Politics and Governance (ISSN: 2183–2463)
2023, Volume 11, Issue 2, Pages 138–146
https://doi.org/10.17645/pag.v11i2.6306

Article

The Side Effect of Political Standing: Corporate Activism and Its Impact on Stock Returns

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Submitted: 21 October 2022 | Accepted: 12 January 2023 | Published: 17 May 2023

Abstract
Taking sides on controversial political issues such as gun control, abortion, immigration, or diversity is increasingly common among large companies. What remains unclear, however, is whether this type of strategy—known as "corporate activism"—has positive or negative effects on these companies. The use of the concept of corporate activism on different variables affecting the companies is relatively recent. This article analyses the effect of corporate activism on the stock market performance of US companies through the analysis of the sample collected. Although there are some recent articles published on this topic, none of them measures the risk associated with the use of this type of strategy. For the development of the research, the well-known Fama–French modelling framework is applied to estimate the differences between companies that participate in corporate activism initiatives versus those that remain outside this strategy. The findings complement previous research showing that companies that use corporate activism have lower market risk than companies that do not engage in this type of strategy. These results can be useful in identifying the advantages and disadvantages of corporate activism initiatives and, in addition, they can also help companies to evaluate the use of corporate activism as a strategic tool and as a driver of social change.

Keywords
corporate activism; corporate social advocacy; corporate social responsibility; firm value

Issue
This article is part of the issue "Hate Speech, Demonization, Polarization, and Political Social Responsibility" edited by Luis M. Romero-Rodríguez (Rey Juan Carlos University), Pedro Cuesta-Valiño (University of Alcalá), and Bárbara Castillo-Abdul (Rey Juan Carlos University).

1. Introduction

Controversial political issues have been on the rise dramatically in recent years. For example, after the US Supreme Court struck down abortion rights in the US last June, many US companies (Apple, Microsoft, Meta, Yelp, Netflix, Uber, Warner Bros, Levi Strauss, Bumble, etc.; Duffy & Korn, 2022) took a stand, offering to provide support and financial assistance for their employees if they needed this procedure. Such immediate actions would have been unthinkable a few years ago, as companies did not meddle in controversial issues. However, currently, companies are increasingly called upon to speak out on polarising issues such as immigration, gun control, climate change, and LGBTQ rights (Kotler & Sarkar, 2018). These are issues of interest to millennials, who see that the current political system does not meet their demands, and therefore disengage from the political process (LaCombe & Juelich, 2019) by shifting their demands to private companies. According to the 2021 Edelman Trust Barometer (Edelman, 2021), 86% of consumers expect brands to take actions beyond their core business instead of governments. This strategy is known as corporate activism and consists of a "company's willingness to take a stand on social, political, economic, and environmental issues to create societal change by influencing the attitudes and behaviours of actors in its institutional environment" (Eilert & Nappier Cherup, 2020, p. 3).

Adopting corporate activism initiatives involves a risk for the company because taking the wrong stand on a controversial issue, that is, a stand not aligned with consumers' attitudes, values, and opinions, produces a public backlash and a lack of consumer brand identification (Mukherjee & Althuizen, 2020). These partisan actions cause uncertainty for shareholders, too, as these actions move investors away from profit maximisation and change strategic priorities (Bhagwat et al., 2020). Thus, shareholders still are not clear on how to perceive and value the effects of corporate activism on financial results (Villagra, Monfort, & Méndez-Suárez, 2021).

In fact, even though corporate activism is attracting growing attention within the marketing research community and professional discourse (Villagra et al., 2022), the gap between this strategy and corporate finance results is not clear. In previous research, authors have viewed corporate activism as part of strategic issue management and have discussed its importance to companies (Dodd & Supa, 2014).

Some authors have pointed out the possibility that there may be an impact on financial results if a company takes a stand on a controversial issue (Korschun et al., 2019; Mukherjee & Althuizen, 2020). Other authors have gone a step further and reported a link between corporate activism and financial results, finding abnormal returns in different contexts (Bhagwat et al., 2020; Dodd, 2018; Dodd & Supa, 2014, 2015; Villagra, Monfort, & Méndez-Suárez, 2021; Weinzimmer & Esken, 2016). Previous studies do not agree on the results of this relationship and the aforementioned articles have found positive investor reactions to corporate activism actions (Haq et al., 2022; Weinzimmer & Esken, 2016), negative investor reactions (Bedendo & Siming, 2021; Bhagwat et al., 2020; Glambosky & Peterburgsky, 2022; Villagra, Monfort, & Méndez-Suárez, 2021), and non-significant investor reactions (Villagra, Monfort, & Méndez-Suárez, 2021).

This research empirically demonstrates the positive or negative financial effect of corporate activism on corporations. Using the Fama–French modelling framework from the field of finance, it is demonstrated that organisations that have implemented corporate activism actions are associated with changes in the stock market compared to companies not using an activist strategy.

The article will be divided as follows: Section 2 offers a more detailed review of the principles of corporate activism. Section 3 offers a summary of the existing studies, indicates gaps in the existing literature, and explains this study's contribution. Sections 4 and 5 provide the empirical evidence for the association between corporate activism and firm performance through the Fama–French methodology using a sample of the stock market performance of 96 US companies, and the final section includes conclusions, limitations, and future lines of research.

2. Principles of Corporate Activism

The phenomenon of corporate activism has been studied from different perspectives such as communication and public relations, and it is related to several concepts such as corporate social advocacy (CSA), corporate political activity (CPA), corporate social responsibility (CSR), and so on (Bhagwat et al., 2020).

The previous literature shows us that corporate activism is an evolution of CSR (Kotler & Sarkar, 2018) and is differentiated from CSR by the partisan nature of the causes supported (whether progressive or conservative) and by its focus on company values rather than the consequences for sales or other variables (Vredenburg et al., 2020). Consequently, corporate activism has much higher levels of risk than CSR actions (Bhagwat et al., 2020) and as a result, controversial issues have an impact on financial outcomes (Dodd & Supa, 2014).

These authors (Dodd, 2018; Dodd & Supa, 2014) define CSA as controversial corporate socio-political initiatives beyond CSR actions in which firms or their CEOs take a stand aligned with their values, whether intentionally or not. This concept arises due to changes in society's expectations whereby instead of demanding these social changes from governments, they demand them from companies and their leaders (Dodd, 2018; Hoppner & Vadakkepatt, 2019). This concept has been increasingly developed over the past few years and it is often included within public relations, bringing together different key areas: CSR, problem management, and strategic issue management (Dodd & Supa, 2014). Thus, CSA is linked to strategic business planning and social responsibility practices, which affect companies' stakeholders (Heath & Palenchar, 2008).

Another theoretical approach related to corporate activism is CPA. 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 similar to the concepts described above: CSR and CSA. However, CPA has a more radical purpose, abandoning consensus in communication and transcending the economic commitments of the organisation (Ciszek & Logan, 2018; Ferguson, 2018), because it is focused on actions that are seen as a driver of social change (Ciszek & Logan, 2018). Like the previous concepts, it has an important relationship with public relations and can be considered a form of activism. 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 et al., 2019).

For their part, business leaders are increasingly involved in corporate activism by taking stances on matters of current social or political debate, with the primary aims of visibly weighing in on the issue and influencing opinions in the espoused direction (Hambrick & Wowak, 2021, p. 34). This is known as the CEO activism approach and it can be beneficial to companies (Chatterji

& Toffel, 2016; Krebel Chang, 2017). Research on CEO activism is growing rapidly (Branicki et al., 2021). For example, Korschun et al. (2019) analysed the relationship between CEO activism actions and consumer perception, finding a positive relationship between whether consumers' values matched those supported by the company. Other research classified different types of CEO according to their degree of morality and the level of corporate self-interest related to the issue and studied if CEO activism is a genuine ethical practice or not (Branicki et al., 2021). Additionally, Hambrick and Wowak (2021) presented a CEO activism model that explores whether a CEO's position is motivated solely by their values or if it is also moderated by employees' and customers' values. Lastly, Bedendo and Siming (2021) explored the relationship between CEO activism and the evolution of companies' shares.

In summary, previous empirical literature has focused on the relationship between corporate activism and purchase intention (Corcoran et al., 2016; Krebel Chang, 2017; Overton et al., 2021; Robinson et al., 2012), changes in consumer attitudes (Atanga et al., 2022; Parcha & Kingsley Westerman, 2020), the impact on brand equity (Korschun et al., 2019; Vredenburg et al., 2020), reputation (Den-Hond et al., 2014), or both (Villagra, Clemente-Mediavilla, et al., 2021), as well as understanding the antecedents of the concept (institutional and corporate credibility and authenticity) from the consumer's point of view (Villagra et al., 2022). Moreover, the relationship between corporate activism and financial performance is receiving research attention (Bhagwat et al., 2020; Dodd, 2018; Dodd & Supa, 2014; Glambosky & Peterburgsky, 2022; Villagra, Monfort, & Méndez-Suárez, 2021; Weinzimmer & Esken, 2016), which is closely related to the principal objective of this research.

3. The Relationship Between Corporate Activism and Firm Performance

There are currently not many articles that focus on analysing how corporate activism can affect the financial performance of companies (Bhagwat et al., 2020; Villagra, Monfort, & Méndez-Suárez, 2021). Some studies have focused on theoretical approaches that have had no subsequent empirical application (Eilert & Nappier Cherup, 2020; Vredenburg et al., 2020) and others have not provided conclusive results (Parcha & Kingsley Westerman, 2020).

One of the ways to analyse this type of relationship is to take consumer behaviour as a reference. Thus, to analyse how corporate stances on social or political issues affected the financial performance of companies, Dodd and Supa (2014) conducted an experimental study based on consumer purchase intentions, as they have a subsequent impact on sales and, therefore, on the economic performance of companies. To do so, they identified six companies (Starbucks, Chick-fil-A, Walmart, Whole Foods, Hobby Lobby, and Nike) that had publicly taken various stances on three controversial social issues: gay marriage, healthcare reform, and emergency contraception. Study participants were randomly exposed to these companies' messages and asked how these stances affected their purchase intentions, and whether their attitudes were congruent with what the companies had said. They then ranked the participants according to whether their attitudes were congruent or incongruent with the organisations' messages on these three topics and analysed whether this had significantly affected their purchase intentions. The results showed that participants had a higher purchase intention when they were exposed to messages that matched their own attitudes towards the social issues advocated by the organisations; therefore, a company's economic outcomes could be better in this situation, and worse if the messages did not match consumer attitudes.

Shortly thereafter, these same authors (Dodd & Supa, 2015) developed an article along the same lines, in which they again studied the impact of companies' social stances on consumers' purchase intention and, therefore, on their economic performance. In this case, the researchers identified two organisations that had taken public stances on same-sex marriage (Starbucks in favour, and Chick-fil-A against), and found that participants' purchase intention was more favourable toward companies that had a stance akin to their own, which generated better financial results. Subsequently, Dodd (2018) put forward research based on a theoretical conceptualisation of the role of corporate involvement in controversial socio-political issues within democratic societies. His work argues that the erosion of traditional institutions has led to companies playing an increasingly relevant role in decision-making on issues affecting society; therefore, companies are becoming increasingly politicised and this, in turn, affects their communications, which become of public interest.

On the other hand, Villagra et al. (2022) used a sample of 1,521 consumers to propose a theoretical model on the antecedents of corporate activism; these authors showed that institutional and corporate credibility and authenticity act as antecedents of this phenomenon, thus conditioning and explaining which circumstances contribute to the use of corporate activism. They also found that the higher the perceived credibility and authenticity of companies, the more positively their corporate activism actions will be regarded. In addition, Villagra, Clemente-Mediavilla, et al. (2021) found that consumers' political ideology could act as a moderating variable of the effects of corporate activism. On the one hand, consumers with a more conservative ideology do not consider that the activist actions of companies will have positive consequences on their reputation and brand value. However, consumers with a more liberal ideology do consider that activism can have positive effects on both aspects so that companies should be involved in this type of activist actions that transcend their traditional functions.

Furthermore, Weinzimmer and Esken (2016) studied how taking a particular stance on a sensitive social issue could affect companies' financial performance. According to these authors, this type of action by companies can confuse employees and can also impact corporations' image and influence the consumers' purchasing behaviour. In their work, Weinzimmer and Esken (2016) evaluated the advantages and disadvantages of adopting corporate positions on sensitive social issues, finding that sometimes what is important is not the position taken by the leader but the way in which the leader defends it. They also argued that before a company takes a stand on a social issue, it must use a strategic approach and understand the legal implications of its behaviour. However, such a stance on a controversial issue, and the way a leader defends it, can be significant and, therefore, the financial outcome could be positive.

Other authors have also studied how CEO activism can affect the value of corporate stocks. Thus, Bedendo and Siming (2021) analysed the resignation of a group of business leaders as advisors to President Trump. In this case, shareholders feared that their company would have less political influence, so they reacted negatively. On the other hand, the results of this work revealed that CEOs' public stances were driven to a greater extent by their personal ideology, while their companies' involvement was of lesser importance in such public stances.

Similarly, Bhagwat et al. (2020) confirmed that investors react unfavourably to companies that engage in controversial socio-political issues, as they move away from profit-oriented objectives towards risky activities with uncertain outcomes. The authors identified two moderators in this relationship: on the one hand, the deviation of these controversial actions from stakeholder values and brand image; on the other hand, the characteristics of the implementation of these actions, which can affect investor and customer responses. In their study, Bhagwat et al. (2020) analysed 293 controversial socio-political actions, in 149 companies from 39 different sectors, and their effects on several variables: the value for their audiences, the company's brand image, the size of the company, the actions or statements related to such socio-political issues, whether there was any specific statement from the CEO, or whether any communication on these issues was disseminated. These authors found that investors react unfavourably to companies that engage in controversial socio-political issues and that these investor reactions are worse if: (a) the controversial actions deviate from stakeholders' political values, (b) they take the form of actions (rather than statements), (c) they are announced by the CEO (rather than someone else in the company), (d) they do not explicitly communicate any business interests, and (e) it is an action by a single company (rather than a coalition with other companies).

Also, Glambosky and Peterburgsky (2022) studied how investors reacted to companies taking a stand against the Russia–Ukraine conflict by leaving the Russian country, which is a political corporate activism action. These authors found that markets react negatively to the company's announcement of divestment from Russia, but these activist companies recover their losses over the following two weeks. Furthermore, these authors showed that early activist companies lose more stock price declines than company followers, so the key is the timing of the announcement of its corporate activism action, according to these authors.

Moreover, Villagra, Monfort, and Méndez-Suárez (2021) analysed the impact of corporate activism on company value; these authors used Facebook and the "Stop Hate for Profit" campaign as a reference; on June 17, 2020, this campaign, launched by six organisations, accused Facebook of passivity in the face of violent or racist content on its platform, and invited advertisers to withdraw their ads until the company changed its stance. Many of them discontinued their advertising, and Facebook's shares fell. Villagra, Monfort, and Méndez-Suárez (2021) used a descriptive study in which they analysed the reaction of 33 companies to this particular event, and their results showed that there is a significant negative effect on the stock market for the company subject to the boycott; however, there is no effect on the sponsoring companies.

Another article that explores this question in more depth is Haq et al.'s (2022), who used the event study to analyse the reaction of investors to corporate activism of a socio-political nature, focusing specifically on racial discrimination; to do so, they considered 197 statements issued by companies after the assassination of George Floyd, an event that caused great social stir on the issue. Their results showed that investor reaction is more positive for companies that engage in more intense activism. In such a case, investors perceive that the public will reward to a greater extent companies that take a radical stance in advocating socio-political issues that involve broad social change (in this case, in relation to racial discrimination); therefore, sometimes issuing a statement can be beneficial to company performance, at least in the short term.

Although the influence of corporate activism on firm performance is theoretically appealing, its empirical application poses some challenges. In the academic literature, especially in the field of finance, this type of problem has been successfully addressed using the methodology proposed by Fama and French (1993). The model uses three factors to evaluate the return of certain economic assets, such as stocks: (a) market risk premium, which captures the additional return of an asset relative to another risk-free asset; (b) the size of the organisation; and (c) the value derived from stocks with a high book-to-market ratio, versus the value derived from stocks with a low book-to-market ratio. Among these three factors, the first one is the most useful for assessing the risk of corporate activism, while the other two allow us to isolate some effects that may affect the corporation's stock value. For example, Chan et al. (2001)

state that, especially in the more developed economies, corporations have very important intangible assets, such as their brand image, patents, or the know-how of their employees, and criticise the fact that they are rarely taken into account in their strategic evaluation. To show the relationship between these intangible assets and a corporation's performance, they use the Fama–French model using R&D investment. Similarly, Madden et al. (2006) apply the same model to assess the impact of brand equity, as defined by Interbrand, on corporate performance. Their results empirically show how strong or better-valued brands have a lower associated risk that provides them with competitive advantages such as lower volatility, better resistance to crises, or less uncertainty regarding their performance in the market. Therefore, the measurement of the risk associated with intangible assets is not new in the literature, but its application to corporate activism is a novel contribution. As mentioned above, due to corporate activism's own dynamics, this phenomenon can be seen as a source of risk for the corporations that put it into practice.

In short, and having analysed the previous research, the direction of the relationship between corporate activism actions and corporate finance results is not clear and previous authors have not taken into account the company risk associated with the use of corporate activism as a strategic tool. So, the following hypothesis is proposed:

> H1: Companies that engage in corporate activism have a lower investment risk than companies that do not.

4. Methodology

4.1. Data

After reviewing the literature on corporate activism and its possible effects on the financial value of companies that incorporate it into their strategies, is it possible that this type of initiative affects the risk of these companies? In our study, we have adopted a methodology followed in similar comparative studies (see Madden et al., 2006) based on the three-factor model of Fama and French (1993) which, in essence, tries to compare a portfolio of companies with some distinctive feature in the way they operate on the market, versus the portfolio of companies that make up the rest of the market.

To test the hypothesis, the entire portfolio (not a sample) of US companies listed on the New York Stock Exchange (NYSE) that had adopted activist initiatives from 2014 to June 2022 was selected and compared with the portfolio comprised of the rest of the NYSE companies. The FACTIVA database, newspaper libraries, and other historical news archives were used to locate the portfolio of activist companies. Stock data for each company was obtained from the Thompson Reuters Datastream database, and the final number of activist companies included in this portfolio was 96 (4% of the NYSE).

4.2. Modelling Approach

The Fama–French three-factor model (Fama & French, 1993) is an extension of the capital asset pricing model, which incorporates additional components to more accurately assess the risk associated with a stock (Black et al., 1972). Specifically, the Fama–French model postulates the relationship between the expected return $E(R_{it})$ and its associated risk, which it measures using three risk factors: (a) the market return R, (b) the difference between the return of large companies and the return of small companies (SMB = small minus big), and (c) the difference between the return of companies with a high book-to-market ratio and the return of companies with a low book-to-market ratio (HML). If R_{ft} is the risk-free interest rate, then:

$$E\left(R_{it}\right) = R_{ft} + \beta_{iM}\left[R_t - R_{ft}\right] + \beta_{iSMB}SMB_t + \beta_{iHML}HML_t$$

This specification of the Fama–French model estimates whether the difference between a safe asset is higher or lower than the expected return of other types of investments. To operationalise this estimate, the usual practice is to calculate this difference using the following expression (Madden et al., 2006):

$$R_{it} - R_{ft} = \alpha_{it} + \beta_{iM}\left[R_t - R_{ft}\right] + \beta_{iSMB}SMB_t + \beta_{iHML}HML_t + \varepsilon_{it}$$

If $\beta_{iM} > 1$, this means that the asset receiving the investment shows a higher risk than expected, and in the opposite direction if it is less than 1. The rest of the indicators (β_{iSMB} and β_{iHML}) provide additional measures of an asset's risk; values close to zero indicate its associated risk coincides with the expected risk of other benchmark assets in the market. To estimate the model more robustly, a system of two simultaneous equations was designed. The first used the portfolio of activist companies as the dependent variable, and the second used the general index of the reference market. This specification allows for an understanding of the possible correlation between the residuals of the different equations, and estimates more consistent parameters (Zellner & Huang, 1962).

5. Results

The estimation of the system of equations shows a high fit (r^2 = 0.95), and all parameters are significant and with the expected sign. Of particular interest is the value obtained for the parameter β_{iM}. The estimated coefficient corresponding to the activist companies is 0.851, which is significantly different from the estimated coefficient for the companies that make up the reference market (F = 142.35; p < 0.000). Table 1 shows the results of the estimation of the system of equations.

Table 1. Seemingly unrelated regression estimation results.

	Dependent variable	
	Activist corporations	Reference market
M	0.851*** (0.006)	0.998*** (0.004)
SMB	0.105*** (0.011)	0.056*** (0.008)
HML	0.249*** (0.007)	0.288*** (0.005)
(Intercept)	0.000 (0.000)	0.000 (0.000)
Observations	n = 1,756	n = 1,756
R^2	0.941	0.967
SSR	0.016	0.008
Correlation of residuals	0.439	
System R^2	0.953	

Notes: *** $p < 0.01$; standard errors in parenthesis.

Therefore, according to these results, companies that engage in activist initiatives present a lower risk than companies that make up the reference market. These results are in line with the findings from previous research by Haq et al. (2022) and Weinzimmer and Esken (2016).

6. Conclusions

6.1. Theoretical Conclusions

Corporate activism is a business strategy that has recently become widespread due to the demands of consumers today (Atanga et al., 2022). The theoretical arguments of this article are based on the concepts of CSA, CSR, and CPA studied from the point of view of communication and public relations. On one hand, research on corporate activism is recent but the literature review has shown that if corporate activism is used as a business strategy (aligning company values, activist messages or actions and stakeholders' values) it has effects on companies' results. On the other hand, social change is a fundamental aim of corporate activism (Vredenburg et al., 2020) so that in addition to its impact on stock market performance, corporate activism opens a way to examine the social impact of this strategy in relation to investors and other stakeholders (customers, employees, media, lobbies, government, etc.). Thus, does this corporate activism promote stakeholders from taking real action for social change?

This research has shown that companies that use corporate activism have lower market risk than companies that do not engage in this type of strategy. These results allow us to evaluate the possible advantages of using corporate activism as a business strategy and draw comparisons to those that do not use it. But, to what extent might corporate activism that targets one clear segment while alienating other segments be more effective than other business strategies? This work shows that corporate activism may not be associated with the investor risk predicted by some authors related to customer boycotts or employee strikes. Along this same line of argument, this research has demonstrated that organisations that have implemented corporate activism actions are associated with change in the stock market compared to companies not using an activist strategy.

6.2. Managerial Implications

One of the main managerial implications should be that managers should be aware of their customers' values in order to make the decision on how to engage in corporate activism. This would lead to sales growth because of the impact that corporate activism can have on companies in a lasting way as customers continue to remember companies long after the implementation of this type of initiative (Bhagwat et al., 2020). Likewise, companies should think about how they should communicate their activism actions and emphasise to their investors that it is a strategic activity with much lower risk than they think, in fact much lower than companies that do not engage in corporate activism as a business strategy. In addition, other implications that can be deduced from this research have to do with companies that do not currently engage in corporate activism. This research shows that these companies are missing the opportunity to align themselves with the needs and expectations of their customers and this is not the time to remain neutral on controversial issues. As for the investors of non-activist companies, a good internal public relations and communications strategy is necessary for them to understand the strategic importance of good use of corporate activism.

6.3. Limitations and Future Research

In line with the above, further research should be aimed at replicating the results of the analysis described here on other stock exchanges with companies from around the world in order to verify whether these results can be generalised, as only 96 US companies on the NYSE were analysed in this study. Furthermore, another limitation of this study is that variables such as cultural differences, political tradition, and investor ideology have not been considered; these variables could affect these results and future results if the research is expanded to other regions or countries. Complementarily, it would be also pertinent to analyse the authenticity or type of corporate activism initiatives to know whether those factors affect how investors respond to corporate activism in this study. Lastly, this study only analyses the short-term financial consequences of single corporate activism events, but it does not examine the potential long-term effects of a corporate activism strategy on investors or other stakeholders.

Acknowledgments

This work has been partially supported by the Government of Madrid (Comunidad de Madrid, Spain) under the multiannual agreement with Universidad Complutense de Madrid, in the line Excellence Programme for University Teaching Staff, in the context of the V PRICIT (Regional Programme for Research and Technological Innovation).

Conflict of Interests

The authors declare no conflict of interests.

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