2.190	6.417
-5, +5	-0.010	0.004	-2.330	0.026 **	-0.019	-0.001
-3, +3	-0.006	0.003	-1.750	0.089 *	-0.014	0.001
-1, +1	0.001	0.002	0.690	0.494	-0.003	0.006
-1, 0	0.000	0.001	0.200	0.845	-0.003	0.004
0, 0	0.002	0.001	1.210	0.233	-0.001	0.005
0, +1	0.003	0.002	1.430	0.161	-0.001	0.008
0, +3	0.000	0.002	0.060	0.953	-0.005	0.005
0, +5	-0.001	0.002	-0.410	0.685	-0.007	0.004
0, +7	2.121	2.123	1.000	0.324	-2.180	6.423

Note: * p<.10; ** p<.05; *** p<.01

Table 2. Generalized linear model estimates

	Dependent variable
	Cumulative Abnormal Returns (CAR)
Civil rights	0.008
	0.005
Social rights	-0.013 **
	0.006
Controversy [No]	0.027 **
	0.008
COVID19 dummy [No]	-0.009
	0.008
Controversy [No] x COVID19 [No]	0.025 ***
	0.007
Intercept	-0.002
	0.008
Observations	58
Log Likelihood	-128.40
Akaike Inf. Crit.	-240.57

Note: *p<.10; **p<.05; ***p<.01

Standard errors in parenthesis
Reference categories: Activism [Political]; Controversy [Yes]; COVID19 [Yes]

Figures

Figure 1. Conceptual hierarchy of corporate activism