

Boycotts or buycotts? The role of corporate activism

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Researchers from Texas Christian University, University of Arizona, University of Oregon, and Portland State University published a new paper in the *Journal of Marketing* that examines the effect of corporate activism on financial and other types of performance to empower managers with insights they can use to chart their company's course in today's marketplace.

The study, forthcoming in the *Journal of Marketing*, is titled "Corporate Sociopolitical Activism and Firm Value" and is authored by Yashoda Bhagwat, Nooshin L. Warren, Joshua T. Beck, George F. Watson IV.

In 2014, a group of concerned mothers demanded that Chipotle prohibit guns in its restaurants. The company agreed and uproar ensued among a divided customer base as strong opinions opposing and favoring the policy translated into boycotts and buycotts. Chipotle is not alone in its controversy. Other examples include when Nike famously took a stand in support of Black Lives Matter, Delta cut ties with the NRA, Target publicly supported transgender rights, Amazon stopped selling confederate flags, and J.C. Penney supported LGBTQ+ families. Corporations have historically avoided contentious issues, but many are now responding to growing expectations that they become advocates.

These activities are called Corporate Sociopolitical Activism (CSA), defined as a firm's public demonstration (statements and/or actions) of support for—or opposition to—one side of a partisan sociopolitical issue. CSA reflects a shift. For decades, corporations have strived to be

socially responsible (known as "CSR"), which involves broadly favored activities such as donating to charity or limiting pollution. Also, firms have lobbied to change laws in ways that favor their operations (known as corporate political activity [CPA]). Now some firms are going beyond these traditional, performance-enhancing activities to engage in CSA with unknown outcomes.

The researchers investigate how customer and investor responses to CSA affect firm performance. Bhagwat explains that "We argue that CSA publicly signals a firm's sociopolitical values and increases uncertainty among investors for at least two reasons. First, CSA may deviate from the political values of key stakeholders—customers, employees, and state government legislators. Second, CSA signals a shift in a firm's strategic commitments. Firms focusing more on sociopolitical issues may divert resources (money, time, attention) from other more profit-oriented activities." Thus, CSA has a [negative effect](#) overall on a firm's stock return. However, the effect of CSA varies highly and can even be positive.

To better understand the range of CSA outcomes, the study examines several contingency factors. First, it tested the extent to which CSA deviates from the political values of its stakeholders. Results indicate that highly misaligned CSA that deviates from the values of customers, employees, and state lawmakers results in a 2% stock decline, on average. Alternatively, highly aligned CSA can increase stock returns by nearly 1%, on average.

Second, it examined how the implementation of CSA signals a firm's commitment to activism. Warren says that "The more strategically committed a firm seems to be, the more uncertain investors become. CSA that takes the form of an action (vs. a statement), is delivered by the CEO (vs. another executive), is motivated purely on moral terms (vs. rationalized as being good for business), or is conducted alone (vs. in a

coalition with multiple other firms) signals stronger commitment and, ultimately, a more negative impact on a firm's near-term stock price."

Importantly, the study also examines the impact of CSA on next-quarter and next-year sales growth. Findings are generally consistent with the stock return results and demonstrate the high potential of CSA. When CSA is aligned across stakeholders, it can result in an 8% increase in next-quarter sales growth and a 12% increase in next-year sales growth. This is presumably because well-aligned CSA works to strengthen relationships with customers, employees, and state lawmakers who fundamentally agree with the firm's stance.

The researchers advise managers navigating these uncharted waters to: (1) pick CSA they feel confident supporting and that aligns with the values of key stakeholders; (2) prepare for a short-term stock drop, realizing that activism has the potential to hurt or enhance stock price and sales growth; and (3) persuade stakeholders that CSA serves the interests of society and the company because customers will reward CSA they believe in.

Customers should be aware that their values matter and play a key role in whether activism is successful for firms. Investors should recognize sociopolitical activism as a new firm activity and that while it may risk backlash, it may also lead to tangible positive financial outcomes, particularly when aligned with customers.

More information: Yashoda Bhagwat et al, Corporate Sociopolitical Activism and Firm Value, *Journal of Marketing* (2020). [DOI: 10.1177/0022242920937000](https://doi.org/10.1177/0022242920937000)

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