CEO Activism and Firm Value

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Abstract

We investigate the impact of CEO activism, the increasingly common practice of CEOs speaking out on social and political issues, on firm value. CEO activism may be beneficial for shareholders, as it can bolster firms' relationships with customers and employees. Alternatively, CEO activism may be detrimental if it alienates stakeholders with opposing views. Consistent with the former, we find that CEO activism results in a positive market reaction and higher valuations. These results can be explained by increased employee productivity and innovation, suggesting that CEO activism may improve corporate reputation in labor markets. Additionally, activist CEOs benefit from more future directorships.

Keywords: CEO Activism, firm value, productivity, innovation.

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1. Introduction

Over the last decade, business leaders have increasingly engaged in CEO activism, i.e., the practice of speaking out on social and political issues. Examples of CEO activism include, Tim Cook (Apple) and Marc Benioff (Salesforce) expressing their views in support of LGBTQ rights; Satya Nadella (Microsoft) and Mark Zuckerberg (Facebook) on immigration; Bob Iger (Walt Disney) and Howard Schultz (Starbucks) on gun control; and Kevin Plank (Under Armour) on climate change.[1] While this behavior may appear to be at odds with a CEO's traditional role as a value-maximizing agent of the shareholders, survey and experimental evidence suggests that CEO activism may be the result of market forces and the demands of customers, employees, and other stakeholders. For instance, Weber Shandwick and KRC Research (2018) find that a large percentage of Millennials believe that CEOs have a responsibility to speak out on social and political issues.[2]

Yet, the consequences of CEO activism are ex ante unclear. On the one hand, public statements made by CEOs may have no bearing on firms' stakeholders and may be simply perceived as toothless "cheap talk." On the other hand, they could engender either positive or negative reactions from different stakeholder groups. For instance, CEOs who resigned from President Trump's economic council were widely praised (Chatterji and Toffel (2018)). Whereas Nike's share price fell in after-market trading following its controversial ad campaign featuring Colin Kaepernick, even though Nike posted double-digit earnings and revenue growth during the fiscal first quarter (CNBC, 9/25/2018). In this paper, we explore how CEO activism impacts firm performance.

To this end, we propose two hypotheses. The *alignment hypothesis* conjectures that CEOs engage in activism because they believe that doing so can forge bonds with important stakeholders (e.g.,

[1] See Appendix A for more examples of CEO Activism.

[2] Other survey and experimental data suggesting that stakeholders expect corporate executives to be involved in conversations and debates about social issues include Sorkin (2018), Larcker, Miles, Tayan, and Wright-Violich (2018), Chatterji and Toffel (2019), and Korschun, Aggarwal, Raflieian and Swain (2019), Hambrick and Wowak (2021), and Bhagwat, Warren, Beck, and Watson (2020).

employees and customers) and, hence, is in the interest of the shareholders. To understand why CEO activism may matter for employees, we draw upon the social identity and self-determination theories. The social identity theory contends that people categorize themselves with an organization to which they feel a sense of belonging and self-definition (Tajfel (1974), Tajfel and Turner (1985, 1986)). When employees identify with the company, they are likely to become psychologically attached and committed to their organizations, which results in numerous corporate benefits, such as reduced attrition, improved recruitment, and increased employee morale, loyalty, and job satisfaction (Dutton, Dukerich, and Harquail (1994); Lee, Lee, and Lum (2008)). Similarly, the self-determination theory (Deci and Ryan (1985, 2008), Gagné and Deci (2005)) suggests that factors facilitating the fulfillment of employees' need for relatedness (i.e., the feeling of being close to others) can have a positive impact on employees' intrinsic motivation and other work-related outcomes.

If the CEO's proclamations on social and political issues evoke positive responses from employees, including higher identification with the company and agreement with the company's values, employees may be more willing to direct their behaviors towards activities that are in line with the goals and value of their firms. Therefore, CEO activism may solidify the company's values and culture and boost the productivity of their employees. CEO activism may also have a positive impact on customers, as it may increase customer identification with the company. The more customers identify with a company, the more positively they will perceive it and the more loyal they will become to the company (Bhattacharya and Sen (2003), Maignan and Ferrell (2001)). If CEO activism builds "brand equity," consumers who value CEO activism may support such firms by buying more of their products and services. Hence, the *alignment hypothesis* predicts that the public stances CEOs take on social and political issues, whether genuine or not, may improve firm value via a positive impact on employees and/or customers.

In contrast, the *misalignment hypothesis* suggests that CEOs may engage in activism to promote their personal beliefs, regardless of the consequences for shareholders. In such cases, investors may perceive CEO activism negatively if they do not feel the CEO's role should include voicing their advocacy views. Consistent with this, survey evidence suggests that 52% of Americans think that executives should avoid taking a public stance on issues unrelated to their business (Weber Shandwick and KRC Research (2018)). Shareholders may also react to CEO activism negatively if they think activism will alienate a significant portion of the company's stakeholders. For instance, stakeholders might change their willingness to be involved with the firm if the CEO takes a stance that is opposite their own or that is extreme enough to raise concern and uncertainty about firm's future performance. Some examples of companies facing backlash from employees and customers include Dick's Sporting Goods, Goya, Under Armour, CrossFit, Oracle, and Facebook.[3] Hence, the *misalignment hypothesis* predicts that CEO activism will have a detrimental effect on firm value.

To test these hypotheses, we build a novel dataset of news articles and tweets from 2010–2019 in which CEOs of S&P 500 companies speak out on social and political issues. Using this data, we document that 31% of CEOs in our sample take a public stance at least once. More importantly, our data reveal an upward trend in the rate of CEO activism, from 1% in 2010 to 46% in 2019, suggesting that CEO activism is becoming more prevalent and more acceptable by society. Among the most popular topics addressed by CEOs are: inclusion, the environment, and the Trump administration. We observe

[3] Dick's Sporting Goods' CEO's controversial choice to stop selling assault-style weapons and to take other steps to limit firearms sales prompted backlash from gun-owning customers, pro-gun lawmakers, and the National Rifle Association (The Washington Post, 5/31/2019). People have boycotted Goya and Under Armour after their CEOs praised President Trump. Under Armour's stock was downgraded as one analyst wondered whether the CEO's remarks would "make it nearly impossible to effectively build a cool urban lifestyle brand in the foreseeable future." (Chatterji and Toffel (2018), CNN, 7/10/2020). Reebok and hundreds of gyms cut ties with CrossFit after founder Greg Glassman's tweet and comments about George Floyd's killing (WSJ, 6/10/2020). Oracle's CEO had been put on the spot when a group of workers from that company launched a petition urging their employer to join numerous other companies in opposing President Trump's immigration ban (Chatterji and Toffel (2018)). Mark Zuckerberg has faced backlash among Facebook employees over his refusal to take action over controversial posts by President Trump (Forbes, 6/2/2020).

that CEO activism is more frequent in industries producing consumer durable and non-durable goods (e.g., cars, household appliances, food, apparel, and toys) and less frequent in the energy and healthcare sectors.

We start our analysis by investigating the impact of CEO activism on firm value using announcement returns surrounding CEO activism events. One advantage of analyzing announcement returns is that they are less likely to be driven by omitted firm or CEO characteristics. We find that, on average, the market responds positively to tweets and news articles that publicize a CEO's stance on social and political issues. To gain further insights as to when CEO activism might be perceived favorably by investors, we examine cross-sectional variation in the market response along three dimensions: industry competitiveness, human capital intensity, and shareholders' pro-social preferences. We find that the response to CEO activism is stronger among: i) firms in highly competitive industries, wherein CEOs may use activism to help their firm stand out and attract/retain employees/customers; ii) firms with high levels of human capital intensity, where the leaders of firms may speak out in an effort to engender greater effort from their workforce and draw in talented employees; and iii) firms whose shareholders have stronger pro-social preferences, as CEOs may engage in activism on the specific topics they know their shareholders will appreciate. These findings provide the first empirical evidence that market participants react positively to CEO activism, which is consistent with the *alignment hypothesis*.

We then proceed to test our hypotheses using firms' market-to-book ratios as an alternative measure of firm value. In line with the positive market reaction, we estimate a strong, positive relation between CEO activism and a firm's market-to-book ratio. Although this result holds even after controlling for a host of firm and CEO attributes (e.g., firm size, performance, CEO visibility, overconfidence, age, and political leaning), it needs to be interpreted with caution as activist CEOs and/or the firms they lead could be self-selected based on unobservable characteristics that can explain

higher valuations. To address such concerns, we re-estimate the relationship between CEO activism and market-to-book ratio using an entropy-balanced sample, which is a generalization of propensity score matching that adjusts for random and systematic inequalities in the variable distributions between control and treatment groups. We continue to observe that CEO activism is positively related to firm value. To further curb concerns about endogeneity, we rely on two instruments. First, we use data on the number of laws related to LGBTQ individuals that are proposed and passed in a given state as an instrument for a CEO's likelihood of engaging in CEO activism. Whereas anecdotal evidence suggests that such laws may spur CEO activism, it is not likely that these laws would have a direct effect on firm value given the relatively low proportion of LGBTQ individuals in the workforce and the fact that we capture laws that may affect a firm's LGBTQ workforce both positively and negatively. Second, we use directors' prior exposure to CEO activism while serving on the boards of other firms. We continue to estimate a positive and significant relation between CEO activism and firm value when using this instrumental variables approach, which ameliorates the concern that our findings are driven by omitted variable bias.

To understand the mechanisms underlying the sustained increase in corporate performance among firms with activist CEOs, we consider the relation between CEO activism and (1) employee-related outcomes (i.e., the labor-market channel) and (2) customer-related outcomes (i.e., the product-market channel). Consistent with the idea that CEO activism may lead to increased employee morale and heightened productivity, we find that firms with activist CEOs experience a subsequent increase in sales per employee, total factor productivity, and innovation (R&D/Sales, patent filings, and patent market value). We also observe that CEO activism is negatively associated with the probability of being named as a defendant in a major employee-related lawsuit. We do not, however, find evidence that CEO activism is significantly associated with increased sales growth (via the product-market channel).

To shed more light on which of these two channels contributes to firm value, we conduct a randomized controlled trial experiment, which provides direct evidence on how potential employees and customers respond to CEO activism. Specifically, we exogenously expose some, but not all, experiment participants to CEO activism. The results of our randomized control trail provide strong evidence that employees react to the activism behaviors of CEOs. We find that participants acting as prospective job-seekers are significantly more likely to accept a job offer from a company with a CEO that regularly engages in CEO activism than from a company with a CEO who avoids speaking out on social and political issues. In contrast, prospective customers do not change their purchasing decisions based on the differential activism behaviors of companies' CEOs. This experimental finding supports our empirical results, which suggest that the labor-market channel, rather than the product-market channel, links CEO activism to firm value

Finally, we consider some of the consequences that CEO activism may have directly for the CEO. Specifically, we analyze whether CEO activism impacts a CEO's likelihood of being forced out of the company and whether activism affects a CEO's outside directorship opportunities. Using multiple proxies for forced CEO turnover, we estimate a strong, negative relation between CEO activism and involuntary turnover likelihood. Additionally, we estimate a positive relation between CEO activism and future outside directorship opportunities. These results suggest that shareholders vis-a-vis the board of directors are not likely to punish CEOs who are outspoken on social and political issues. If anything, the evidence is consistent with CEOs benefiting from their activism efforts in the form of sustained and future job security.

This paper makes several important contributions. First, we contribute to the relatively new literature on CEO activism. Chatterji and Toffel (2019) and Korschun et al. (2019) use experiments to study consumers' response to CEO activism and find mixed results in terms of whether consumers change their behavior if their views differ from the CEO's. Durney, Johnson, Sinha, and Young (2020)

perform a controlled experiment and show that retail investors respond negatively to CEO activism on gun control if their views differ from the CEO's. Whereas experimental studies offer some useful insights, they often induce artificial awareness of CEO activism and, hence, the effect of CEO activism on actual stakeholder behavior may not be fully captured. We contribute to this area by providing the first large-scale empirical evidence on the impact of CEO activism on firm value and by documenting actual shareholder responses to CEO activism. Furthermore, instead of focusing on one social issue or one constituency, our unique dataset allows us to examine CEO activism on a broad range of topics (i.e., providing a more complete picture of CEO activism) and analyze how CEO activism impacts multiple stakeholders (e.g., investors, customers, employees, and the CEOs themselves). Additionally, the richness of our data allows us to identify instances wherein CEO activism may be particularly impactful.

Second, our findings provide new insights to the decades-long conversation about the CEO's role as an agent of shareholders and the debate on whether companies should have a higher purpose beyond maximizing shareholder value. In this respect, our paper is related to the literature on corporate social responsibility and socially responsible investing (e.g., Di Giuli and Kostovetsky (2014), Hartzmark and Sussman (2019), Krueger, Sautner, and Starks (2019), Pan, Pikulina, Siegel, and Wang (2019)). Our results of a positive market reaction to CEO activism complement other studies showing the increasing trend of socially responsible investing and suggest that the role of CEOs has evolved over time to include activism behaviors that would have been deemed inappropriate only a few years ago. Our paper also expands upon the research on corporate social responsibility by providing novel evidence suggesting that CEO activism could be another channel through which companies can build loyalty among like-minded employees and improve their reputation in relation to competing firms. Furthermore, by documenting a positive employee response to CEO activism, our findings provide a new explanation for why some firms are more innovative than others.

Lastly, we contribute to the broad literature on the role of CEOs in shaping corporate culture. Most executives view culture as one of the top three factors that affect their firm's value, yet, it is notoriously hard to measure (e.g. Graham, Grennan, Harvey, Rajgopal (2016, 2017)). In this paper, we use CEO activism events—visible, high-profile, and easy-to-measure CEO actions in which CEOs communicate to stakeholders where they stand on social and political issues—as manifestations of corporate values and culture. Building on previous research that highlights the role of social media in communicating with stakeholders (e.g., Jung, Naughton, Tahoun, and Wang (2018), Chen, Hwang and Liu (2019)), our evidence suggests that CEOs' direct communications with investors, employees, and other stakeholders about their principles can contribute to value creation and help promote a good corporate image.

2. Data and descriptive statistics

2.1. Sample

Our sample includes all firms that were part of the S&P 500 at any point between 2010 and 2019, excluding utilities and financials.[4] We identify the characteristics of the CEOs of these firms using data from BoardEx, which provides information on the CEO's age, tenure, and directorships. We obtain annual accounting information from Compustat and stock return data from CRSP. The data availability requirements led to a final sample of 3,635 firm-year observations for 445 firms. We present the descriptive statistics of firm characteristics in Panel A of Table 1. The median firm in our sample has book assets of $9.59 billion, a market-to-book ratio of 1.98, and ROA of 7%.

[4] Our empirical results are similar if we include financials and utilities.

2.2. Defining and measuring CEO activism

Given the emergent nature of CEO activism, defining what constitutes CEO activism is inevitably subjective and recent studies offer several variations of the term.[5] We follow Hambrick and Wowak (2021) to define CEO activism as CEO's public expression of a stance on some matter of current social or political debate. Similar to Hambrick and Wowak (2021), our definition includes activism events regardless of whether they are related or unrelated to the firm's business operations, as CEOs may describe seemingly peripheral issues as integrally important to their firms and it is difficult to separate "core" and "tangential" topics. We include both controversial and innocuous instances of CEO activism, as well as statements which are a clear expression of the CEO's personal beliefs and proclamations that are ambiguous as to whether they articulate a personal belief or corporate position.

To capture instances of CEO activism, we rely on the lists of sociopolitical issues used by Larcker et al. (2018) and Bhagwat et al. (2020). In our main analysis, we include topics identified as activism by both studies, but, our results are robust if we include a broader set of keywords, as described in Appendix B. We construct our measure of CEO activism using news articles from Google News search, which provides a continuous and relatively comprehensive archive of articles from thousands of publishers and magazines.[6] We supplement news articles with tweets data from Twitter, as an increasing number of CEOs and firms register for Twitter accounts and share their posts. Appendix B provides a detailed description of our data collection and data cleaning process.[7] Panel A of Table 2

[5] Unlike "investor activism" which typically entails considerable effort or outlay of resources, CEO activism may or may not be accompanied by an action from the firm. Yet, we adopt the term "activism" similar to recent papers on the topic (e.g., Chatterji and Toffel (2018), Hambrick and Wowak (2021), Bhagwat et al. (2020), Larcker et al. (2018)).

[6] Google News allows us to search a wide range of media sources and find articles that, at times, are not included in Factiva or LexisNexis. Examples of articles in Google News that are not in Factiva or LexisNexis include the following: i) We will stand for our values in trade and immigration, eBay CEO Devin Wenig says (CNBC, 1/17/17); ii) HP's CEO Tells Vendors Make Diversity A Priority, Or Else You Can't Do Business With Us (Fortune, 6/14/18); iii) Marriott CEO: At a Time of Great Anxiety Around Diversity, We Need to Communicate (Fortune, 5/26/17); iv) Pepsi chief executive joins criticism of North Carolina law on LGBT rights (the Guardian, 4/2/16).

[7] We include articles featuring either the CEO or the firm in the headlines, as any statements CEOs make are typically associated with their companies and vice versa. Furthermore, many articles that feature a firm in the headline mention

presents the frequency distribution of our keywords. The most popular topics include issues related to inclusion, the environment, the Trump administration, discrimination, and climate change. Our main variable of interest, *# of activist events*, is the annual count of unique news articles and tweets that capture CEO activism events, which we winsorize at the 1% level.[8]

2.3. Descriptive statistics

Panel B of Table 2 reports the annual distribution of CEO activism events. For the overall sample period, 15% of firm-year observations contain at least one CEO activism event. The frequency of CEO activism has increased from 1% in 2010 to 46% in 2019.[9] Panel C of Table 1 breaks down our sample by industry. We observe that CEOs operating in industries that are closer to consumers, e.g., those producing durable goods (cars, TV, furniture, household appliances) and non-durable goods (apparel, tobacco, toys), are more likely to speak up, with 21% of CEOs engaging in activism. We observe that CEOs in the healthcare, oil, and machinery sectors are the least likely (10%-11%) to take public stances on social and political issues. Panel D of Table 2 presents how CEO activism is distributed across geographical regions. We note that CEOs of firms located in the southern regions are less likely to engage in activism, whereas CEOs in the western part of the United States are more likely to voice their opinions.

We also explore whether activism events cluster around corporate events. To this end, we compare the timing of activism events and earnings announcements. We extract earnings announcement dates from Capital IQ from January 2010 to February 2019. We then match each activism event with

the CEO in the article itself. Our results are robust if we focus exclusively on articles that reference the CEO in the headline.

[8] Our results are robust if we use a dummy variable that equals one if there is at least one activist event, and zero otherwise, as our independent variable. Similarly, our results are robust if we exclude the five most prolific activist CEOs: Jeff Bezos (Amazon), Mark Zuckerberg (Facebook), Tim Cook (Apple), Wilmot Hastings Jr. (Netflix), and Jack Dorsey (Twitter).

[9] We verify that most of our keywords have relatively stable trends over our sample period using Google Trends, which analyzes search queries in Google and converts the search volume into a numeric index.

the nearest earnings announcement and remove activism events after February 2019. We convert matched activism event dates into event time by resetting earnings announcement dates to zero in event time. Figure 1 presents the distribution of activism events relative to earnings announcements. While a small percentage (about 1.6%) of activism events are centered around the 5-day window of earnings announcements, the majority of the CEO activism events occur well before or after earnings announcements, suggesting that activism events do not tend to cluster around earnings announcements.

3. CEO Activism and firm value

In this section, we analyze shareholder reactions to CEO activism. A priori, it is not clear how investors will respond to CEO activism. The *alignment hypothesis* predicts that investors may have a positive view of CEO activism because they subscribe to the views expressed by the CEO and believe that a well-run company should pursue goals beyond simple value maximization. Investors may also react positively to CEO activism if they perceive that CEO activism could maximize profits by helping retain and attract customers and by boosting employee productivity. In contrast, according to the *misalignment hypothesis*, investors may perceive CEO activism negatively if they believe that CEOs should not act as social/political advocates or if they perceive activism as having an adverse impact on future cash flows and firm value due to the loss of customers, reduction of employee productivity, or selling-off by other investors. Yet, it is also possible that investors may not be aware of or care about CEO activism, or they may perceive it as "cheap talk" and not respond in any significant way. Whereas different investors may subscribe to different points of view, it is not clear which type of investor dominates and thus whether CEO activism is consistent with what investors want on average. Hence, in this section we examine whether investors collectively view CEO activism positively, negatively, or neutrally by focusing on CEO activism announcement returns and market valuations.

3.1. Announcement returns

We start our analysis by examining the announcement returns generated by CEO activism events. We compute cumulative abnormal returns (CARs) by employing a standard market-adjusted return model, where the abnormal return is calculated as the difference between a firm's return and the value-weighted market (CRSP) index return. We calculate cumulative abnormal returns over a three-day window centered at the announcement date (-1 to +1). For robustness, we also estimate CARs over a five-day window centered at the announcement date (-2 to +2) and an asymmetric five-day window (-3 to +1), to account for possible leakage leading up to a CEO activism event.

Panel A of Table 3 presents median and mean announcement returns over the different event windows. We observe positive and statistically significant median and mean announcement returns to CEO activism events across all windows. The median three-day CAR is 0.12% ($p < 0.01$) and the median five-day CAR is 0.22% ($p < 0.01$), both are significant at the 1% level. The mean announcement returns range from 0.08% to 0.16% over different windows. The positive effect of CEO activism is economically significant and translates into a $10–$21 million gain in shareholder value, based on the median market capitalization of $13.03 billion. These results demonstrate that, in aggregate, shareholders perceive CEO activism positively. The results also complement earlier studies that document that investors put a positive value on socially responsible endeavors and the growing importance of socially responsible investing (e.g., Hartzmark and Sussman (2019), Krueger et al. (2019), Pan et al. (2019)).[10]

Whereas our findings reflect the aggregate response by the equity market to CEO activism, CEO activism might not be equally valuable in all types of firms. To shed additional light as to when CEO

[10] When we measure the announcement returns to CEO activism by year, we observe a positive effect in all of the ten years. We do not find that the announcement returns in the second half of the sample are statistically different from the announcement returns in the first half.

activism may be perceived more favorably, we turn to explore whether the market reaction to CEO activism varies by industry competitiveness, human capital intensity, and shareholder preferences.

Firms in highly competitive industries may face higher risk of losing customers than do firms in concentrated industries, whose customers have limited opportunities to change the companies they purchase from. Similarly, employees in competitive industries may be more likely to be competed away and potentially disseminate proprietary information to rivals, thereby hurting firms' competitiveness. Hence, firms that face harsh competition may benefit more from CEO activism, as they have a greater need for a positive public image. To test this conjecture, we use the Herfindahl–Hirschman Index to split our sample firms by the intensity of industry competition using Fama-French 48 industry categories. A firm is considered to operate in a highly-competitive industry if the Herfindahl–Hirschman Index is at or below the sample median, and in a non-competitive industry if the Herfindahl–Hirschman Index is above the sample median. The results are presented in Panel B of Table 3. We observe that the reaction to CEO activism is significantly positive for firms operating in competitive industries over all event windows. However, for firms operating in concentrated industries, the market reactions are not significant. Furthermore, the market response for firms in competitive industries is significantly higher than the market reaction to CEO activism for firms operating in non-competitive industries. The difference in CARs is significant across all windows.

Next, we examine the market reaction to CEO activism for firms with high versus low human capital intensity. We conjecture that the potential loss of a firm's human capital may be particularly detrimental for firms with high human-capital intensity, which have a greater demand for more skillful employees, and therefore, have a greater need to attract and retain talent. We measure the human capital intensity of the firm using the ratio of R&D expenditure to total sales, since R&D-intensive firms are more likely to depend on highly skilled employees and require higher levels of expertise and education. We define human-capital-intensive firms as those in the top-quartile of R&D expenditure to total sales. Panel C of Table 3 presents the market reactions for the two subsamples based on human-capital

intensity. We find that the market reactions are significantly higher for firms with higher human-capital intensity. For example, three-day returns are 0.34% for firms with high human-capital intensity and are 0.05% for firms with low human-capital intensity. The difference between the two coefficients is significant at the 1% level.

Market reactions may also vary with investors' attitudes toward CEO activism. For instance, Pan et al. (2019) find that firms whose shareholders have stronger prosocial preferences experience a more negative market response to their high CEO pay ratios. Similarly, investors' prosocial preferences may moderate the market reaction to CEO activism. We follow Pan et al. (2019) by estimating shareholders' prosocial preferences as the ownership-weighted average social norms and policies in shareholders' headquarters states. The results are presented in Panel D of Table 3. We find that the market reactions are positive and stronger in the sub-sample with stronger investor prosocial preferences. This finding suggests that certain shareholders may expect corporate leaders to take a public stance on social and political issues and be more likely to purchase the stock of firms with leaders that speak out.[11]

We also explore whether the market reaction varies with the left- or right-wing orientation of the news source. We rely on Ad Fontes Media to classify news providers into those with a left- or right-wing bias. Here, our sample excludes tweets and is reduced to only those news sources that are classified by Ad Fontes Media. We find that a substantially greater proportion of CEO activism events are featured in the left-wing media (373 versus 113). Panel E of Table 3 shows that activism featured in right-wing media generates a significantly negative market reaction, which is significantly different from the market reaction generated by the activism events featured in left-wing sources.

[11] For instance, BlackRock CEO Larry Fink in his annual letter calls on company leaders to take a more active role in addressing societal issues ("BlackRock chief Larry Fink tells CEOs to fix society's problems in an increasingly divided world," Business Insider, 1/17/2019).

Additionally, to differentiate between cases in which CEO activism may be prompted by a journalist asking CEOs about social/political issues and cases in which CEOs voluntarily initiate such conversations, we compare the market response between news articles and tweets. CEO tweets are arguably more likely to reflect CEOs' decision to speak up, rather than a prompting from a reporter, and are likely to be free from media bias. We find weak evidence to suggest that the market reaction to tweets is slightly higher (untabulated). Our subsequent results are robust to using a CEO activism measure that relies exclusively on tweets.

Overall, the results in this section show that the market perceives CEO activism favorably, especially for firms in concentrated industries, with high human-capital intensity, and with pro-social investors.

3.2. Tobin's Q

In this section, we supplement our market reaction results with an analysis of firm value, as measured by a firm's market-to-book ratio (i.e., Tobin's Q). Following prior studies (e.g., Myers (1977), Smith and Watts (1992), Yermack (1996)), we control for several firm characteristics that are correlated with firm value. Specifically, we include firm size, corporate diversification (number of reported business segments), performance (stock return and ROA), asset tangibility, and leverage. Control variables are measured at the year-end prior to the activism event, and all variable definitions are in Appendix D. All regressions include Fama–French 48 industry dummies and year fixed effects to capture time trends and differences across industries. We cluster standard errors at the firm level to account for multiple observations per firm.[12]

Column 1 of Table 4 presents estimates from a pooled OLS model. Our variable of interest is the number of CEO activism events during year *t*.[13] The results indicate that CEO activism is associated

[12] Our results are robust if we instead double-cluster standard errors by industry and year.
[13] Our results are similar if we measure CEO activism at time *t*-1.

with a statistically significant increase in Tobin's Q. However, one might be concerned that firms with CEO activism are different from those without CEO activism in other ways that may confound our analysis. For instance, firms with "good" social responsibility profiles may encourage their CEOs to speak up. It is also possible that CEOs who engage in activism have other characteristics that can be correlated with firm value, such as media visibility, overconfidence, or overall quality (Malmendier and Tate (2005, 2009), Fang and Peress (2009)).

To assuage these concerns, in Column 2 we include several controls that proxy for a firm's overall social responsibility profile. First, we include the firm's Corporate Social Responsibility (CSR) index score, obtained from KLD Research & Analytics. KLD uses a proprietary research process to classify the strengths and concerns within six primary categories related to different aspects of social responsibility (Community, Diversity, Employee, Environment, Humanitarian, and Product). Second, we rely on Fortune's list of "100 Best Companies to Work For." This list is based upon an extensive U.S. employee survey that covers a wide spectrum of detailed questions about wages and benefits, worker training, hiring practices, job satisfaction, fairness, and management's credibility. We include an indicator variable that equals one if a firm is included in Fortune's 100 best companies list, zero otherwise. Third, we add the democratic leaning of the state in which firm is headquartered, as the Democratic Party platform places more emphasis on issues related to environmental protection, anti-discrimination laws, affirmative action, and employee protection. Furthermore, survey evidence suggests that 96% of Democrats believe Congress should ensure that companies address social issues, compared to 65% of Republicans (Di Giuli and Kostoevsky (2014)). We define firm headquarter states' democratic leaning as the fraction of voters in that state that voted for Hillary Clinton in the 2016 presidential election. Last, we include shareholders' prosocial preferences, as such shareholders may have incentives to pressure CEOs to become more outspoken on social and political issues.

To isolate CEO activism from other CEO characteristics, we include the following additional controls: CEO visibility, CEO overconfidence, CEO age, CEO gender, CEO tenure with the firm, CEO reputation, and the CEO's democratic leaning. To capture CEO's visibility and overall media exposure, we include the total number of news articles and tweets featuring the company or the CEO, scaled by total assets. Following Malmendier and Tate (2005) we proxy for CEO overconfidence using the proportion of unexercised exercisable in-the-money options to total compensation. To help gauge the CEO's political orientation, we collect data on political contributions from the Federal Election Committee (FEC) website, which contains the name and employer of the contributor and the dollar value of each contribution. We manually match this data to our sample CEOs. Similar to prior literature, we construct a measure of CEO's democratic leaning, which is the percentage of contributions to Democrats relative to total contributions to both Democrats and Republicans (e.g., Hong and Kostovetsky (2012), Giuli and Kostovetsky (2014)).[14] We proxy for CEO reputation with the number of the CEO's directorships to date. We also introduce several commonly-used proxies for corporate governance, such as CEO's equity incentives, institutional ownership, CEO/Chair duality, board size, board independence, and board busyness to capture potential agency conflicts. In Column 2, we observe that although the magnitude of the coefficient on CEO activism drops from 8.3% to 6.4% after including these additional controls, it remains significant at the 1% level.

Whereas the inclusion of additional control variables in Column 2 addresses many of the potential differences between firms with and without CEO activism that may confound our analysis, some may still persist and bias our results. For example, corporate culture—which is notoriously difficult to measure—may affect both the decision to speak up on social issues and firm value. To

[14] It is possible that CEOs may engage in activism to signal their political affiliation and potentially benefit from their alliance with the government. We conduct two analyses to explore this possibility: i) we read a random sample of news articles related to the President Trump and observe that only 10% of the news make statements in support of the President, 15% are neutral, and the rest express no support; and ii) we estimated a probit regression in which the dependent variable equals one if the government is a customer in a given year, zero otherwise. We do not find evidence to suggest that CEO activism increases the likelihood of obtaining government contracts.

improve the comparability between firms and ensure that firms with and without CEO activism are similar ex-ante, in Column 3, we re-run our analysis using entropy balancing to assemble a control sample. This procedure is a generalization of propensity score matching and weights control sample units to achieve covariate balance, adjusting for random and systematic inequalities in the variable distributions between the treatment and control groups (Hainmueller (2012)). Compared to other matching methods, entropy balancing is more flexible because it allows observation weights to vary smoothly, thus retaining larger samples and improving efficiency. The covariates that we use to balance the treatment group (firms with CEO activism) and control group (firms without CEO activism) are the same as those in Column 2. We then re-estimate the relationship between CEO activism and firm value using the entropy-balanced data to produce the results displayed in Column 3 of Table 4. The coefficient on *# of activism events* is very similar to that in Column 2, and it remains significant at the 1% level.

To further alleviate the concern that unobservable characteristics drive both CEO activism and firm value, we employ an instrumental variables approach that allows us to overcome omitted variable bias by replacing the endogenous choice of CEO activism with its predicted value. Our first instrument relies on the exogenous variation in annual state laws related to LGBTQ individuals. Due to the lack of explicit, comprehensive civil rights protections for LGBTQ individuals at the federal level, the rights of LGBTQ individuals and their families vary depending on which state they live in. Hence, over the last decade many states have passed multiple bills related to LGBTQ individuals at various points of time. Examples of such laws include bills pertaining to marriage equality, other relationship recognition, anti-discrimination, hate crimes, transgender healthcare, school anti-bullying, and parenting.

We use data assembled by the Human Rights Campaign, which provides a comprehensive annual state-by-state review of laws and policies that affect LGBTQ individuals, and construct the instrument as the cumulative number of bills related to LGBTQ people passed by the state of firms' headquarters in a given year. We conjecture that the deliberation and passage of such bills may spur CEOs to take a public stance on issues related to diversity and inclusion. Anecdotal evidence supports

this conjecture.[15] Given that issues related to diversity represent a significant share of CEO activism events in our sample, this instrument is likely to satisfy the relevance requirement.

In addition to being correlated with the endogenous variable, the instrument should satisfy the exclusion restriction, that is, it should not directly impact firm value. A potential concern with our instrument is that the proposal, and ultimate passage, of bills related to LGBTQ individuals might have a direct impact on employees' productivity and, hence, firm value. Here, it is important to note that as we construct our instrument, we include bills that are both favorable and unfavorable to LGBTQ individuals ("good bills" and "bad bills," as classified by the HRC), which alleviates this concern.[16, 17] In addition, a 2017 Gallup poll concluded that only 4.5% of adult Americans identified as LGBTQ, suggesting that a direct effect of such laws on the overall workforce productivity of a given firm is probably small. Our instrument, thus, captures the amount of attention state legislatures give to issues related to diversity, which is likely to influence the activism behaviors of CEOs without directly affecting an individual firm's value.

Our second instrument is based on directors' prior exposure to CEO activism and is motivated by studies that provide many examples of information diffusion and propagation of corporate practices through director networks (e.g., Bouwman (2011), Bizjak, Lemmon, and Whitby (2009), Fracassi (2017)). Similar to Hambrick and Wowak (2021), we conjecture that directors with prior exposure to CEO activism elsewhere may be more receptive of activism behavior and may encourage the CEO of

[15] For instance, in response to North Carolina's bathroom law, Schulman canceled PayPal's plans for a new global operations center in Charlotte and many other CEOs followed suit. Similarly, in response to Indiana's Religious Freedom Restoration Act, which some viewed as anti-LGBTQ, Bill Oesterle cancelled Angie's list's planned expansion in Indianapolis (Chatterji and Toffel (2018)).

[16] To proxy for the number of unfavorable LGBTQ individual laws passed, we rely on the number of unfavorable bills introduced each year, as the Human Rights Campaign does not report how many unfavorable bills actually passed.

[17] An example of a "good bill" is a non-discrimination law in matters that concern employment, housing, or education. An example of a "bad bill" is a law that prohibits transgender people from receiving the appropriate ID. On average, states pass 1.1 "good bills" and propose 2.4 "bad bills" per year, with the average number of "good bills" ("bad bills") ranging from 0.5 (1.7) to 1.8 (4.7). States with the highest total number of "good bills" passed by the end of our sample period are California (155 "good laws"), Illinois (38 "good laws"), and Nevada (34 "good laws"); states with the highest total number of "bad bills" proposed are Tennessee (117 "bad bills"), Oklahoma (92 "bad bills"), and Texas (86 "bad bills").

the focal firm to speak up, or at least not discourage such behavior. Hence, we expect prior exposure to CEO activism to be positively related to the likelihood of CEO activism at the focal firm. At the same time, it is quite unlikely that prior CEO activism events in other firms would have a direct effect on the current firm value of the focal firm, which suggests that the exclusion criterion is likely satisfied. The board activism exposure instrument is equal to one if there is at least one director on the board who served as a director on another firm's board, in prior years, wherein the CEO of that firm engaged in activism.[18] To ameliorate the concern that directors with prior activism exposure were brought onto the focal firm's board because of their exposure to activist CEOs, we restrict our measure to include only directors who were already serving on the focal firm's board at the time of the CEO activism event in the other firm.[19]

The results of the first-stage estimation are reported in Column 4 of Table 4 and show that both instruments are significantly related to the likelihood of CEO activism. Furthermore, the Cragg-Donald Wald *F*-statistic for weak instruments is 92.16, which rejects the null hypothesis that the instrument is weak. Among observable CEO characteristics, we note that younger, Democratic, and more visible CEOs are more likely to take a stance on social or political issues. We report the second-stage regression in Column 5 of Table 4, in which we include the fitted value of CEO activism from the first stage as an explanatory variable. The results show that after accounting for potentially omitted variables, the coefficient on the predicted value of CEO activism remains positive and significant at the 1% level.

The magnitude of the coefficient of our instrumental variable estimation is roughly four times larger than that from the OLS estimation. As discussed in Jiang (2017), a potential explanation for this common phenomenon is that the 2SLS coefficient measures a local average treatment effect that may be larger than the population average treatment effect. Thus, the larger 2SLS coefficient could be

[18] Our results are robust if we restrict our instrument to prior CEO activism that generated an either positive or insignificant market response at other firms.

[19] Our results are very similar if we remove directors who were exposed to CEO activism in firms that operate in the same industry/location as the focal firm.

because the firms that are most sensitive to our instrument happen to also have a larger sensitivity of firm value to CEO activism. Consistent with this, we find that the relation between CEO activism and firm value is stronger for firms in states with a lot of attention towards diversity and inclusion. While our OLS and IV results, along with the significant and large CEO activism announcement returns, collectively suggest that CEO activism has a positive effect on firm value, we recognize that we cannot completely rule out the possibility that our results may be biased by omitted variables.

4. Channels

The previous section documented that CEO activism has a significant, positive effect on firm value. Our hypotheses attribute this effect to activism's potential impact on employees (labor-market channel) and on customers (product-market channel). In this section, we provide empirical evidence on these two channels.

4.1. Labor-market channel

Prior work emphasizes the importance of human capital in creating firm value, noting that workforce-related soft assets, including employee know-how, corporate culture, and interpersonal relationships, are significant value drivers (Pfeffer (1995), Zingales (2000)).

The *alignment hypothesis* conjectures that CEO's public statements may enhance a firm's reputation in the labor market and generate increased attachment from both current and prospective employees, as the degree to which employees identify with a company is based on how much others admire it (Ashforth and Mael (1989), Dutton et al. (1994), Smidts, Pruyn, and Riel (2001), Bartels, Pruyn, De Jong, and Joustra (2007)). In addition to increasing employees' attachment to their firms, CEO activism may improve employees' intrinsic motivation if employees recognize that they share the same social values as their firm. CEO activism can bring an even greater alignment of corporate values by driving the attraction-selection-attrition process, in which those who subscribe to the CEO's

espoused position will identify even more with the firm and its ethos and those who disagree will recede or leave altogether (Hambrick and Wowak (2021)). Because commonly shared corporate social norms and employee loyalty can constrain employee moral hazard (Guiso, Sapienza, and Zingales (2015)), the *alignment hypothesis* predicts that firms with CEO activism may be associated with stronger employee morale and higher productivity. Alternatively, under the *misalignment hypothesis*, CEO activism may not be aligned with the prevailing ideology among stakeholders. In such cases, activism can hurt a firm's external reputation and reduce employee productivity as the views expressed by the CEO might not accord with employees' own views. Under this scenario, CEO activism may result in dissatisfied workers who disagree with the CEO's stance on social issues and role as an activist. Such reactions would likely lead to weaker employee morale and lower productivity.

We test these hypotheses in Table 5 by focusing on employee productivity in Column 1 and firm-level total factor productivity in Column 2. Our measure of employee productivity is the natural log of sales per employee. Mean and median sales per employee are $671,000 and $368,000, respectively. We measure total factor productivity using residuals from industry-specific regressions of revenue on the number of employees, fixed assets, and year fixed effects. Column 1 shows that CEO activism has a significant, positive effect on employee productivity. Similarly, CEO activism is positively related with total factor productivity, as shown by the positive and significant coefficient in Column 2. In Columns 3 and 4, we present the results from the second stage of a 2SLS model in which we instrument for CEO activism using the same instrument described earlier. We continue to observe a positive relationship between CEO activism and both employee productivity and total factor productivity. These results are consistent with the arguments advanced by the *alignment* hypothesis, suggesting that CEO activism can have a positive effect on a company's culture and its ability to motivate employees.

In Panel A of Table 6 we examine the effect of CEO activism on innovation as another measure of employee productivity. A number of studies have found that intrinsic motivation is a primary pre-requisite of employee creativity (Amabile, Conti, Coon, Lazenby, and Herron (1996), Oldham and Cummings (1996), Gagné and Deci (2005)). If CEO activism boosts employees' intrinsic motivation by increasing employees' feelings of pride about their company, it may encourage positive risk-taking behavior, motivate employees to seek novel ideas, and lead to higher employee innovation. Following the prior literature, we construct several measures of firm-level innovation. To measure the overall quantity of innovation, we use R&D expense scaled by total sales (Column 1), the natural logarithm of one plus the number of patents granted to each firm by the U.S. Patent and Trademark Office (in Column 2), and the natural logarithm of one plus the number of patents per employee (in Column 3). To capture the quality and economic value of innovation, we use the natural logarithm of one plus the dollar value of patents (in Column 4) and the natural logarithm of one plus the number of citations received by patents (in Column 5). All patent-related data is obtained from Noah Stoffman's website (Kogan, Papanikolaou, Seru and Stoffman (2017)).[20] Since patent issues may occur several years after the actual innovations took place, we examine the effect of CEO activism on our patent-based innovation variables measured at time t+2.[21] In Column 5, our sample ends in 2016 to account for the lag in citations. Each regression includes the same set of controls as used in our prior analyses.

As Column 1 shows, firms with more CEO activism events are associated with higher investment in R&D. Additionally, the results from Columns 2 and 3 indicate that CEO activism stimulates a greater volume of innovation output, as such firms receive more patents and have higher patents per employee. The result in Column 4 further indicates that the economic quality of these patents is higher, as the market value of the patents is significantly positively related to *# of activist events*. Similarly, we estimate a significantly positive relation between CEO activism and citation counts in

[20] See Noah Stoffman's website at https://kelley.iu.edu/nstoffma/.
[21] Our results are robust if we estimate innovation outcomes at t+3.

Column 5.[22] In Panel B of Table 6, we present the results from the second stage of the 2SLS model and continue to observe a positive relationship between CEO activism and all measures of innovation.

As another test of how CEO activism may solidify relationships between the firm and employees, we analyze the link between CEO activism and the likelihood of being named as a defendant in an employee-related class-action lawsuit. To identify such lawsuits, we rely on the Audit Analytics Litigation database and select class-action lawsuits involving violations in any of the following categories: i) employment law; ii) labor law; iii) Fair Labor Standard Act; iv) Americans with disabilities – employment; v) civil rights – jobs; vi) collective action; vii) labor-management relations; and viii) multi-district litigation.[23] The dependent variable is a dummy that is equal to one if a company is a defendant in an employee-related class-action lawsuit during the year, and zero otherwise. The results in Table 7 show that CEO activism helps avert labor-related lawsuits, reducing the likelihood of the negative publicity associated with such lawsuits that could tarnish a firm's reputation among current/prospective employees.

Taken together, the tests described in this section suggest that CEO activism may boost employees' identification with the company and increase the incentive for employees to engage in relationship-specific investments, generating more innovation output and increasing employee and firm-level productivity. These results are consistent with the arguments in the *alignment hypothesis* that higher firm value for companies with CEO activism may be attributed to the positive impact of CEO activism on employees.

[22] The innovation literature often uses poisson, tobit, and negative binominal empirical models, which account for censoring at zero, since true innovation output is unobserved for firms with no patents. We re-estimate our baseline models using these methods and verify that our results are robust to these different estimation techniques.
[23] We also manually crosscheck a random sample of cases from each category with "Justia dockets and filings," an online US federal court database, to verify that we are capturing labor-related disputes.

4.2. Product-market channel

The *alignment hypothesis* predicts that consumers may view CEO activism positively, if they believe that companies should pursue broader goals than simple wealth maximization. A recent poll shows that consumers expect CEOs to proactively take a stance on social issues. For instance, 84% of consumers expect CEOs to be involved in conversations and policy debates on social issues and 56% said they have no respect for CEOs who remain silent on important issues (Sorkin (2018)). If CEO activism creates the impression that the firm has attributes or characteristics that are consistent with the values of consumers (e.g., being civic minded and compassionate), it may generate positive perceptions about the company and induce customers to develop a sense of connection with the company. Prior research shows that consumers' feelings of identification with the company may result in higher consumer satisfaction and loyalty (Maignan and Ferrell (2001), Bhattacharya and Sen (2003)). Hence, the "brand equity" effect induced by CEO activism may increase the sales of such companies, as customers who welcome CEO activism might support such firms by purchasing more of the company's products and services.

On the other hand, the *misalignment hypothesis* suggests that CEO activism may have an opposite effect on customers. Views expressed by CEOs might put the firm in a negative spotlight, antagonize customers, and steer consumers away from using the company's goods and services. Supporting this notion, in a Weber Shandwick survey 40% of respondents said they would be more likely to purchase from a company if they agreed with the CEO's position, but 45% said they would be less likely to if they disagreed with the CEO's view. Furthermore, disagreements with CEO activism may provoke boycotts, which may further hurt a firm's reputation and product market performance. Hence, under this hypothesis, CEO activism would lead to a decrease in sales, especially if the stance taken by the CEO is misaligned with the stance of most customers.

We test the impact of CEO activism on customers by examining how sales growth varies with CEO activism. Table 8 presents the results. The dependent variable is sales growth. Column 1 presents

estimates from the ordinary least squares estimation, whereas Column 2 shows results of the second stage regression from the 2SLS model. In both columns, we observe that the coefficient on the *# of activism events* is insignificant, suggesting that the net effect of CEO activism on sales growth is immaterial.

5. Lab experiment

To shed further light on the role of the labor and product market channels in linking CEO activism to increased firm value, we conducted a randomized controlled trail experiment. An experimental setting allows us to randomly expose some, but not all, of a company's stakeholders to CEO activism behaviors. In doing so, we are able to precisely identify the extent to which various stakeholders react to CEO activism.[24]

We recruited our experiment participants from Amazon Mechanical Turk. Adhering to the current best practices, we recruited only high-quality participants, leading to a sample of over 500 subjects (see Appendix C for details). We randomly assigned half of our participants (N = 254) to assume the role of a job-seeker who was deciding whether to accept a job offer from Company A or one of its competitors. Another half of the participants (N = 254) were asked to assume the role of a customer who was deciding whether to purchase a new, hi-tech television from Company A or one of its competitors.

After being told their role, each participant was then randomly placed into one of three treatment cells that varied the type of CEO activism information given to the participant. One third of the participants were told "Over the last few years, Company A has provided its investors with an **annual return of 8%,** which is similar to the returns generated by an **average company**," but they were not given any information about CEO activism. Another third was given the same information about

[24] The experiment was approved by Tulane University's IRB office, reference number 2020-1075.

Company A's past stock return performance *and* they were told "Recently, it has become more common for business leaders to take a public stance on social issues such as 2nd Amendment rights, LGBTQ+ rights, and climate change. **The CEO of Company A regularly takes a public stance on these and other social issues.**" The last third was given the same information about Company A's past stock return performance *and* they were told "Recently, it has become more common for business leaders to take a public stance on social issues such as 2nd Amendment rights, LGBTQ+ rights, and climate change. **The CEO of Company A avoids taking a public stance on these and other social issues**."[25]

After being given information about Company A, job-seekers were asked if they were more likely to accept a job offer from Company A or one of its competitors, and prospective customers were asked if they were more likely to purchase a television from Company A or one of its competitors. Participants responded using a 100-point slider scale that was anchored at 50, "Indifferent between the two companies," and ranged from 0, "Much more likely to [choose] one of its competitors," to 100, "Much more likely to [choose] Company A." The average responses of each group of participants are presented in Table 9. Among job-seekers, the average response of those who were given no information about CEO activism was 58.5 and the average response of those who were told the CEO regularly takes a public stance on social issues was 62.2. Both of these are significantly different than the "indifferent" response of 50 ($p < 0.01$). The difference of 3.7 between these two responses is not statistically significant ($p = 0.224$). The average response of those who were told the CEO avoids taking a public stance was 49.4, which is not significantly different from indifference at 50 ($p = 0.824$). The 12.8-point difference in average response between job-seekers in the CEO takes a stance group and those in the CEO avoids taking a stance group is statistically significant ($p < 0.01$) and represents nearly a standard deviation change in response relative to the baseline response behavior of job-seekers who were given

[25] To ensure our results are not confounded by imbalances in observable characteristics across the different treatment cells, we perform balance tests, which are reported in Appendix C that shows balance on almost all observable characteristics across the participants in each treatment cell.

no information about CEO activism. These results suggest that hypothetical job-seekers are more likely to pursue employment in a company whose leaders engage in CEO activism than in a company whose CEO avoids it, supporting the *alignment hypothesis*.

The response patterns of prospective customers are quite different from those of job-seekers. As shown in Table 9, across all three CEO activism information groups, the average responses are between 57.5 and 57.9, which are not significantly different from each other. This finding suggests that the purchasing decisions of prospective customers are not affected at all by different information about a company's CEO activism behavior. The relative indifference towards information about CEO activism by prospective customers stands in sharp contrast to the highly significant difference in responses observed among job-seekers. That job-seekers appear to value CEO activism much more than prospective customers suggests that the positive relation between CEO activism and firm value is likely driven more by the labor-market channel than by the product-market channel.

6. CEO turnover and director labor market

We conclude our analysis by examining the consequences of CEO activism for the CEOs themselves. We estimate how boards of directors react to CEO activism along two dimensions: their decision to retain the CEO (i.e., CEO tenure) and their decision to appoint CEOs to the board (i.e., future opportunities in the director labor market).

If boards perceive CEO activism as value-enhancing, then CEOs who take a public stance may have longer tenure and will face a lower likelihood of being fired. Alternatively, if boards view CEO activism negatively, they might be more likely to fire the CEO. Columns 1 and 2 of Table 10 present estimates from a probit estimation in which the dependent variable equals one if the CEO was forced out and zero otherwise. In Column 1, we define CEO turnover as forced if the CEO was younger than 60 years old at the time of departure. In Column 2, we define turnover as forced based on data collected from news articles and CapitalIQ. The results show that the coefficient on *# of activist events* is

significantly negative at the 1% level, suggesting that CEOs who take a public stance are less likely to be fired.

Next, we examine whether CEO activism is rewarded in the director labor market. The director labor market plays an important role in a chief executive officer's incentives, as CEO actions that are consistent with shareholder interests are rewarded with additional subsequent board seats, whereas actions that affect shareholder wealth negatively lead to fewer directorships (Kaplan and Reishus (1990), Gilson (1990), Shivdasani (1993), Brickley, Linck, and Coles (1999), Coles and Hoi (2003), Harford and Schonlau (2013)). If the director labor market views CEO activism positively, then we should see that CEOs who speak up on social and political issues would be invited to sit on more boards. Alternatively, if such actions are perceived negatively and activist CEOs are perceived as a riskier-bet, we would observe fewer subsequent directorships for such CEOs.

We examine these predictions in Table 11 by estimating an ordered logit regression, which takes into account the ordinal nature of our dependent variable. The dependent variable in year *t* is the number of directorships held by the CEO two years following an activism event (*t+2*), which ranges from zero to four board seats. CEOs with more than four board seats are coded as having four seats. Our results are similar, if we do not impose this restriction. We include control variables similar to the ones used in our prior analysis. Given that the same CEOs appear in our data multiple times, we cluster standard errors by CEO. Table 11 shows that engaging in CEO activism significantly increases the number of directorships held by a CEO in the next two years. This result indicates that the labor market views activism positively and that CEOs may personally benefit from speaking up.

7. Conclusion

Until recently, corporate leaders rarely plunged into thorny social and political discussions. However, this has changed quite rapidly over the last decade, when CEOs have begun speaking out on social and political issues that affect other stakeholders such as employees, their communities, and the

environment. As CEOs start to more actively engage in CEO activism, it is important to understand whether such actions are beneficial for the shareholders.

We develop two hypotheses to investigate this question. The *alignment hypothesis* conjectures that CEO activism will be perceived positively by a firm's stakeholders and benefit firm value because CEO activism may improve corporate culture and help attract like-minded employees and customers. In contrast, the *misalignment hypothesis* argues that CEO activism might be offensive to customers, employees, or other stakeholders who hold opposing views or do not perceive CEO advocacy as appropriate. In such cases, CEO activism would lead to negative firm outcomes.

We find that the market perceives CEO activism positively, especially when firms operate in more competitive, human capital-intensive industries, and when shareholders have stronger pro-social preferences. Consistent with the positive market response, we observe that firms with CEO activism enjoy higher market valuations, which supports the *alignment hypothesis*. Our further tests show that this effect is likely attributable to the positive impact of CEO activism on employees, as we find that firms with CEO activism experience increased productivity, more innovation, and a lower likelihood of employee-related litigation. These findings are further supported by the results of a controlled experiment. Additionally, we find evidence that boards of directors view CEO activism favorably, as they reward activist CEOs with a reduced likelihood of turnover and more future directorships.

Overall, we show that CEO activism is becoming more acceptable in society writ large. Whereas conventional wisdom suggests that managers should abstain from commenting on contentious political or social topics, our empirical analysis shows that CEO activism may help firms bolster the identification that their stakeholders, and especially their employees, have with the company. Therefore, our study demonstrates that CEO activism can be an effective way for companies to stay competitive and improve a corporation's reputation in the labor market.

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Appendix A: Examples of CEO activism

CEO & Company	Keyword	Title	Date	Source
Ginni Rometty, IBM	Brexit	IBM says no, non, nein to Brexit	4/26/16	The Register
Strauss H Zelnick, Take Two Interactive Software	Brexit	Strauss Zelnick: the UK is a great place to invest for development, but Brexit 'a really bad plan'	6/14/18	MCV Develop
Kevin Plank, Under Armour	climate change	Climate change is real': Under Armour Kevin Plank unhappy with Trump's Paris withdrawal	6/2/17	Washington Post
Warren Buffett, Berkshire Hathaway	climate change	Warren Buffett to shareholders: climate change is nothing to worry about	3/2/16	The Guardian
Darren W Woods, Exxon Mobil	climate change	Exxon to Trump: Don't ditch Paris climate change deal	3/29/17	CNN
Warren Buffett, Berkshire Hathaway	discrimination	Warren Buffett: Discrimination for sexual orientation is 'wrong'	4/3/15	CNN
Tim Cook, Apple	discrimination	Apple, Facebook, and Google CEOs unite in opposition to Texas discrimination	5/29/17	The Verge
Mark Hurd, Oracle	discrimination	oracle has never and will never endorse discrimination. diversity makes us better	3/25/16	Twitter
Rami Rahim, Juniper Networks	discrimination	I support the greater business community in taking a stand against discrimination of any kind	4/8/16	Twitter
Sanjay Mehrotra, Microsoft	environment	the paris agreement is good for the us economy & the environment. we & other us companies urge @potus to stay in the paris agreement.pic.twitter.com/ i8aaevxaew	6/1/17	Twitter
Bob Iger, Walt Disney	gun	by not acting to stop gun violence, we are failing our children and failing our country	5/19/18	Twitter
Howard Schultz, Starbucks	gun	Starbucks CEO says guns not welcome in stores	9/18/13	USA Today
Ajay Banga, Mastercard	gun	Mastercard CEO Says It's Not the Company's Place to Limit gun sales	5/7/19	Bloomberg
Mark Parker, Nike	immigration	Nike CEO Mark Parker Slams Trump's Muslim Immigration Ban	1/30/17	Highsnobiety
Meg Whitman, HP	immigration	we need illegal immigration reform in ca. no amnesty. i promise to be tough as nails on illegal immigration	5/18/10	Twitter
Brad Smith, Intuit	immigration	immigration doesn't just provide opportunity for immigrants, it provides opportunity for us all.	10/29/19	Twitter

Appendix A: Examples of CEO activism *(continued)*

CEO & Company	Keyword	Title	Date	Source
Satya Nadella, Microsoft	immigration	Microsoft's Nadella: Trump administration policy separating children from families is 'abhorrent'	6/20/18	CNBC
Mark Zuckerberg, Facebook	immigration	Zuckerberg immigration group launches 2016 reform blitz	12/01/15	Politico
Bob Iger, Walt Disney	travel ban	Disney CEO Bob Iger on Trump's Travel Ban: "We Cannot Shut Our Borders to Immigrants"	2/7/17	Hollywood Reporter
Kevin Plank, Under Armour	travel ban	Under Armour CEO says apparel company opposes travel ban	2/15/17	CNBC
Jeff Bezos, Amazon	Trump	Jeff Bezos suggests sending Donald Trump into space	12/7/15	Business Insider
Wilmot Hastings Jr, Netflix	Trump	hey @realdonaldtrump, i'm an american muslim and i already carry a special id badge. where's yours?	11/19/15	Twitter
Andrew Anagnost, Autodesk	Trump	trump told rust belt voters he'd fight to bring back their factory work. automation makes that nearly impossible	12/8/16	Twitter
Warren Buffett, Berkshire Hathaway	Trump	Warren Buffett on President-elect Trump: 'He deserves everybody's respect'	11/11/16	CNN
John Ferriola, Nucor	Trump	Nucor CEO to stay on Trump council after Merck leader resigns	8/14/17	Charlotte observer

Appendix B. Data construction

Our keyword list is based on Larcker et al. (2018) and Bhagwat et al. (2020) and includes the following keywords: *abortion, Brexit, climate change, discrimination, dreamers, environment, equal pay, gay marriage, gender equality, glass ceiling, global warming, gun, harassment, homosexual, human rights, inclusion, income inequality, immigration, LGBT, lesbian, pay gap, pride parade, racial, refugee, religion, same-sex, sexual, transgender, travel ban, Trump, white supremacists, #metoo.* Our results are robust if we use a more comprehensive list of keywords, which includes all words used by Larcker et al. (2018), as well as several terms from ProCon.org website that provides a rather comprehensive list of controversial social issues.[26]

We build a web scraper using Python to extract news from Google News containing these keywords. Following the method described in Coscia and Rios (2012), we apply the following set of rules when collecting news articles: (1) we perform several searches for each S&P 500 CEO with different query term schemes: <"first name AND last name AND keyword" >, <"first name AND last name AND firm name AND keyword">, <"last name AND keyword">, <"last name AND firm name AND keyword">, <"firm name AND CEO AND keyword">, <" firm name AND chief AND keyword">, <" firm name AND executive AND keyword">; (2) we restrict the query results to be within the tenure years for each CEO, and we limit all search results to be before December 31, 2019. For example, Tim Cook is promoted to be the CEO of Apple in 2011. To search for his stance on climate change, we search for "Tim Cook + climate change", "Tim Cook + Apple + climate change", " Cook + climate change", "Cook + Apple + climate change", "Apple + CEO + climate change", "Apple + chief + climate change", "Apple + executive + climate change" from Jan 1, 2011 to December 31, 2019.

[26] The augmented list of keywords includes the following words: *diversity, ethnicity, clean air, clean water, pollution, renewable, sustainability, Paris accord, carbon tax, land conservation, budget sequestration, cap-and-trade legislation, debt ceiling, fiscal cliff, foreign trade, government shutdown, NAFTA, politics, sanctions, tariffs, taxes, Clinton, Obama, Romney, republican, democrat, Bush, Gore, Kerry, McCain, #keepfamiliestogether, progressive, Obamacare, Charlottesville, @AMarch4OurLives, boycott, Nazis, controversial, indigenous people, ad, advertisement, advocate, disease, education, healthcare, homelessness, military, poverty, prison, public policy, social, terrorism, veterans, violence, war.*

We then extract the news article titles, date information, and the link to the article from these queries and further require each article to contain all the query words in the title. We then manually review the news articles to parse out irrelevant ones. As the same news can be published in different media channels, we further remove duplicate news articles, keeping the earliest one.

To extract data from Twitter, we manually identify sample CEOs' and firms' Twitter accounts. We search for each CEO and firm name in Twitter and keep a record of the usernames. As multiple users can share the same screen name, we collect usernames that are verified by Twitter. We adopt another Python web scraper to extract all the tweets posted and retweets shared by sample CEOs and firms. Each tweet needs to contain the keyword we identified to be included in the sample. To remove irrelevant observations, we manually review each tweet. We then aggregate our news and tweets data and further remove events that occur on the same day.

Appendix C. Experiment Details

To qualify for the study, participants had to complete a screening survey, which asked them about their demographic characteristics, understanding of corporate decision-making, loyalty to particular product brands, and opinions about corporate culture and manager-employee relationships. Among the individuals who completed the screening survey—answering every question and correctly answering the attention check question at the end of the survey—600 were invited to participate in the randomized controlled trial as either job-seekers or prospective customers. Of these 600, 508 chose to participate in the experiment (a participation rate of 85%).

Screening Survey: We paid participants $0.75 for completing the screening survey. This survey had an expected completion time of 5 min (i.e., estimated hourly wage of $9.00). To be included in the screening survey, workers had to be located in the United States and they had to have completed over 100 HITs with an aggregate approval rating of over 95%. Our sample included only CloudResearch Approved Participants. CloudResearch vets participants, and only those who passed their attention and engagement measures were allowed to participate in our experiment. In addition, we block suspicious geocode locations, we block duplicates IP addresses, and we verify each worker's country and state location.

Experiment Survey: We paid participants $0.30 for completing the experiment survey. This survey had an expected completion time of 2 min (i.e., estimated hourly wage of $9.00). Only workers who correctly answered the attention/quality check question at the end of the screening survey were invited back to participate in the experiment survey. Both the screening survey and the experiment survey were administered through Qualtrics.

Balance Tests: Using information gathered in the screening survey, we perform balance tests across the different treatment cells, which we report in Table C1. We find evidence of balance across all three CEO activism treatment cells among job-seekers in all demographic characteristic responses,

nine out of ten personal experience/opinion responses, and three out of four investment metric responses. Similarly, we find evidence of balance across all three groups of prospective customers in all demographic characteristic responses, all personal experience/opinion responses, and three out of four investment metric responses. Our main experimental results are robust when we control for participants' responses to the screening survey questions. These additional tests confirm that the results of our experiment are not driven by imbalance in the composition of participants across the treatment cells.

Survey Questions: Figures C1 and C2 present screenshots of the questions that participants were asked in the screening and experiment surveys, respectively. These figures show the exact wording and answer options that were displayed to the participants.

Table C1. Balance Across Treatment Cells

This table presents responses to the screening survey questions. Exact question wording is provided in Figure C1. The rightmost column present p-values from the test that the three coefficients are jointly equal.

Panel A: Job-Seekers

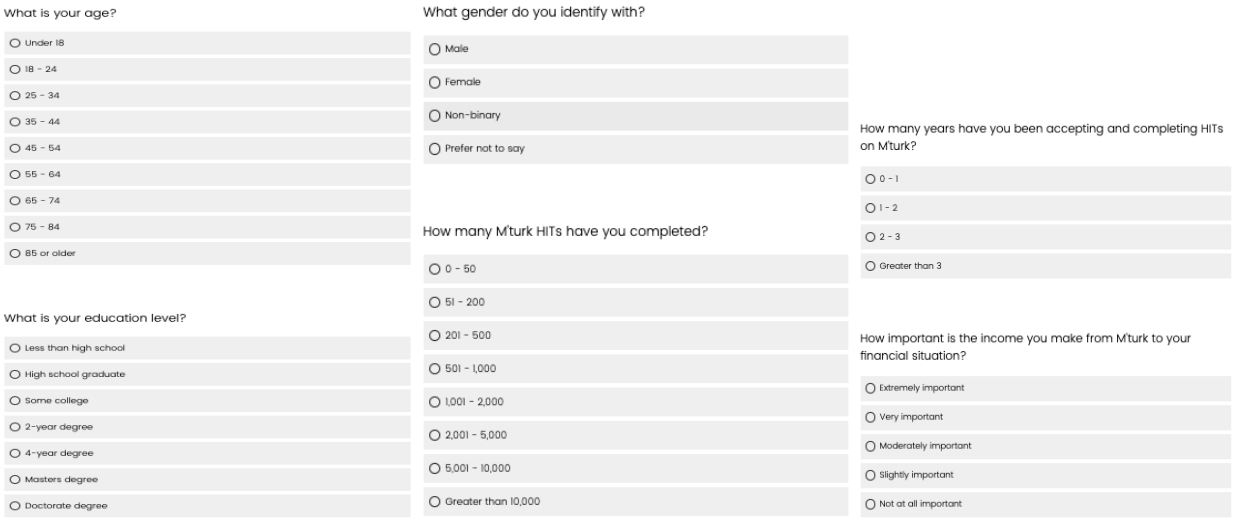
	No Added Info	CEO Regularly Takes a Stance	CEO Avoids Taking a Stance	H0: Joint Equality (p-value)
Screening Question	**(1)**	**(2)**	**(3)**	**(4)**
Demographics				
Age	38.7	40.8	40.9	0.382
Education (Years)	15.0	14.8	15.4	0.242
Male	0.45	0.51	0.60	0.152
Experience (HITs)	6,616	6,109	5,686	0.330
Experience (Years)	1.67	1.66	1.69	0.980
Income Importance	3.29	3.21	3.13	0.708
Experiences/Opinions				
Experience Investing	3.40	3.39	3.99	0.022**
Future Investing	4.04	3.96	4.07	0.847
Informed on Business	3.27	3.33	3.54	0.391
Enjoy Business News	3.24	3.18	3.48	0.279
Customer Reviews	4.52	4.46	4.47	0.814
Brand Loyalty	3.48	3.52	3.67	0.478
Manager Respect	4.46	4.59	4.45	0.340
Corporate Culture	4.46	4.45	4.53	0.758
Liberal/Progressive	3.85	3.59	3.65	0.477
CEO Actions	4.37	4.52	4.38	0.427
Investment Metrics				
Stock Return History	44.1	47.8	48.1	0.337
Operational Strategy	32.8	27.2	29.8	0.048**
CEO Activism	14.3	14.3	12.0	0.340
CEO Compensation	8.8	10.7	10.1	0.454
Number of Participants	84	85	85	

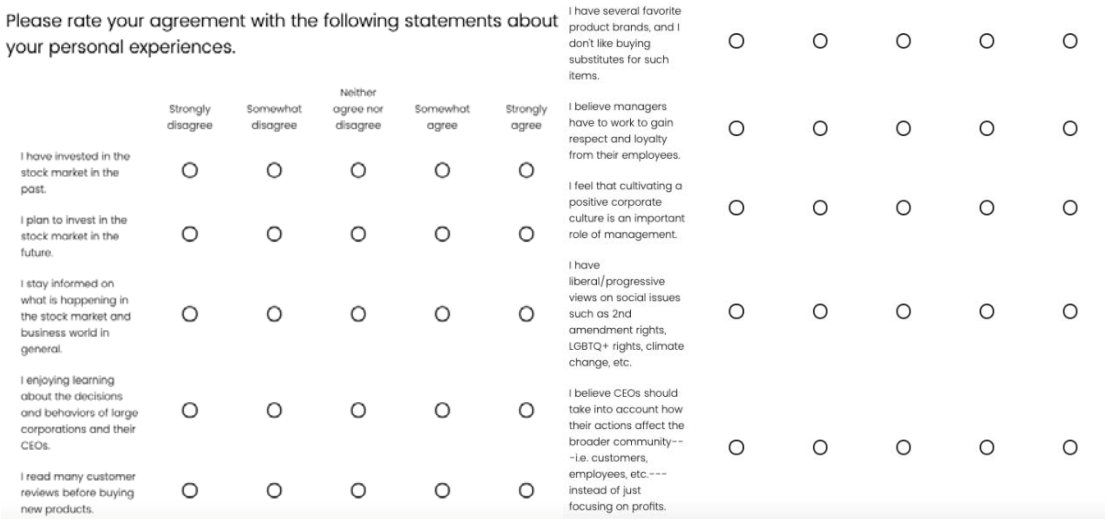
Panel B: Prospective Customers

	No Added Info	CEO Regularly Takes a Stance	CEO Avoids Taking a Stance	H0: Joint Equality (p-value)
Screening Question	**(1)**	**(2)**	**(3)**	**(4)**
Demographics				
Age	39.0	39.8	39.9	0.898
Education (Years)	15.2	15.2	15.9	0.709
Male	0.57	0.58	0.55	0.923
Experience (HITs)	5,407	5,771	5,770	0.794
Experience (Years)	1.66	1.62	1.50	0.647
Income Importance	3.08	3.14	3.12	0.952
Experiences/Opinions				
Experience Investing	3.55	3.47	3.63	0.817
Future Investing	3.72	3.88	4.00	0.318
Informed on Business	3.33	3.48	3.45	0.702
Enjoy Business News	3.34	3.42	3.53	0.574
Customer Reviews	4.49	4.51	4.34	0.272
Brand Loyalty	3.28	3.56	3.48	0.190
Manager Respect	4.35	4.42	4.27	0.395
Corporate Culture	4.43	4.54	4.49	0.620
Liberal/Progressive	3.86	3.39	3.63	0.120
CEO Actions	4.36	4.34	4.40	0.906
Investment Metrics				
Stock Return History	43.9	45.2	43.7	0.873
Operational Strategy	30.5	30.8	28.6	0.605
CEO Activism	13.5	14.2	14.1	0.938
CEO Compensation	12.1	9.8	13.6	0.089*
Number of Participants	83	85	86	

Figure C1. Screening Survey Question

These figures show the questions that were presented to participants during the screening survey.





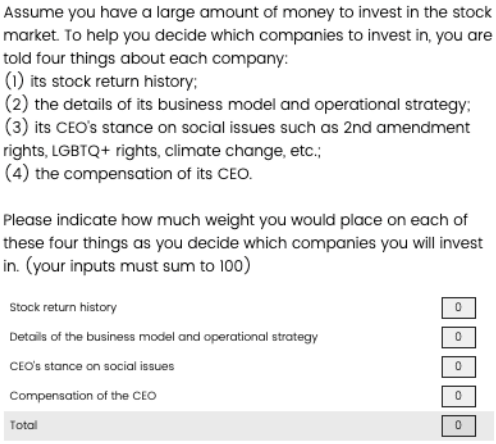
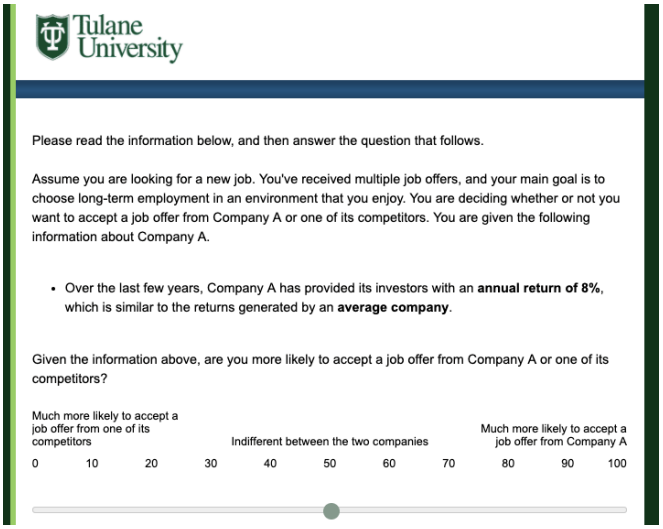
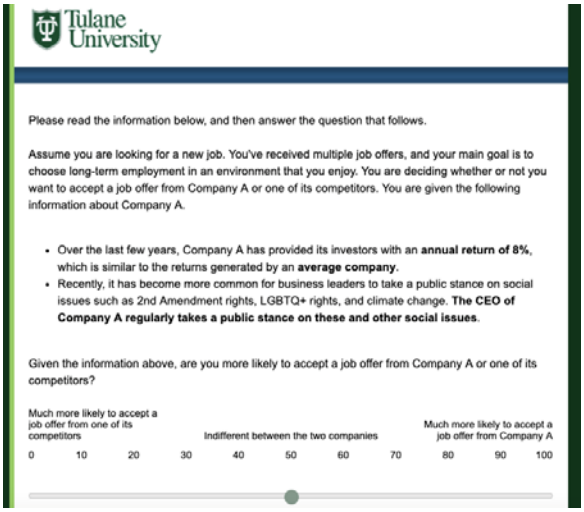
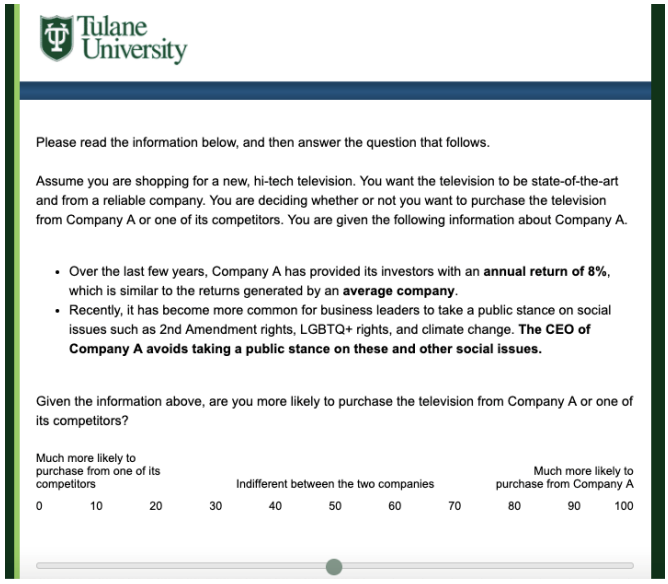


Figure C2. Experiment Survey Question

These figures show the questions that were presented to participants during the experiment survey. Participants were randomly assigned the role of either job-seeker or prospective customer, and then they were placed into one of the three CEO activism information cells. Each only saw one of the six possible permutations of the first question (for brevity, only three of the six permutations are displayed below).







Appendix D: Variable definitions

Variable	Definitions
Panel A: Dependent variables	
Tobin's q	Market value of assets divided over book value of assets. Market value of assets is book value of total assets minus book value of equity plus market value of equity.
SLE	The natural log of sales per employee.
TFP	Residuals from industry-specific regressions of revenue on the number of employees, fixed assets, and year fixed effects.
R&D/Sales	Research and development expense, scaled by sales.
Patents	The natural log of (1 +) the number of approved patent applications in year *t*+2, using data from Noah Stoffman's website.
Patents/employee	The natural log of (1 +) the number of approved patent applications per employee in year *t*+2, using data from Noah Stoffman's website.
Patent value	The natural logarithm of (1 +) the dollar value of patents, using data from Noah Stoffman's website.
Citations	The natural log of (1 +) citations per patent approved in year *t*+2, using data from Noah Stoffman's website.
Labor-related litigation	Indicator variable that equals one if a company is named as a defendant in a labor-related class-action lawsuit during the period, zero otherwise.
Sales growth	Annual rate of growth in sales.
Forced turnover age <60	Indicator variable that equals one if the outgoing CEO is younger than 60 years old, zero otherwise.
Forced turnover age News	Indicator variable that equals one if the outgoing CEO was forced out based on the information collected from news and CapitalIQ, zero otherwise.
Future directorships	Cumulative number of new directorships as of year *t*+2.
Panel B: Firm characteristics	
Firm size	Book value of total assets.
Number of segments	Number of operating segments.
Stock return	Buy-and-hold abnormal return (BHAR) for the twelve months ending at the fiscal year-end. The market index is the CRSP value-weighted return.
ROA	Operating income before depreciation, scaled by book value of total assets.
Asset tangibility	Net property, plant, and equipment divided by total assets.
Leverage	Book value of debt divided by market value of total assets.
CSR index	Sum of all of the CSR strengths minus all of the CSR concerns.
Fortune's 100 best company dummy	Indicator variable that equals one, if the firm is included in the Fortune's 100 best company list during a given year, zero otherwise.
HQ's democratic leaning	The fraction of voters that voted in support of the Democratic candidate, Clinton, in the 2016 presidential election.

Appendix D: Variable definitions *(continued)*

Panel B: Firm characteristics (continued)	
Shareholders' prosocial preferences	The holdings-weighted average of state-based Local Prosocial Culture of institutional and retail investors, following Pan et al. (2019). Institutional investors are assigned Local Prosocial Culture in their headquarters states and retail investors are assigned Local Prosocial Culture in firm's headquarters state. Local Prosocial Culture is defined as the first principal component of four state-level variables: (i) the fraction of residents favoring increasing the minimum wage; ii) minimum wage; iii) difference between maximum and minimum personal income tax rates; iv) fraction of voters supporting the Democratic candidate in 2016 presidential election).
Panel C: CEO characteristics	
Visibility	Number of news articles and tweets featuring a company or CEO during a given year, scaled by total assets.
Overconfidence	Estimated value of in-the-money unexercised exercisable options, scaled by total compensation.
Age	CEO's age as reported in BoardEx.
Gender	Dummy variable that equals one if CEO is male, zero otherwise.
Tenure	Number of years in the role of CEO.
Number of boards to date	Cumulative number of external directorships held by an executive.
CEO's democratic leaning	The percentage of contributions to Democrats relative to total contributions to both Democrats and Republicans.
Panel D: Corporate governance controls	
Equity incentives	The dollar sensitivity of CEO firm-specific wealth (option and stockholdings) to 1% change in the firm's stock price.
Institutional ownership	Percent of shares held by institutional investors.
CEO/Chair duality	Indicator variable that equals one if the CEO is also the Chair of the board, zero otherwise.
Board size	Number of directors on the board.
% independent directors	Percentage of directors who are unaffiliated with the firm beyond their directorship.
% busy directors	Percent of independent directors who serve on three or more boards.

Figure 1. CEO activism and earnings announcements

This figure compares the timing of activism events and earnings announcements. We extract earnings announcement dates from Capital IQ from January 2000 to February 2019. We then match each activism event with the nearest earnings announcement and remove activism events after February 2019. We convert matched activism event dates into event time by resetting earnings announcement dates to zero in event time. This figure then presents the distribution of activism events relative to earnings announcements.

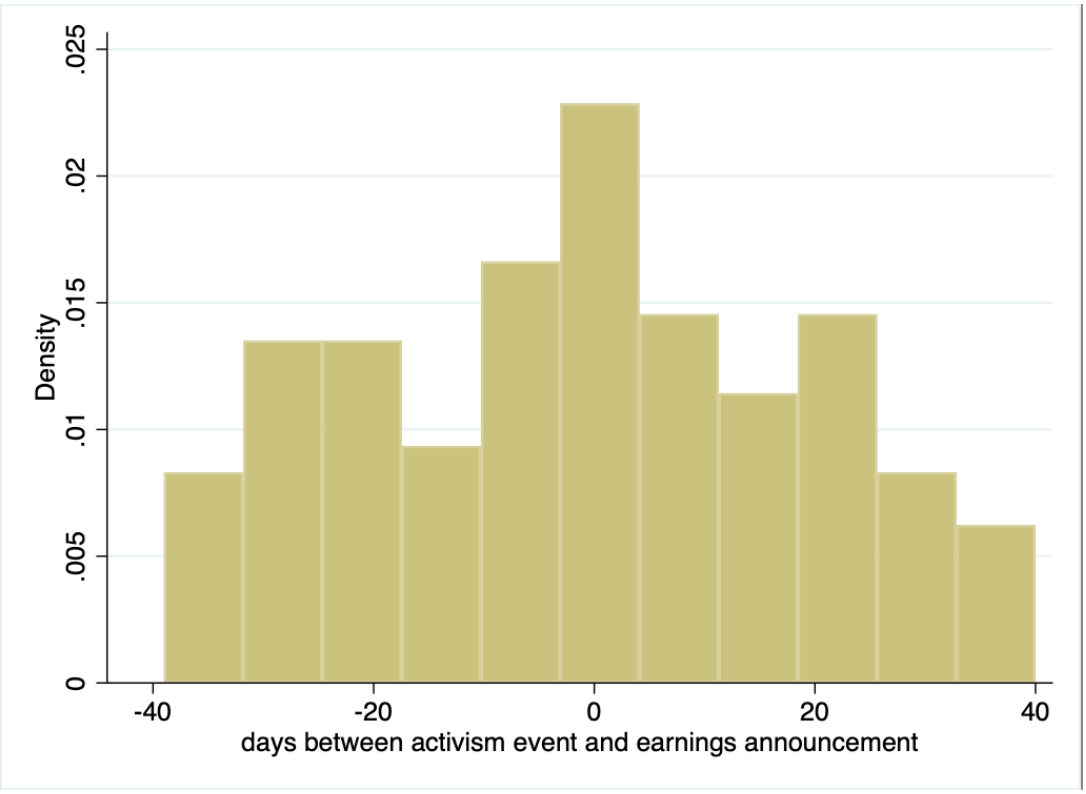


Table 1. Descriptive statistics

This table presents descriptive statistics, based on a sample of 445 firms over the period 2010–2019 (3,635 firm-year observations). Variable definitions are given in the Appendix D.

	Mean	25th percentile	Median	75th percentile
	(2)	(3)	(4)	(5)
Firm characteristics				
Firm size (in billions)	25.79	4.73	9.59	23.67
Stock return	0.06	-0.14	0.03	0.20
Market-to-book	2.43	1.45	1.98	2.82
ROA	0.07	0.04	0.07	0.11
Asset tangibility	0.25	0.09	0.16	0.35
Leverage	0.15	0.06	0.13	0.21
Board characteristics				
CEO/Chairman duality	0.50	0.00	1.00	1.00
Board size	10.55	9.00	11.00	12.00
Board independence	0.83	0.78	0.86	0.90
Busy board dummy	0.25	0.00	0.00	0.00
CEO activism				
CEO activism dummy	0.15	0.00	0.00	0.00
CEO activism – news dummy	0.11	0.00	0.00	0.00
CEO activism – tweets dummy	0.07	0.00	0.00	0.00
# of activism events	0.89	0.00	0.00	0.00

Table 2. CEO activism

Panel A presents the number and proportion of the ten most frequent keywords, based on a sample of 2,510 activism events over the period 2010–2019. Panel B reports the number of CEOs engaging in activism stratified by year. Panel C reports the number of CEOs engaging in CEO activism, stratified by 12 Fama–French industry categories.

Panel A: Most frequent keywords

	N	%
Inclusion	507	20.20
Environment	452	18.01
Trump	289	11.51
Discrimination	256	10.20
Climate change	125	4.98
Brexit	123	4.90
Sexual	80	3.19
Immigration	71	2.83
Human rights	64	2.55
Refugee	64	2.55

Panel B: Activist CEOs by Year

	Percentage of Activist CEOs
2010	1%
2011	1%
2012	2%
2013	4%
2014	5%
2015	11%
2016	18%
2017	27%
2018	35%
2019	46%
Full sample	15%

Panel C. Activist CEOs by industry

	Percentage of Activist CEOs
Food, tobacco, textiles, apparel, leather, and toys	21%
Cars, TV's, furniture, and household appliances	21%
Machinery, trucks, planes, paper, and commercial printing	11%
Oil, gas, coal extraction and products	11%
Chemicals and applied products	12%
Computers, software, and electronic equipment	15%
Telephone and television transmission	14%
Utilities	-
Wholesale, retail, and some services	18%
Healthcare, medical equipment, and drugs	10%
Financials	-
Mines, construction, building materials, transportation, and entertainment	13%
Full sample	15%

Panel D. Activist CEOs by geographical region

	Percentage of Activist CEOs
Midwest	15%
Northeast	14%
Southeast	11%
Southwest	10%
West	20%
Full sample	15%

Table 3. Cumulative Announcement Returns

Panel A presents median and mean announcement returns for CEO activism, based on a sample of 2,510 activist events over the period 2010-2019. Panels B-E present median announcement returns. Panel B stratifies firms by HHI, Panel C stratifies firms by human capital intensity, Panel D stratifies firms by shareholders prosocial preferences, and Panel E separates activism events by media source. Firms are classified as having high HHI if they operate in an industry with HHI above the median, otherwise, firms are classified as having low HHI. Firms are classified as high human capital intensity, if R&D/Sales is in top quartile, otherwise, firms are classified as low human capital intensity. Firms are classified as having high shareholders' prosocial preferences if their score is above the median on the prosocial preferences measure, otherwise firms are classified as having low shareholders' pro-social preferences. In columns 1 and 2 asterisks indicate the differences from zero, in column 3 asterisks indicate the difference between sub-samples. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

Panel A: Full Sample

	Median	Mean
	(1)	(2)
CAR [-1:1]	0.12%***	0.08%*
CAR [-2:2]	0.22%***	0.13%**
CAR [-3:3]	0.24%***	0.16%***

Panel B: Industry competitiveness

	Highly competitive (Low HHI)	Low competitive (High HHI)	Difference
	(1)	(2)	(3)
CAR [-1:1]	0.17%***	0.07%	0.10%*
CAR [-2:2]	0.30%***	0.07%	0.24%**
CAR [-3:1]	0.38%***	0.02%	0.36%***

Panel C: Human capital intensity

	High Capital Intensity	Low Capital Intensity	Difference
	(1)	(2)	(3)
CAR [-1:1]	0.34%***	0.05%	0.29%***
CAR [-2:2]	0.49%***	0.12%	0.37%**
CAR [-3:1]	0.46%***	0.14%***	0.31%

Panel D: Shareholders' pro-social preferences

	High pro-social preferences	Low pro-social preferences	Difference
	(1)	(2)	(3)
CAR [-1:1]	0.20%***	0.04%	0.16%*
CAR [-2:2]	0.32%***	0.08%	0.23%*
CAR [-3:1]	0.37%***	0.10%	0.27%**

Panel E: Media bias

	Left wing	Right wing	Difference
	(1)	(2)	(3)
CAR [-1:1]	0.10%	-0.39%***	-0.48%***
CAR [-2:2]	0.22%	-0.66%***	-0.89%***
CAR [-3:1]	0.27%	-0.26%*	-0.56%**

Table 4. Firm value

This table presents estimates from ordinary least squares estimations. The dependent variable in all columns but (4) is Tobin's q. The dependent variable in Column 4 is the number of activism events. Column 3 reports the results using an entropy-balanced sample. Column 4 is the first stage of a 2SLS model in which the number of activism events is instrumented using the number of adopted state laws affecting LGBTQ individuals and a board's prior exposure to CEO activism. Column 5 reports the results of the second stage estimation. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	Tobin's Q			1st stage: # of activisms	2nd stage: Tobin's Q
	(1)	(2)	(3)	(4)	(5)
# of activism events	0.083***	0.064***	0.065***		0.315***
	(3.50)	(2.82)	(3.06)		(2.83)
LGBTQ-related laws passed				0.008***	
				(3.50)	
Board activism exposure				1.293***	
				(6.14)	
Ln(Firm size)	-0.399***	-0.324***	-0.356***	0.457***	-0.452***
	(-8.71)	(-6.01)	(-4.81)	(7.00)	(-6.36)
Number of segments	-0.049*	-0.048**	-0.045	0.054	-0.056**
	(-1.96)	(-1.97)	(-1.42)	(1.63)	(-2.17)
Stock return	0.513***	0.436***	0.828***	0.052	0.415***
	(5.37)	(4.86)	(4.14)	(0.85)	(4.55)
ROA	2.881**	2.661**	6.708***	-0.192	2.693**
	(2.52)	(2.36)	(4.24)	(-0.48)	(2.47)
Asset tangibility	0.476*	0.582**	0.107	0.366	0.463*
	(1.91)	(2.31)	(0.29)	(1.35)	(1.83)
Leverage	-3.513***	-2.804***	-2.707***	-1.664***	-2.304***
	(-8.17)	(-7.22)	(-4.04)	(-3.88)	(-5.24)
CSR index		-0.010	-0.041**	-0.040***	0.002
		(-1.12)	(-2.28)	(-4.40)	(0.19)
Fortune's 100 best company dummy		0.319*	0.568*	-0.207	0.338*
		(1.66)	(1.77)	(-1.10)	(1.78)
HQ's Democratic leaning		-0.019	0.258	1.809	-0.693
		(-0.02)	(0.22)	(1.56)	(-0.76)
Shareholders' prosocial preferences		0.093	0.097	-0.369***	0.155*
		(1.12)	(0.71)	(-3.02)	(1.71)
CEO characteristics					
Visibility		6.216***	4.140	3.701***	5.221***
		(3.54)	(1.59)	(2.74)	(3.79)
CEO overconfidence		-0.001	0.008	0.028	-0.009
		(-0.21)	(0.76)	(1.16)	(-1.23)
Number of boards to date		-0.021	0.006	0.010	-0.025
		(-1.33)	(0.31)	(0.52)	(-1.51)
CEO age		-0.010*	-0.016	-0.016*	-0.006
		(-1.69)	(-1.62)	(-1.78)	(-0.90)
CEO gender		-0.140	0.033	0.009	-0.148
		(-0.83)	(0.18)	(0.03)	(-0.81)
Ln (CEO tenure)		0.008	0.069*	-0.046	0.017
		(0.32)	(1.68)	(-1.48)	(0.64)

Table 4. Firm value (continued)

		Tobin's Q		1st stage: # of activisms	2nd stage: Tobin's Q
	(1)	(2)	(3)	(4)	(5)
CEO's Democratic leaning		0.015	0.163	0.362*	-0.083
		(0.08)	(0.63)	(1.81)	(-0.45)
Governance controls					
Ln(CEO's equity incentives)		0.134***	0.122***	-0.009	0.137***
		(4.93)	(2.64)	(-0.28)	(5.03)
Institutional ownership		-0.217*	-0.283	-0.199	-0.172
		(-1.69)	(-1.15)	(-1.64)	(-1.32)
CEO/Chair duality		0.107	0.145	0.113	0.080
		(1.42)	(1.20)	(1.27)	(1.09)
Ln (Board size)		-0.195	0.470	-0.084	-0.164
		(-1.00)	(1.34)	(-0.39)	(-0.85)
% independent directors		-0.393	-0.044	0.245	-0.460
		(-1.08)	(-0.08)	(0.60)	(-1.28)
% busy directors		0.076	0.071	-0.023	0.075
		(1.21)	(0.89)	(-0.27)	(1.14)
Number of observations	3,617	3,617	3,617	3,617	3,617
Adjusted R-squared	0.458	0.504	0.561	-	0.452
Cragg-Donald Wald F statistic				92.16	
Kleibergen-Paap Wald F statistic				29.66	

Table 5. Employee productivity

This table presents estimates from ordinary least squares (the second stage of a 2SLS) estimations in Column 1-2 (3-4). The dependent variable in Columns 1 and 3 is sales per employee. The dependent variable in Columns 2 and 4 is total factor productivity. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	OLS		**2SLS**	
	SLE	**TFP**	**SLE**	**TFP**
	(1)	**(2)**	**(3)**	**(4)**
# of activism events	0.026**	0.006**	0.094*	0.078*
	(2.33)	(2.02)	(1.86)	(1.77)
Ln(Firm size)	0.168***	0.073***	0.133***	0.039
	(5.64)	(2.74)	(3.40)	(1.22)
Number of segments	-0.034**	-0.045***	-0.036**	-0.048***
	(-2.40)	(-4.04)	(-2.55)	(-4.17)
Stock return	0.123***	0.081***	0.118***	0.076***
	(4.46)	(3.64)	(4.22)	(3.35)
ROA	0.199	0.002	0.208	0.007
	(0.81)	(0.01)	(0.87)	(0.04)
Asset tangibility	-0.615**	-1.251***	-0.647**	-1.284***
	(-2.17)	(-7.05)	(-2.30)	(-7.12)
Leverage	0.294	0.086	0.431	0.216
	(1.06)	(0.45)	(1.50)	(1.05)
CSR index	-0.004	-0.003	-0.001	0.000
	(-0.66)	(-0.67)	(-0.09)	(0.05)
Fortune's 100 best company dummy	0.189**	0.125**	0.194**	0.128**
	(2.08)	(2.28)	(2.13)	(2.33)
HQ's Democratic leaning	0.380	-0.102	0.197	-0.285
	(0.63)	(-0.21)	(0.31)	(-0.55)
Shareholders' prosocial preferences	0.072	0.074*	0.088	0.092*
	(1.29)	(1.67)	(1.47)	(1.89)
CEO and governance controls	Yes	Yes	Yes	Yes
Number of observations	615	3,576	3,615	3,576
Adjusted R-squared	0.576	0.263	0.565	0.235

Table 6. Innovation

Panel A (B) presents estimates from ordinary least squares (the second stage of 2SLS) estimations. The dependent variables in Columns 1-5 are R&D/Sales, number of patents, patents/employees, patent value, and citations, respectively. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

Panel A: OLS

	R&D/Sales	Patents	Patents/ employee	Patent value	Citations
	(1)	(2)	(3)	(4)	(5)
# of activism events	0.003***	0.107***	0.088***	0.135**	0.151**
	(2.97)	(2.61)	(3.13)	(2.13)	(2.57)
Ln(Firm size)	-0.002	0.799***	0.067	1.263***	0.881***
	(-0.45)	(9.26)	(1.05)	(9.44)	(8.89)
Number of segments	-0.004***	0.004	-0.008	-0.017	0.001
	(-3.04)	(0.15)	(-0.35)	(-0.38)	(0.02)
Stock return	-0.000	-0.024	0.059	0.025	-0.030
	(-0.19)	(-0.35)	(1.10)	(0.23)	(-0.30)
ROA	-0.184*	-0.051	0.508	-0.669	-0.905
	(-1.81)	(-0.09)	(0.96)	(-0.84)	(-1.37)
Asset tangibility	-0.005	-0.662	-0.467	-1.035	-0.507
	(-0.43)	(-1.43)	(-1.26)	(-1.44)	(-0.96)
Leverage	-0.123***	-3.005***	-0.260	-5.782***	-3.585***
	(-3.53)	(-4.46)	(-0.55)	(-6.01)	(-4.53)
CSR index	0.001**	0.095***	0.061***	0.099***	0.100***
	(1.98)	(5.11)	(3.93)	(3.67)	(4.35)
HQ's Democratic leaning	0.039***	0.083	0.385**	-0.040	0.025
	(4.15)	(0.25)	(2.09)	(-0.07)	(0.06)
Fortune's 100 best company dummy	0.003	-2.428*	0.274	-4.511**	-4.174**
	(0.06)	(-1.82)	(0.19)	(-2.10)	(-2.47)
Shareholders' prosocial preferences	0.016***	0.314**	0.171	0.572***	0.491***
	(2.98)	(2.45)	(1.43)	(2.81)	(3.01)
CEO and governance controls	Yes	Yes	Yes	Yes	Yes
Number of observations	3,617	3,059	3,059	3,059	2,471
Adjusted R-squared	0.427	0.585	0.321	0.555	0.589

Panel B: 2nd stage of 2SLS

	R&D/Sales	Patents	Patents/ employee	Patent value	Citations
	(1)	(2)	(3)	(4)	(5)
# of activism events	0.029***	0.458***	0.472***	0.579**	0.715***
	(4.47)	(3.03)	(3.39)	(2.51)	(2.70)
Ln(Firm size)	-0.015***	0.665***	-0.080	1.093***	0.759***
	(-3.11)	(6.78)	(-0.92)	(7.65)	(6.61)
Number of segments	-0.005***	-0.007	-0.019	-0.031	-0.018
	(-2.82)	(-0.21)	(-0.76)	(-0.65)	(-0.44)
Stock return	-0.003	-0.014	0.070	0.038	-0.058
	(-0.90)	(-0.20)	(1.20)	(0.34)	(-0.57)
ROA	-0.181*	0.095	0.667	-0.485	-0.711
	(-1.77)	(0.18)	(1.26)	(-0.63)	(-1.09)
Asset tangibility	-0.017	-0.792*	-0.609	-1.198*	-0.688
	(-1.15)	(-1.71)	(-1.55)	(-1.70)	(-1.33)
Leverage	-0.072*	-2.440***	0.359	-5.068***	-2.970***
	(-1.82)	(-3.50)	(0.69)	(-5.03)	(-3.55)
CSR index	0.002***	0.104***	0.072***	0.111***	0.106***
	(3.38)	(5.47)	(4.32)	(4.12)	(4.72)
Fortune's 100 best company dummy	0.041***	0.129	0.435**	0.017	0.092
	(3.97)	(0.40)	(2.27)	(0.03)	(0.23)
HQ's Democratic leaning	-0.065	-3.227**	-0.600	-5.519**	-5.243***
	(-1.07)	(-2.26)	(-0.38)	(-2.50)	(-2.88)
Shareholders' prosocial preferences	0.022***	0.393***	0.257*	0.672***	0.582***
	(3.46)	(2.89)	(1.93)	(3.18)	(3.35)
CEO and governance controls	Yes	Yes	Yes	Yes	Yes
Number of observations	3,617	3,059	3,059	3,059	2,471
Adjusted R-squared	0.298	0.556	0.238	0.536	0.561

Table 7. Employee-related litigation

This table presents estimates from ordinary least squares (the second stage of a 2SLS) estimation in Column 1 (2). The dependent variable is an employee-related litigation dummy that equals one if a firm is named as a defendant in a labor-related class-action lawsuit, zero otherwise. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	Labor-related litigation	
	OLS	**2SLS**
	(1)	**(2)**
# of activism events	-0.044*	-0.073*
	(-1.80)	(-1.85)
Ln(Firm size)	0.495***	0.182***
	(7.17)	(8.97)
Number of segments	0.007	0.005
	(0.22)	(0.99)
Stock return	-0.055	-0.011
	(-0.73)	(-0.53)
ROA	-0.352	-0.084
	(-0.77)	(-0.89)
Asset tangibility	-0.379	-0.044
	(-0.94)	(-0.80)
Leverage	-0.635	-0.346***
	(-1.10)	(-3.24)
CSR index	0.042***	0.011***
	(2.83)	(3.57)
Fortune's 100 best company dummy	-0.400	-0.127***
	(-1.47)	(-3.34)
HQ's Democratic leaning	-2.420*	-0.507**
	(-1.73)	(-2.55)
Shareholders' prosocial preferences	0.236*	0.050***
	(1.84)	(2.73)
CEO and governance controls	Yes	Yes
Number of observations	3,637	3,637
Pseudo/Adjusted R-squared	0.184	0.176

Table 8. Sales growth

This table presents estimates from ordinary least squares (the second stage of a 2SLS) estimation in Column 1 (2). The dependent variable is sales growth. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	Sales growth	
	OLS	**2SLS**
	(1)	**(2)**
# of activism events	0.002	-0.012
	(1.28)	(-1.52)
Ln(Firm size)	-0.010***	-0.002
	(-2.73)	(-0.46)
Number of segments	-0.005**	-0.004**
	(-2.21)	(-1.96)
Stock return	0.092***	0.093***
	(8.63)	(8.83)
ROA	-0.118	-0.120
	(-1.07)	(-1.11)
Asset tangibility	0.016	0.023
	(0.71)	(0.99)
Leverage	-0.069*	-0.098**
	(-1.83)	(-2.47)
CSR index	-0.002*	-0.003**
	(-1.81)	(-2.36)
Fortune's 100 best company dummy	0.021*	0.020*
	(1.76)	(1.68)
HQ's Democratic leaning	0.171**	0.210**
	(2.30)	(2.56)
Shareholders' prosocial preferences	-0.011	-0.014*
	(-1.37)	(-1.73)
CEO and governance controls	Yes	Yes
Number of observations	3,617	3,617
Adjusted R-squared	0.169	0.155

Table 9. Experiment Results

This table presents responses to the question as to whether participants were more likely to accept a job offer from (purchase a hi-tech television from) Company A or one of its competitors. A score of 50 represents indifference between Company A and its competitors. A score of 100 represents that the participant is "Much more likely" to choose Company A, and a score of 0 represents that the participant is "Much more likely" to choose one of its competitors. Columns 4-6 present the difference between the displayed estimates, adjusted for heteroskedasticity. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	No Added Info	**CEO Regularly Takes a Stance**	**CEO Avoids Taking a Stance**	**Difference (1)-(2)**	**Difference (1)-(3)**	**Difference (2)-(3)**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Job - seekers	58.5 (N=84)	62.2 (N=85)	49.4 (N=85)	-3.7	9.1***	12.8***
Prospective customers	57.5 (N=83)	57.9 (N=85)	57.5 (N=86)	-0.4	0.0	0.4

Table 10. CEO turnover

This table presents estimates from bivariate probit estimation. The dependent variable is a dummy that equals one, if the CEO was fired during the year, and zero otherwise. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	=1 if forced out	
	Age <60	**News**
	(1)	**(2)**
# of activism events	-0.663***	-1.076***
	(-4.73)	(-3.36)
Ln(Firm size)	0.079*	0.101*
	(1.89)	(1.69)
Number of segments	0.039*	0.011
	(1.92)	(0.30)
Stock return	-0.367***	-0.278
	(-2.72)	(-0.89)
ROA	-0.841	-0.551
	(-1.35)	(-0.69)
Asset tangibility	-0.020	-0.167
	(-0.07)	(-0.45)
Leverage	-0.196	0.060
	(-0.50)	(0.11)
CSR index	-0.030*	0.001
	(-1.85)	(0.06)
Fortune's 100 best company dummy	0.380**	0.154
	(2.15)	(0.62)
HQ's Democratic leaning	1.158	-0.231
	(0.94)	(-0.13)
Shareholders' prosocial preferences	-0.069	0.103
	(-0.63)	(0.71)
CEO and governance controls	Yes	Yes
Number of observations	3,451	2,786
Pseudo R-squared	0.090	0.122

Table 11. CEO board seats

This table presents estimates from an ordered logit model with the dependent variable in year t being the number of outside board seats held by the CEO in year t+2. All regressions control for year and 48 Fama-French industry fixed effects and include a constant (not shown). Variable definitions are in Appendix D. *T*-statistics are shown in parentheses. Standard errors are adjusted for heteroskedasticity (White, 1980) and are clustered by firm. *, **, *** denotes significance at 0.10, 0.05, 0.01 levels, respectively.

	Future directorships
# of activism events	0.353*
	(1.75)
Ln(Firm size)	0.105
	(0.84)
Number of segments	0.046
	(1.08)
Stock return	0.071
	(0.70)
ROA	-0.719
	(-0.82)
Asset tangibility	-0.280
	(-0.58)
Leverage	1.001
	(1.34)
CSR index	-0.026
	(-1.18)
Fortune's 100 best company dummy	0.499
	(1.57)
HQ's Democratic leaning	1.090
	(0.62)
Shareholders' prosocial preferences	-0.173
	(-1.09)
CEO and governance controls	Yes
Number of observations	3,063
Pseudo R-squared	0.081