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Master Thesis

Does corporate activism affect brand equity? An event study on 55 American brands

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DOES CORPORATE ACTIVISM AFFECT BRAND EQUITY? AN EVENT STUDY ON 55 AMERICAN BRANDS

MSc in Strategic Marketing Management

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Abstract

With the rise of corporate activism many have questioned the partaking of companies in political and social debates, and whether such engagement is appropriate. And, maybe more importantly from a managerial perspective, is it harmful or beneficial to the company? This paper adds to the very limited literature on this topic which shows, despite CMOs opposition to such activities, corporate activism is found to enhance brand equity. By investigating the political involvement of 55 American brands from 2012 until today, the paper finds evidence for corporate activism to have a positive impact on a company's brand equity, which, in turn, is reflected through a change in firm value. Further, the results show that the effect is significantly more positive if the statements comes from a CEO relative to the company. The study also adds the dimension of controversy to political engagement, and uncovers that highly controversial corporate activism statements have a negative effect on brand equity.

1.0 INTRODUCTION

Today, some Chief Executive Officers (CEO) state they "simply cannot stand by silently" and that it is their "duty" to weigh in on public debates that are of importance to society (Bergh, 2018; Edelman, 2018; Thomas, 2018). In the US, companies are now taking a stance on topics such as climate change, human rights, immigration and gun control. Such corporate activism allegedly goes beyond the company, and is driven by a desire to contribute and to fight for what is believed to be right (Gupta & Pirsch, 2006). However, the extent to which companies benefit from it, or exploit it as a branding strategy is unclear, and the debate on whether such activities are "..moral imperative or just cynical marketing" rages (Bloomgarden, 2019; Larcker, Miles, Tayan & Wright-Violich, 2018; Nevins, 2018; Taylor, 2018; Walker, 2018).

There is increasing pressure from both organizational insiders as well as certain customer groups, for companies to engage in social and political activities (Nevins, 2018; Weber Shandwick, 2017b; Weber Shandwick, 2018a). Firstly, the expectations about the role of the organization are moving away from the traditional perception that the main responsibility of public companies is to maximize shareholder value (Srivastava, Shervani & Fahey, 1998), and towards becoming so-called "social enterprises" - being active players on the social and political arena (Nevins, 2018). Second, in America, high-profiled CEOs are expected to use their platform to impact societal and political debates on behalf of the organization. Particularly the younger generations are demanding corporate action. Weber Shandwick reported that 47 percent of millennials see it as the CEOs responsibility to speak up about issues that are important to society (Weber Shandwick, 2017b). For companies pursuing corporate activism, millennials also show higher purchase likelihood and loyalty towards the organization as an employer (Weber Shandwick, 2017b). Among technology professionals 78 percent expect their CEO to speak out on social issues on their behalf (Weber Shandwick, 2018b). As Professor Aaron Chatterji stated during an interview with The Financial Times, "being in the neutral middle, where most companies used to be a generation ago, is no longer tenable..." and that being neutral "... is seen as lacking authenticity" (Nilsson, 2018).

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However, the majority of marketing practitioners seem to find corporate activism inappropriate. In the newest edition of The CMO Survey, 80 percent of marketeers responded that they do not find it appropriate for their brand to take a stance on a politically charged issue (Deloitte, Duke Fuqua & American Marketing Association, 2019). This seems to be in line with the traditional marketing school of thought, were firms avoid mixing business and politics, and the main focus is on what is good for business and shareholders (Sorkin, 2018; Walker, 2018). Political involvement can both attract and alienate customers, however the risk of jeopardizing large shares of your customer base is seen as poor marketing practice (Chatterji & Toffel, 2019; Taylor, 2019). Boycotts are increasing in frequency, as social media generates new boycott hashtags by the day (Weber Shandwick, 2017a). As the media extensively cover firm behavior that consists of the even slightest newsworthiness, the political landscape has become challenging to maneuver in. In addition, 89 percent of Americans see it as risky for a company to speak out on hotly debated issues, and 74 percent of millennials state that they have taken action as a result of corporate activism (Weber Shandwick, 2017b, 2018a). Marketing managers as well as corporate leaders will have to make important strategic decisions on how to approach the phenomenon, which either way can have a serious effect on its reputation, brand image and firm value.

This paper will investigate how corporate engagement influences the brand and the brand equity, and builds on the research of Chatterji and Toffel (2016; 2017; 2019) and Dodd and Supa (2014) whose findings indicate that the extent to which a consumer agrees with a corporate political statement will determine brand evaluation and affect purchase intention. Our study will investigate the effect corporate activism has on a company's brand equity, which, in turn, can lead to change in firm value. In order to explore this, we review the corporate activity of 55 publicly listed American companies between 2012 and 2019. An event study methodology is used to measure potential changes in a company's firm value caused by corporate activism behavior. Further, the paper also accounts for the level of controversy in an activism statement and test for whether the effect differs depending on whether it is the company itself or the CEO who is seen as the sender. We build our theory on brand associations, self-brand congruence, as well as theory on organizational legitimacy.

2.0 SETTING THE AGENDA

In the following section we present our proposed definition for corporate activism, as well as a clarification of concepts. Next, we justify how we see change in firm value as a good indication for change in brand equity.

2.1 Corporate activism

Corporations' social and political engagement, often referred to as CEO activism, is widely covered by the press, in newspapers and magazines (Bergh, 2018; Chatterji & Toffel, 2019; Gelles, 2018; Nilsson, 2018; Quinlan, 2018; Skroupa, 2018; Weber Shandwick, 2016). Chatterji and Toffel (2017) defines the phenomenon as "CEOs and corporate leaders speaking out on issues not directly related to their company's core business". Whereas, Dodd and Supa (2014) labels the concept as corporate social advocacy and presents the topic as being conceptualized within public relations, bordering between strategic issue management and corporate social responsibility. As we see it, not only CEOs and corporate leaders engage in corporate activism, companies do too. Due to the inconsistency in clearly defining this phenomenon we propose a new definition of the concept and thoroughly exemplify how it differs from other related phenomena.

Firstly, activism is defined as "a doctrine or practice that emphasizes direct vigorous action especially in support of, or opposition to one side of a controversial issue" (Activism, 2019). We define corporate activism as *the practice of business leaders and/or companies taking a clear stance on a contentious political or societal issue that is not directly linked to the firm's core business.* This paper will at times refer to CEO activism and company activism. The two concepts fall under our main definition, but we differentiate between the two as to clarify who the sender is as well as to account for whether they differ in effect.

The controversy of a debated topic and the fact that there are opposing sides are important elements with regards to how corporate activism differs from other types of political involvement, such as corporate social responsibility (CSR). CSR activities are not defined by opposing sides; for example, the financial support of school girls in developing countries is seldom criticized or opposed, and appears to

be a generally accepted good rather than controversial. Moreover, the unrelatedness to the company's core business is a crucial aspect of how corporate activism differs from corporate political activity (CPA). CPA constitutes of influencing public policy through lobbyism, electoral campaign donations, grassroots advocacy, petitioning and participating in trade associations, with the objective of advancing the firm's own interests (Hadani, Dahan & Doh, 2015; Larcker et al., 2018). Research suggests that firms engage in such political activities to protect the existing position of the firm, or to enhance the value of the firm or the industry (Baysinger, 1984; Baron, 1995; Rudy & Johnson, 2016). In contrast, corporate activism is not pursued with the main objective of directly impacting a company's bottom line. Non-market strategies have been pursued by American companies for decades, however this form of strategy usually takes place behind the scenes, often avoiding the attention of the public, where oppositely, corporate activism has the wider public as its targeted audience.

There is also a need for distinguishing corporate activism from the related term brand activism. Brand activism is when businesses "launch carefully designed social-good campaigns aimed at building awareness about a particular issue while also promoting a positive corporate message" (Böhm, Skoglund & Eatherley, 2018, p.1). Recent examples of this include Gillette's "We believe in the best in men"-campaign and Nike's feature of Colin Kaepernick in an advertising campaign last year, where both the brands and their products had a central role in the communication (Hunnicut, Allen & McGurty, 2018; Taylor, 2019). Corporate activism differs in that the main objective and motivation behind it is not to reap financial or reputational benefits, and the *issues* do not have a direct impact on firm performance. See table 1 for a clarification of concepts.

Table 1

CLARIFICATION OF CONCEPTS

		Related to core business	Individual CEO rather than firm initiative	Contentious issue	Public statement	The public at large as audience
Corporate activism	CEO activism	✗	✓	✓	✓	✓
	Company activism	✗	✗	✓	✓	✓
	Brand activism	✓	✗	✳	✓	✓
	Corporate political activity	✓	✗	✳	✳	✗
	Corporate social responsibility	✳	✗	✗	✓	✓

✗ = No
✓ = Yes
✳ = Can be both

2.2 The use of stock market return as a measure of brand equity

Brand equity is an important part of a firm's overall valuation. While brand equity is considered an intangible asset, the perceived importance of intangible assets relative to tangible ones has increased in recent years (Belo, Lin & Vitorino, 2014; Kirk, Ray & Wilson, 2013; Simon and Sullivan, 1993; Srivastava et al.,1998). Simon and Sullivan (1993) introduced the idea of measuring brand value based on the market value of a company, and other studies have found a relationship between intangible brand components and changes in stock returns. Aaker and Jacobsen (1994) found a positive relationship between perceived brand quality and stock returns. More recently, Luo, Raithel and Wiles (2013) found that changes in Brand Index data had a significant effect on abnormal return, while Tirunillai and Tellis (2012) found that the volume of online user generated chatter lead to significant changes in abnormal returns. This is interesting with regards to how investors constantly seek information on brands and their expected performance (McAllister, Sonnier and Shively, 2012), and that they can be sensitive to brand information and brand changes (Mizik & Jacobson, 2008; Tirunillai & Tellis, 2012). Changes in stock value is reflected by investors' aggregated expectations to future cash flows as the market absorbs new information that is made available and that is of relevance, directly or indirectly, to the firm (Fama, 1970, 1991; Lane & Jacobsen,

1995; Simon and Sullivan ,1993). Lane and Jacobsen (1995) further argue that the stock market reactions are based on consumers' response to information, and the investors' perception of their reactions. Using stock price as a reflection of all information available about a company is thoroughly supported by empirical research (see MacKinlay, 1997, and Sorescu, Warren, & Ertekin, 2017 for an overview). We suggest that changes in brand equity are instantly reflected through abnormal returns in the stock market. As per this, our study will investigate the effect corporate activism has on a company's brand equity, which, in turn, will lead to a change in firm value.

3.0 LITERATURE REVIEW

3.1 Review of previous research on corporate activism

To our knowledge, little research has been published on this topic. Chatterji and Toffel (2019) recently published a paper on CEO activism where they argued that CEOs are able to shape public opinion, and found that the public are prone to be swayed by CEOs' political statements. In addition, the researchers found evidence for purchase intention to be higher amongst participants who were exposed to a CEO's political statement compared to those who were not exposed to it. The effect is believed to be driven by participants who support the activist statement, however no effect on purchase intention was found amongst those who did not support the statement. Dodd and Supa (2014) demonstrates that organizations who engage in corporate social advocacy, for topics regarding gay marriage, health care reform and emergency contraception, could experience a significant impact on purchase intention. They find support for purchase intention to be higher amongst those who agree with a statement and lesser amongst those who disagree with a statement. These studies indicate that reactions to corporate activism can be determined by whether people's values and beliefs are congruent with a company's political statement.

3.2 Theoretical development

The relationship between corporate associations and consumers' evaluations of companies or products have been extensively researched. In line with the essence

of corporate activism, consumers' brand evaluations as a result of a firm's social and political initiatives are relevant for a review, and previous findings are presented in the following section.

3.2.1 Social and political firm activities

Previous research has established that CSR and CPA impact company associations in the minds of consumers. Companies' engagement in social and political activities can have significant impact on purchase intention (Du, Bhattacharya & Sen, 2007), and CSR associations can lead to enhanced product and corporate evaluation (Brown & Dacin, 1997; Sen & Bhattacharya, 2001). Companies' commitment to CSR activities are partly motivated by how consumers have shown to reward corporations through increased loyalty and likability, greater purchase likelihood and being brand advocates (Du et al., 2007; Luo & Bhattacharya, 2006; Sen & Bhattacharya, 2001). Holding positive CSR beliefs in the mind of the consumer have shown to enhance consumer-company identification, and satisfy consumers'

Table 2

Relevant findings on social and political firm activities

Authors	Findings
Brown & Dacin (1997)	Customers beliefs and feelings toward a company's CSR activities can have spillover effects to other company dimensions, such as a firm's corporate ability.
Du, Bhattacharya & Sen (2007)	Positive CSR beliefs leads to increased purchase likelihood, long-term loyalty and advocacy behaviour. The fit of integration of the CSR activities into the firm affects the success of the CSR-specific benefits.
Ellen, Webb & Mohr (2006)	Consumer response to CSR activity is driven by self-centered (strategic and egoistic) and other-centered (value driven and stakeholder driven) perceived motives. Consumers respond more positivley to what they see as other-centered CSR efforts.
Luo & Bhattacharya (2006)	CSR's effects on firm value is partially mediated by customer satisfaction, and a firm's corporate ability moderates the financial returns of CSR activities.
Lichtenstein, Drumwwright & Braig (2004)	Positive CSR beliefs lead to more favourable evaluations and increased purchase behaviour, due to enhanced customer-company identification.
Nan & Heo (2007)	Advertisments with embedded cause-realted marketing message elicts more favorable consumer attitues towards the company. High fit between brand and cause leads to favorable consumer attitues towards brand, if the consumer have high brand consciousness.
Sen & Bhattacharya (2001)	Both company-specific factors and individual-spesific factors moderates a consumer's response to CSR. Consumers' congruence between firm and company determines reactions to CSR activities.
Bhattacharya & Sen (2003)	Consumer-company identification, caused by satisfied self-definitional needs, leads to psychological attachment to a firm and its products. As a result, customers become brand champions.

self-definitional needs (Bhattacharya & Sen, 2003; Lichtenstein, Drumwright & Braig, 2004). See table 2 for a summary of relevant findings.

3.2.2 Corporate associations and brand image

Established literature suggests that consumers' cognitive associations can be linked to both the company and to specific services and products (e.g.: Brown & Dacin 1997; Keller, 2003; Spector, 1961). Aaker (1996) refers to organizational associations and brand associations, while Keller (1993) introduces the distinction between secondary associations and brand associations. Brown and Dacin (1997) defines non-product related associations as all types of information a person holds about a company. Aaker (1996) also emphasizes the importance of organizational associations in symbolizing other aspects of the firm besides just products and services. Whereas these associations may not affect the perception of product characteristics, they can play a role in changing consumers' attitudes towards the company and its products (Brown & Dacin, 1997; Aaker, 1996). Some corporate associations may thus be seen as a source of sustainable competitive advantage (Hall, 1993; Aaker, 1996).

Brand image is defined as "perceptions about a brand as reflected by the brand associations held in consumer memory" (Keller, 1993, p. 3). According to the associative network memory model, brand associations represents nodes linked to a brand which comprise the meaning of the brand to consumers (Keller, 1993). Secondary associations are suggested to emerge when associations with unrelated entities become linked to a brand, and consumers transfer these associations from those entities onto the brand (Keller, 1993). Such secondary associations can be derived from the actions of both the company and its representatives. Mikeska and Harvey (2015) found a relationship between political behavior of key firm members and consumer evaluations of the firm, and that a CEO's political behavior can have spillover effects on firm perception. This notion is also supported by Park and Berger (2004), that in the case of public statements made by organizational leaders, the positions taken on the issues become aligned with the company. Additionally, collaborations between companies and nonprofits have been found to improve purchase intention due to increased favorable company associations (Margolis, Elfenbein & Walsh, 2007). By this, we see that consumers can attribute CEO and company political behavior to the brand, even when this behavior is unrelated to

company operations. Whether the associations linked to a brand in consumers' minds as a result of corporate activism will be positive or negative, is assumed to be determined by the congruence between the individual's values and beliefs and the activism statement, explained by the degree of perceived self-brand congruence.

3.2.3 Self-brand congruence

The relationship between self-image or self-concept and the brand image - and its effect on consumer behavior - has been an area of interest in marketing research for some time. The use of brands and products allow individuals to express self-image and individuality, differentiate themselves from others (e.g. Escalas & Bettman, 2005; Sirgy, 1982), and provide meaning that can be used to create and define their self-concept (Escalas & Bettman, 2005). Values, beliefs and meanings from the larger culture with which an individual identifies are incorporated in the individual's self-concept (Erez & Early, 1993), and people's brand knowledge include valuations relative to these constructs (Scott & Lane, 2000). Moreover, an individual's self-concept is partly inferred from the groups to which the individual belongs (Tajfel, 1982), and the relationship between self-concept and brand image may also be linked to group behavior. Individuals closely identify with an organization when they can categorize themselves into social groups with central, enduring and distinctive characteristics (Albert & Whetten, 1985). Scott and Lane (2000) argue that a presented organizational image will be compared to the definitions, norms and values of the culture in which an individual has been socialized. Further, a person's social identity is defined as the aspects of an individual's self-image that derive from the social categories or groups he perceives himself as belonging to, defined by members' stereotypicality (Gupta & Pirsch, 2006; Sirgy, 1982).

Self-concept connection is a dimension of the consumer-brand relationship, and represent the degree to which a brand contributes to an individual's identity, values and goals (Fournier, 1998). This can be linked to Sirgy's (1981a, 1982a, 1982b, in Sirgy, 1982) theory on congruence between self-image and product-image. The theory explains congruence between self-image and product-image as a process where product cues can activate a self-schema that involves the same images. For

example, a product having an image of "liberal" may activate a self-schema involving the self-concept "I" and a related linkage to the image attribute involving "liberal". The perceived value of the product and the product image is influenced by the self-schema that is activated, where the value on the self-image dimension, positive or negative, will be projected to the product. This means that if "liberal" is valued positively, a positive value will be projected to the product. Thus, Sirgy (1982) suggests that the value or meaning of a product image is not independently formed, but rather derives from an individual's evoked self-image dimensions.

Escalas and Bettman (2005) demonstrated a relationship between the degree of self-brand connection and the reference groups associated with a brand. They found that consumers use brands whose images match their own groups (ingroup) to establish a psychological association with those groups (Escalas & Bettman, 2005). Similarly, in a situation where the brand has an image consistent with an image of a group to which the consumers *do not* belong as well as do not *want* to belong (outgroup), lower self-brand connections were found (Escalas & Bettman, 2005). Additionally, the connection between a consumer and a firm can be mediated by the congruence between the two. For example, Sen and Bhattacharya (2001) find that the effect of CSR on consumers' company evaluations is mediated by their perceptions of self-company congruence and moderated by their support of the CSR domain. This suggests that a company's non-product dimensions have a role in creating the congruence between the consumer and the brand.

In light of this, the current paper proposes that corporate activism forms brand associations in consumers' minds that will vary from positive to negative depending on the degree of perceived self-brand congruence. People are expected to evaluate a brand more positively if the corporate activism statement matches their beliefs, and more negatively if the statement opposes their beliefs. There are competing arguments for how this cross-consumer heterogeneity as a result of corporate activism may affect the brand equity.

3.3 Hypotheses

On the one hand, Chatterji and Toffel (2019) found that people who were exposed to a CEO activism statement and agreed with it, showed an increase in purchase intention, whereas those who disagreed showed no change in purchase intention. This indicates that those who agreed experienced an enhancement in self-brand congruence as the statement was seen as in line with the values, beliefs and meanings of the self, creating positive brand associations. Oppositely, one would expect that those who disagreed with the statement would experience a reduction in self-brand congruence as the statement was seen as not being in line with the self-concept, hence creating negative brand association. However, despite a potential reduction of self-brand congruence due to disagreement with the statement, it did not seem to affect brand evaluation, at least not to the extent that it would impact purchase intention. For the brand, this indicates an asymmetric effect on the total brand evaluation. The lack of observable change among those who disagreed can be explained by the fact that consumers who have a relational tie with a brand tend to diverge from, and are more forgiving of, negative brand information (Batra & Bagozzi, 2012; Cheng, White & Chaplin, 2012; Wallace, Buil & de Chernatony, 2014). Further, in psychology it is argued that since humans are more prone to admit positive information and that it requires less brain power to believe something than it does to doubt it, people tend to filter out information they find unsettling (Case, Andrews, Johnson & Allard, 2005; Heffernan, 2011). This can subsequently be linked to the notion that people tend to prefer inaction over action to avoid or reduce transaction costs and the processing power behavioral changes require (Gal & Rucker, 2018). Moreover, strong self-brand congruence is associated with positive brand evaluations. When a brand is perceived to have attitudes that are in line with consumers' values, they tend to support and buy the brand (Kates, 2000; Sen & Bhattacharya 2001; Veloutsou & Moutinho, 2009). Based on this, we hypothesize a similar asymmetric relationship for brand evaluations caused by corporate activism statements. We believe an enhancement in the degree of self-brand congruence has a stronger positive effect than a decrease of self-brand congruence has a negative effect. We hypothesize that due to such an asymmetric effect of self-brand congruence, corporate activism will lead to a positive change in brand equity.

H1a: Corporate activism will lead to a positive change in short-term abnormal returns.

On the other hand, Dodd and Supa (2014) find that a lesser degree of agreement between a corporate stance and the customer's stance leads to lesser purchase intention. Similarly to Chatterji and Toffel (2019) they find that greater agreement leads to greater purchase intention. This indicates that those who agreed experienced an enhancement in self-brand congruence, creating positive brand associations. And, that those who disagreed with the statement experienced a reduction in self-brand congruence, hence creating negative brand associations. This effect, in both directions, can be explained by the theory of consumers' self-consistency needs (Sirgy, 1982). Consumers are usually motivated to behave consistently with self-image beliefs and avoid dissonance from inconsistency between behavior and self-image beliefs (Sirgy, 1982), and will strive to protect their self-concept (Grubb & Grathwohl, 1967). Due to these mechanisms, we hypothesize that corporate activism may lead to a polarization of customers' brand evaluation towards opposite directions, as some experience more self-brand congruence and others less. This will lead to an increase in dispersion of consumers' brand perception. Brand dispersion indicates lack of consensus and harmony in the brand perception, and can be associated with low brand consistency. Keller (2013 p. 480) argues brand consistency to be "...critical to maintaining the strength and favorability of brand associations". Further, a highly heterogeneous consumer group can have a negative impact on shareholder value (Grewal, Chandrashekaran & Citrin, 2010), and downside dispersion have been found to have a negative impact on firm performance (Luo et al., 2013). As of this, we hypothesize that corporate activism will lead to an increase in polarization of customers, leading to a negative change in brand equity.

H1b: Corporate activism will lead to a negative change in short-term abnormal returns.

Consumer responses to corporate activism is expected to vary according to different characteristics of the activism, such as the sender. While CEOs often have the opportunity to speak more freely on social and political issues, companies are often

suspected to be motivated only by the objective of enhancing brand value and reputation (Chatterji & Toffel, 2019; Hess & Warren, 2008). As companies' initiatives are more prone to be dismissed as PR stunts or corporate branding (Dodd & Supa 2014; Chatterji & Toffel, 2019; Hess & Warren, 2008), a political statement coming from a CEO is believed to be more likely to be perceived as an honest attempt to make an impact on society. Additionally, CEOs are often used in the media as a personification of the company (Heinisch 2006, in Bendisch, Larsen & Trueman, 2013). Statements coming from CEOs are therefore argued to be more prone to get both the public's and the media's attention. This is also supported by the notion that in the US, there is a culture where CEOs are perceived as celebrities, which is likely to increase the newsworthiness of their statements compared to companies' (Blanding, 2019; Park & Berger, 2004). CEO media coverage can have a positive effect on firm value (Nguyen, 2015). Further, putting a face and a voice to the activism is expected to be beneficial as it can appear more human and less abstract to consumers (Fleck, Michel, & Zeitoun, 2014). The combined effect of the recognition and trustworthiness of CEO activism compared to company activism is thus likely to have a larger impact on consumers evaluation of the brand (Bloomgarden, 2019). A company's reputation is partly determined by the CEO's reputation (Burson-Marsteller, 2003), and a brand's personality traits are directly derived from people linked to the brand and their characteristics (Smit, Van den Berge & Franzen, 2003). Moreover, streams of literature have established that similar attitudes can influence an individual's liking of a person (Baskett, Byrne & Hodges, 1971; Byrne & Griffitt, 1966; Byrne & Clore, 1970). This can be related to the feeling of congruence between the consumer and the CEO (Bendisch et al., 2013). We argue that the human and more authentic character of CEO activism compared to company activism is likely to enhance people's feeling of self-brand congruence if they support the activism statement. Consequently, if the statement comes from a CEO, overall brand evaluations are believed to be more positive than if it comes from a company. Therefore, the short-term abnormal returns are hypothesized to be more positive when the statement comes from a CEO.

H2: CEO activism has a more positive effect on short-term abnormal returns relative to company activism.

Reactions to corporate activism can also be linked to whether consumers find the activism itself appropriate as a concept, or what they consider to be legitimate organizational behavior. Organizational legitimacy is defined as the "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995 p. 574). Consistent with Dodd and Supa's (2014) argumentation, we believe that whether the actions of a company are perceived to be acceptable and socially responsible differs across individual consumers. We further assume that the extent to which consumers find the corporate activism appropriate or not, is determined by whether she sees it appropriate for a business to talk about the specific issue of discussion. We therefore believe that a statement with high level of controversy is less likely to align with what consumers perceive as appropriate coming from a company or CEO compared to a moderately controversial statement. To illustrate; a statement on gun control, which splits the American public in half is more likely to be perceived as inappropriate than a statement supporting same-sex marriage, which 67 percent of the population supports (See appendix B). Involvement in cases where the public is split 50/50 is thus more likely to create brand dispersion. This effect may occur regardless of whether people agree or disagree with the statement. Based on this, as more people will question the legitimacy of the company, a highly controversial statement is likely to create more negative brand associations. We therefore hypothesize that a highly controversial statement will have a negative effect on brand equity.

H3: A highly controversial corporate activism statement will have a more negative effect on short-term abnormal returns relative to a moderately controversial statement.

4.0 METHODOLOGY

4.1 Event study methodology

As we in this paper are interested in the short-term effects of changes to brand equity as a result of corporate activism, we use a simple event study methodology, measuring the cumulative abnormal returns (CAR) following the events (Brown & Warner, 1985). The event study methodology is based on the efficient market

hypothesis which assumes that a company's stock price is reflected by all information that is publicly available and relevant about a company (Fama, 1970; also see Sorescu et al., 2017 for an event studies overview). The stock price reflects investors' expectations of a company's future cash flows, and the price of a stock fluctuates as new information is issued. By comparing the realized stock return with the expected stock return had the event not occurred, the realized change in price thus represents the value associated with the event (Sorescu et al., 2017). The majority of event studies in the marketing literature test for short-term event windows similar to this study, in order to isolate the effect and to avoid overlapping events which can lead to confounding effects (Sorescu et al., 2017; Tipton, Bharadwaj & Robertson, 2009).

4.2 Data and empirical context

4.2.1 Sample & Databases

The first step in the data collection process involved gaining access to the Wharton Research Databases to obtain financial information on all events. For an event to be included in the sample it had to match the definition of corporate activism as defined in section 2.1. Additionally, the relevant company had to be listed on the US stock market in order for us to access the company's historical stock price information.

4.2.2 Process

As for the search strategy, we first identified societal and political topics that are to some extent considered controversial in the United States. *Racial issues*, *climate change*, *immigration*, *abortion* and *sexual orientation* was to be explored. The topics were identified by cross-referencing ISideWith's highlighted contentious topics (ISideWith, 2019), with the topics assessed in Weber Shandwick's report on CEO activism (Weber Shandwick, 2018a), and using the coinciding results. The topics related to business issues or employee benefits were excluded in order for the topics to match the corporate activism definition properly. Event studies often use official company announcements such as new product development, product launches and decisions of mergers and acquisitions as dependent variable (Sood & Tellis, 2009; Sorescu, Chandy & Prabhu, 2007a; Sorescu, Shankar & Kushwaha,

2007b). However, political activism is rarely released as official company announcements. We found that news publications cover a significant proportion of the political activities of companies. We used the Factiva database and searched for articles published between 2012 and 2019. We combined topic specific search terms with the search terms "company name", "statement" and "announcement". This procedure aligns with the approach of several previous event studies (e.g. Hendricks & Singhal, 1997; Sorescu et al., 2007b). Amongst the controversial topics who are broadly covered in news publications, only a small proportion of the topic-related news articles are related to the partaking of companies. Therefore, we included a company specific search term in each search to improve the relevance of our search results. The companies included were the top ten companies on "Standard & Poor's companies by weights" list at the time of the data collection (SlickCharts 2019; see Appendix A). For each hit in the Factiva database, we reviewed the top 50 results sorted by relevance to identify cases of corporate activism. As the results in the database do not provide all potential sources of information on the specific time of the event, a second step in the search process was necessary in order to provide the precise event date. This step involved using Google search engine to find the first source of public information of the event identified. We used this step to verify the event date by googling the specific event identified in Factiva and to find the first news article published on it. Typically, the corporate activism statements were released or published on social media platforms, during interviews, speeches, or shared as video content.

4.2.3 Snowball sampling

The inclusion of the ten S&P companies in the search phrase served to improve the relevance of the search results rather than limiting the identified events to those specific companies. From Factiva search results all events within the definition of corporate activism for publicly listed companies were included in the sample. Additional observations of activism were also included if it was discovered through the same sources identified in the second step of the search process. News articles were often found to mention the company's previous political activities as well as referring to other companies' activities. This approach is closely related to snowball sampling, as additional objects (activism of other companies), were generated

through search results for each initial object; (the activism of the top ten companies). This resulted in a broad selection of companies for our sample, 55 in total.

4.2.4 Data reliability

The data collection was performed individually by two observers across the course of three weeks. To ensure consistency in the observations, a second step involved an inter-rater reliability test, where the observers reviewed each others' observations and categorized each event as being either CEO activism or company activism and the topic of the statement, as well as determining the event date. When the observers came to different conclusions regarding an observation, it was excluded from the sample. After this procedure, the sample consisted of 130 events. Furthermore, a third observer unfamiliar with the purpose of the study reviewed a subset of 10 percent of observer 1 and 2's respective samples together with a sample of cases that did not fall under the corporate activism definition. As the third observers' results were consistent with the evaluation of those of observer 1 and 2, the sample is considered to be less likely to include systematic errors.

4.2.5 Sample trends

Some search phrases generated numerous events while others did not result in any. The sample indicates that some companies are more active in taking a stance than others and that some topics seem to be more "popular" to debate. For example, not all top ten S&P companies were found to pursue corporate activism, but companies such as Apple and Salesforce have several times been engaged in different controversial debates during the last years. In general, around half of the events in the sample involved tech companies. This is in line with what Weber Shandwick states in their report that among technology professionals, there is a significantly higher share of people in favor of companies and CEOs expressing their opinion on societal and political issues (2018b). Silicon Valley companies are also known to be based on one or a few persons' big idea, resulting in less control for the investors (Emspak, 2019). Thus, some of the CEOs in the technology industry may feel that they can use their discretion to engage in activism to a larger extent than corporate leaders in other industries. Further, cases involving sexual orientation such as

LGBT rights and same-sex-marriage were found to be extensively debated among corporate leaders, while there were not found any examples of corporate activism on the topic of abortion. Again, the observations match the findings of Weber Shandwick's report on CEO activism, which states that abortion is the issue that Americans are the least likely, amongst a list of controversial topics, to believe that CEOs should speak out on (2018a). The subject of abortion and women's health seem to have been more or less untouchable for large firms, which was also recently expressed in an advertisement in The New York Times where a few female leaders called on corporate America to take a stance in the ongoing reproductive rights debate regarding new restrictions in Alabama (Pearl, 2019). Further, the dataset contains very few cases of corporate activism taking place before 2014, which is not surprising considering this being a new phenomenon. It is also worth noting that all statements in the sample are socially liberal statements, such as defending LGBT rights, standing up for immigrants believed to be victims of discrimination, and emphasizing the problems of climate change. One explanation for this may be that the political standpoint of the CEO or the company guides whether they choose to take action. Taking such a stance is more in line with liberal values, which are fundamentally built on the importance of equal opportunities for all and governmental protection of human rights. Liberal CEOs are also found to invest more in social responsibility than their conservative colleagues (Di Giuli & Kostovetsky, 2014). From a conservative point of view, speaking out on social issues may be less meaningful as they typically value personal responsibility and individual liberty. Although significantly more rare, conservative activism does exist. However, the few cases identified were among leaders of privately held family businesses, and as they are not publicly listed, they are not included in the sample (Schneider & Knight, 2019). Rather than indicating a biased sample, the authors argue that the sample reflects the core essence of the phenomenon - the largest and most influential companies choosing to speak out do so in accordance with liberal values, despite the fact that these values are not always reflected in the majority of the population.

4.3 Measures and models

4.3.1 Event window

Using the Wharton Research Data Services (WRDS), we tested for different event windows. To account for potential leakages where the market could have learned about the (possibility) of the event before it occurred, we included up to 5 days prior to the event day (Sorescu et al., 2017). As we experienced during the data collection process, leakages did occur, as internal emails and messages sometimes were leaked to the media before an official statement was made. Further, we included 1 day after the event to account for potential lag in information.

4.3.2 Confounding effects

Confounding effects occur when the measurement window contains two or more events collected for the same firm, leading the overall change in stock returns to include the effect of both events (Sorescu et al., 2017). Confounding effects has been considered a potential issue in event studies, and according to Sorescu, et al. (2017) some event studies choose shorter event windows to avoid them and some chooses to remove confounding events from the sample. However, in their analysis they provide evidence that suggests that this practice is unnecessary, as they did not find the difference between samples with and without confounding events to be significantly different from zero (Sorescu et al., 2017). Therefore, consideration of concurring events has not been pivotal in deciding measurement window for abnormal returns for the current study. However, the WRDS tool excludes events from the same firm if the events lead to a stock reading on the same trading day. As a result, the sample was reduced to 122 observations.

4.4 Variables

The variables used in the study are presented in the following section. See table 3 for an overview of the operational measures and data sources for all variables included in the analysis.

4.4.1 Dependent variable: CAR

The abnormal return is computed for each event, and for each day in the event window. This measure represents the difference between the realized stock returns and the expected stock returns that would have been obtained in the same period had the activism not occured (Sorescu et al., 2017). This is formally expressed as:

$$AR_{it} = \frac{P_{it} - E(P_{it})}{P_{it-1}} = R_{it} - E(R_{it})$$

where P_{it} and P_{it-1} are the dividend adjusted price of the stock of firm i, at time t and $t-1$. R_{it} is the realized rate of return of the stock of firm i, at period $(t-1,t)$, and $E(R_{it})$ is the expected return of stock i, at period $(t-1,t)$ that would be obtained in the absence of the event (Sorescu's et al. 2017).

In line with Sorescu's et al. (2017) recommendation for short-term event studies, the market-adjusted model was chosen for the calculations. The model provides an estimate of the expected return in the abnormal return model. The model accounts for the average rate of return on all stocks that are traded in the stock market at time t.

$$E(R_{it}) = R_{mt}$$

where the R_{mt} is the average rate of return on all stocks trading in the stock market at time t.

As the event window consists of several days, cumulative abnormal return for the events was computed by summarizing the daily abnormal returns for the event window. This represents the total added value for the firm, as a result of the event.

$$CAR_{i(-5,1)} = \sum_{t=-5}^{1} AR_{it}$$

4.4.2 Independent variables

4.4.2.1 Main independent variables

Controversy. The variable controversy is a dichotomous variable defined as either *highly controversial* or *moderately controversial.* We operationalize this variable as a dummy that takes the value of 0 if the statement is moderately controversial and 1 if it is highly controversial. The ISideWith database, which contains data on over 50 million users taking stance on different issues, has been used to measure the degree to which the statements in the sample are seen as highly or moderately controversial (ISideWith, 2019). All issues have a main classification of results for each question asked, reporting the percentage of people responding yes and no respectively. For example, *"Do you support the legalization of same sex marriage?* where 67 percent of respondents said yes, and 33 percent reported no. For the current study, the events from the sample were matched with different ISideWith issues. If a split between 40/60 and 60/40 percent for yes and no were reported on an issue, the statement was thus defined as highly controversial. See Appendix B for an overview of the ISideWith questions used.

Activism type. In our analysis we control for whether the corporate activism is defined as CEO activism or company activism, in order to test for potential differences in effect between the two. The variable is coded as a dummy were CEO activism takes the value 1 and company activism takes the value 0.

4.4.2.2 Other independent variables

Topic. To control for differences between debated topics, the events were coded as belonging to one of five categories; climate change, gun control, immigration, racial issues or sexual orientation. Four out of the five topics used in the search strategy became a topic category, however, the topic of abortion gave no results and the fifth category gun control was added. The following two variables *issue* and *case* are categories underlying the five different topics.

Issue. All events were coded as belonging to one of ten different issues, coded as a categorical variable. See the attached data file for an overview of the issues.

Case. All events were coded as belonging to a specific case, coded as a categorical variable. The dataset contains 27 different cases of corporate activism. See the attached data file for an overview.

Topic new, Issue new, Case new. We control for the newness of the event, and use it as a measure of whether the CEO or the company had engaged in activism prior to the specific event. The newness of the event was defined on three different levels; newness of the topic (such as immigration), newness of the issue (such as US border control), and newness of the specific case (such as Trump's travel ban). All three levels are coded as dummies where 1 equals new topic/issue/case and 0 indicates that the event is not new with regards to the topic/issue/case. This variable proved difficult to measure, resulting in a lot of missing values. See section regarding missing values.

Technology industry. According to Weber Shadwick (2018b) companies from the tech industry are well represented amongst the firms that engage in corporate activism. Furthermore, they argue that amongst tech professionals there is a significantly higher proportion in favor of their companies' CEOs to participate in societal and political debates. Based on this, each event was coded with a dummy variable, with a value of 1 if the company was operating in the technology sector and 0 if not. Whether the firm was considered a technology company, was identified and checked according to Nasdaq's complete list of NASDAQ, NYSE and AMEX listed technology companies (Nasdaq, 2019).

Reaction to public policy. This variable accounts for whether the statement is a reaction to a public policy, such as opposing a proposed legislation or supporting a supreme court ruling, or not. Supporting issues such as Pride or speaking out on gun control in general are examples of activism that is not related to one specific public policy. It was coded as a dummy variable taking the value 1 if the event was a reaction to public policy or 0 if the event was not related to public policy.

Company. Each event was coded with a specific company identifier, using the financial ticker name of the company.

ID. Each event included was given an event identifier. Numbers between 1-87 are CEO activism events and events between 100-147 are company activism events.

Number of employees. To control for firm characteristics, we use a variable to account for the number of employees at each firm. In line with previous research we use the log of total employees.

Firm assets. We control for a company's assets by including the log of the company's total assets. The log of total assets can be used as an indicator of firm size (Sorescu et al., 2007).

Table 3

VARIABLES, MEASURES AND DATA SOURCES

Variable	Operational Measure	Data Source
Brand value	Short-term abnormal returns 7 days around the event	Wharton Research Data Services
Tech_company	Whether the firm is categorized as a technology company	Nasdaq's complete list of NASDAQ, NYSE and AMEX listed technology companies
Employees	Number of employees	Statista
Total Assets	Assets	Macrotrends and companies' annual reports
Years	Year of event	Identified for each specific event
Activism Type	CEO or Company Activism	Identified for each specific event
Activism Public policy	Whether the activism was a reaction to a public policy or not	Identified for each specific event
Activism Controversy	Highly (between 40% and 60% of the public agrees) or Moderatly controversial	Isidewith.com
Topic	The overall topic of the message	Identified for each specific event
Topic new	Whether the company has previously stated something on the topic	Identified for each specific event
Issue	The issue the message concerns	Identified for each specific event
Issue new	Whether the company has previously stated something on the issue	Identified for each specific event
Case	The specific case the message concerns	Identified for each specific event
Case new	Whether the company has previously stated something on the case	Identified for each specific event

5.0 RESULTS

5.1 Main results

We found that the cumulative abnormal returns (CAR) for the corporate activism events in the chosen event window were significantly positive. Table 4 presents the output retrieved from WRDS calculated with the Market-Adjusted Model for short-term abnormal returns (see Appendix C for graphical presentation as well as t-statistics for each day in the event window). The mean CAR at the end of the event window is reported to be 0.76 percent. Further, both the cross-sectional t-statistic and the standardized cross-sectional t-statistic, which is robust to the variance induced by the event (Boehmer, Musumeci & Poulsen, 1991), indicate significant results on a five percent level ($p < .05$). We find support for H1A, stating that corporate activism has a positive effect on short-term abnormal return, and thus we find no support for H1B. To test for robustness, we calculated the cumulative

abnormal return for the events using the three different asset pricing models presented in Sorescu et al. (2017): Market-adjusted model, Market Model and Fama-French Three-Factor Model. See appendix D for results.

In Table 5 the mean values and correlation matrix of the short-term abnormal returns and the independent variables are presented. The newness variables were omitted due to too many missing values. We identified that the variable *Years* has high correlations, also with our main independent variables *Activism Controversy* and *Activism Type*. Therefore, we excluded *Years* from further analysis.

Table 4

SHORT TERM ABNORMAL RETURNS

Number of observations = 122

	Mean CAR	*Cross-sectional t-statistic CAR*	*Standardized cross-sectional t-statistic CAR*
Market-adjusted model	.76 %	2.40*	2.12*

* p < .05
** p < .01

Table 5

MEANS AND CORRELATIONS MATRIX USED IN THE MODEL

	Means	1	2	3	4	5	6	7	8	9	10	11	12
1. CAR (Market-Adjusted Mo...	0.76 %	1.0000											
2. Companies		.02 (.79)	1.00										
3. Tech company	0.51	.07 (.43)	-.26 (.00)	1.0000									
4. Employees	112 251	-.07 (.45)	-.08 (.41)	-.11 (.21)	1.00								
5. Total assets	$204 bn	-.01 (.92)	-.13 (.17)	.08 (.40)	.75 (.00)	1.00							
6. Years		-.19 (.04)	.11 (.21)	.06 (.50)	-.17 (.06)	-.12 (.19)	1.00						
7. Activism Type	0.70	.00 (.97)	.01 (.94)	.16 (.09)	-.18 (.05)	-.17 (.06)	.33 (.00)	1.00					
8. Activism Reaction public ʀ	0.91	.03 (.73)	.03 (.78)	-.11 (.24)	.04 (.70)	-.14 (.12)	.27 (.00)	.09 (.33)	1.00				
9. Activism Controversy	0.76	-.26 (.01)	.07 (.47)	-.01 (.95)	-0.20 (.04)	-.19 (.05)	.64 (.00)	.37 (.00)	0.12 (.23)	1.00			
10. Topic		.08 (.39)	-.06 (.54)	-.04 (.63)	.11 (.24)	.01 (.91)	-.73 (.00)	-.31 (.00)	-.16 (.08)	-.49 (.00)	1.00		
11. Issue		.12 (.21)	.18 (.05)	-.15 (.10)	-.05 (.62)	-.09 (.32)	.38* (.00)	0.17 (.06)	.41 (.00)	.03 (.75)	-0.39 (.00)	1.00	
12. Case		-.03 (.74)	-.01 (.94)	-.04 (.66)	-.09 (.30)	.01 (.95)	.37* (.00)	.08 (.37)	.02 (.86)	.07 (.46)	-.57 (.00)	.11 (.25)	1.00

The values in parentheses are p-values of significance

Table 6 presents the results for the market-adjusted model of short-term abnormal returns. A stepwise regression was performed, and the table shows 1) the model with all variables except the ones that have already been excluded and 2) the final model where we found the most significant results. (See attached do-file for the process and Appendix E for all results.) As hypothesized, if the statement comes from a CEO it has a significantly more positive effect on short-term abnormal returns relative to a statement coming from a company. The coefficient is 1,32 percent and is significant on a ten percent level ($p < .10$), indicating support of H2. Our results also show that corporate activism statements that are highly controversial have a significant negative effect on short-term abnormal returns ($p < .01$), in support of H3. The coefficient is - 2.73 percent, indicating that even though corporate activism generally has a positive effect on short-term abnormal returns, a highly controversial activism statement can be harmful. The other control variables were explored as well. We find no significant results for these, but we find that the variables *Tech company* and *Firm Assets* has a positive direction, and *Number of employees* has a negative direction.

Table 6

Models

	Incl. all variables	Significant variables only
Prob > F =	.0484**	.0020***
Adj. R-squared	.0762	.1044
Number of observations	111	111
Companies	.0001 (.0002)	-- --
Tech_company	.0058 (.0073)	-- --
log_Employees	-.0059 (.0078)	-- --
log_TotalAssets	.0020 (.0061)	-- --
Activism_Type	.0140 (.0080)	.0132* (.0076)
Activism_Controversy	-.0337** (.0107)	-.0273*** (.0081)
Activism_Public policy	.0224 (.0136)	-- --
Topic	-.0027 (.0044)	-- --
Issue	.0016 (.0015)	.0025** (.0012)
Case	-.0006 (.0007)	-- --
Constant	.0116 (.0614)	.0013 (.0107)

*p < .1
**p < .05
***p < .001
Note: the standard error appears in parentheses

Further, we find *Issue* to be significant in our final model, with a coefficient of 0,25 percent (p < .05). Due to this, we ran a regression model where we included the predictors for all categories of the variable, see Table 7. Here, we find that the *Issue Public shooting* has a significant negative effect (p < .05). This means that a statement on public shootings will reduce the positive effect of corporate activism, which could indicate that reactions to corporate activism may in some cases differ from negative to positive depending on what *issue* the statement concerns. However, in this model, we do not find significant results for *Activism Controversy*. We therefore chose to investigate the relationships further, and explored the variance inflation factor (VIF) as shown in Table 7. The VIF of *Issue Same-sex marriage* and *Controversy* are considered high, and have low tolerance. This indicates that *Controversy* can be considered a linear combination of *Same-sex Marriage* and the other variables. This aligns with the fact that events within the

Issue Same-sex marriage were the only events to be considered *Moderately Controversial* (see Appendix B). This data collinearity will be addressed in the limitation section of this paper.

Table 7
CROSS-SECTIONAL SHORT TERM ABNORMAL RETURNS

	Model incl categories of Issue	VIF	1/VIF
Prob > F =	.0083*		
Adj. R-squared	.1249		
Number of observations	111		
Activism Type	.0138* .0077	1.23	.8149
Activism Controversy	-.0164 .0274	13.65	.0733
Issue			
LGBT Rights	.0096 (.0187)	2.30	.4342
Police Shooting	-.0004 (.0231)	1.39	.7193
Public Shooting	-.0636** (.0270)	1.27	.7868
Racial Debate	.0227 (.0539)	1.14	.8796
Religious Freedom Restoration A<	.0039 (.0144)	3.47	.2880
Same-sex marriage	.0209 (.0312)	16.73	.0598
The Paris Agreement	.0165 (.0163)	2.34	.4280
US Border Control	.0187 (.0141)	3.87	.2587
Constant	-.0023 (.0309)		

*p < .1
**p < .05
***p < .001
Note: the standard error appears in parentheses

We conducted the regression analysis exploring the categories in the variables *Topic* and *Case* as well, see Appendix F. We subsequently looked for interaction effects in the sample, but no interesting significant interactions were identified (see the attached do-file for the process).

5.2 Missing values

Missing values were identified through summary statistics of the sample. Only 51 observations were found on the variables *Topic newness*, *Issue newness* and *Case*

newness, indicating a lot of missing values (see Appendix G). As the number of missing values was found to narrow the analysis, the missing observations was assumed to take the value 0 (see attached do-file). For *Activism Controversy*, 11 missing values were identified, which was found to be acceptable. After assigning the missing observations value of 0, we discovered an issue of collinearity. *Topic new*, *Issue new* and *Case new* lost their predictive power and were therefore omitted from the analysis.

6.0 DISCUSSION

6.1 Conclusion and discussion of findings

The objective of this thesis was to identify the effect of the emerging phenomena of corporate activism on brand equity, where business and corporate leaders take stances in contentious political and societal debates. As previous research on the concept has found the degree of agreement with the corporate activism statements to affect purchase intention, such convention served as a foundation for this study on brand equity. Building from theory on brand associations, self-company congruence and organizational legitimacy, we developed hypotheses on determinants of stock market short-term abnormal returns from corporate activism. The empirical evidence is based on activism statements coming from companies publicly listed in the United States and their CEOs.

Viewing corporate activism statements as corporate associations, we have presented how positive and negative brand associations are created in consumers' minds, where the degree of congruence between the values and beliefs of the individual and the corporate activism statement can determine the characteristics of these associations. Our results show that the short-term abnormal returns following an event are significantly different from zero, leading to a positive CAR. This indicates an asymmetric effect, where the potential negative brand associations due to reduction of self-brand congruence for some consumers is outweighed by the positive associations for others. This demonstrates that even though engaging in corporate activism is stated to have the potential of alienating groups of customers, the gain from taking a public stance on non-product related issues seem to outweigh the potential losses. However, our results uncover that when a statement is

considered highly controversial, corporate activism has a negative effect on CAR. This can be explained by the theory of organizational legitimacy, and the fact that highly controversial statements are seen as less appropriate for CEOs or companies to engage in. If engaging in activism on certain topics is perceived to go against an individual's values and norms, negative brand associations are likely to be formed. We draw from our results that the negative effect of highly controversial statements can be explained by negative associations and the following increase in brand dispersion, negatively affecting brand equity. Furthermore, we find that company activism and CEO activism differ, as we find significantly more positive CAR when the activism statement comes from a CEO. This can be explained through the perceived authenticity of the activism and the perceived congruence between the consumer and the CEO.

6.2 Implications

6.2.1 Theoretical implications

This study is, to our knowledge, the first to measure the impact of corporate activism on brand equity by measuring actual change in firm value. By doing so, the study contributes to the literature by presenting new, valuable findings to this currently limited field of research. The existing literature have accounted for this phenomenon by measuring effect on purchase intention on relatively few brands (Chatterji & Toffel, 2019; Dodd & Supa, 2014). The current paper adds significant weight to the literature with its empirical support for corporate activism having an overall positive effect on brand equity across a sample including 55 publicly listed companies from a variety of industries. Further, as the data included findings on 27 specific cases within 10 different issues categorized under 5 broad contentious topics it presents strong evidence for the effect in question. The paper contributes to the broader literature regarding how a company's social and political activities impact brand equity positively, and more importantly adds unique and valuable insights on how the level of controversy can impact the outcome of corporate social and political engagement. In addition, the results add substance to the literature on non-product associations' effects on brand equity. This paper's findings are of high relevance and importance with regard both to the academic exploration of the

increasing occurrence of corporate activism, and to the potential corporate utilization of activism as a marketing strategy.

6.2.2 Managerial implications

The results of this study indicate that there is a somewhat lack of hold in what 80 percent of American CMOs believe to be inappropriate brand behavior (Deloitte et al., 2019). CMOs might personally believe that it is inappropriate for firms to engage in corporate activism, however our findings prove that corporate activism is, in general, not necessarily a "bad marketing practice", at least not with regard to the impact on brand equity (Taylor, 2019). That being said, such practice does not come without risk. As our findings uncover, highly controversial statements are found have a negative effect on brand equity. Therefore, which controversial debates a company chooses to involve themselves in can play an important role in creating or damaging consumer brand relationships. Weber Shandwick (2017b) highlights the differences between consumer generations and how they react to corporate activism differently. The younger generations are significantly more positive to, and demand, corporate involvement in political and societal debates, both as customers and employees (Weber Shandwick, 2017b). From a marketing perspective, a company should take into account who their customers are, at least in order to try to predict their responses to corporate activism. Simultaneously, due to the mutual signaling effect, the stock price serves as an indicator for the company to whether its actions are perceived as positive or negative (Lane & Jacobsen, 1995). Furthermore, our study uncovers that statements from the CEO are associated with more positive effect on CAR relative to statements coming from the company. This highlights the power and importance of the role of the CEO, as their statements unrelated to the business operations have a spillover effect onto the brand.

6.2.3 Social implications

From our perspective, the occurrence of corporate activism will likely continue to increase. As the findings in this paper show, corporate activism is not necessarily a bad marketing practice. Consequently, more companies might consider the possible gain to be worth the risk of brand dispersion, and engage their companies in social

and political debates, potentially motivated both by political impact on society and enhancing brand equity. As a result, consumers might become more aware of what underlying values and beliefs the companies surrounding them stand for, and are then given the opportunity to cherry-pick brands based on their own values and beliefs. This is already indicated in the latest CMO Survey were customers are increasingly prioritizing trusting relationships over product quality (Deloitte et al., 2017). Corporate activism has even been found to influence public policy, which - if taken to the extreme - could arguably undermine the entire democratic process (Bloomgarden, 2019; Dodd, 2016; Heskett, 2017; Larcker et al., 2018; Taylor, 2018). Additionally, as people now find CEO's to be more credible than government officials, there is even more reason to question if the political system is at risk (Edelman, 2018). When large corporations weigh in on debates, they have proven to have significant political power. The results presented in this paper might contribute to there being less perceived risk which can trigger more corporate activism.

6.3 Limitations and future research

This paper does not come without limitations, and the most important ones as well as directions for future research are discussed in the following section.

Sample size and self-selection bias

First, for a study of this nature the sample size would ideally be larger. Due to the limited sample size, the statistical power of the model is reduced, which impacts the validity of the study (Sorescu et al., 2017). In the process of collecting events, we could have gone through more than the top 50 results in the Factiva database in order to increase the sample size. However, due to time constraints and the laborious nature of this process, the 50 top search results were found appropriate. In addition, we started to reach a saturation stage for discovering new events towards the end, after having searched the top 10 companies on the S&P 500 list. As part of the event collection was based on our own understanding of the different headings in the search results, as well as the articles, the sample could arguably be affected by selection bias. However, measures were taken to ensure that the events included were consistent with the criteria presented. By ensuring for inter-rater

reliability as well as having a third observer unfamiliar with the study cross check a sub-sample, the sample is less likely to include systematic errors. Further, as corporate activism events were identified mainly through news articles, the amount of media coverage of each event is likely to have had a significant impact on whether it was included in the sample or not.

Efficient market hypothesis

With regards to the use of the event study methodology, the marketing literature takes the efficient market hypothesis as an underlying assumption of the model, whereas the financial literature uses event studies to confirm the hypothesis. And, the efficient market hypothesis has its limitations. Firstly, a market cannot be perfectly efficient, as then there would be no incentive for professionals to uncover the information that later are observed by changes in the stock prices (Malkiel, 2003). Further, Sorescu et al. (2017) argues that the methodology should be seen as a tool for measuring to what extent investors update their expectations of future firm performance following new information, rather than a tool of firm valuation. It would also be interesting to investigate the long-term effects of repeated corporate activism. However, for such analysis other measures and models would be more suitable. Especially as the event study methodology has a weakness when it comes to assessing the value of repeated events if the events are of low level of surprise to investors.

Measures for multi brand companies

Some of the brands included in the analysis are traded under large corporations controlling multiple brands, or house of brands, such as Ben & Jerry and Unilever. As of this, measuring the effect of corporate activism by the reflection in stock value changes increase the chance of confounding effects. As mentioned previously, Sorescu et al. (2017) argue that efforts to eliminate confounding events in short-term event studies are unnecessary. The complexity of successfully isolating the effect for large corporations having multiple brands makes it almost impossible. However, for such cases other additional measures should be taken in order to isolate the effect on brand equity from corporate activism.

Variables and calculations

We experienced an issue of data collinearity, meaning that the correlation between´some of our independent variables were relatively high. As illustrated in section 5, we found *controversy* and *issue same-sex marriage* to have high VIFs and low tolerance. Future research should be considerate of such potential issues of collinearity when exploring a complex phenomenon such as corporate activism. The ISideWith database used for coding a topic with regards to the level of controversiality only provides accumulated data. Therefore, the controversy accounted for might differ from what was correct at the time of the event. When checking for robustness calculating the cumulative abnormal return using the different models, we only found significant results for the Market-Adjusted Model. However, we still find these results to be satisfying as Brown and Warner (1985 in Sorescu et. al 2017) found that the probability of rejecting the null hypothesis of no average abnormal performance when the hypothesis was true is small with this model.

Research opportunities beyond US stock market returns

Future research on the topic of corporate activism could investigate the effects beyond brand equity reflected in stock market returns. Looking to companies that are not publicly listed in the United States, there are examples of environmental activism such as Patagonia, or conservative activism by companies such as Barilla or Chick fil A, which could provide an opening for further exploration. Additionally, it would be interesting to implement measures of Brand Index data and compare abnormal stock returns to such brand information. Future research should also strive to see if these findings are generalizable in other financial markets. The potential moderating role of the media on the effects of corporate activism should also be more thoroughly investigated. Considering the controversy effect uncovered in this study, the role of the media in determining the news angle and degree of polarization on some topics may be of interest. Further, the amount of media coverage is assumed to have a potential effect as well.

It could also be valuable to explore whether the effect of corporate activism diminishes over time, perhaps associated with the changing expectations of the public. We acknowledge that the attention and value of brand exposure could be an

important factor impacting the effects of corporate activism as well. Future research should strive to identify other predictors for the effect of corporate activism.

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APPENDICES

Appendix A: Top ten Standard & Poor's companies by weight

Table A

Components of the S&P 500

#	*Company*
1	Microsoft Corporation
2	Apple Inc.
3	Amazon.com Inc.
4	Berkshire Hathaway Inc. Class B
5	Facebook Inc. Class A
6	Johnson & Johnson
7	JPMorgan Chase & Co.
8	Alphabet Inc. Class C
9	Alphabet Inc. Class A
10	Exxon Mobil Corporation

Appendix B: Controversy measure from ISideWith

Table B

Questions on contentious issues used in the controversy measure of activism statements

Question	Response from the public		Controversy
	Yes	No	
Do you support the legalization of same sex marriage?	67 %	33 %	Moderatley
Should a business be able to deny service to a customer if the request conflicts with the owner's religious beliefs?	46 %	54 %	Highly
Should states be allowed to display the Confederate flag on government property?	50 %	50 %	Highly
Should there be more restrictions on the current process of purchasing a gun?	50 %	50 %	Highly
Should the U.S. build a wall along the southern border?	47 %	53 %	Highly
Should "gender identity" be added to anti-discrimination laws?	56 %	44 %	Highly
Should Muslim immigrants be banned from entering the country until the government improves its ability to screen out potential terrorists?	46 %	54 %	Highly
Should children of illegal immigrants be granted legal citizenship?	53 %	47 %	Highly
Should the U.S. withdraw from the Paris Climate Agreement?	43 %	57 %	Highly

Source: https://www.isidewith.com/

Appendix C: Graphical output CAR & cross-sectional t-statistics per day of the event window

Cumulative Abnormal Return: Mean & 95% Confidence Limits
There are 122 events in total with non–missing returns.
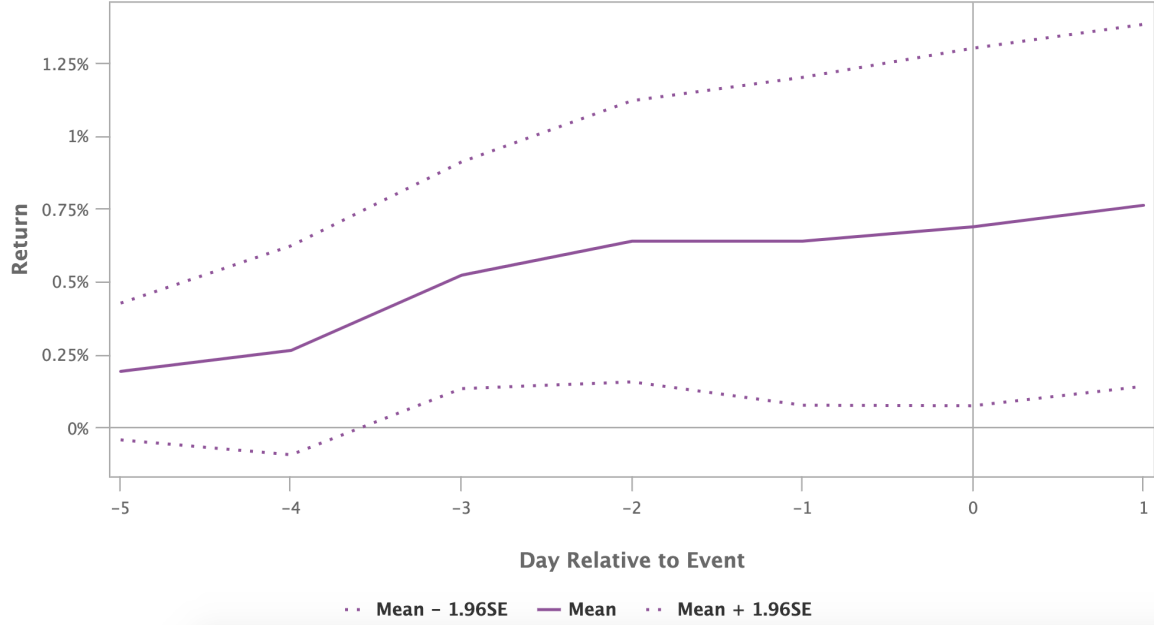
Table C

CUMULATIVE SHORT TERM ABNORMAL RETURNS FOR EACH DAY OF THE EVENT WINDOW

Number of observations = 122		Market-adjusted model
Event day	*Mean CAR*	*Cross-sectional t-statistic CAR per day*
-5	0.19 %	1.59
-4	0.26 %	1.44
-3	0.52 %	2.63**
-2	0.64 %	2.59**
-1	0.64 %	2.22*
0	0.69 %	2.19*
1	0.76 %	2.40*

* p < .05
** p < .01

Appendix D: Robustness check CAR

Table D

SHORT TERM ABNORMAL RETURNS

	Mean CAR	*Cross-sectional t-statistic CAR*	*Standardized cross-sectional t-statistic CAR*
Market-adjusted model	.76 %	2.40*	2.12*
Market Model	.53 %	1.57	1.20
Fama-French Three Factor Model	.28 %	.83	.68

* p < .05
** p < .01

We only find significant CAR for the Market-Adjusted Model.

Appendix E

CROSS-SECTIONAL SHORT TERM ABNORMAL RETURNS

Appendix E: Stepwise regression

Number of observations = 111

				Models				
	1. Incl. all variables	2	3	4	5	6	7	8. Final model
Prob > F =	.0484**	.0305**	.0184**	.0119**	.0071***	.0040***	.0026***	.0020***
Adj. R-squared	.0762	.0871	.0951	.0998	.1048	.1096	.1089	.1044
Number of observations	111	111	111	111	111	111	111	111
Companies	.0001 (.0002)	-- --	-- --	-- --	-- --	-- --	-- --	-- --
Tech_company	.0058 (.0073)	.0054 (.0071)	.0059 (.0069)	.0065 (.0068)	.0066 (.0068)	.0070 (.0068)	-- --	-- --
log_Employees	-.0059 (.0078)	-.0060 (.0077)	-.0040 (.0049)	-.0035 (.0048)	-.0032 (.0048)	-- --	-- --	-- --
log_TotalAssets	.0020 (.0061)	.0020 (.0061)	-- --	-- --	-- --	-- --	-- --	-- --
Activism_Type	.0140 (.0080)	.0140 (.0080)	.0138* (.0079)	.0139* (.0079)	.0135* (.0078)	.0140* (.0078)	.0151* (.0077)	.0132* (.0076)
Activism_Controversy	-.0337** (.0107)	-.0337** (.0107)	-.0340** (.0106)	-.0297** (.0083)	-.0297*** (.0083)	-.0288*** (.0082)	-.0291*** (.0082)	-.0273*** (.0081)
Activism_Public policy	.0224 (.0136)	.0226 (.0135)	.0220 (.0133)	.0191 (.0126)	.0178 (.0124)	.0172 (.0123)	.0151 (.0122)	-- --
Topic	-.0027 (.0044)	-.0028 (.0044)	-.0030 (.0044)	-- --	-- --	-- --	-- --	-- --
Issue	.0016 (.0015)	.0017 (.0015)	.0017 (.0015)	.0022 (.0013)	.0021 (.0013)	.0022 (.0013)	.0020 (.0013)	.0025** (.0012)
Case	-.0006 (.0007)	-.0006 (.0007)	-.0006 (.0007)	-.0003 (.0005)	-- --	-- --	-- --	-- --
Constant	.0116 (.0614)	.0140 (.0604)	.0276 (.0443)	.0048 (.0289)	.0007 (.0281)	-.0152 (.0148)	-.0090 (.0148)	.0013 (.0107)

* $p < .1$
** $p < .05$
*** $p < .001$
Note: the standard error appears in parentheses

Appendix F: Model of categories for *Topic* and *Case*

Source	SS	df	MS
Model	.026090349	6	.004348392
Residual	.115067865	104	.001106422
Total	.141158215	110	.001283256

Number of obs = 111
F(6, 104) = 3.93
Prob > F = 0.0014
R-squared = 0.1848
Adj R-squared = 0.1378
Root MSE = .03326

CAR	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Activism_Type	.0139959	.0074725	1.87	0.064	−.0008224	.0288142
Activism_Controversy	−.031429	.0092231	−3.41	0.001	−.0497188	−.0131392
Topic						
Gun control	−.080286	.0255784	−3.14	0.002	−.131009	−.029563
Immigration	−.0013523	.0114614	−0.12	0.906	−.0240807	.0213761
Racial issues	−.011112	.0194577	−0.57	0.569	−.0496974	.0274734
Sexual orientation	−.0114559	.0117727	−0.97	0.333	−.0348017	.0118898
_cons	.0290791	.0139758	2.08	0.040	.0013645	.0567937

note: 26.Case omitted because of collinearity

Source	SS	df	MS
Model	.044023464	24	.001834311
Residual	.097134751	86	.001129474
Total	.141158215	110	.001283256

Number of obs = 111
F(24, 86) = 1.62
Prob > F = 0.0544
R-squared = 0.3119
Adj R-squared = 0.1198
Root MSE = .03361

CAR	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Activism_Type	.0119636	.0089488	1.34	0.185	−.0058261	.0297532
Activism_Controversy	−.11096	.0411608	−2.70	0.008	−.1927849	−.0291351
Case						
Arizona RFRA	.0701768	.029447	2.38	0.019	.0116381	.1287155
Arkansas Conscience Protection Act	.058915	.0336076	1.75	0.083	−.0078948	.1257248
Debate Confederate flag S Carolina	.08649	.0411608	2.10	0.039	.0046651	.1683149
Falcon Heights shooting July 2016	.0627245	.0308241	2.03	0.045	.0014482	.1240008
Family separation	.0919392	.0265842	3.46	0.001	.0390746	.1448038
Georgia FADA/HB757	.0633337	.0262911	2.41	0.018	.0110687	.1155987
Human Rights Campaign Feb 2012	.02218	.0475284	0.47	0.642	−.0723033	.1166633
Indiana RFRA	.0623145	.0276022	2.26	0.027	.0074432	.1171858
Marriage Equality Act	−.0134202	.0363076	−0.37	0.713	−.0855974	.058757
Microsoft for marriage equality February 2015	−.04818	.0475284	−1.01	0.314	−.1426633	.0463033
Minnesota SSM ban	−.04685	.0475284	−0.99	0.327	−.1413333	.0476333
Mississippi HB 1523	.1058836	.0421223	2.51	0.014	.0221471	.18962
N Carolina HB2	.0736859	.0291909	2.52	0.013	.0156562	.1317155
RFRA general	.082015	.0336076	2.44	0.017	.0152052	.1488248
Supreme Court Brief SSM	−.0159584	.0378873	−0.42	0.675	−.091276	.0593591
Supreme Court ruling June 26th 2013	.047035	.0411608	1.14	0.256	−.0347899	.1288599
Supreme Court votes for SSM June 26th 2015	−.0166032	.0365751	−0.45	0.651	−.0893122	.0561057
Tim Cook coming out	−.04247	.0475284	−0.89	0.374	−.1369533	.0520133
Trump Travel Ban	.0784622	.0249041	3.15	0.002	.0289545	.1279698
Trump announces end of DACA	.0632296	.0270671	2.34	0.022	.009422	.1170372
Trump revokes transgender bathroom guidelines	.071795	.0336076	2.14	0.035	.0049852	.1386048
Trump withdraws US from Paris Climate Agreemen..	.0801012	.0258472	3.10	0.003	.0287187	.1314838
YouTube shooting 2018	0	(omitted)				
_cons	.0303564	.0347787	0.87	0.385	−.0387813	.0994941

Appendix G: Missing values

Step 1: Summarize

Variable	Obs	Mean	Std. Dev.	Min	Max
ID_Activism	122	70.33607	44.49117	1	147
Date	0				
CAR	122	.0076061	.034998	−.1045	.17434
Companies	122	23.88525	15.50857	1	55
Years	122	4.934426	1.346791	1	7
Topic	122	3.92623	1.312168	1	5
Issue	122	6.516393	2.889804	1	10
Case	122	15.20492	7.150032	1	26
Tech_company	122	.5	.5020619	0	1
Activism_P~y	122	.8278689	.3790511	0	1
Activism_T~e	122	.6639344	.4743095	0	1
Activism_C~y	111	.7567568	.4309865	0	1
Topic_new	51	.4509804	.5025426	0	1
Issue_new	51	.6470588	.4826398	0	1
Case_new	51	.8235294	.3850134	0	1
Log_Employ~s	122	4.656936	.6925735	2.871573	6.342422
Log_TotalA~s	122	10.65557	.8913007	8.073132	12.41872

Step 2: Check regression

Source	SS	df	MS			
Model	.024431229	13	.001879325			
Residual	.033195334	37	.000897171			
Total	.057626563	50	.001152531			

Number of obs	=	51
F(13, 37)	=	2.09
Prob > F	=	0.0392
R-squared	=	0.4240
Adj R-squared	=	0.2216
Root MSE	=	.02995

CAR	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
Companies	.0001337	.0003755	0.36	0.724	−.000627	.0008945
Tech_company	.0222874	.0131059	1.70	0.097	−.0042677	.0488425
Years	.0009788	.0065009	0.15	0.881	−.0121933	.0141509
Activism_Type	0	(omitted)				
Activism_Controversy	−.034782	.0181257	−1.92	0.063	−.0715083	.0019442
Activism_PubPolicy	.0159283	.017603	0.90	0.371	−.0197387	.0515954
Topic	−.0014912	.0070847	−0.21	0.834	−.0158462	.0128638
Topic_new	.0146152	.0151517	0.96	0.341	−.0160851	.0453155
Issue	.0036174	.0020549	1.76	0.087	−.0005462	.0077809
Issue_new	−.0209007	.0152203	−1.37	0.178	−.0517399	.0099386
Case	−.0006296	.0008877	−0.71	0.483	−.0024282	.001169
Case_new	.0130189	.0160892	0.81	0.424	−.019581	.0456188
Log_Employees	−.0163318	.0124819	−1.31	0.199	−.0416225	.0089589
Log_TotalAssets	.0158851	.0090016	1.76	0.086	−.002354	.0341241
_cons	−.1062783	.0965038	−1.10	0.278	−.3018136	.0892571

Step 3: The three newness variables were considered to have too many missing values, thus these were assumed to take the value of 0 and recoded.

Variable	Obs	Mean	Std. Dev.	Min	Max
Topic_new	122	0	0	0	0
Issue_new	122	0	0	0	0
Case_new	122	0	0	0	0

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