



ALMA MATER STUDIORUM  
UNIVERSITÀ DI BOLOGNA

ARCHIVIO ISTITUZIONALE  
DELLA RICERCA

## Alma Mater Studiorum Università di Bologna Archivio istituzionale della ricerca

To Advocate or Not to Advocate: Determinants and Financial Consequences of CEO Activism

This is the final peer-reviewed author's accepted manuscript (postprint) of the following publication:

*Published Version:*

To Advocate or Not to Advocate: Determinants and Financial Consequences of CEO Activism / Bedendo, Mascia; Siming, Linus. - In: BRITISH JOURNAL OF MANAGEMENT. - ISSN 1045-3172. - STAMPA. - 32:4(2021), pp. 1062-1081. [10.1111/1467-8551.12459]

*Availability:*

This version is available at: <https://hdl.handle.net/11585/789720> since: 2021-10-07

*Published:*

DOI: <http://doi.org/10.1111/1467-8551.12459>

*Terms of use:*

Some rights reserved. The terms and conditions for the reuse of this version of the manuscript are specified in the publishing policy. For all terms of use and more information see the publisher's website.

This item was downloaded from IRIS Università di Bologna (<https://cris.unibo.it/>).  
When citing, please refer to the published version.

(Article begins on next page)

This is the final peer-reviewed accepted manuscript of:

**Bedendo, M., & Siming, L. (2021). To advocate or not to advocate: Determinants and financial consequences of CEO activism. *British Journal of Management*, 32(4), 1062-1081.**

The final published version is available online at:

<https://doi.org/10.1111/1467-8551.12459>

Rights / License:

The terms and conditions for the reuse of this version of the manuscript are specified in the publishing policy. For all terms of use and more information see the publisher's website.

*This item was downloaded from IRIS Università di Bologna (<https://cris.unibo.it/>)*

***When citing, please refer to the published version.***

# To advocate or not to advocate: Determinants and financial consequences of CEO activism

This is the peer reviewed version of the following article: Bedendo, Mascia; Siming, Linus, To Advocate or Not to Advocate: Determinants and Financial Consequences of CEO Activism, BRITISH JOURNAL OF MANAGEMENT, 2021, 32, pp. 1062 - 1081, which has been published in final form at <https://doi.org/10.1111/1467-8551.12459>. This article may be used for non-commercial purposes in accordance with Wiley Terms and Conditions for Use of Self-Archived Versions.

Mascia Bedendo (corresponding author). University of Bologna, Department of Management, via Capo di Lucca 34, 40126 Bologna, Italy. Tel. +39 051 209 8096. E-mail: [mascia.bedendo@unibo.it](mailto:mascia.bedendo@unibo.it).

Linus Siming. Free University of Bozen-Bolzano, Piazza Università 1, 39100 Bolzano, Italy. E-mail: [perlinus.siming@unibz.it](mailto:perlinus.siming@unibz.it).

Chief executive officers (CEOs) who engage in activism take public stands on issues that are largely unrelated to the core business of their firms. This study assesses the impact of CEO activism on shareholder value and investigates potential drivers behind the decision to advocate. We conduct an event study centred on a particular episode of CEO activism: the resignation of a group of business leaders from their roles as advisors to President Trump. We choose this setting since activism is likely to have a stronger impact when a CEO is politically connected. However, by engaging in advocacy, a CEO risks severing the very same political links that underlie the strength of the message. We find that shareholders react negatively to the decision to quit a presidential advisory council, which is consistent with a fear of weakening their firms' political influence. The decision to publicly advocate seems to be driven more by a CEO's personal political ideology than by a company's general involvement in corporate social responsibility. We also observe that managers are more likely to take a stand when they are protected by their firm's corporate governance rules. This study provides empirical evidence of the risks associated with CEO activism.

**Keywords:** CEO activism, shareholder value, event study, political connections

**Acknowledgements:** We thank John O.S. Wilson, three anonymous reviewers, the associate editor, the guest editor, conference participants at the 5<sup>th</sup> annual conference of the International Corporate Governance Society, and seminar participants at Stockholm University, the Free University of Bozen-Bolzano, Essex Business School, Università Cattolica del Sacro Cuore, and Bologna University for providing helpful comments.

## INTRODUCTION

Recent years have witnessed a sizeable increase in chief executive officer (CEO) activism, i.e., in the number of business leaders taking public stands on a range of issues largely unrelated to their companies' main business (Chatterji and Toffel, 2015, 2018). For example, in 2015, Tim Cook of Apple and Bill Oesterle of Angie's List openly opposed Indiana's Religious Freedom Restoration Act, which they viewed as detrimental to LGBT rights. Before the 2015 United Nations Climate Change Conference held in Paris, several CEOs signed a letter calling for an agreement to halt climate change. In 2017, several CEOs resigned from two presidential business councils following President Trump's measures on immigration and climate change and following his remarks on the Charlottesville protests.

CEO activism attracts significant media attention and is generally supported by the general public as indicated by surveys showing that the majority believes that CEOs should take the lead on public debates and have a responsibility to speak out on political and social issues (Edelman, 2019; Weber Shandwick, 2018). This phenomenon has only recently gained the attention of the academic community. Chatterji and Toffel (2015, 2018) were the first to formalize the concept of CEO activism. To date, and to the best of our knowledge, the empirical evidence on CEO activism is essentially descriptive and anecdotal with the exception of Chatterji and Toffel (2019), who study how CEO activism can influence political and consumer attitudes, Voegtlin, Crane, and Noval (2019), who investigate the impact of CEO activism on job seekers, and Burbano (2019) who looks at the effect on employees' motivation.

In this paper, we assess the impact of CEO activism on shareholder value and show how activism can pose important practical challenges to firms whose CEOs decide to advocate. In particular, we maintain that those business leaders that are most likely to deliver a stronger message when advocating, such as politically connected CEOs, may have to pay a high price for their choice when it directly jeopardizes their political influence. To the extent that political

influence is valuable to their firms, the decision to advocate will likely result in the alienation of certain investors. This perspective may discourage managers from speaking up on key public issues when doing so increases the risk of being dismissed.

We use an empirical analysis to substantiate our arguments where CEO activism involves the resignation of CEOs from their roles as advisors to President Trump. These resignations manifested their disapproval with some of the President's public statements and measures concerning environmental, racial, and national security issues. We first conduct an event study to test the impact of CEO activism on shareholder value and, hence, assess its directly measurable market-based consequences. Second, we investigate the potential drivers that influence a CEO's choice to take a stand or remain silent by looking at both CEOs' political values and the corporate social responsibility (CSR) policies of firms. We find that, on average, shareholders react negatively to a CEO's decision to quit a council while they appreciate the choice to remain onboard. The decision to publicly advocate seems to be driven more by a CEO's personal political ideology than by a company's general involvement in CSR. Consistently, we observe that CEOs are more likely to speak out when they feel protected by their firms' corporate governance rules.

From an empirical point of view, there are several advantages from using a set of blue-chip CEOs as a laboratory for the study of the impact of CEO activism on shareholder value. Not only does our sample consist of firms with highly liquid shares, but any public stands of the CEOs are also closely followed by shareholders, media and the general public alike. Given the strength of the CEOs' message coupled with the high liquidity of the shares and the vast media coverage of their actions, any market reaction should be quickly incorporated in share prices.

Our main findings best reflect the financial consequences of *strong CEO activism*, where CEOs put "skin in the game" by using their political links or leveraging their economic power. Most CEO activism is, however, of a softer type, i.e. uncontroversial in topic and tone, non-partisan,

and expressed in a collective form to avoid individual retaliation (Gaines-Ross, 2017; Larcker *et al.* 2018). Hence, we complement our analysis with an episode of soft activism in the form of a letter signed by 30 CEOs urging President Trump to stay in the Paris climate agreement. We find no significant investor reaction to this episode, and therefore conclude that only CEO activism of a strong form has a measurable impact on shareholder value.

We make significant contributions to the existing literature on CEO activism. First, we provide empirical evidence of the impact of CEO activism on shareholders and of the difficulties that managers may face when advocating, particularly in the form of a conflict between their moral compass and the economic interests of value-maximizing investors. So far, the activism literature has focussed on the reactions of customers, employees, and the general public. Looking at the shareholders' response to activism is of paramount importance given that, ultimately, the CEO is accountable to investors. These findings may prove useful to boards of directors, especially in light of the redefinition of the purpose of a corporation to incorporate the interests of all stakeholders, as recommended by the Business Roundtable.<sup>1</sup> Following the conventional view that firms exist principally to serve their shareholders, our results suggest that activism can represent a cost for the firm. However, with an enlarged perspective on the purpose of the firm, such costs could be mitigated by potential benefits accruing to other stakeholders. Second, we shed empirical light on the motivations and circumstances that render CEOs more likely to take a stand. Our results suggest that management entrenchment and weaker shareholder protection seem to represent effective means to circumvent potential contrasts vis-à-vis shareholders and encourage managers to speak out on key public issues. Furthermore, our paper complements the literature on shareholder value and CEOs' political connections by showing that when political connections and social activism are intertwined, shareholders ultimately value political connectedness over and above activism.

## INSTITUTIONAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

### *Institutional background*

Following models established by Presidents Eisenhower and Obama, President-elect Trump launched two business advisory councils with the purpose of advising the White House on matters directly related to economic growth, employment, and productivity. The Strategic and Policy Forum was established on December 2, 2016 with additional appointments made on December 14 bringing the total number of members to 19 business leaders. The appointees were “charged with providing individual views to the President—in a frank, non-bureaucratic, and non-partisan manner—on how government policy impacts economic growth, job creation, and productivity”.<sup>2</sup> On January 27, 2017, the President formed the American Manufacturing Council consisting of 28 corporate and labour leaders whose task was to advise on manufacturing initiatives and “on how best to promote job growth and get Americans back to work again.”<sup>3</sup>

Between February and August 2017, twelve members resigned from the two councils. Kalanick (Uber) was the first to leave in February 2017, citing disagreement with the immigration ban imposed on certain Muslim-majority nations. Iger (Disney) and Musk (Tesla) resigned in June 2017 in open contrast with Trump’s decision to withdraw from the Paris climate agreement. Nine more managers quit in August 2017 following Trump’s statements on the Charlottesville riots. On August 11 and 12, a group of white supremacists gathered in Charlottesville, Virginia under the so-called ‘Unite the Right rally’, where they clashed with counter-protesters leaving one dead and 38 injured. Trump’s remarks on the events received significant attention and criticism, as he did not explicitly denounce white nationalists and instead issued a general statement condemning “hatred, bigotry, and violence on many sides” (Johnson and Wagner, 2017).

Many interpreted his reaction as implying moral equivalence between the white supremacist marchers and the counter-protesters. To distance themselves from the President, Frazier (Merck), Krzanich (Intel), and Plank (Under Armour) resigned from the American Manufacturing Council on August 14. Three labour leaders who resigned on August 15 and three more CEOs who quit on the morning of August 16 followed their example. Later, that day, the President tweeted his decision to disband both councils: “Rather than putting pressure on the businesspeople of the Manufacturing Council & Strategy & Policy Forum, I am ending both. Thank you all!”

We interpret the managers’ decision to quit the advisory councils as a manifestation of CEO activism. According to Chatterji and Toffel (2018, 2019), CEO activism is characterized by two distinctive features. First, it manifests in the promotion of values and ideals that are generally unrelated to the core business of a company and that go beyond a company’s immediate economic interests. In our setting, the CEOs who chose to leave the councils acted chiefly in defence of general social and ethical values rather than heralding the need to protect the economic interests of their firms. The firms belong to a range of different industry sectors, which confirms that the decision to quit was generally disconnected from the core business operations of the companies. For two firms, Uber and Tesla, the decision to quit the councils can however be more directly associated with their core business, as Uber widely employs immigrant drivers and Tesla produces electric cars. We show in the online appendix that the results still hold when excluding these companies. Second, activism takes place outside of formal channels and is instead openly communicated to the public with the purpose of raising awareness. In our case, the CEOs expressed their views and announced their choice to leave the councils publicly through Twitter and press releases rather than attempting to exercise their political influence privately through their advisory positions. Previous contributions to the



literature on CEO activism (Gaines-Ross, 2017; Chatterji and Toffel, 2018) also regard the resignation from President Trump's advisory councils as an example of activism.

In this respect, it is important to compare CEO activism with related concepts. The closest concepts to CEO activism are corporate political advocacy (Wettstein and Baur, 2016) and corporate political responsibility (Lyon *et al.*, 2018). Wettstein and Baur (2016, p. 203) introduced the notion of corporate political advocacy to describe the engagement of "corporations which expose themselves politically on issues without any direct and overt relation to their core business operations". Lyon *et al.* (2018, p. 4) include in their definition of corporate political responsibility "a firm's advocacy of socially and environmentally beneficial public policies". These definitions are closely related to CEO activism but differ along two dimensions. First, CEO activism focuses on the CEO (as opposed to the organization). Second, corporate political advocacy and corporate political responsibility are inherently political in nature, while CEO activism includes a whole spectrum of public stands that extend beyond public policies.

Less related concepts include strategic CSR (i.e., CSR for profit-maximization) and traditional nonmarket strategies such as lobbying which, unlike CEO activism, are motivated by a firm's core activities and immediate interests. Additionally, lobbying takes place behind closed doors instead of the public domain. Although activism is theoretically distinct from nonmarket strategies (Chatterji and Toffel, 2019), in which firms work to influence policies related to their core businesses, existing studies on the impact of CEO activism suggest that there may be a link between activism and stakeholder behaviour, such as that of consumers and employees. In this respect, activism can be related to nonmarket strategies, given its implications for firm performance.

### *CEO activism and firm value*

To draw predictions on the impact of CEO activism on a firm's market value, we first note that while activism differs from strategic CSR, it is related to the broader concept of CSR (Wettstein and Baur, 2016; Lyon *et al.*, 2018). Shareholder theory (e.g., Friedman, 1962; 1970) predicts a negative response of investors to a firm's engagement in social responsibility in line with views that a firm's sole responsibility is the maximization of its profits and that any time, energy or money devoted to other causes represent a value transfer from shareholders to other stakeholders. A negative reaction from shareholders is also expected when CSR arises from agency conflicts between CEOs and shareholders (Jensen and Meckling, 1976; Tirole, 2001). In this case, CEOs engage in socially responsible actions because of their own social preferences or from their desire to establish a reputation among other key stakeholders (e.g., customers or politicians). Stakeholder theory (Freeman, 1984) argues instead that a company should pursue the interests of everyone involved in or affected by the company itself. To the extent that CSR efforts ultimately translate into an improvement in a company's efficiency, competitiveness, reputation, or profitability, we expect to find a positive reaction from shareholders to socially responsible engagement.

The effect of CEO activism *per se* on investors is difficult to predict. Most CEO activism does not directly draw on a company's monetary resources or severe valuable relations, and therefore should not represent a concern for shareholders worried about the diversion of financial resources. However, it can still be perceived as a diversion of time and energy away from the CEO's agenda and, as such, trigger a negative response from shareholders. This reaction is likely to be stronger in the presence of principal-agent problems, where the CEO is driven primarily by his/her own social preferences and values. In line with the stakeholder theory, advocating may instead generate an increase in the market value of the firm if it boosts profitability through increased sales or productivity. However, existing studies (Chatterji and

Toffel, 2019; Burbano, 2019) on CEO activism show that its impact on consumers' intention to purchase and employees' motivation is ambiguous, as it is positive for those who agree with the message and negative for the others. The effect therefore depends on the proportion of those stakeholders who identify themselves with the CEO's message. Taken all the above into consideration, we thus expect the effect of CEO activism to be mild or even negligible. A formal test of this prediction will be provided in the subsection titled "Soft CEO activism". However, in our setting, the CEOs who chose to advocate and quit the advisory councils weakened their relationship with the President. To predict the overall effect of CEO activism on shareholder value, this severance of political connections must be considered. The appointment of a firm's CEO to a presidential council grants a certain degree of political influence to the company (Barley, 2010). This may add value to the company, as it enables the CEO to convey specialized business knowledge to uninformed policy makers (Grossman and Helpman, 2001). To the extent that such political influence may be employed to exploit revenue growth opportunities (Hillman *et al.*, 2004) or influence policy-making and regulation (Oliver and Holzinger, 2008), the effect of political connections should be positive for shareholders. Many empirical studies corroborate the existence of a positive effect on shareholder value from the appointment of a politically connected individual in the U.S. (Acemoglu *et al.*, 2016; Luechinger and Moser, 2014; Child *et al.* 2020; Goldman, Rocholl and So, 2009). Overall, we expect the resignations from the advisory councils to have triggered a negative response from shareholders only partially mitigated by any potentially positive effects of the advocacy itself:

*H1*: Shareholders react negatively to CEOs' resignation from presidential councils both in absolute and relative terms compared to firms whose CEOs remain on the councils.

### *Determinants of CEO activism*

Since the CEOs' decisions to take a stand against the President is likely to jeopardize their political influence and alienate at least some of their investors, it is important to understand why some CEOs chose to advocate and resign from the councils. A natural starting point is to analyse this decision in light of their individual political preferences. It is conceivable that the CEOs who left (stayed) are more (less) loyal to the President due to their political views. According to Bertrand and Schoar (2003), Hambrick and Mason (1984), and Hambrick (2007), the individual traits of firm managers such as their experiences, personalities and values play a role in the strategic decision-making process. Arena, Michelon and Trojanowski (2018) further document the importance of personal traits with respect to a firm's CSR engagement. When CEOs' political ideologies reflect their values (Chin, Hambrick and Trevino, 2013), we can expect such beliefs to impact their actions. Since activism represents the most "political" facet of CEOs' actions, their political preferences should impact the likelihood of taking a public stand on social and political issues. Several studies conclude that the political ideologies of managers affect corporate policies (Hutton, Jiang and Kumar, 2014) and engagement in CSR (Chin, Hambrick and Trevino, 2013; Di Giuli and Kostovetsky, 2014). Hence, we articulate the following hypothesis:

*H2: CEOs who withdraw from (stay on) a presidential council have personal political ideologies and values which are less (more) aligned with those of the President.*

This hypothesis relies on the assumption that managers are unconstrained in their actions. In this respect, Wettstein and Bauer (2016) emphasize that advocacy relies on the use of power and may override stakeholder dialogue. It is thus plausible to assume that the CEOs who chose to resign from the councils differ from the CEOs who stayed with respect to their relative levels of power within their corporations. Since we expect to find a negative response from shareholders to CEO activism in our setting, we postulate that this power is likely to take the form of CEO entrenchment. Entrenched managers cannot be easily dismissed by the board of

directors even when their actions are not in the immediate interest of shareholders (Fama, 1980) and as a result enjoy greater freedom. Kacperczyk (2009) documents how an increase in takeover protection, which is a manifestation of managerial entrenchment, positively affects corporate attention to non-shareholding stakeholders. We express our third hypothesis as follows:

*H3: The CEOs who withdraw from a presidential council are more entrenched than the CEOs who choose to remain.*

In addition to being spurred by the individual values of the CEO, activism can be consistent with the general CSR policies of a firm. Though the interaction of social and political strategies may vary across firms due to differing institutional environments and industrial contexts (Frynas, Child and Tarba, 2017), recent contributions emphasize the importance of companies aligning their CSR policies to their corporate activities (den Hond *et al.*, 2014) and corporate political responsibility (Lyon *et al.*, 2018). Since the decision to quit presidential councils is a direct manifestation of corporate political responsibility on social issues (Lyon *et al.*, 2018), it may reflect stronger CSR involvement for companies whose CEOs advocate compared to those companies whose CEOs remain on the councils. We formulate our final hypothesis as follows:

*H4: Firms whose CEOs resign from a presidential council score better in terms of general corporate social responsibility metrics than firms whose CEOs remain.*

## DATA AND METHODOLOGY

### *Data*

The list of members appointed to the presidential councils is reported in Table 1. Throughout the paper, we label as *leavers* those managers who, at any point during the life of the councils,

decided to quit to voice their disagreement with President Trump’s statements or actions. Table 1 indicates which managers are leavers by reporting their resignation date. Managers who left the councils upon retirement or dismissal by their companies are included in Table 1 for completeness but are excluded from the sample. In line with the defining characteristics of CEO advocacy (i.e. the CEO communicates his/her position to the general public with the purpose of raising awareness), we classify as leavers only those managers who publicly voiced their decision to quit before Trump tweeted his intention to dismantle the councils on August 16, 2017 at 1:14 pm EST. In the hours following Trump’s tweet, several managers stated that they had communicated to the President (but not openly to stakeholders) their intentions to resign. We classify them as *non-leavers* together with those managers who abstained from commenting on the events and those who openly criticized the President’s positions but stayed on the councils. The action of this later group of CEOs is not consistent with the defining characteristics of CEO activism but more in line with lobbying. For robustness, in the online appendix we repeat our main analysis by excluding them from the sample of non-leavers. All information on the timing and content of CEOs’ statements comes from corporate press releases given on Factiva, corporate blogs, and Twitter.

**TABLE 1** Members of the presidential councils

Member	Organisation	Leaving Date	Event-study sample
Atkins, P.	Patomak Global Partners		No
Barra, M.	General Motors		No
Brown, W.	Harris		Yes
Cosgrove, T.	Cleveland Clinic		No
Dell, M.	Dell Technologies		Yes***
Dimon, J.	JPMorgan Chase		No
Ferriola, J.	Nucor		Yes
Fettig, J.	Whirlpool		No
Fields, M.*	Ford		No
Fink, L.	BlackRock		Yes
Frazier, K.	Merck	August 14, 2017	Yes
Gorsky, A.	Johnson & Johnson		Yes
Hayes, G.	United Technologies		Yes
Hewson, M.	Lockheed Martin		Yes
Iger, B.	Walt Disney	June 1, 2017	Yes

Immelt, J.	General Electric		Yes
Kalanick, T.	Uber	February 2, 2017	No
Kamsickas, J.	Dana		Yes
Kleinfeld, K.*	Arconic		No
Krzanich, B.	Intel	August 14, 2017	Yes
Kyle, R.	Timken		Yes
Lee, T.	AFL–CIO	August 15, 2017	No
Lesser, R.	Boston Consulting Group		No
Liveris, A.	Dow Chemical		Yes
Longhi, M.*	U.S. Steel		No
McMillon, D.	Walmart		No
McNerney, J.**	Boeing		No
Morrison, D.	Campbell Soup	August 16, 2017	Yes
Muilenburg, D.	Boeing		Yes
Musk, E.	Tesla	June 1, 2017	Yes
Nooyi, I.	Pepsi		Yes
Oberhelman, D.	Caterpillar		Yes
Ogunlesi, A.	Global Infrastructure Partners		No
Paul, S.	Alliance for American Manufacturing	August 15, 2017	No
Plank, K.	Under Armour	August 14, 2017	Yes
Polk, M.	Newell Brands		Yes
Rometty, G.	IBM		Yes
Schwarzman, S.	Blackstone Group		Yes
Sutton, M.	International Paper		Yes
Thulin, I.	3M	August 16, 2017	No
Trumka, R.	AFL–CIO	August 15, 2017	No
Warsh, K.	Hoover Institution		No
Weeks, W.	Corning	August 16, 2017	Yes
Weinberger, M.	EY		No
Welch, J.**	General Electric		No
Yergin, D.	IHS Markit		Yes

*Note.* This table lists members of the Strategic and Policy Forum and American Manufacturing Council. A leaving date is reported for those members who resigned before the councils were dissolved (i.e., *Leavers*). An *(\*\*)* denotes those members who had left their organizations soon after their appointment to the councils (had retired before their appointment) and who are therefore not included in the sample. *\*\*\** Indicates that Dell Technologies is excluded from the analysis of appointments to councils.

### *Estimation model*

To test the impact of the CEOs' decisions to quit on shareholders, we follow the event-study methodology of Campbell, Lo and MacKinlay (1997) and compute abnormal stock returns around the announcement date. We use a one-factor market model to estimate the “normal” relation between stock and market returns since short-horizon event studies are not sensitive to the benchmark specification (Kothari and Warner, 2007):

$$R_{it} = \alpha_i + \beta_i \cdot R_{mt} + \varepsilon_{it} \quad (1)$$

where  $R_{it}$  is the daily return on the common share of company  $i$  on day  $t$  and  $R_{mt}$  is the daily return on the S&P500 total return index on the same day. The market model is estimated over a one-year period ending on day  $t = -7$  (i.e., one week prior to the event date  $t = 0$ ). We derive daily abnormal stock returns  $AR_{it}$  as the difference between raw returns and returns estimated from the market model:

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i \cdot R_{mt}) \quad (2)$$

To account for the impact of the event on shareholders, including delayed reactions, we derive cumulative abnormal returns (CAR) for company  $i$  around each event date by aggregating  $AR_{it}$  over the announcement date and the following day, that is,  $CAR_i(0,1) = AR_{i0} + AR_{i1}$ . The importance of conducting event studies over very short event windows has been emphasized both in finance (de Jong and Naumovska, 2016) and in management (McWilliams and Siegel, 1997). Short event windows allow to control for contamination and preserve statistical power of the conventional test statistics. Ideally, one should be using a one-day event window (Campbell *et al.*, 1997), however 2-day or 3-day windows are commonly used in finance to account for leakage of information before the event, and/or slow adjustment of stock prices after the event. In our setting, leakage of information is not a concern as all announcements were made suddenly and unexpectedly. Also, we expect all new information to be quickly incorporated in stock prices for our sample of widely traded blue chips. Instead, the problem of a loss in statistical power for event windows larger than one day may be particularly severe in our case, given the small size of our sample of leavers (Brown and Warner, 1985).

Stock prices adjusted for splits and net dividends come from Bloomberg. We compute  $AR(0)$  and  $CAR(0,1)$  only for companies with valid stock return data for days in the event window and at least 50% of the days in the estimation window. All the 34 public firms in Table 1 satisfy these criteria. Three of these firms are removed as their managers had quit the organizations soon after their appointment to the councils. Additionally, we control for contamination by



excluding all firms that, during the event window, released other corporate press news that have been linked to a stock price reaction (Neuhierl, Scherbina and Schlusche, 2013). Five companies are removed from the sample because of these filters: 3M and Whirlpool who declared a quarterly dividend, Walmart who announced quarterly earnings, and General Motors who announced a voluntary delisting from the Toronto stock exchange. As indicated in the last column of Table 1, the final sample for the event study thus consists of 26 firms, including seven leavers and 19 non-leavers.

### *Test statistics*

Due to our small sample size, we use both parametric and nonparametric tests to assess the impact of CEOs' decisions to quit on stock prices. In all tests, the null hypothesis is zero abnormal returns for the event window, i.e., no significant reactions from shareholders. As parametric tests, we adopt the Patell (1976) test and the BMP test of Boehmer, Masumeci and Poulsen, (1991), which are both computed on standardized abnormal returns, which are defined as abnormal returns divided by the standard deviation of estimation-period residuals. Compared to statistics based on non-standardized abnormal returns, these tests offer superior properties in terms of their statistical power. Due to its simplicity, the Patell test is the statistical test most widely used in event studies. The BMP test improves on the Patell test by adjusting for event-induced variance inflation. Parametric tests, however, tend to over-reject the null hypothesis in cases of non-Gaussian returns (Fama, 1976) and display poor finite sample properties when the cross-section is very small as in our case (Brown and Warner, 1985; Corrado, 1989). To overcome these concerns, we employ two nonparametric tests, the rank test (Corrado, 1989) and the sign test (Corrado and Zivney, 1992), which do not rely on the assumption of normally distributed returns and enjoy good small sample properties. Additionally, nonparametric tests help deal with event-induced volatility and cross-correlation which arise from clustered events

like the ones analysed in this study. We adopt the generalized rank and sign statistics proposed by Kolari and Pynnonen (2011) to extend the one-day rank and sign tests to two-day CAR(0,1). In the online appendix we provide additional evidence to show that our findings are not spuriously driven by our selection of test statistics.

## CEO ACTIVISM AND SHAREHOLDER VALUE

### *Event study on presidential councils*

We report the results of our event study testing the impact of CEOs' decisions to leave or remain in a council on shareholder value in Table 2. To compute the abnormal returns, we take the event day, day 0, to be equal to: (i) the day the CEO left the council if the announcement was made during trading hours for companies in the group of leavers; (ii) the first trading day after the CEO left the council if the announcement was made after trading hours for companies in the group of leavers; (iii) the council dissolution day, August 16, for all companies in the group of non-leavers.<sup>4</sup>

**TABLE 2** Leaving the councils: Impact on share prices

	N	AR(0)			CAR(0,1)		
		%	Test statistic	p-value 2-tailed	%	Test statistic	p-value 2-tailed
<i>Non-leavers</i>							
BMP	19	0.383%	1.771	0.077	0.629%	2.830	0.005
PATELL	19	0.383%	1.755	0.079	0.629%	1.938	0.053
RANK/GRANK	19	0.383%	1.290	0.197	0.629%	2.283	0.022
SIGN/GSIGN	19	0.383%	1.184	0.236	0.629%	1.380	0.167
<i>Leavers</i>							
BMP	7	-0.827%	-2.380	0.017	-0.574%	-1.130	0.259
PATELL	7	-0.827%	-1.716	0.086	-0.574%	-1.149	0.251
RANK/GRANK	7	-0.827%	-2.165	0.030	-0.574%	-1.961	0.050
SIGN/GSIGN	7	-0.827%	-1.884	0.060	-0.574%	-1.136	0.256
<i>Wilcoxon rank-sum test</i>							
Non-leavers - Leavers	26		2.630	0.009		1.763	0.078

*Note.* This table presents parametric (BMP and PATELL) and nonparametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns AR(0) and cumulative abnormal returns CAR(0,1) estimated according to regression (2). The null hypothesis is zero abnormal returns. *Leavers* are those firms whose CEOs left the council

before its dissolution (as detailed in Table 1), and *Non-leavers* are remaining firms included in the sample. The event day, day 0, is equal to: (i) for *Leavers*, the day the CEO left the council if the announcement was made during trading hours or the trading day following the day on which the CEO left the council if the announcement was made after trading hours and (ii) for *Non-leavers*, the council dissolution day, August 16. The Wilcoxon rank-sum test tests the hypothesis that the two samples of abnormal returns for *Leavers* and *Non-leavers* are from populations of the same distribution.

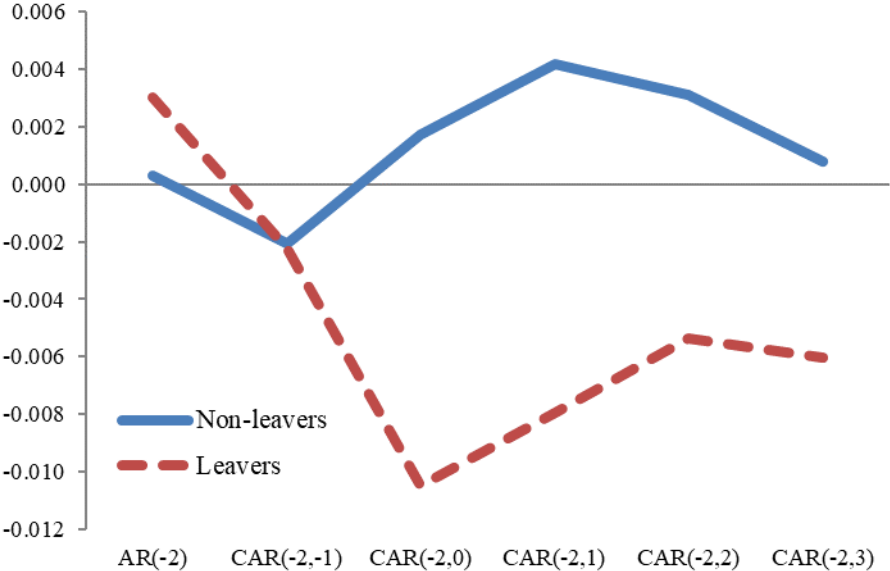
The mean  $AR(0)$  and  $CAR(0,1)$  for the group of CEOs who did not leave the council are 0.383% and 0.629%, respectively. Conversely, corresponding returns for the group of leavers are both negative with a mean  $AR(0)$  of -0.827% and a mean  $CAR(0,1)$  of -0.574%. Both parametric and nonparametric tests point to a negative and significant reaction of share prices to the CEOs' decisions to quit the councils. By contrast, shareholders do not seem to punish managers who remain onboard, as the parametric tests indicate an increase in stock prices following the dismantling of the councils. The Wilcoxon rank-sum test confirms that the shareholders' reactions are significantly different across leavers and non-leavers.

To interpret whether the economic magnitude of our findings is meaningful, we relate it to the economic effect of comparable events. In our setting, activism relates both to political connections and to the broader concept of CSR. Thus, it makes sense to compare our results to event studies on these two topics. Flammer (2015) looks at the shareholder response to the approval of CSR proposals and finds an average  $AR(0)$  of 0.92%. Leuchinger and Moser (2014) investigate the shareholder value of political connections and find that the political appointment of a former employee of the company to the U.S. Defense Department results in  $AR(0)$  and  $CAR(0,1)$  of 0.77% and 0.78%, respectively. The  $AR(0)$  of -0.827% from Table 2 is similar in (absolute) magnitude to the market impact of these events.

Our findings suggest that in this context, shareholders may not perceive CEO activism to be in their best interest. Shareholders' reactions seem to be short lived. In particular, the negative cumulative abnormal returns  $CAR(0,1)$  for leavers are no longer statistically significant except for the GRANK test. However, this could be due to the reduced power of event study test

statistics in small samples like ours. The difference in  $CAR(0,1)$  values observed between leavers and non-leavers diminishes, but remains statistically significant, as indicated by the Wilcoxon rank-sum test. These findings are confirmed by Figure 1, which shows the plot of  $CAR$  computed from two days before the event to three days after. The gap between  $CAR$  of leavers and non-leavers reaches its peak on the event date and narrows over the following days, but remains wider than in the pre-event days, thus indicating that CEO activism had a meaningful impact on shareholders both in absolute and in relative terms. The graph also confirms that there was no anticipation among investors before the event day.

**FIGURE 1**  $CAR$  around the dissolution of councils



*Note.* This figure compares cumulative abnormal returns computed from two days before the event,  $AR(-2)$ , to three days after,  $CAR(-2,3)$ , for the *Leavers* and *Non-leavers*. The event day, day 0, is equal to: (i) for *Leavers*, the day on which the CEO left the council if the announcement was made during trading hours or the first trading day following the day on which the CEO left the council if the announcement was made after trading hours and (ii) for *Non-leavers*, the council dissolution day, August 16.

We conclude that the negative shareholder reaction is in line with *H1*. The market value effect of quitting the council is large since the event day drop represents a loss in total market capitalization of 4,520 million USD for the leavers. It is important to point out that our findings are not trivial, since following the events commentators were convinced that stock prices reacted positively to the decision to quit (*The Business Insider*, 2017; *The Hill*, 2017). Even though these statements were based on a naïve observation of raw share prices and did not correct for general changes in the stock market as required by market models, they are emblematic of the widespread conception that firms would benefit from distancing themselves from the President. Instead, our results indicate that resigning from the councils came at the cost of weakening political connections to the White House. While the council dissolution ex-post led to both leavers and non-leavers losing their advisory roles, this was not known ex-ante. Additionally, the decision to quit can be more directly associated with an open criticism of the President and, consequently, may be more likely to undermine future political connections. The positive reaction to the dissolution of the councils observed for non-leavers is consistent with this interpretation and suggests a relief shared among shareholders that CEOs no longer need to take a stand on a very thorny issue.

To support our argument, we test whether shareholders valued participation on the advisory councils in the first place through an event study focused on appointment to presidential councils. The event day is the appointment date, i.e., December 2 and 14, 2016, for members of the Strategic and Policy Forum and January 27, 2017 for members of the American Manufacturing Council. For those companies whose managers sit on both councils, we take the first appointment as the event date. We exclude Dell Technologies from the sample, as its stock resumed trading only in September 2016 and therefore lacks a sufficiently long time series for the estimation of the market model. The results presented in Table 3 confirm that shareholders of companies whose CEOs would later quit the councils generally welcomed the appointments.

The mean AR(0) and CAR(0,1) for the non-leavers are 0.004% and -0.089%, respectively, while the corresponding AR(0) and CAR(0,1) for the leavers are 0.568% and 0.607%, respectively. Five out of eight statistical tests show positive and significant abnormal returns for the group of leavers. By contrast, the stock price reaction for the group of non-leavers is generally not statistically significant. The findings confirm the relevance of establishing political connections for leavers, which explains the negative reactions observed from shareholders when the link was severed upon the CEOs' resignations from the councils. The lack of significance found for the group of non-leavers is suggestive of pre-existing differences in the degree of political connectedness between the two groups. This will be confirmed in the following section.

**TABLE 3** Appointment to councils: Impact on share prices

	N	AR(0)			CAR(0,1)		
		%	Test statistic	p-value 2-tailed	%	Test statistic	p-value 2-tailed
<i>Non-leavers</i>							
BMP	18	0.004%	-0.166	0.868	-0.089%	-0.442	0.659
PATELL	18	0.004%	-0.183	0.855	-0.089%	-0.354	0.724
RANK/GRANK	18	0.004%	-0.740	0.459	-0.089%	-1.775	0.076
SIGN/GSIGN	18	0.004%	-1.123	0.261	-0.089%	-1.123	0.261
<i>Leavers</i>							
BMP	7	0.568%	1.874	0.061	0.607%	3.425	0.001
PATELL	7	0.568%	1.125	0.261	0.607%	0.943	0.346
RANK/GRANK	7	0.568%	1.834	0.067	0.607%	3.748	0.000
SIGN/GSIGN	7	0.568%	1.231	0.218	0.607%	2.045	0.041
<i>Wilcoxon rank-sum test</i>							
Non-leavers - Leavers	25		-1.695	0.090		-1.997	0.046

*Note.* This table presents parametric (BMP and PATELL) and nonparametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns AR(0) and cumulative abnormal returns CAR(0,1) estimated according to regression (2). The null hypothesis is zero abnormal returns. *Leavers* are those firms whose CEOs quit the council before its dissolution (as detailed in Table 1) and *Non-leavers* are remaining firms included in the sample. The event day, day 0, is the date of appointment, i.e., December 2 and December 14, 2016 for members of the Strategic and Policy Forum and January 27, 2017 for members of the American Manufacturing Council. For companies whose managers sit on both councils, we take the date of the first appointment as the event date. The Wilcoxon rank-sum test tests the hypothesis that the two samples of abnormal returns for *Leavers* and *Non-leavers* are from populations of the same distribution.

It is worth noting that the combined results from Tables 2 and 3 rule out potential concerns that our findings may be driven by alternative explanations such as a more general loss of networking opportunities among the members of the councils. Should investors be worried about the loss of a valuable network other than political connections, we would observe (contrary to our findings) a positive reaction to the appointment to the councils and a negative reaction to the dissolution of the councils in both leavers and non-leavers, since we have no valid reason to assume that our sample firms differ in their networking opportunities before the appointments. Furthermore, leavers and non-leavers share numerous other network connections through their board memberships, committee engagements, educational backgrounds, etc.

#### *Soft CEO activism*

We have repeatedly stressed that our empirical laboratory revolves around an episode where CEO activism has manifested itself in a strong form, in the sense that CEOs have put their political connections at risk when advocating. Most CEO activism is however of a much softer nature. Gaines-Ross (2017) finds that most reactions to President Trump's measures are collective, to limit the risk of retaliation, and surprisingly non-partisan. Larcker *et al.* (2018) confirm that, when advocating, most CEOs take a benign approach and only some messages are strongly worded and sharp in tone. In this respect, only few CEOs can be considered true activists who put skin in the game by, for example, using their political links or leveraging their economic power. As we mentioned in the hypothesis development, we do not expect CEO activism *per se* to have a strong impact on shareholders, while we predict a negative net effect when the price that CEOs pay to advocate is high. The previous analysis on the shareholders' response to council resignations, however, does not enable us to disentangle the effect of activism from the effect of loss in political connections. To test more directly the stock market

impact of CEO activism *per se*, we turn to a soft form of activism which, by nature, is not confounded by other effects.

In May 2017, media reports circulated that President Trump was considering withdrawing from the Paris climate agreement. Subsequently, 30 CEOs wrote an open letter in an attempt to influence the President's decision.<sup>5</sup> The letter, which appeared in the Wall Street Journal on May 10, was non-confrontational and mainly focused on the benefits for American companies and communities from continued participation in the Paris agreement. Of the 30 CEOs that signed the letter, 12 were members of a presidential council. This event is especially suited for testing the impact of soft activism in our setting as it shares some key features with our main strong activism episodes, namely they both originated from actions undertaken by the President and they involved the same firms.

Since this episode of CEO activism is of a milder form than resigning from a council, it enables us to compare the market impact of mild and strong forms of CEO activism on shareholders. We repeat our event study analysis using May 10 as event day. We calculate abnormal returns for firms where the CEO is a council member and a letter signee, for firms where the CEO is a council member but is not a letter signee, and firms whose CEO signed the letter but is not a council member. The results are reported in Table 4.

**TABLE 4** Open letter to President Trump: Impact on share prices

	N	AR(0)			CAR(0,1)		
		%	Test statistic	p-value 2-tailed	%	Test statistic	p-value 2-tailed
<i>Council Members who are not Letter Signees (CMNLS)</i>							
BMP	19	-0.222%	-1.373	0.170	-0.192%	-0.700	0.484
PATELL	19	-0.222%	-1.001	0.317	-0.192%	-0.507	0.612
RANK/GRANK	19	-0.222%	-0.940	0.347	-0.192%	-1.173	0.241
SIGN/GSIGN	19	-0.222%	-0.214	0.831	-0.192%	-0.642	0.521
<i>Council Members who are Letter Signees (CMLS)</i>							
BMP	12	-0.193%	-1.362	0.173	-0.161%	-0.879	0.380
PATELL	12	-0.193%	-1.571	0.116	-0.161%	-0.749	0.454
RANK/GRANK	12	-0.193%	-0.944	0.345	-0.161%	-0.925	0.355
SIGN/GSIGN	12	-0.193%	-0.597	0.551	-0.161%	-0.595	0.552



<i>Letter Signees who are not Council Members (LSNCM)</i>							
BMP	11	0.090%	0.530	0.596	0.114%	0.982	0.326
PATELL	11	0.090%	0.182	0.856	0.114%	0.457	0.648
RANK/GRANK	11	0.090%	0.474	0.635	0.114%	1.183	0.237
SIGN/GSIGN	11	0.090%	1.347	0.178	0.114%	1.320	0.187
<i>Wilcoxon rank-sum test</i>							
CMNLS – CMLS	31		-0.284	0.777		-0.324	0.746
CMLS – LSNCM	23		-0.739	0.460		-0.985	0.325

*Note.* This table presents parametric (BMP and PATELL) and nonparametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns  $AR(0)$  and cumulative abnormal returns  $CAR(0,1)$  estimated according to regression (2). The null hypothesis is zero abnormal returns. *Council Members who are Letter Signees (Council Members who are not Letter Signees) [Letter Signees who are not Council Members]* are those firms whose CEO was (was) [was not] a member of one of the two presidential council, and who was (was not) [was] a signee of the open letter to President Trump. The event day, day 0, is May 10, 2017, the day when 30 CEOs wrote an open letter to President Trump, in the Wall Street Journal. The Wilcoxon rank-sum test tests the hypothesis that the three samples of abnormal returns for *Council Members who are Letter Signees, Council Members who are not Letter Signees, and Letter Signees who are not Council Members* are from populations of the same distribution.

Both the parametric and nonparametric tests yield non-significant mean  $AR(0)$  and  $CAR(0,1)$  for all three groups. The Wilcoxon rank-sum tests test the hypothesis that the three samples of abnormal returns for Council Members who are Letter Signees, Council Members who are not Letter Signees, and Letter Signees who are not Council Members are from populations of the same distribution. The tests confirm that the shareholders' reactions are not significantly different between letter signees and non-signees, irrespective of whether the CEO was a presidential council member or not. Our findings confirm our intuition that soft forms of CEO activism do not seem to matter to investors, and that for CEO activism to have a measurable impact on shareholder value, it is necessary that it is of a strong form where the CEO puts some skin in the game.

## DETERMINANTS OF CEO ACTIVISM

Since only 28% of the council members chose to quit following the actions taken by President Trump, it is important to understand which factors make some CEOs more likely than others to take a public stand. We first investigate the role played by a CEO's personal political

preferences, which we measure with a standard approach (Chin, Hambrick and Trevino, 2013; Di Giuli and Kostovetsky, 2014) by examining an individual’s political contributions in support of the Democratic or Republican Party. We use U.S. Federal Election Commission data on political contributions retrieved from the Center for Responsive Politics.<sup>6</sup> The database provides each contributor’s name, full address, occupation, and employer; the amount and date of each donation, and the recipient’s name.

For our purposes, we only consider personal donations (made by managers who would later be appointed to the presidential councils) made to individual candidates, party committees, and political action committees (PACs) that can be identified as either Democratic or Republican from 2008 to the 2016 presidential election. We exclude donations made to PACs whose political orientations are unclear (including the company’s own PAC). Since stock prices are superfluous for this part of the analysis, we expand the sample to include the CEOs of private firms and institutes. For each manager, we compute the number of donations made to Democrats divided by the overall number of donations made to both Democrats and Republicans.<sup>7</sup>

In panel A of Table 5, we compare the proportion of donations made to Democrats for CEOs who quit the councils and for those who remain. On average, 63% of the contributions of leavers went to Democrats against 40% of the contributions of non-leavers. The Wilcoxon rank-sum test confirms that the difference in donations is statistically significant ( $p < 0.08$ ) across the two groups.

**TABLE 5** CEOs’ political preferences and CSR policies across Leavers and Non-leavers

		Non-leavers		Leavers		Wilcoxon	p-value
		Mean	Std. dev.	Mean	Std. dev.	rank-sum	2-tailed
<i>Panel A: CEOs’ political preferences</i>							
Donations Democrats		0.396	0.338	0.633	0.280	-1.734	0.083
<i>Panel B: CSR policies</i>							
Environmental	Resource use	3.273	2.995	4.250	4.132	-0.312	0.756
	Emissions	4.500	3.349	3.875	2.900	0.381	0.703

Social	Innovation	4.091	3.022	5.250	3.615	-0.664	0.507
	Workforce	4.091	3.069	4.375	3.623	-0.072	0.943
	Human rights	3.136	1.807	3.875	3.482	0.000	1.000
	Community	2.955	1.759	2.125	2.232	1.718	0.086
Governance	Product responsibility	4.227	3.280	3.875	3.314	0.334	0.738
	Management	3.364	2.854	3.250	3.327	0.414	0.679
	Shareholders	4.227	2.506	7.250	3.196	-2.219	0.027
	CSR strategy	3.545	2.988	2.250	2.435	1.470	0.142
ESG Score		3.818	2.403	4.000	2.928	-0.144	0.886
ESG Controversy		9.455	3.035	11.625	0.744	-1.737	0.082
ESG Combined		6.773	1.771	7.750	1.581	-1.018	0.308
Entrenchment index		1.000	0.707	1.625	0.518	-2.127	0.034

*Note.* This table presents basic summary statistics for CEOs' political preferences and CSR policies for *Leavers* and *Non-leavers*. In Panel A, Donations Democrats refers to the number of individual donations made by a CEO to Democrats divided by his/her overall number of donations made to Democrats and Republicans. Panel B reports Thomson Reuters ESG ratings of our sample firms for the ten individual CSR categories as well as the overall ESG Score and ESG Combined score (adjusted for ESG Controversy). The ESG ratings are mapped into numerical values of 1 (A+) to 12 (D-). The Entrenchment index ranges from 0 (low) to 4 (high) and is based on the presence of staggered boards, golden parachutes, poison pills and supermajority vote requirements. The Wilcoxon rank-sum test tests the hypothesis that the two samples of *Leavers* and *Non-leavers* are from populations of the same distribution.

In the first column of Table 6, we regress an indicator variable that is equal to one (zero) for a leaver (non-leaver) on the fraction of donations made to Democrats and we confirm the positive relation between the two. These findings support *H2* on the importance of the managers' political orientations in spurring CEO activism: CEOs who openly oppose President Trump are more likely to have supported Democrats in the past. The results are also consistent with shareholders' reactions to appointments to the councils discussed in the previous section. Given the CEOs' political views, shareholders are more likely to be positively surprised by appointments in the case of leavers while appointments may be less unexpected in the case of non-leavers.

**TABLE 6** CEOs' political preferences and CSR policies across Leavers and Non-leavers: Probit regressions

	Leavers=1	Leavers=1	Leavers=1	Leavers=1	Leavers=1
Donations Democrats	1.439*			2.345**	1.098
	(0.837)			(1.073)	(0.883)
ESG Community		-0.155			
		(0.188)			
ESG Shareholders		0.293**		0.318**	
		(0.136)		(0.127)	
ESG Controversy		0.253			
		(0.188)			

Entrenchment index			0.956**		0.855*
			(0.458)		(0.478)
Constant	-1.330**	-4.547*	-1.855***	-3.622***	-2.297***
	(0.521)	(2.373)	(0.699)	(1.179)	(0.835)
Observations	29	29	29	29	29
Pseudo R-squared	0.094	0.348	0.156	0.350	0.203

*Note.* This table presents estimates from probit regressions where the dependent variable is an indicator variable that equals one (zero) for *Leavers (Non-leavers)*. Donations Democrats refers to the number of individual donations made by a CEO to Democrats divided by his/her overall number of donations made to Democrats and Republicans. ESG Score, ESG Community, ESG Shareholders and ESG Controversy denote the selected Thomson Reuters ESG ratings for our sample firms. The ESG ratings are mapped into numerical values of 1 (A+) to 12 (D-). The Entrenchment index ranges from 0 (low) to 4 (high) and is based on the presence of staggered boards, golden parachutes, poison pills and supermajority vote requirements. Standard errors are shown in parentheses. \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Second, we investigate to what extent the choice to engage in advocacy is linked to a company's more general adherence to CSR. We collect CSR scores from the Thomson Reuters Environmental Social Governance (ESG) Scores database. We use the latest available scores recorded before either a CEO quit the council (for leavers) or the council's dissolution (for non-leavers). The database provides individual and combined scores measuring the sustainability and ethical impacts of a corporation within its industry. The Environmental (Social) [Governance] score combines information on resource use, emissions, and innovation (actions in terms of workforce, human rights, community, and product responsibility) [management, shareholders, and CSR strategy]. To ensure comparability across firms, the Environmental and Social scores are benchmarked at the industry level, and the Governance score is benchmarked at the country level. The three scores are combined into the main ESG score. In addition, a separate ESG Controversy score is based on controversies that the company has faced across the ten categories. The ESG score and ESG Controversy score are combined into the ESG Combined score. A rating of A+ to D- is associated with each score, which we map into values of 1 (for A+) to 12 (for D-).

In panel B of Table 5, we report the ESG scores for leavers and non-leavers. Surprisingly, we find that, in general, firms whose CEOs quit the councils do not score better in terms of individual or aggregated CSR measures than those who remain on the councils. This runs in

contrast with *H4*. The only exception is represented by the ESG Community score, which is better ( $p < 0.09$ ) for leavers, suggesting their stronger commitment to “being a good citizen, protecting public health and respecting business ethics” (Thomson Reuters, 2018). Leavers significantly underperform relative to non-leavers in terms of both ESG Controversy and ESG Shareholders scores as shown by the results of the Wilcoxon rank-sum test. The ESG Shareholders score measures both a company’s effectiveness towards equal treatment of shareholders and the use of anti-takeover devices. To further gauge the level of CEO entrenchment, we also compute a more standard measure based on the presence of staggered boards, golden parachutes, poison pills, and supermajority vote requirements. In the spirit of Bebchuk, Cohen and Ferrell (2009) we construct an Entrenchment index as the sum of the four provisions, which ranges from zero to four, where a higher number indicates a higher degree of entrenchment. The E-index of Bebchuk, Cohen and Ferrell (2009) ranges between zero and six as it distinguishes among three forms of supermajority voting. The Thomson Reuters Governance Scores database only provides information on supermajority vote requirements in general, hence our entrenchment indicator takes values between zero and four. Consistently with the findings on the ESG shareholders score, we see from the Wilcoxon rank sum test that leavers are significantly more entrenched than the non-leavers.

In Table 6, we perform a series of probit regressions to explore the impact of these indicators on the decision to leave the councils, where the dependent variable takes the value one (zero) for CEOs who are leavers (non-leavers). Given the small sample size, we restrict the explanatory variables to those that the rank-sum test in Table 5 suggests are most likely to be significant. In the second (third) column, we regress the indicator variable for being a leaver on the ESG Community score, ESG Shareholders score and ESG Controversy score (Entrenchment index). Among the CSR measures, only the ESG Shareholders score turns out to be a significant determinant of the likelihood to openly advocate against the President and

remains significant after controlling for the CEO's political preferences as shown in the fourth column of Table 6. This result is supportive of *H3*, as the ESG Shareholders score not only represents a measure of shareholder protection and equal treatment but also includes key indicators of CEO entrenchment. Consistently, we show in columns three and five that the Entrenchment index variable, which is a neater measure of CEO entrenchment, is significant.

Our analysis highlights several interesting findings. First, since entrenched CEOs are considered to be more difficult to fire and, hence, more powerful than non-entrenched CEOs (Graham, Kim and Leary, 2020), we confirm our prediction that CEO activism is associated with more degrees of freedom for the CEO to act on individual ideological matters without fear of being dismissed by the board. Second, we can now better explain the negative reactions of shareholders to CEOs decisions to leave the councils. This decision is likely to alienate some shareholders, who are free to either voice their disagreement or vote with their feet. However, in firms such as those led by leavers, where shareholders are less protected and less equally treated, alienated shareholders are more likely to sell their shares (Gompers, Ishii and Metrick, 2003), thus depressing the share price. Third, CEO activism is more closely associated with managers' individual ethical beliefs than with the more general social policies of firms as measured by the ESG scores, which are similar across leavers and non-leavers. This adds empirical weight to the arguments of Lyon *et al.* (2018), who call for improved CSR measures that would better capture action and advocacy.

## LIMITATIONS AND EXTENSIONS

This paper has a number of limitations. First, caution should be used when generalizing our findings. Our activists are a sample of CEOs of U.S. blue-chip companies; hence our conclusions may not extend to non-industry leaders or non-U.S. firms. The stock price reaction

to CEO activism likely depends upon the liquidity of the individual stock and of the overall stock market, the media attention to the company/CEO, and the corporate governance legislation. Additionally, we study one manifestation of activism that led to the loss of political connections but other types of advocacy that do not carry such consequences may trigger different shareholder responses. Our soft activism example indeed suggests that the investor reaction differs according to how much skin in the game the CEO puts when advocating. We choose to test the effects of CEO activism around one particular event in the interest of statistical identification. A natural extension of this study would be to look at other manifestations of CEO activism.

Second, our analysis is not free from endogeneity concerns. We lack data on the involvement of the board of directors in the CEO's decision to quit or remain on the council. While the evidence from press releases around the events suggests that the leavers quit the councils because they wanted to do so and not because they were asked to do so by their boards, we cannot rule out a potential omitted variable bias when looking at the determinants of CEO activism, in case the board played a major role in shaping the CEO's decision. Investigating the interplay between board and CEO in the context of CEO activism is a fruitful avenue for future research. A residual endogeneity concern may arise in the form of a sample selection bias if presidential-council CEOs differ from peer CEOs along dimensions which are correlated to the decision to advocate or to the impact of such a decision on shareholder value. To address this point, we perform a Heckman selection model in the online appendix, which suggests that our findings are not affected by a sample selection bias. Residual concerns may apply if unobservable variables affect the appointment to the councils.

Third, our analysis, especially the multivariate part, is limited by small sample size and lack of statistical power. Finally, the lack of ownership data prevents us from looking at which investor types decided to sell upon the CEOs' announcement to quit the presidential councils. It would

be of great interest to explore whether institutional investors react differently to advocacy compared to retail investors or whether domestic investors view advocacy in a different light from foreign investors.

## CONCLUSIONS

We find that a manifestation of CEO activism in the form of resigning from a presidential advisory council is, on average, associated with negative abnormal stock returns. The shareholders' negative reactions are consistent with their perceptions of a weakening of their firms' political influence as CEOs give up their seats at the President's advisory table. Hence, the costs of quitting outweigh any associated benefits. Our investigation of the mechanisms behind a CEO's choice to either take a stand or remain silent reveals that both a CEO's personal political ideology and the degree of entrenchment vis-à-vis shareholders are key driving forces.

Our findings carry three general implications. First, when political connections and CSR (broadly defined) are intertwined, shareholders ultimately value political connectedness over and above CSR involvement. Second, more management entrenchment and lower levels of shareholder protection may encourage managers to speak out on key public issues. Third, while CEO activism is more likely to have a stronger impact when a CEO is visible and politically connected, by engaging in advocacy, the CEO risks severing the very same political links that underlie the strength of his/her message. Thus, paradoxically, when a CEO takes a stance that truly has a widespread impact, he/she puts the firm's ability to engage in future advocacy at risk. Overall, our results make an important contribution not only to the growing literature on CEO activism on public and social issues but also to the general literature on the impact of political connections and CSR on shareholder value.



---

<sup>1</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

<sup>2</sup> <https://www.presidency.ucsb.edu/node/319874>

<sup>3</sup> <https://www.whitehouse.gov/briefings-statements/president-trump-announces-manufacturing-jobs-initiative/>

<sup>4</sup> The consequences of *not* quitting the councils may be different from those arising from the dissolution of the councils. In untabulated results, we repeat the analysis by taking as the event date for non-leavers each of the dates on which a member quits a council. The results remain qualitatively unchanged.

<sup>5</sup> <https://www.cargill.com/doc/1432087840652/ceo-open-letter-on-paris-agreement.pdf>

<sup>6</sup> <https://www.opensecrets.org>

<sup>7</sup> We repeat the analysis using the dollar amount of donations made by each CEO to Democrats divided by the total dollar amount of donations made to both parties. The correlation between the proportion and amount of contributions is 98%, and the results remain essentially unchanged.

## REFERENCES

- Acemoglu, D., Johnson, S., Kermani, A., Kwak, J., and Mitton, T. (2016). 'The value of connections in turbulent times: Evidence from the United States', *Journal of Financial Economics*, 121, 368-391.
- Arena, C., Michelon, G., and Trojanowski, G. (2018). 'Big egos can be green: A study of CEO hubris and environmental innovation', *British Journal of Management*, 29, 316-336.
- Barley, S.R. (2010). 'Building an institutional field to corral a government: A case to set an agenda for organization studies', *Organization Studies*, 31, 777-805.
- Bebchuk, L.A., Cohen, A., and Ferrell, A. (2009). 'What matters in corporate governance?', *Review of Financial Studies*, 22, 783-827.
- Bertrand, B. and Schoar, A. (2003). 'Managing with style: The effect of managers on firm policies', *Quarterly Journal of Economics*, 118, 1169-1208.
- Boehmer, E., Masumeci, J., and Poulsen, A.B. (1991). 'Event-study methodology under conditions of event-induced variance', *Journal of Financial Economics*, 30, 253-272.
- Brown, S.J., and Warner, J.B. (1985). 'Using daily stock returns, the case of event studies', *Journal of Financial Economics*, 14, 3-31.
- Burbano, V.C. (2019). 'The demotivating effects of communicating a social-political stance: Field experimental evidence from an online labor market platform', *Management Science*, forthcoming.
- Campbell, J.Y., Lo, A.W., and MacKinlay, A.C. (1997). 'The econometrics of financial markets', Princeton University Press: Princeton.

- Chatterji, A.K., and Toffel, M.T. (2015). 'Starbuck's "Race Together" campaign and the upside of CEO activism', *Harvard Business Review*, March 24.
- Chatterji, A.K., and Toffel, M.T. (2018). 'The New CEO Activists', *Harvard Business Review*, 78-89.
- Chatterji, A.K., and Toffel, M.T. (2019). 'Assessing the impact of CEO activism', *Organization & Environment*, 32, pp. 159-185.
- Child, T., Massoud, N., Schabus, M., and Yifan, Z. (2020). 'Surprise Election for Trump Connections', *Journal of Financial Economics*, forthcoming.
- Chin, M.K., Hambrick, D.C., and Trevino, L.K. (2013). 'Political ideologies of CEOs: The influence of executives values on corporate social responsibility', *Administrative Science Quarterly*, 58, 197-232.
- Corrado, C.J. (1989). 'A nonparametric test for abnormal security price performance in event studies', *Journal of Financial Economics*, 23, 385-395.
- Corrado, C.J., and Zivney, T.L. (1992). 'The specification and power of the sign test in event study hypothesis tests using daily stock returns', *Journal of Financial and Quantitative Analysis*, 27, 465-478.
- den Hond, F., Rehbein, K.A., Bakker, F.G., and van Lankveld, H.K. (2013). 'Playing on two chessboards: Reputation effects between corporate social responsibility (CSR) and corporate political activity (CPA)', *Journal of Management Studies*, 51, 790-813.
- de Jong, A., and Naumovska, I. (2016). 'A Note on Event Studies in Finance and Management Research', *Review of Finance*, 20, 1659-1672.
- Di Giuli, A., and Kostovetsky, L. (2014). 'Are red or blue companies more likely to go green? Politics and corporate social responsibility', *Journal of Financial Economics*, 111, 158-180.

Edelman (2019). 'Edelman trust barometer, global report'. Retrieved from <http://www.edelman.com>.

Fama, E. (1976). 'Foundations of finance.' Basic Books; New York, NY.

Fama, E. (1980). 'Agency problems and the theory of the firm', *Journal of Political Economy*, 88, 288-307.

Flammer, C. (2015). 'Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach', *Management Science*, 61, 2549-2568.

Freeman, R. (1984). 'Strategic management: A stakeholder perspective'. Pitman, Boston.

Friedman, M. (1962). 'Capitalism and freedom'. University of Chicago Press, Chicago.

Friedman, M. (1970). 'The social responsibility of business is to increase its profits', *The New York Times Magazine*, September 13, 32-33.

Frynas, J. G., Child, J., and Tarba, S. (2017). 'Non-market social and political strategies – New integrative approaches and interdisciplinary borrowings', *British Journal of Management*, 28, 559-574.

Gaines-Ross, L., (2017). 'What CEOs should know about speaking up on political issues', *Harvard Business Review*, February 17.

Goldman, E., Rocholl, J., and So, J. (2009). 'Do politically connected boards affect firm value?', *The Review of Financial Studies*, 22, 2331-2360.

Gompers, P., Ishii, J., and Metrick, A. (2003). 'Corporate governance and equity prices', *Quarterly Journal of Economics*, 118, 107-155.

Graham, J.R., Kim, H., and Leary, M. (2020). 'CEO-board dynamics', *Journal of Financial Economics*, 137, 612-636.

- Grossman, G.M., and Helpman, E. (2001). 'Special interest politics'. MIT Press Books, Boston.
- Hambrick, D.C. (2007). 'Upper echelons theory: An update', *Academy of Management Review*, 32: 334-343.
- Hambrick, D.C., and Mason, P.A. (1984). 'Upper echelons: The organization as a reflection of its top managers', *Academy of Management Review*, 9, 193-206.
- Hillman, A.J., Keim, G.D., and Schuler, D. (2004). 'Corporate political activity: A review and research agenda', *Journal of Management*, 30, 837-857.
- Hutton, I., Jiang, D., and Kumar, A. (2014). 'Corporate policies of Republican managers', *Journal of Financial and Quantitative Analysis*, 49, 1279-1310.
- Jensen, M., and Meckling, W. (1976). 'Theory of the firm: Managerial behavior, agency costs and capital structure', *Journal of Financial Economics*, 3, 305-360.
- Johnson, J., and Wagner J. (2017). 'Trump condemns Charlottesville violence but doesn't single out white nationalists', *The Washington Post*, August 12, 2017.
- Kacperczyk, A. (2009). 'With greater power comes greater responsibility? Takeover protection and corporate attention to stakeholders', *Strategic Management Journal*, 30, 261-285.
- Kolari, J.W., and Pynnonen, S. (2011). 'Nonparametric rank tests for event studies', *Journal of Empirical Finance*, 18, 953-971.
- Kothari, S.P., and Warner, J.B. (2007). 'Econometrics of event studies' in E. Eckbo (ed), *Handbook of Corporate Finance*, pp. 3-36. Amsterdam, The Netherlands: Elsevier.
- Larcker, D.F., Miles, S.A., Tayan, B., and Wright-Violich, K. (2018). 'The double-edged sword of CEO activism', *Stanford Closer Look Series*, November 2018.

Luechinger, S., and Moser, C. (2014). 'The value of the revolving door: Political appointees and the stock market', *Journal of Public Economics*, 119, 93-107.

Lyon, T.P., Delmas, M.A., Maxwell, J.W., Bansal, P., Chiroleu-Assouline, M., Crifo, P., Durand, R., Gond, J.-P., King, A., Lenox, M., Toffel, M., Vogel, D., and Wijen, F. (2018). 'CSR needs CPR: Corporate sustainability and politics', *California Management Review*, 60, 5-24.

McWilliams, A., and Siegel, D. (1997). 'Event Studies in Management Research: Theoretical and Empirical Issues', *The Academy of Management Journal*, 40, 626-657.

Neuhierl, A., Scherbina, A., and Schlusche, B. (2013). 'Market reaction to corporate press releases', *Journal of Financial and Quantitative Analysis*, 48, 1207-1240.

Oliver, C., and Holzinger, I. (2008). 'The effectiveness of strategic political management: A dynamic capabilities framework', *Academy of Management Review*, 33, 496-520.

Patell, J.A. (1976). 'Corporate forecasts of earnings per share and stock price behavior: Empirical test', *Journal of Accounting Research*, 14, 246-276.

*The Business Insider* (2017). 'Most investors respect the Merck's CEO decision to resign from Trump's council', 16 August.

*The Hill* (2017). 'Merck stocks spikes after CEO leaves Trump council', 14 August.

Thomson Reuters (2018). Thomson Reuters ESG Scores.

Tirole, J. (2001). 'Corporate governance', *Econometrica*, 69, 1-35.

Voegtlin, C., Crane, A., and Noval, L. (2019). 'When CEO sociopolitical activism attracts new talents: Exploring the conditions under which CEO activism increases job pursuit intentions', SSRN working paper.

Weber Shandwick (2018). 'CEO activism in 2018, the purposeful CEO', Retrieved from <https://www.webershandwick.com>.

Wettstein, F., and Baur, D. (2016). 'Why should we care about marriage equality?: Political advocacy as a part of corporate responsibility', *Journal of Business Ethics*, 138, 199-213.