The impact of CEO activism on shareholder wealth: an exploratory event study

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ABSTRACT

To what extent, if any, does the stock market react when a CEO takes a public stand on a controversial social issue? In 2015 Apple CEO Tim Cook used Twitter as a platform to voice the firm's opposition to Indiana's Religious Freedom and Restoration Act (RFRA), legislation that had little to no direct effect on Apple's operations but was criticized by opponents as allowing discrimination against the LGBT community. This study is the first to empirically examine the effects of CEO activism on shareholder wealth. Using an event study methodology, the analysis provides some evidence that CEO activism negatively affects short-term shareholder wealth. Although results depend on different measures of abnormal returns and event windows, the average cumulative abnormal return relative to the market from the day preceding an announcement to the day following an announcement is a statistically significant negative 1.25%.

Keywords: CEO activism, event study, corporate social responsibility

INTRODUCTION

In March 2015, Apple CEO Tim Cook made headlines when he publicly announced Apple's opposition to Indiana's Religious Freedom and Restoration Act (RFRA), legislation which allowed individuals and companies to assert their exercise of religion as a defense in legal proceedings. Opponents of the law, like Cook, argued that it would lead to LGBT discrimination. Cook stated via Twitter that "Apple is open for everyone. We are deeply disappointed in Indiana's new law and calling on Arkansas Gov. to veto the similar #HB1228."

Cook's announcement is just one of many recent examples of CEO activism. CEO activism refers to CEOs publicly expressing opinions about social and political issues that are generally unrelated to their businesses (Chatterji and Toffel, 2016). In recent years, CEOs have taken public positions on a number of controversial social issues including same-sex marriage, climate change, immigration, and gun control. Salesforce CEO Marc Benioff is an outspoken CEO activist. In a 2016 Wall Street Journal interview, he stated that "the next generation of CEOs must advocate for all stakeholders – employees, customers, community, the environment, everybody, not just for shareholders." This appears to represent a clear shift from the traditional management directive of shareholder wealth maximization taught in virtually every introductory finance course. To cite a well-publicized example, when Nike announced in September 2018 that it had chosen Colin Kaepernick as the new face of its 'Just Do It' ad campaign, the stock market reaction was significantly negative and this was attributed in part to a vocal backlash on social media from some Nike consumers.

The purpose of this study is to investigate the effect of CEO activism on short-term shareholder wealth. To the extent that a CEO takes a public stance on an issue that is not directly related to the firm's business, he or she risks a backlash from consumers that do not share the same opinion. This paper contributes to the literature as the first to empirically examine the effect of CEO activism on shareholders.

RELATED LITERATURE

Research related to CEO activism is limited since it is a fairly recent trend and sample sizes are small. In a 2016 working paper, "Do CEO Activist Make a Difference? Evidence from a Field Experiment," Chatterji and Toffel estimate the impact of CEO activism on consumer attitudes. The authors designed a survey to inquire about participant's views on RFRA. Several treatment conditions were imposed, including one unattributed statement that opponents of the law believe that it may allow discrimination against gays and lesbians and a similar statement attributed to Apple CEO Tim Cook, Indiana-based Angie's List CEO Bill Oesterle, the Republican mayor of Indianapolis, and the mayor of Indianapolis. To proxy for consumer response to CEO activism, the authors use 'intent to purchase,' a measure common in marketing literature. The field study results indicate that Cook's CEO activism "increased consumer intentions to purchase Apple products, especially among proponents of same-sex marriage," while the authors find "no evidence that Cook's statements negatively affected the purchase intent of same-sex-marriage opponents." In other words, Cook's public stance appeared to have a positive effect on consumers who shared his view of same-sex marriage but did not have a negative effect on consumers with opposing views.

Beginning in 2016, Weber Shandwick and KRC Research have conducted annual surveys of U.S. adults to gauge awareness of, attitudes toward, and willingness to buy from companies with CEOs taking activist stands. The 2018 survey results indicate that awareness among Americans of CEO activism increased from 34% in 2016 to 42% in 2018. Interestingly, only 39% of Americans believe that "CEOs have a responsibility to speak up about issues that are important to society," while 42% believe that they do not have a responsibility to do so. In fact, 52% believe that companies should "stick to conducting their business and not take positions on social issues," while 48% believe that companies should "take positions on social issues that they consider important to their workforce and to society, even if they are not directly related to their business." In terms of views on specific social issues addressed by CEOs, fewer than half of Americans believe that CEOs should speak out on non-business related issues such as race relations, climate change, immigration, LGBT rights, gun control, etc., while there's greater support for business-related issues such as job/skills training, equal pay in the workplace, and sexual harassment. In addition to greater awareness among Americans, more Americans are modifying purchase behavior as a result of CEO activism. Among consumers aware of CEO activism, 42% have taken action through purchasing behavior, usually boycotting (35%, up from only 28% in 2017), while only 18% decided to buy more from the company as a result of activism. Taken as a whole, the 2018 survey results suggest widely mixed views of CEO activism among Americans, significant risk of alienating consumers on the opposite side of a particular issue, and potentially limited upside of support from like-minded consumers.

The purpose of this study is to examine the stock market reaction to an announcement of CEO activism. The results of Chatterji and Toffel's field study suggest that the market may react positively to an activism announcement. On the other hand, the Weber Shandwick and KRC Research survey results suggest that the market might react negatively.

SAMPLE DATA AND RESEARCH METHODOLOGY

To empirically examine the stock price reaction surrounding a CEO activism announcement event, event study methodology is utilized. Event studies are commonly used in finance and economics to gauge the valuation effect of a corporate event on a sample firm (Brown and Warner, 1985). If markets are efficient in processing information, then the impact of an event on shareholder wealth can be measured by calculating abnormal returns surrounding the announcement.

The initial sample includes firms cited in prior research (Chatterji and Toeffel, 2018). Additional firms are identified via Google searches of CEO activism, yielding other examples cited by the Wall Street Journal and various news publications. Since this study focuses on stock market reaction to CEO announcements on social issues that are not directly related to the business, many announcements are excluded from the sample. For example, 97 companies filed a brief in opposition to President Trump's 2017 travel ban. However, many of these firms are technology companies whose employees would be adversely affected by the proposed ban.

The resulting sample includes 20 instances of CEO activism among publicly-traded corporations since 2014. To minimize the likelihood of other firm-specific announcements confounding the results, Yahoo! Finance is used to check whether a sample firm also had an announcement of earnings, an analyst upgrade or downgrade, or a dividend increase or decrease during the event window -5 to +5, where day 0 is the event (announcement) date. Unilever announced a dividend increase during its event window and Starbucks announced a 2:1 stock

split during its event window. Eliminating these two firms results in a final sample of 18 firms. Google, Yahoo! Finance, and other online sources are used to identify the exact date of each CEO announcement.

Table 1 (Appendix) reports the company name, ticker symbol, announcement, date, and category of activism – race relations, LBGT issues, gun control, and climate change. These are issues for which less than 50% of Americans surveyed by Weber Shandwick and KRC Research in 2018 expressed support for CEO activism and are less likely to be perceived as directly related to the firm's business.

All historical stock price data is hand-collected from Yahoo! Finance and used to calculate returns. This study employs two different measures of Abnormal Returns (AR). One measure is the Abnormal Return relative to the Market, where the Abnormal Return for firm j on day i equals the Actual Return for firm j on day i minus the Market (S&P 500) Return on day i:

$$AR_{ij} = R_{ij} - R_{im} \quad (1)$$

The second measure of Abnormal Return is estimated via the Market Model:

$$AR_{ij} = R_{ij} - (\alpha_j + \beta_j R_{im}) \quad (2)$$

where alpha and beta for each firm j are estimated via OLS regression using daily stock return and daily market return data for one calendar year prior to event day -20, where day 0 is the event or announcement date.

Next, for both measures of abnormal returns, Cumulative Abnormal Returns (CARs) are calculated for several event windows surrounding the event (Day 0). Unlike other corporate events (e.g., merger announcement), significant information leakage prior to the announcement is not expected since many CEO activism announcements are 'off-the-cuff" remarks made via social media (e.g., Tim Cook's Twitter announcement).

$$CAR\ (t_1,t_2) = \sum AR_{ij} \quad \text{where } t_1 = -5 \text{ to } -1, \text{ and } t_2 = +5 \text{ to } +1 \quad (3)$$

RESULTS

Table 2 (Appendix) reports the ARs obtained via the market model. Panel A reports the descriptive statistics for the market model abnormal returns for each of five days preceding the event day (-5 to -1) and the actual announcement day (0). While the average ARs for Day -1 and Day 0 are negative, they are statistically insignificant. As shown in Panel B, average ARs for Days 1, 2, 3, and 5 are small and not statistically significant. The average AR for Day 4 is positive and significant.

Table 3 (Appendix) reports the CARs obtained via the market model. CARs for event windows (-5, +5) and (-4, +4) are positive but insignificant. CARs for event windows (-3, +3), (-2, +2), and (-1, +1) are negative but statistically insignificant.

Panel A of Table 4 (Appendix) shows the descriptive statistics for the ARs relative to the market for each of the five days preceding the event day (-5 to -1) and the actual announcement day (0). The average ARs for days -5, -3, and -2 are positive but statistically insignificant. On day -1, the average AR is approximately -0.7% and significant at 5% (p value = .0196). On event day 0, the average AR is also negative but is not significant. As shown in Panel B, average ARs are also negative for days 1, 2, and 3 before returning to a significantly positive return on day 4.

Table 5 (Appendix) reports CARs relative to the market. All event window CARs are negative, while the CAR for (-1, +1) of negative 1.25% is significant at 5% (p value = .0133).

CONCLUSION AND LIMITATIONS

The purpose of this study is to explore the effect of CEO activism on shareholder wealth. The empirical results from a sample of eighteen firms provide some evidence that CEO activism negatively impacts shareholder wealth over the short-run. The average CAR relative to the market from the day preceding an announcement to the day following an announcement is negative 1.25% and statistically significant at a level of 5 percent.

This study has a number of limitations. The generalizability of the results is limited due to the small sample size. In addition, the statistical significance of the results depends on the measure of abnormal returns employed. While CARs relative to the market index are significantly negative for the (-1,+1) event window, they are negative but statistically insignificant when the market model is used to estimate abnormal returns.

While the present study focuses on stock price reaction over a short event window, the long-term effects on shareholders should also be considered. For example, Nike realized a significantly negative abnormal return surrounding its announcement of Colin Kaepernick as the new face of its 'Just Do It' campaign, but the stock price recovered over the following month. In addition, stock price reaction to a CEO activism announcement might depend on how closely the issue addressed relates to the firm's business. In other words, a CEO speaking out about gun control, for example, may garner a different market reaction than a CEO speaking out about immigration reform or the travel ban, since the latter is more likely to relate to the firm's 'bottom line.' As CEO activism events become more common, future research should explore these and other issues.

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APPENDIX

Table 1: Sample Firms and Activism Announcements

Company	Ticker	Event Announcement	Event Date	Issue Category
Chipotle	CMG	Bans guns in stores	5/20/2014	Gun control
Apple	AAPL	Opposes RFRA in Indiana	3/26/2015	LGBT
Twitter	TWTR	Opposes RFRA in Indiana	3/26/2015	LGBT
Salesforce	CRM	Opposes RFRA in Indiana	3/26/2015	LGBT
Angie's List	ANGI	Opposes RFRA in Indiana	3/28/2015	LGBT
Hershey	HSY	Signs letter supporting climate change agreement	10/1/2015	Climate change
Coca-Cola	KO	Signs letter supporting climate change agreement	10/1/2015	Climate change
General Mills	GIS	Signs letter supporting climate change agreement	10/1/2015	Climate change
Pepsi-Co	PEP	Signs letter supporting climate change agreement	10/1/2015	Climate change
Kellogg	K	Signs letter supporting climate change agreement	10/1/2015	Climate change
PayPal	PYPL	Withdraws expansion plans in NC (HB2)	4/5/2016	LGBT
Target	TGT	Bathroom policy	4/19/2016	LGBT
Merck	MRK	CEO withdraws from Trump Business Council	8/14/2017	Race
Intel	INTC	CEO withdraws from Trump Business Council	8/15/2017	Race
Under Armour	UA	CEO withdraws from Trump Business Council	8/16/2017	Race
Delta	DAL	Ends discounts for NRA members	2/24/2018	Gun control
Dick's Sporting Goods	DKS	Ends sales of assault-style weapons	2/28/2018	Gun control
Nike	NKE	Colin Kaepernick ad	9/3/2018	Race

Table 2: Abnormal Returns (AR) Market Model
Panel A: Trading Days Before and Event Day

	Day -5	Day -4	Day -3	Day -2	Day -1	Day 0
Mean	0.0044	-0.0006	0.0002	0.0029	-0.0043	-0.0021
Standard Error	0.0028	0.0030	0.0026	0.0048	0.0025	0.0032
t Stat	1.5564	-0.2032	0.0679	0.6103	-1.7027	-0.6477
Median	0.0022	0.0035	0.0027	0.0037	-0.0020	-0.0019
Standard Deviation	0.0119	0.0126	0.0110	0.0204	0.0107	0.0137
Sample Variance	0.0001	0.0002	0.0001	0.0004	0.0001	0.0002
Kurtosis	2.8943	1.0025	0.5635	6.5867	-0.6849	1.5041
Skewness	1.4329	-1.2555	-0.0827	1.7332	-0.1047	-0.5817
Range	0.0514	0.0465	0.0452	0.1007	0.0376	0.0575
Minimum	-0.0131	-0.0316	-0.0210	-0.0318	-0.0223	-0.0315
Maximum	0.0383	0.0149	0.0242	0.0688	0.0152	0.0260
Sum	0.0788	-0.0109	0.0032	0.0527	-0.0774	-0.0377
Count	18	18	18	18	18	18

Panel B: Trading Days After Event

	Day 1	Day 2	Day 3	Day 4	Day 5
Mean	0.0003	-0.0017	0.0002	0.0054	0.0013
Standard Error	0.0034	0.0038	0.0043	0.0022	0.0027
t Stat	0.0962	-0.4426	0.0547	***2.4729***	0.4803
Median	0.0036	-0.0003	-0.0010	0.0045	0.0037
Standard Deviation	0.0143	0.0162	0.0181	0.0092	0.0116
Sample Variance	0.0002	0.0003	0.0003	0.0001	0.0001
Kurtosis	4.2851	0.3462	2.2950	-0.5961	-0.4077
Skewness	-1.3221	-0.0730	0.9027	0.3313	-0.4821
Range	0.0696	0.0623	0.0799	0.0323	0.0378
Minimum	-0.0422	-0.0336	-0.0302	-0.0098	-0.0190
Maximum	0.0274	0.0287	0.0497	0.0225	0.0188
Sum	0.0058	-0.0303	0.0042	0.0970	0.0236
Count	18	18	18	18	18

Table 3: Cumulative Abnormal Returns (CAR) Market Model

	(-5+5)	(-4+4)	(-3+3)	(-2+2)	(-1+1)
Mean	0.0061	0.0004	-0.0044	-0.0048	-0.0061
Standard Error	0.0092	0.0097	0.0089	0.0082	0.0048
t stat	0.6608	0.0377	-0.4939	-0.5883	-1.2594
Median	0.0021	-0.0015	-0.0036	0.0024	-0.0052
Standard Deviation	0.0389	0.0410	0.0379	0.0348	0.0204
Sample Variance	0.0015	0.0017	0.0014	0.0012	0.0004
Kurtosis	0.1244	-0.2489	-0.0979	6.7856	5.6515
Skewness	0.6925	-0.0134	-0.1496	-2.1191	0.4730
Range	0.1435	0.1580	0.1379	0.1646	0.1106
Minimum	-0.0457	-0.0786	-0.0732	-0.1192	-0.0584
Maximum	0.0977	0.0794	0.0647	0.0454	0.0522
Sum	0.1089	0.0066	-0.0795	-0.0869	-0.1093
Count	18	18	18	18	18

Table 4: Abnormal Returns (AR) Relative to S&P 500

Panel A: Trading Days Before and Event Day

	Day -5	Day -4	Day -3	Day -2	Day -1	Day 0
Mean	0.0037	-0.0015	0.0021	0.0029	-0.0070	-0.0028
Standard Error	0.0026	0.0028	0.0025	0.0048	0.0027	0.0031
t Stat	1.4124	-0.5538	0.8347	0.6027	***-2.5766***	-0.8783
Median	0.0020	-0.0002	0.0017	0.0021	-0.0080	-0.0023
Standard Deviation	0.0112	0.0117	0.0107	0.0202	0.0115	0.0134
Sample Variance	0.0001	0.0001	0.0001	0.0004	0.0001	0.0002
Kurtosis	2.4228	-0.1342	-0.3213	5.9652	-0.6247	1.3791
Skewness	1.3588	-0.7026	0.3780	1.4857	-0.0774	-1.0232
Range	0.0472	0.0418	0.0405	0.1017	0.0383	0.0525
Minimum	-0.0124	-0.0264	-0.0168	-0.0353	-0.0262	-0.0345
Maximum	0.0348	0.0154	0.0237	0.0664	0.0121	0.0181
Sum	0.0669	-0.0275	0.0380	0.0516	-0.1258	-0.0498
Count	18	18	18	18	18	18

Panel B: Trading Days After Event

	Day 1	Day 2	Day 3	Day 4	Day 5
Mean	-0.0028	-0.0040	-0.0005	0.0046	0.0006
Standard Error	0.0032	0.0038	0.0040	0.0021	0.0024
t Stat	-0.8578	-1.0441	-0.1388	***2.1543***	0.2563
Median	-0.0014	-0.0043	-0.0001	0.0038	0.0039
Standard Deviation	0.0138	0.0161	0.0168	0.0091	0.0103
Sample Variance	0.0002	0.0003	0.0003	0.0001	0.0001
Kurtosis	5.1495	0.9164	3.1904	-0.5418	0.2101
Skewness	-1.7078	-0.1989	0.8413	0.5669	-0.8899
Range	0.0643	0.0677	0.0794	0.0277	0.0366
Minimum	-0.0459	-0.0383	-0.0330	-0.0070	-0.0213
Maximum	0.0184	0.0295	0.0464	0.0207	0.0153
Sum	-0.0500	-0.0712	-0.0099	0.0828	0.0112
Count	18	18	18	18	18

Table 5: Cumulative Abnormal Returns (CAR) Relative to S&P 500

	(-5+5)	(-4+4)	(-3+3)	(-2+2)	(-1+1)
Mean	-0.0047	-0.0090	-0.0121	-0.0136	-0.0125
Standard Error	0.0100	0.0108	0.0098	0.0092	0.0045
t Stat	-0.4663	-0.8360	-1.2349	-1.4890	***-2.7642***
Median	-0.0046	-0.0054	-0.0013	-0.0087	-0.0127
Standard Deviation	0.0423	0.0456	0.0415	0.0388	0.0192
Sample Variance	0.0018	0.0021	0.0017	0.0015	0.0004
Kurtosis	-0.0659	0.6887	0.4615	5.5041	4.0717
Skewness	0.0129	-0.6779	-0.8414	-1.8896	-1.0661
Range	0.1705	0.1755	0.1531	0.1739	0.0950
Minimum	-0.0889	-0.1096	-0.1005	-0.1362	-0.0684
Maximum	0.0816	0.0659	0.0526	0.0378	0.0265
Sum	-0.0838	-0.1619	-0.2172	-0.2453	-0.2257
Count	18	18	18	18	18