THE MARKET (NON)-REACTION TO BRAND ACTIVISM ANNOUNCEMENTS

PRICE AND VOLUME EFFECTS

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Abstract:

Brand activism – defined as a firm, or an individual representing a firm, publicly taking a stance on a divisive social or political issue – is an emerging and increasingly widespread phenomenon. While mainly researched by marketing scholars, given its impact on customer purchase intentions and brand attitudes, brand activism has remained vastly unexplored from an investor perspective. Hence, in this thesis we apply an event study methodology on 279 announcements made by 68 U.S. listed firms in 2020, to examine whether brand activism announcements lead to abnormal returns or abnormal trading volume. We also study whether firm admirability, the brand activism approach, or the social or political issue that is addressed in the announcement, have an impact on any instantaneous abnormal market reaction. We find no evidence that brand activism announcements lead to any immediate abnormal market reaction – neither abnormal returns nor abnormal trading volume.

Keywords:

Brand activism, Abnormal return, Abnormal trading volume, Event study, Company announcements

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1. Introduction

In 1990, during the U.S. senate race in North Carolina, basketball legend and Nike ambassador Michael Jordan famously said: "Republicans buy sneakers too". He was refraining from expressing his support to the Democratic candidate, the logic being: if the goal is to sell sneakers, why risk repelling potential customers by addressing political issues? (Manfredi-Sánchez, 2019; Zilinsky et al., 2020) While this question still lacks a conclusive answer, we are increasingly witnessing how brands, and individuals representing brands, are taking activist stances on sociopolitical issues. (Bhagwat et al., 2020) In 2021, Starbucks CEO Kevin Johnson wrote in an open letter on Martin Luther King Jr. Day that "We look forward to working with President-elect Biden and Vice President-elect Harris". (Starbucks, 2021) In 2020, Citi in conjunction with Mastercard announced that they now offer transgender and non-binary people the ability to use their self-identified chosen name on credit cards. (Mastercard, 2020) In the same year, Coca-Cola stated that "There is no place for racism in the world" and announced that they would pause advertising on social media for 30 days due to concerns over hate speech and misinformation on social media platforms. (Coca-Cola, 2020a) Over the course of only one generation, Michael Jordan's philosophy at the time seems to have become outdated. (Chatterji & Toffel, 2018)

The millennial generation – people born between 1980 and 1995 (Bogosian & Rousseau, 2017) – has grown up in a world filled with problems. (Kotler & Sarkar, 2017) They have been exposed to fear and shaped by tragic events such as 9/11, Hurricane Katrina, and various high school massacres. (Bogosian & Rousseau, 2017) Millennials are generally civic-minded and want to make the world a better place, and as a result, this generation of customers expects companies to express concerns for issues beyond their bottom lines. These customers tend to promote companies and brands that, in turn, promote and support social issues. Due to their high spending power and ability to influence the purchase behavior of earlier generations – their parents and grandparents – millennials are recognized as valuable customers and as a generation grown too large and influential to be ignored. (Shetty et al., 2019) Simultaneously, we are witnessing this increase in political and social advocacy from firms. This relatively new phenomenon called brand activism can be defined as a brand, or an individual representing a brand, publicly taking a

stance on a divisive social or political issue (Mukherjee & Althuizen, 2020).

At first glance, this may seem like an immense departure from the Friedman doctrine (1970) of acting solely as a shareholder value-maximizing entity. Yet, as purchases are becoming increasingly premised on the brand's willingness to publicly advocate and live its values, what is more shareholder value-maximizing than enabling such purchases? (Bhagwat et al., 2020) Still, previous research is undecided on the effects of brand activism, and largely concentrated on the customer reaction.

In this thesis, we study brand activism from an investor perspective, and whether corporate advocacy immediately affects shareholder value. More specifically, we study whether brand activism announcements lead to abnormal return or abnormal trading volume. We include abnormal trading volume analysis due to the possibility of positive and negative price movements canceling each other out. By adopting an event study methodology, we examine 279 brand activism announcements made by 68 U.S. listed companies, over the period January 1st, 2020 to January 31st, 2021.

The intersection between brand activism as a marketing phenomenon and as a firm value affecting activity is vastly understudied. Given alleged cash flow effects following brand activism, such as increased customer purchase intentions and employee productivity (Bhagwat et al., 2020; Dodd & Supa, 2015; Hydock et al., 2020), as well as the increasing pressure on institutional investors to conform with social norms (Hong & Kacperczyk, 2009), we deem it interesting to study whether brand activism announcements cause immediate stock market reactions.

To further enrich the analysis, we examine whether certain factors affect the magnitude of the potential investor reaction, i.e. the abnormal return and/or the abnormal trading volume. Firstly, we study the role of firm admirability. Secondly, we study whether the way in which a firm undertakes brand activism, for example by donating money or launching a new product, has varying impact on any investor reaction. Lastly, we study whether the issue addressed in the brand activism undertaking, for example, gender equality or LGBTQ+ rights, affects any investor reaction.

2. Literature

This chapter provides a summary of the literature and theories applicable to our study. Section 2.1 includes a review of the previous literature on brand activism as a phenomenon within marketing research. Thereafter, in sections 2.2 through 2.4, we explore the extensive research field of company announcements as well as other finance-related topics that could explain potential investor reactions to brand activism announcements. Lastly, in sections 2.5 and 2.6, we examine research topics relevant to our sub-hypotheses, namely regarding firm admirability and various social movements.

2.1. Brand Activism

Millennials, who are generally civic-minded and have strong purchasing power, have vastly influenced the contemporary marketing arena. To a large extent, this generation expects brands to promote and support social and political issues. Companies are progressively responding to these expectations by entering the public debate. (Shetty et al., 2019) This relatively new phenomenon, brand activism, can be defined as a brand, or an individual representing a brand, publicly taking a stance on divisive social or political issues (Mukherjee & Althuizen, 2020). CEO activism, which has become a separate research topic, is an example of activism by an individual representing the brand and should thus be considered a subcategory of brand activism. (Bhagwat et al., 2020; Chatterji & Toffel, 2019; Hambrick & Wowak, 2021; Larcker et al., 2018)

Brand activism is closely related to and essentially synonymous with corporate political advocacy (CPA), corporate social advocacy (CSA), and corporate sociopolitical activism (CSA). Corporate political advocacy (CPA) is defined as a company taking a public stance on a controversial divisive social or political issue (Hydock et al., 2020; Wettstein & Baur, 2016); corporate social advocacy (CSA) refers to a corporation taking a public stance on a controversial social-political issue, most often in the form of a CEO statement (Dodd & Supa, 2015); and corporate sociopolitical activism (CSA) entails a public demonstration of support for, or opposition to, one side of a partisan sociopolitical issue, through statements and/or actions (Bhagwat et al., 2020). Throughout this thesis, we will primarily use the term brand activism.

For an action to be considered brand activism, it must exhibit some specific characteristics. Firstly, brand activism involves social or political issues separate

from the firm's regular issues (Dodd & Supa, 2015) and is disconnected from the firm's core business (Wettstein & Baur, 2016). Secondly, brand activism entails taking a stance on socially divisive issues that have both opposition and support, rather than on generally accepted issues. (Bhagwat et al., 2020; Hydock et al., 2019) Examples of brand activist undertakings include donating money to a particular cause, lobbying, or making statements in public domains or through marketing and advertising channels. (Shetty et al., 2019)

Brand activism differs from both corporate social responsibility (CSR) and philanthropy. While CSR activities often are perceived like a firm's social obligations, brand activism is entirely voluntary and goes beyond any CSR activities. (Dodd & Supa, 2015; Hydock et al., 2020) Furthermore, CSR is often integrated into companies' strategic plans whereas brand activism is not. (Mukherjee & Althuizen, 2020) Brand activism also differs from philanthropy given that brand activism entails taking a stance on socially *divisive* issues, whereas philanthropy often relates to generally accepted issues and support for widely popular causes. (Hydock et al., 2020)

The phenomenon of brand activism has so far mainly been researched from a marketing perspective, given its implications for purchasing intentions and attitudes towards brands. Mukherjee and Althuizen (2020) found an asymmetric effect of brand activism. The attitude towards a brand decreased when the customer disagreed with the company's stance, and the attitude was unaffected when the customer agreed. Hydock et al. (2020) identify a positive relationship between corporate political advocacy (CPA) and customers choosing that brand. However, they show that companies are more likely to lose existing misaligned customers than to gain new aligned customers, concluding that the risk of brand activism is greater than the reward. The negative effects of CPA can partly be addressed to what Manfredi-Sánchez (2019) describes as "imposters lacking authenticity", namely that customers do not find the act genuine and consequently think less of the company. Dodd and Supa (2015) are more optimistic about the effects of brand activism as their study implies that corporate social advocacy (CSA) is a strong indicator of financial success, with a positive impact on customers' purchase intentions.

To our best knowledge, investor reactions to brand activism have only been studied by the following authors. Mkrtchyan et al. (2021) study the brand activism

subcategory of CEO activism and find that such undertakings lead to positive market reactions and higher company valuations. Bhagwat et al. (2020), on the other hand, find that investors on average react negatively towards corporate sociopolitical activism (CSA).

2.2. Company Announcements

Within the field of finance, there exists extensive research on market reactions to various types of announcements made by companies. Zhang et al. (2014) showed that the market reacted positively and significantly towards announcements of CSR involvement. Cellier and Chollet (2011) found that announcements of improved CSR ratings affected stock prices positively. Patten (2008) found that positive abnormal returns followed announcements of philanthropy in the form of donations to the 2004 tsunami relief effort. Similarly, Gao et al. (2012) found that firms announcing donations in response to the 2008 Wenchuan earthquake in China enjoyed positive abnormal stock returns. Furthermore, Neuhierl et al. (2013) found significant stock price reactions to press releases and various types of financial news including news about corporate strategy, customers and partners, products and services, management changes, and legal developments.

2.2.1. Efficient Market Hypothesis

In this thesis, we assume a semi-strong efficient market. A market is efficient if asset prices continuously reflect all available information. First described by Fama (1970), there are three categories of efficient market tests: strong, semi-strong, and weak form. The strong form test suggests that all information, both public and private, is reflected in the asset price. The semi-strong form test states that prices reflect all public information, but not private. The weak form test only studies information contained in past prices. Most of the prior research on company announcements supports the semi-strong efficient market hypothesis. Given that there is evidence of stock price reactions to company announcements, the information must be new to the market and not yet been incorporated in the pricing. Under the strong form market hypothesis, there would be no stock price reaction. Assuming a semi-strong efficient market, the stock price should be adjusted immediately following a company announcement. (McWilliams et al., 1999)

2.3. Cash Flow Effects

While research on brand activism is apparent in the marketing field of research, it is vastly understudied from an investor perspective. We can thus contribute to the

finance research field by studying whether the phenomenon of brand activism will cause immediate stock market reactions, similar to those caused by other types of announcements as described in the previous section, 2.2.

Drawing from the conclusions of Dodd and Supa (2015) and Hydock et al. (2020), increased purchase intentions and in turn higher future sales, should entail a positive stock price reaction. The act of brand activism should be perceived as cash flow news that the stock market incorporates in a revised valuation of the company. Mkrtchyan et al. (2021) draw from social identity and self-determination theories to explain how CEO activism can impact the intrinsic motivation and productivity of employees. In an analogical manner, brand activism could affect employees' productivity and in turn the cash flow of the firm. Brand activism could even affect a firm's ability to attract and retain a skilled workforce. (Bhagwat et al., 2020) Furthermore, Patten (2008) argues that firms engaging in philanthropy could gain what is referred to as "reputational capital" and thereby be able to charge premium prices or negotiate better contract agreements and thus lower their cost of capital. Similarly, brand activism could lead to such "reputational capital", which in turn should cause stock prices to react to undertakings of brand activism. Contrarily, drawing from marketing researchers claiming that brand activism is damaging brand attitudes and purchase intentions, investors should experience a negative effect on stock prices. Likewise, negative returns could occur if employees are demotivated, or if the "reputational capital" is hurt by the brand activism undertaking.

2.4. Investor Sentiment and Signaling Theory

In addition to the above-mentioned cash flow effects, the stock price could react to brand activism due to investor sentiment. There is research indicating that certain firm characteristics induce a discount/premium beyond the actual effect on cash flows. Hong and Kacperczyk (2009) examine how "sin stocks" – companies involved in alcohol, tobacco, and gaming – are impacted by social norms. They find that such stocks are neglected by norm-constraint investors, i.e. institutions prohibited to invest in stocks that contradict the institution's values. That is, beyond the implications for cash flows, brand activism could repel or attract certain investors, causing an effect on the stock price. In such a case, brand activism would act as a signal of a firm's values, and in turn, investors could conclude if the firm is "good" or "bad". That is, based on the signal, investors

can evaluate whether the firm's values are in line with the investor's own or not.

Signaling is the conveying of information from one party to another in order to reduce information asymmetry. (Spence, 1973) The information asymmetry in the case of brand activism is the firm's values, which have historically often remained concealed. (Bhagwat et al., 2020) For a signal to be defined as credible, two criteria must hold: the signaling entity must be able to manipulate the signal and the cost of signaling must be negatively correlated with the signaling entity's productivity. (Spence, 1973) In the case of brand activism, a company can naturally manipulate the signal as they can choose whether to engage in brand activism or not. Furthermore, the cost of signaling should be negatively correlated to productivity since there is an imminent risk of being perceived as disingenuous or an "imposter lacking authenticity" and as such, lose customers. (Manfredi-Sánchez, 2019) That is, it could be costly for companies to not act in line with their true values.

2.5. Admired Firms

Godfrey (2005) suggests that philanthropic efforts increase firm value only when the giving is perceived as genuine and in line with the firm's values. Vredenburg et al. (2020) state that brand activism creates the largest gains for brand equity when conducted authentically. Contrarily, engagement and acts by "imposters lacking authenticity" are found disingenuous by customers and can consequently harm the firm. (Manfredi-Sánchez, 2019) It therefore seems as if brand activism would be effective only when it is perceived as genuine. Brand activism undertakings should be considered genuine when they are in line with the firm's values and when it is perceived as if the company truly believes in what it advocates.

Every year Fortune releases a list of the "World's Most Admired Companies". (Fortune, 2020) These companies are generally large and well known, but also, cherished by the general public. Consequently, we expect these companies to have many supporters that, to a large extent, agree with them. Appearing on the list should also entail a behavior that is appreciated by many. That is, being disingenuous and coming across as an "imposter lacking authenticity" should punish a company's chance of being *admired*, and thus, ranked on Fortune's list.

2.6. Social Movements

Societal changes are often associated with social movements advocating for such change, in the form of new norms and behavior. (Levy & Mattsson, 2019) Social

movements can often be traced back to a single date or event. For example, the *MeToo* movement started with a tweet by Alyssa Milano on October 15th, 2017 (Levy & Mattsson, 2019) and the *Black Lives Matter* hashtag was a response to the killing of Trayvon Martin in 2013 (T. Campbell, 2021). Other examples of social movements include the shift in attitude toward LGBTQ+ rights and the increased concern for the environment. (Levy & Mattsson, 2019) It is worth noting that in 2020, which extensively coincides with the period we study, the *Black Lives Matter* movement gained increased international attention following the killing of George Floyd on May 25th, 2020 (Hauser et al., 2020).

3. Hypothesis Development

In this chapter, we present our seven hypotheses and draw from the literature review to explain the reasoning behind these. The first section, 3.1, covers the hypotheses on abnormal return and the second section, 3.2, covers the hypotheses on abnormal trading volume.

3.1. Abnormal Return

Previous research shows that the market reacts to various company announcements, including CSR and philanthropic initiatives. (Zhang et al., 2014; Cellier & Chollet, 2011; Patten, 2008; Gao et al., 2012) Furthermore, brand activism is likely to impact a firm's cash flows given its effect on brand attitude, customer purchase intentions, the "reputational capital", and employee motivation. (Dodd & Supa, 2015; Hydock et al., 2020; Mkrtchyan et al., 2021; Patten, 2008) Hence, we believe that the cash flow effects following brand activism will cause an impact on the stock price. Additionally, the stock price could be affected by investors' sentiment regarding the brand activism announcement. That is, norm-constraint investors could interpret the brand activism undertaking as a signal of a firm being "good" or "bad", and consequently buy or sell the stock, which naturally would affect the stock price. Since brand activism is divisive by definition, any abnormal return could be either positive or negative, thus we do not hypothesize a direction, instead solely that:

Hypothesis 1: Brand activism announcements lead to abnormal return

As previous literature suggests that brand activism undertakings by so-called "impostors lacking authenticity" (Manfredi-Sánchez, 2019) are likely to lead to a negative impact on brand attitude and purchase intentions, it is of interest to study the top 50 of the "World's most admired companies" (Fortune, 2020). We believe that these companies have a larger share of supporters agreeing with them, compared to less admired firms. In addition, being disingenuous could be harmful to the firm's admirability. Hence, we expect such companies to act in line with the general public's expectations. As such, we hypothesize that:

Hypothesis 2: Brand activism announcements by admired firms lead to positive abnormal return

Neuhierl et al. (2013) found that market reactions following corporate news vary according to the type of news released. Furthermore, Bhagwat et al. (2020) concluded that the market reaction varied depending on whether the CEO activism

entailed an action or simply a statement. Hence, to further enrich the analysis, we will study whether the way in which a company undertakes brand activism, through for instance donating money or launching a product, could affect the magnitude of any abnormal market reaction. We hypothesize abnormal return for the subsamples as follows:

Hypothesis 3:

a) *Announcements of brand activism undertakings that include a donation or investment lead to abnormal return*

b) *Announcements of brand activism undertakings that include receiving an award lead to abnormal return*

c) *Announcements of brand activism undertakings that include launching or modifying a product lead to abnormal return*

d) *Announcements of brand activism undertakings that include hosting an event or starting an initiative lead to abnormal return*

Similarly, we will examine whether the type of social or political topic that is addressed, such as civil rights or gender equality, affects the magnitude of any abnormal market reaction. For instance, the *Black Lives Matter* movement gained considerable attention in 2020. The contemporary social norms and behaviors may have an impact on the magnitude of any abnormal market reaction. Thus, we want to examine if there are differences in any abnormal market reaction depending on the issue addressed. We hypothesize abnormal return for the subsamples as follows:

Hypothesis 4:

a) *Announcements of brand activism addressing gender equality issues lead to abnormal return*

b) *Announcements of brand activism addressing LGBTQ+ rights issues lead to abnormal return*

c) *Announcements of brand activism addressing civil rights issues lead to abnormal return*

d) *Announcements of brand activism addressing the U.S. presidential election lead to abnormal return*

3.2. Abnormal Trading Volume

Some marketing researchers suggest that customers' purchase intentions depend on whether they agree or disagree with a company's stance. (Mukherjee & Althuizen, 2020) Therefore, the investor reaction could vary *across* events depending on whether investors believe that the brand activism undertaking will have a positive or negative impact on cash flows. As such, there is an imminent risk that positive and negative price movements cancel each other out *across* the events in our sample, leading to

a non-existence of abnormal return in our sample, despite the possible existence of significant investor reactions.

Furthermore, given the divisive nature of brand activism, potential norm-constraint investors will not necessarily all be of the same opinion. Hence, *within* individual events, norm-constraint investors could buy and sell simultaneously, yet again leading to the risk that positive and negative price movements cancel each other out. However, by studying abnormal trading volume, we can examine any investor reaction without hypothesizing whether the returns are positive or negative. One can expect increased trading volume regardless of whether the stock price goes up or down. That is, we expect an increased amount of shares trading hands following an announcement of brand activism. Therefore, we hypothesize:

Hypothesis 5: Brand activism announcements lead to positive abnormal trading volume

Applying the same reasoning as for hypotheses 3a-d and 4a-d, we hypothesize that the brand activism approach, and the issue addressed, could have an impact on the magnitude of any abnormal trading volume. We hypothesize abnormal trading volume for the subsamples as follows:

Hypothesis 6:

a) *Announcements of brand activism undertakings that include a donation or investment lead to positive abnormal trading volume*

b) *Announcements of brand activism undertakings that include receiving an award lead to positive abnormal trading volume*

c) *Announcements of brand activism undertakings that include launching or modifying a product lead to positive abnormal trading volume*

d) *Announcements of brand activism undertakings that include hosting an event or starting an initiative lead to positive abnormal trading volume*

Hypothesis 7:

a) *Announcements of brand activism addressing gender equality issues lead to positive abnormal trading volume*

b) *Announcements of brand activism addressing LGBTQ+ rights issues lead to positive abnormal trading volume*

c) *Announcements of brand activism addressing civil rights issues lead to positive abnormal trading volume*

d) *Announcements of brand activism addressing the U.S. presidential election lead to positive abnormal trading volume*

4. Data

In the first section of this chapter, 4.1, we outline which firms are included in our study, and in section 4.2 we specify which events constitute our data sample. Thereafter, in section 4.3 we describe the price and volume data collection. In section 4.4, we provide some descriptive statistics, and lastly, in section 4.5 we discuss the limitations of our data sample.

4.1. Company Sample

Our data sample consists of 279 manually collected events from 68 U.S. listed companies. The companies we use in the event data collection are to be publicly traded yet also large and well-known since frequent trading of a company's stock is likely to yield more accurate results in an event study (Chan, 2003). We gather the events from companies included in the S&P 100 index and the U.S. listed companies on Fortune's top 50 list of the "World's Most Admired Companies" in 2020 (Fortune, 2020). We choose the S&P 100 as it satisfies the criteria of companies being large and well-known yet limits the manual data collection to a reasonable number of firms. Fortune's list is used as we aim to test the role of admirability in the potential investor reaction to brand activism. There is a large overlap of companies on the two lists, and some of the companies had no announcements that fit the definition of brand activism; hence, the announcements in our sample are extracted from a total of 68 firms.

4.2. Event Sample

The events are announcements of brand activism undertakings, as defined by Mukherjee and Althuizen (2020). Our first screening criterion is that the undertaking is separate from the firm's core business. For example, we would not include a feminine hygiene products brand advocating for a government subsidy for menstrual products. Our second screening criterion is that the addressed issue is divisive, i.e. has both opposition and support. For example, we would not include announcements of donations to end world hunger. More specifically, we include issues that Kotler and Sarkar (2017) define as social activism and political activism; for example, areas concerning gender, race, LGBTQ+, voting, etc. These areas have both opposition and support and are thus different from generally accepted issues such as world hunger. See Appendix Table A1 for descriptions of the categories and examples of announcements.

Due to the difficulty in distinguishing brand activism from CSR-related environmental efforts, and from efforts that simply entail

compliance with environmental regulation, we do not include announcements solely addressing environmental issues.

The events take place between January 1st, 2020 and January 31st, 2021. We limit the sample to this period as we want to use as recent data as possible. The phenomenon of brand activism is relatively new yet becoming more widespread and important. (Bhagwat et al., 2020; Vredenburg et al., 2020) It is possible that people's or investors' attitudes towards brand activism have evolved over the past couple of years and thus, using recent data will likely generate more insightful results.

The announcements are hand-collected from the companies' own web pages, in the form of press releases and news articles. Brand activism that solely appears in marketing efforts, on social media, or similar advertising channels is not included. In the case of a company making a subsequent announcement of the same undertaking, for example, announcing an additional donation to the same specific cause, only the first announcement is included as any investor reaction is presumably already accounted for in the first announcement. Furthermore, we do not include brand activism announcements that coincide with other types of announcements such as dividend declarations, filings of lawsuits, earnings announcements, or key executive changes in order to minimize the risk of confounding events impacting the share price or trading volume during the event window. (McWilliams & Siegel, 1997)

When collecting the data, we create subsamples to test hypotheses 2, 3a-d, 4a-d, 6a-d, and 7a-d. We record whether the company has a top 50 Fortune's ranking, in what way the company undertakes brand activism, and the type of social or political issue that is addressed.

4.3. Price and Volume Data

We use the Thomson Reuters Eikon database to retrieve necessary price data. We collect adjusted closing prices for all firms and the market index (the S&P 500) from January 3rd, 2019 to February 12th, 2021. This period is longer than the period of event observations as we need 200 trading days of prices prior to an event to conduct a market model event study.

We use the same database to retrieve trading volume data. Volume is the number of shares that trade on a specific date. For stock exchanges that trade in lots, the volume is divided by the lot size, if the lot size is greater than one. (Thomson Reuters, 2021) In the event study on trading volume, we only need 40 trading days of volume

data prior to an event. The market index in the volume event study is the SPDR S&P 500 ETF. As a robustness check for our study, we compare the results of using this ETF to the results of using the underlying index. The volume data for the underlying index, the S&P 500, is retrieved from Yahoo Finance.

4.4. Descriptive Statistics

As mentioned, our data sample consists of 279 events from 68 firms. The business model of 39 of these firms is categorized as business-to-consumer (B2C) and 29 as business-to-business (B2B), as is shown in Table 1. However, only 71 out of the 279 events are made by the B2B firms. Correspondingly, the 39 B2C firms provide 208 of the events. This could indicate that consumer-facing firms are more prone to undertake brand activism than firms that target other businesses. In fact, this is in line with Vredenburg et al. (2020), who state that B2B firms often operate without the customer expectation that the firm should engage in brand activism. Furthermore, through a survey, Moorman (2020) found that B2C firms deem it more appropriate to engage in political activism than B2B firms.

Table 1. Overview of the Firms, Events, and the Associated Business Models

Business model	# of events	# of firms
B2C	208	39
B2B	71	29
Total	279	68

When testing hypothesis 2, we aim to examine if there exists a difference in any abnormal return between admired firms and less admired firms, using Fortune's top 50 list of the "World's Most Admired Companies" as the basis for the analysis. The top 50 firms on Fortune's list receive a numerical ranking. However, Fortune also brings forward an additional 281 companies on the 2020 list without providing an explicit ranking of these firms. The data sample in our thesis contains firms with rankings as shown in Table 2.

Table 2. Overview of the Firms' Rankings

Ranking	# of firms
Fortune's top 50	29
Fortune's ranked	58
Not ranked	10

To test hypotheses 3a-d and 6a-d, we note the brand activism approach. The brand activism undertaking split is shown in Table 3. An event can adopt more than one undertaking specification; for example, if a company announces both a new product and a donation for the same cause.

Table 3. Overview of the Types of Brand Activism Undertakings

Type of brand activism undertaking	# of events
Donation or investment	83
Award	21
Product	13
Event or initiative	76
Other undertaking	92

Furthermore, we note the type of sociopolitical issue, or issues, addressed in each event, in order to test hypotheses 4a-d and 7a-d. Yet again, an event can adopt more than one issue specification; for example, if a firm announces a project to support women of color. The split of sociopolitical issues that are addressed is shown in Table 4.

Table 4. Overview of the Types of Sociopolitical Issues

Type of issue addressed	# of events
Gender equality	60
LGBTQ+	32
Civil rights	177
Election	8
Other issue	23

As mentioned, Table A1 in Appendix provides a brief description of each category in Table 3 and Table 4, as well as presents examples of announcements in each category.

4.5. Data Limitations

The data sample in this thesis is disputable for many reasons. Firstly, we manually collect all the events, which naturally exposes the data to errors. Secondly, the ambiguousness of the brand activism definition yields a subjective sample. While we evaluate every announcement according to predetermined criteria, every announcement must be uniquely considered which inevitably induces a subjectiveness. Similar reasoning can be applied to the subsample classification. Thirdly, despite our efforts to eliminate events on days with coinciding news, there is a risk that some event windows are impacted by abnormal returns for reasons beyond brand activism. Lastly, we do not claim to have gathered all brand activism announcements made by the chosen firms during our event period, in fact, we have likely missed several qualifying events that could have been included. However, such misses should only affect the sample size, not the quality of the sample itself. Also, given the increased attention on the *Black Lives Matter* movement in 2020, it is confirmatory that our sample has such a large share of events addressing civil rights, see Table 4. Despite lacking collectively exhaustive data of the firms' brand activism announcements, our data sample seems to be representative of the period we study.

5. Methodology

In the first section of this chapter, 5.1, we outline the event study methodology. In sections 5.2 and 5.3 we define cumulative abnormal return and cumulative abnormal trading volume, respectively. Thereafter, in section 5.4, we specify the significance testing of our event study. In section 5.5, we present the regressions, which, in addition to the subsample significance testing, are used when testing our sub-hypotheses. Lastly, in section 5.6, we address external validity.

5.1. Event Study Methodology

Event studies have a long history, tracing back to the works of Dolley (1933). Traditionally, the methodology measures the impact of a certain event on the value of a firm. In this thesis, we utilize the methodology as described by MacKinlay (1997) to examine the effect of brand activism announcements on stock prices, as well as the effect on the stocks' trading volume.

The first step of an event study includes defining the event and the period over which the stock price, and in this thesis also the trading volume, will be examined. This period is referred to as the event window. We keep the event window fairly short, ranging from 1 day to 5 days, in order to measure the immediate stock market reaction while minimizing the risk of coinciding news affecting the results (Oler et al., 2008). As such, we study the following event windows: [0], [-1:1], and [-2:2].

$$T_{-1} \rightarrow T_0 \rightarrow T_1$$
$$Event\ window$$

The second step of a traditional event study entails defining a measure of abnormal return. Abnormal return is calculated as shown in equation 1. As is the most common way (Lee & Varela, 1997; McWilliams et al., 1999), we adopt the market model – alternative models include the capital asset pricing model and the constant mean return model (MacKinlay, 1997). The market model is a statistical model assuming a linear relationship between the stock return and the market return. (MacKinlay, 1997) We will proxy the market return using the return of the S&P 500.

$$AR_{it} = R_{it} - E(R_{it} \mid X_t) \qquad (1)$$

where AR_{it} is the abnormal return, R_{it} is the actual return, and $E(R_{it} \mid X_t)$ is the normal return for firm *i* in period *t*.

Given our choice of model, the third step of the traditional event study includes defining an estimation window. We will use an estimation window of 200 trading days prior to the event, which is common among event studies on stock returns (McWilliams et al., 1999). The normal return of the stock under the market model is thereafter estimated using the historical stock returns and an ordinary least square (OLS) regression as shown in equation 2.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad (2)$$

$$E(\varepsilon_{it}) = 0$$

$$VAR(\varepsilon_{it}) = \sigma_{\varepsilon_i}^2$$

where R_{it} is the return of firm *i* at time *t*, R_{mt} is the return of the market index at time *t*, and ε_{it} is the zero mean disturbance term. α_i, β_i, and $\sigma_{\varepsilon_i}^2$ are outcome parameters of the market model.

5.2. Abnormal and Cumulative Abnormal Return

Using the outputs α_i and β_i from the OLS regressions in equation 2, we calculate the abnormal return for each trading day in the event window for every event as shown in equation 3. The daily abnormal return should be considered as the actual return reduced by the expected return had the event not occurred.

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \qquad (3)$$

where AR_{it} is the abnormal return of firm *i* at time *t*, R_{it} is the actual return of firm *i* at time *t*, R_{mt} is the market return at time *t*. α_i and β_i represent the relationship between the returns of firm *i* and the market index.

For every event we also calculate the cumulative abnormal return, that is, the abnormal return over the entire event window. The cumulative abnormal return is calculated by summing all the abnormal returns in the event window, as shown in equation 4.

$$CAR_i(\tau_{-1}, \tau_1) = \sum_{t=\tau_{-1}}^{\tau_1} AR_{it} \qquad (4)$$

where $T_{-1} < \tau_{-1} < T_0 < \tau_1 < T_1$. The cumulative abnormal return, CAR_i, from τ_{-1} to τ_1 is the sum of all the abnormal returns, AR_{it}, in the event window.

5.3. Abnormal and Cumulative Abnormal Trading Volume

In addition to measuring abnormal returns, we utilize the event study methodology to examine abnormal trading volumes. We calculate expected trading volumes using a market-adjusted moving average model. Abnormal trading volumes are calculated as shown in equation 5. We take the natural

logarithm of trading volume in order to increase the normality and reduce the skewness and kurtosis of our sample. As is common practice, we add a constant to address the occasional occurrence of zero trading volume. (Yadav, 1992) Similar to the works of Harris and Gurel (1986), we divide the trading volume on the event day by the average trading volume for the last eight weeks (40 trading days) and adjust it for the market trading volume by multiplying this quotient by the inverse quotient of the market. There is a positive time trend for trading volumes in general, suggesting people trade more stocks. (Neuhierl et al., 2013) Consequently, there is a trade-off in choosing the length of the mean "estimation window". If the "estimation window" is too long, the expected trading volume may be underestimated given the positive time trend of trading volumes. However, if the "estimation window" is too short, the mean may be heavily influenced by temporary volatility and therefore not be a fair representation of normal trading volumes. Hence, like Harris and Gurel (1986), we deem using a 40-day "estimation window" adequate.

$$AV_{it} = \frac{ln(V_{it} + c)}{ln(V_{mt} + c)} \times \frac{ln(V_m + c)}{ln(V_i + c)} \quad (5)$$

$$ln(V_x) = \ln\left(\sum_{t=T_{-40}}^{T_{-1}} \frac{V_{xt}}{40}\right)$$

$$x = \{i, m\}$$

where V_{it} and V_{mt} are the trading volumes for firm *i* and the market, respectively, at time *t.* V_i and V_m are the 40-day average trading volumes of firm *i* and the market, respectively, and *c* is a constant taking on the value of 0.00000255.

For every event, we also calculate the cumulative abnormal trading volume, that is, the abnormal trading volume over the entire event window. The cumulative abnormal trading volume is calculated by summing all the abnormal trading volumes in the event window, as shown in equation 6.

$$CAV_i(\tau_{-1}, \tau_1) = \sum_{t=\tau_{-1}}^{\tau_1} AV_{it} \quad (6)$$

where $T_{-1} < \tau_{-1} < T_0 < \tau_1 < T_1$. The cumulative abnormal trading volume, CAV_i, from τ_{-1} to τ_1 is the sum of all the abnormal trading volumes, AV_{it}, in the event window.

5.4. Significance Tests

Testing for hypothesis 1, that brand activism announcements yield abnormal returns, we use a two-sided Z-test against

the null hypothesis that the sample mean is not different from zero. The Z-statistic, which measures whether the sample mean is significantly different from zero, is calculated as shown by equation 7.

$$Z = \frac{\overline{CAR} - \mu_0}{\left(\sigma^2/\sqrt{n}\right)} \quad (7)$$

where $\overline{CAR}$ is the sample mean cumulative abnormal return, μ_0 is the population mean under the null hypothesis, σ^2 is the standard deviation of the population, and *n* is the number of observations.

Similarly, we use a two-sided Z-test, against the null hypothesis that the sample mean is not different from zero, to examine hypothesis 5, that brand activism announcements yield abnormal trading volume. The Z-statistic is calculated as shown by 8.

$$Z = \frac{\overline{CAV} - \mu_0}{\left(\sigma^2/\sqrt{n}\right)} \quad (8)$$

where $\overline{CAV}$ is the sample mean cumulative abnormal trading volume, μ_0 is the population mean under the null hypothesis, σ^2 is the standard deviation of the population, and *n* is the number of observations.

The Z-test is a parametric test assuming sample normality. Overlooking this assumption, parametric tests can often still be appropriate when applied to large samples. (Hagnns & Pynnonen, 2014) Nonetheless, to be rigorous in our methodology, we also perform one sample two-sided Wilcoxon signed-rank tests on both *CAR* and *CAV*. This is a non-parametric significance test that does not assume normality, against the null hypothesis that the sample mean is not different from zero. (Wiedermann & Eye, 2013) The non-parametric test is deemed valuable also due to, for instance, C. Campbell and Wasley (1996) finding that a non-parametric test was more powerful in detecting abnormal trading volume than a parametric test. The W-statistics are calculated as shown by equations 9 and 10.

$$Z_W = \frac{W - \mu_W}{\sigma_w} \quad (9)$$

$$W = \sum_{i=1}^{279} |sgn(CAR_i - \mu_0)| \times R_i$$

$$\mu_W = \frac{n(n+1)}{4}$$

$$\sigma_w = \sqrt{\frac{n(n+1)(2n+1)}{24}}$$

where *W* is the test statistic, *sgn* denotes the sign of the score for each event *i*, CAR_i is the cumulative abnormal return for each event *i*, μ_0 is the mean under the null hypothesis, R_i is the assigned ranking, and *n* is the number of observations.

$$Z_W = \frac{W - \mu_W}{\sigma_w} \quad (10)$$

$$W = \sum_{i=1}^{279} |sgn(CAV_i - \mu_0)| \times R_i$$

$$\mu_W = \frac{n(n+1)}{4}$$

$$\sigma_w = \sqrt{\frac{n(n+1)(2n+1)}{24}}$$

where *W* is the test statistic, *sgn* denotes the sign of the score for each event *i*, CAV_i is the cumulative abnormal trading volume for each event *i*, μ_0 is the mean under the null hypothesis, R_i is the assigned ranking, and n is the number of observations.

After running the two significance tests on the entire sample of abnormal return and the entire sample of abnormal trading volume, we also run them on each subsample to test hypotheses 2, 3a-d, 4a-d, 6a-d, and 7a-d.

5.5. Regressions

In addition to running significance tests on our subsamples, we perform OLS regression analyzes on *CAR* and *CAV*, to examine potential correlation with the corresponding dummy variables.

β_1 *Admirability*
The event receives a 1 if the firm is ranked in the top 50 of Fortune's "World's Most Admired Companies", 0 otherwise.

β_2 *Donation*
The event receives a 1 if the brand activism undertaking includes a donation or investment, 0 otherwise.

β_3 *Award*
The event receives a 1 if the brand activism undertaking includes receiving an award, 0 otherwise.

β_4 *Product*
The event receives a 1 if the brand activism undertaking includes launching or modifying a product, 0 otherwise.

β_5 *Event*
The event receives a 1 if the brand activism undertaking includes hosting an event or starting an initiative, 0 otherwise.

β_6 *Gender equality*
The event receives a 1 if the brand activism undertaking addresses gender equality issues, 0 otherwise.

β_7 *LGBTQ+*
The event receives a 1 if the brand activism undertaking addresses LGBTQ+ rights issues, 0 otherwise.

β_8 *Civil rights*
The event receives a 1 if the brand activism undertaking addresses civil rights issues, 0 otherwise.

β_9 *Election*
The event receives a 1 if the brand activism undertaking addresses the U.S. presidential election, 0 otherwise.

We also include a control variable for the firms' business models; either B2C or B2B. We deem it more likely that brand activism undertakings by consumer-facing companies, i.e. B2C companies, as opposed to B2B companies, receive attention. Hence, we believe that the business model could impact the potential abnormal market reaction and therefore we want to control for it in the regressions.

β_{10} *B2C*
The event receives a 1 if the business model of the firm is categorized as B2C, 0 otherwise (B2B).

The regressions are constructed as shown by equations 11 and 12. The dependent variable in equation 11 is the cumulative abnormal return (*CAR*) or the abnormal return (*AR*), which are derived from the event studies above. The dependent variable in equation 12 is the cumulative abnormal volume (*CAV*) or the abnormal volume (*AV*), also derived from the aforementioned event studies. The dummy variables $\beta_1 : \beta_9$ and $\beta_2 : \beta_9$ are the independent variables in regressions 11 and 12, respectively.

$$
\begin{aligned}
&CAR_{it}(AR_{i0}) \qquad (11)\\
&= \alpha_i + \beta_1 Admirability_i\\
&+ \beta_2 Donation_i + \beta_3 Award_i\\
&+ \beta_4 Product_i + \beta_5 Event_i\\
&+ \beta_6 Gender\ equality_i\\
&+ \beta_7 LGBTQ+_i\\
&+ \beta_8 Civil\ rights_i\\
&+ \beta_9 Election_i + \beta_{10} B2C_i + \varepsilon_i
\end{aligned}
$$

$$
\begin{aligned}
&CAV_{it}(AV_{i0}) \qquad (12)\\
&= \alpha_i + \beta_2 Donation_i\\
&+ \beta_3 Award_i + \beta_4 Product_i\\
&+ \beta_5 Event_i\\
&+ \beta_6 Gender\ equality_i\\
&+ \beta_7 LGBTQ+_i\\
&+ \beta_8 Civil\ rights_i\\
&+ \beta_9 Election_i + \beta_{10} B2C_i + \varepsilon_i
\end{aligned}
$$

5.6. External Validity

External validity refers to the generalizability of results, in other words, how well the findings of a study can be applied beyond the study's specific research context. (Bryman & Bell, 2015) Our sample consists of announcements made by firms that we have gathered from the S&P 100 and Fortune's "World's Most Admired Companies", and thus our announcements stem from firms that are large, well-known, and listed in the U.S. Therefore, the generalizability of our results beyond this

context could be limited. For instance, our results could have appeared different had we studied smaller, less-known firms with for example closer customer relationships. Nonetheless, as brand activism from an investor perspective is vastly understudied, we deem it valuable to be at the frontier studying the phenomenon in any context.

6. Results

In this chapter, we present the results of our study. Starting with section 6.1, we present and analyze the results from the abnormal return event study. In section 6.1.1 we provide the results from the corresponding subsample analysis. Thereafter, in section 6.2, we present and analyze the results from the abnormal trading volume event study. In section 6.2.1, we provide the results from the corresponding subsample analysis. In section 6.3 we summarize our results and lastly, in section 6.4, we present robustness tests included to assure the correctness of our results.

6.1. Return Event Study Results

Table 5 shows the results from the event study on cumulative abnormal returns $CAR[\tau_{-1}:\tau_1]$ and abnormal return $AR[0]$. With p-values ranging from 0.15 to 0.99, there is no evidence of abnormal returns following brand activism announcements, regardless of which of the three event windows we study. We perform both parametric and non-parametric significance tests, which show the same results. As the p-values of both tests indicate statistical insignificance, we fail to reject the null hypothesis that the sample mean is not different from zero. In other words, announcements of brand activism undertakings do not seem to lead to any immediate abnormal returns.

Table 5. Results from Significance Tests on CAR (AR)

	AR[0]	CAR[-1:1]	CAR[-2:2]
Mean	-0.0007	0.0712	0.0065
Standard Deviation	1.7718	3.1446	3.9990
Z-Statistic	-0.0066	0.3782	0.0270
P-Value (Z)	(0.9947)	(0.7053)	(0.9785)
W-Statistic	18640	19720	17592
P-Value (W)	(0.5096)	(0.8883)	(0.1509)
Skewness	0.3346	-0.1843	0.8898
Kurtosis	1.9740	3.3559	2.5748

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAR* and *AR* for three different event windows: [0], [-1:1], and [-2:2], with the corresponding p-values presented in parentheses. *CAR* and *AR* are the cumulative abnormal return and the abnormal return, respectively, expressed as percentages.

We propose four possible reasons for why the stock prices do not seem to react to these announcements. Firstly, the lack of observed market reaction could naturally stem from possible shortcomings of our research design. For instance, as our studied period coincides with the Covid-19 pandemic, volatile markets could have caused noise and affected our results, despite us having adjusted for the market.

Beyond such external reasons, a second reason could be that the marketing research on customer purchase intentions and brand attitude is inadequate, implying that brand activism has no, or only a very small, effect on the future cash flows of a company. This would suggest that a change in brand attitude or expressed purchase intentions does not actually translate into a cash flow event for the company.

Alternatively, there is an actual effect on cash flows, but the stock market is incapable of pricing such events. The effects might be very vague, e.g. occurring at an unidentifiable point in time, or in other ways difficult to translate into a monetary impact on the firm.

Lastly, there is a possibility that positive and negative price movements cancel each other out. The offsetting could occur *across* events; if one event in total causes positive abnormal returns and another generates negative abnormal returns, the sample mean could end up being zero. Alternatively, the offsetting could occur *within* events; if different investors perceive the brand activism differently, as either positive or negative. That is, the investor reaction to brand activism could resemble that of "sin stocks", namely that certain investors are norm-constrained and avoid holding "activism stocks" while others are appealed by it and actively seek such stocks. If this was the case, it is impossible to predict the direction of any abnormal returns, in fact, it is likely that the price would remain unchanged but that there would be a lot of shares changing hands in the event window. As hypothesized, this calls for further analysis of potential abnormal trading volume.

6.1.1. Subsample Analysis

Although there do not seem to be any abnormal return following brand activism announcements for stocks in general, it is still of interest to examine if certain subsamples of brand activism announcements yield abnormal returns. Namely, if announcements by admired firms yield abnormal return; if certain types of brand activism undertakings yield abnormal return; or if certain issues addressed in the undertaking yield abnormal return.

Table 6. Results from Significance Tests on CAR (AR) Subsamples

Subsample	Test	AR[0]	CAR[-1:1]	CAR[-2:2]
Admirability	Z	0.7202	0.0403	-1.0678
		(0.4714)	(0.9678)	(0.2856)
	W	5273	5257	4234**
		(0.9701)	(0.9449)	(0.0368)
Donation or investment	Z	-0.2640	0.7786	0.4098
		(0.7918)	(0.4361)	(0.6819)
	W	1607	1989	1605
		(0.5384)	(0.2650)	(0.5325)
Award	Z	1.0018	-0.0168	-1.2055
		(0.3164)	(0.9866)	(0.2280)
	W	139	111	83
		(0.4319)	(0.8917)	(0.2722)
Product	Z	-1.1837	-0.0225	-0.9800
		(0.2365)	(0.9820)	(0.3271)
	W	29	44	29
		(0.2734)	(0.9460)	(0.2734)
Event or initiative	Z	-0.5779	0.2742	-0.5796
		(0.5633)	(0.7839)	(0.5622)
	W	1261	1463	1288
		(0.2968)	(1.0000)	(0.3663)
Gender equality	Z	-2.2351**	0.4974	0.2365
		(0.0254)	(0.6189)	(0.8131)
	W	573**	904	892
		(0.0119)	(0.9384)	(0.8684)
LGBTQ+	Z	0.3256	0.8714	-0.7236
		(0.7448)	(0.3835)	(0.4693)
	W	275	301	227
		(0.8465)	(0.5000)	(0.5000)
Civil rights	Z	0.7566	0.2886	0.2390
		(0.4493)	(0.7729)	(0.8111)
	W	7927	8067	7130
		(0.9416)	(0.7808)	(0.2745)
Election	Z	-0.2246	-1.1368	-0.1578
		(0.8223)	(0.2556)	(0.8746)
	W	13	12	13
		(0.5469)	(0.4609)	(0.5469)

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAR* and *AR* for three different event windows: [0], [-1:1], and [-2:2] and across nine subsamples. The table discloses the test statistics and corresponding p-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table 6 shows the results from the significance testing of the subsamples' abnormal returns. None of the subsamples consistently show a statistically significant mean different from zero, across the three event windows. As previously stated, we perform both parametric and non-parametric significance tests. Apart from *Admirability* – where the Wilcoxon test shows statistical significance at the 5% level while the parametric Z-test does not – the two tests yield coherent results across all the subsamples.

For the subsample *Gender equality,* both the parametric and the non-parametric test indicate a negative abnormal return on the event day, significant at the 5% level. However, this is inconsistent across the event windows.

Our hypothesis was that brand activism announcements cause abnormal returns. Had this not been rejected, a regression of *CAR* and *AR* with the subsamples as dummy variables would have been applicable. Despite finding that the expected *CAR* and *AR* is zero, we perform these regressions to be rigorous in our methodology, see Appendix A2 for the results. These regressions yield the same outcome as the more applicable aforementioned subsample significance testing.

6.2. Volume Event Study Results

Table 7 shows the results from the event study on abnormal trading volume, on $CAV[\tau_{-1}:\tau_1]$ and $AV[0]$. The p-values, ranging from 0.47 to 0.79, are too high to prove statistical significance.

Table 7. Results from Significance Tests on CAV (AV)

	AV[0]	CAV[-1:1]	CAV[-2:2]
Mean	0.0486	-0.1432	-0.2963
Standard Deviation	2.1507	4.7653	6.8644
Z-Statistic	0.3774	-0.5021	-0.7210
P-Value (Z)	(0.7059)	(0.6156)	(0.4709)
W-Statistic	19113	19165	18921
P-Value (W)	(0.7575)	(0.7870)	(0.6519)
Skewness	0.5195	-0.0376	-0.0531
Kurtosis	0.5686	0.1674	0.0933

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAV* and *AV*, using the ETF, for three different event windows: [0], [-1:1], and [-2:2], with the corresponding p-values presented in parentheses. *CAV* and *AV* are the cumulative abnormal volume and the abnormal volume, respectively, expressed as percentages.

This remains unchanged regardless of the event window studied and the use of parametric or non-parametric significance tests. As such, we fail to reject the null hypothesis, that the sample mean is not different from zero. Brand activism announcements do not seem to induce immediate abnormal trading volume.

This leads us to believe that the absence of abnormal returns following brand activism announcements is not due to simultaneous positive and negative investor reactions, as discussed in section 6.1. In fact, brand activism does not seem to evoke any abnormal investor reaction at all. Consequently, brand activism does not seem to act as a strong enough signal, or a signal at all, of a firm being "good" or "bad", i.e. in line with the investor's values or not. If norm-constraint investors pursued investment in companies based on brand activism announcements, positive abnormal trading volumes would follow. The lack thereof makes us reject brand activism as a signaling device.

Apart from potentially stemming from noise caused by our research design, the lack of significant results could imply that either there is no actual cash flow effect – as opposed to what is suggested by marketing research – or that the market is incapable of correctly pricing the effects of brand activism undertakings. Be that as it may, a more sensible interpretation of the investors' non-reaction would perhaps include both of these reasons. The cash flow effect could be very small or just generally vague, making it difficult for investors to price such effects. Surely, any impact on brand attitude or purchase intentions on an individual customer level is difficult to translate into dollars and cents.

6.2.1. Subsample Analysis

Table 8 shows the results from the significance testing of the subsamples' abnormal trading volumes. None of the subsamples consistently show a statistically significant mean different from zero, across the three event windows. The subsample *LGBTQ+*, however, shows negative abnormal volume at the 5% and 10% level, for the [-1:1] and [-2:2] event window.

Similar to the methodology for abnormal returns, we perform regressions on the subsamples as dummy variables, despite finding that the expected *CAV* and *AV* is zero. See Appendix Table A3 for the results. Alike the subsample significance tests, these regressions show no consistently significant results. That is, the betas of the regressions are all insignificant, with the exception of the dummy variable *Donation* which is significant at the 5% level for the event window [0].

Table 8. Results from Significance Tests on CAV (AV) Subsamples

Subsample	Test	AV[0]	CAV[-1:1]	CAV[-2:2]
Donation or investment	Z	-0.6656	0.2216	0.0372
		(0.5057)	(0.8246)	(0.9703)
	W	1480	1793	1746
		(0.2333)	(0.8222)	(0.9909)
Award	Z	-1.2381	-1.4895	-1.1573
		(0.2157)	(0.1364)	(0.2471)
	W	78	78	87
		(0.2029)	(0.2029)	(0.3377)
Product	Z	1.3118	-0.3250	-0.4821
		(0.1896)	(0.7452)	(0.6297)
	W	62	43	39
		(0.2734)	(0.8926)	(0.6848)
Event or initiative	Z	-0.4318	-1.1305	-0.6159
		(0.6659)	(0.2583)	(0.5379)
	W	1361	1257	1356
		(0.5992)	(0.2874)	(0.5814)
Gender equality	Z	-1.6188	-1.2851	-1.8888*
		(0.1055)	(0.1988)	(0.0589)
	W	715	752	683*
		(0.1419)	(0.2316)	(0.0883)
LGBTQ+	Z	-1.1302	-2.2522**	-2.1832**
		(0.2584)	(0.0243)	(0.0290)
	W	206	152**	169*
		(0.2865)	(0.0358)	(0.0770)
Civil rights	Z	1.5512	1.1896	1.2043
		(0.1209)	(0.2342)	(0.2285)
	W	8610	8833	8808
		(0.2829)	(0.1614)	(0.1726)
Election	Z	-0.9145	-1.0775	-1.7480*
		(0.3605)	(0.2813)	(0.0805)
	W	10	9	7
		(0.3125)	(0.2500)	(0.1484)

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAV* and *AV*, using the ETF, for three different event windows: [0], [-1:1], and [-2:2] and across eight subsamples. The table discloses the test statistics and corresponding p-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table 9. Summary of Results

Null Hypothesis		Result
1.	The mean cumulative abnormal return subsequent to a brand activism announcement is not different from zero	*Fail to reject*
2.	The mean cumulative abnormal return subsequent to a brand activism announcement is not different from zero within the following subsamples: Admirability, Donation, Award, Product, Event, Gender Equality, LGBTQ+, Civil Rights, Election	*Fail to reject*
3.	The mean cumulative abnormal volume subsequent to a brand activism announcement is not different from zero	*Fail to reject*
4.	The mean cumulative abnormal volume subsequent to a brand activism announcement is not different from zero within the following subsamples: Donation, Award, Product, Event, Gender Equality, LGBTQ+, Civil Rights, Election	*Fail to reject*

6.3. Summary of Results

Table 9 shows a summary of our tests and the corresponding results. We fail to reject all four null hypotheses and conclude that brand activism announcements do not yield abnormal investor reactions. The stock price is unaffected and there is no increase in trading volume during the event windows. This is true regardless of which subsample we study.

6.4. Robustness

There are several aspects that we consider in order to assure the correctness of our results. Although parametric tests assume normality in the data, they can often be used on large enough samples. (Hagnns & Pynnonen, 2014) Nonetheless, we test the normality of *CAR* and *CAV*, using both a Shapiro-Wilk test and a Jarque-Bera test, and find that they are not perfectly normally distributed. See Appendix Table A7 for these results. We therefore also perform the non-parametric Wilcoxon signed-rank test as its validity does not depend on the data's distribution. (Wiedermann & Eye, 2013) However, these tests assume independence between the observations in a sample, and are therefore not robust towards potential cross-correlation among observations that

are clustered, i.e. occur on the same day. Nonetheless, as we use the market model in the calculation of abnormal returns and have short event windows, the potential cross-sectional dependencies are reduced. (Brown & Warner, 1985; Lee & Varela, 1997).

In our regressions, we test whether heteroskedasticity is present using a Breusch–Pagan test, see Appendix Table A8 for the results, and then use White standard errors that are robust towards heteroskedasticity. We also test whether there is multicollinearity present in our regression and conclude that there is no collinearity among the independent variables. See Appendix Table A9 for the results.

Lastly, when adjusting for the market in our calculation of abnormal trading volume, we ensure that our results are robust by comparing the results when using the ETF, to the results when using the underlying index that the ETF is tracking, and observe no major differences. See Appendix Table A4, A5 and A6 for the results using the underlying index.

7. Conclusion

In this thesis, we have studied the phenomenon of brand activism, namely, investors' immediate reaction to brand activism announcements. This was deemed to be of interest since brand activism has been researched within the marketing field and allegedly leads to cash flow effects for firms, and since the pressure on institutional investors to conform with social norms has increased. Additionally, the phenomenon is relatively new and vastly understudied from an investor perspective.

Using an event study methodology, we have examined whether brand activism announcements lead to abnormal return or abnormal trading volume. We find no evidence of neither abnormal return nor abnormal trading volume following announcements of brand activism undertakings. The absence of abnormal trading volume makes us conclude that the mean abnormal return is zero not due to positive and negative price movements canceling each other out, but instead due to the non-existence of abnormal returns. In fact, the phenomenon does not seem to yield any abnormal investor reaction at all. This is true regardless of how admired the firm is, and independent of the undertaking approach and the issue addressed.

In the hypothesis development chapter, we discuss two possible reasons why the stock market could react to brand activism announcements. Firstly, the cash flow effects, and secondly, investors' sentiment. Our tests were never designed to detect if these specific reasons hold; our aim was to detect immediate potential abnormal investor reactions. However, if the investors' sentiment reasoning was true we would, at least, see increased trading volume. Due to the absence of such investor reaction, we can reject that reasoning. In other words, we find no evidence supporting that brand activism is used as a signal of a firm being "good" or bad", i.e. in line with the investor's values or not, alternatively, the signal is not strong enough to make investors act upon it.

Regarding the cash flow effect reasoning, our results leave a major question unanswered: why is there no investor reaction if brand activism has a cash flow effect on the firm? We mention the possibility of either the cash flow effect being too small – alternatively non-existent – or that the stock market is incapable of pricing the effects of brand activism announcements. However, both of these potential explanations would naturally require further research to conclude.

More specifically, we believe that future research should be directed at the cash flow effects of brand activism on firm level. A majority of the previous research on brand activism has been conducted from a customer perspective, for instance on how individual customers react depending on their stance on the question addressed. We believe that using accounting measures, e.g. return on assets, sales growth, EBITDA margins, etc., could be useful in studying the cash flow effects on firms following brand activism. Studying such effects would be advantageous for further research on investor reactions to brand activism as it could confirm or dismiss an aggregated cash flow effect on firms. It could also benefit the companies themselves as they would gain insight into the risks-rewards trade-off of brand activism.

As an alternative explanation to the non-reaction, we mention the stock market's potential incapability of pricing the effects of brand activism. As we do not observe an immediate stock price reaction, it would be of interest to study the long-term effects on the stock price. If there exists an actual cash flow effect that the stock market fails to price at the time of the announcement, one would expect positive stock returns in the future, when sales in fact increase. That is, studying the long-term stock performance could also confirm or dismiss the existence of a cash flow impact, and in turn, shed light on a potential market inefficiency.

There are thus several aspects of brand activism that are yet to be studied, and we believe that our findings, namely the investor non-reaction, has the potential to stimulate further research on the growing and evolving phenomenon of brand activism. While Michael Jordan's philosophy at the time – staying out of the public debate – may be outdated, the question he raised of whether politics and sneakers should be bundled, remains unanswered.

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9. Appendix

Table A1. Subcategory Descriptions and Examples of Announcements

Category	Subcategory	Description	Example
Approach	Donation or investment	Announcement of a donation or an investment targeting a sociopolitical issue	"Today NIKE, Inc. is announcing a $40 million commitment over the next four years to support the Black community in the U.S. on behalf of the NIKE, Jordan and Converse brands collectively" (Nike, 2020)
	Award	Announcement of having received an award due to supporting/ recognizing a sociopolitical issue	"UnitedHealth Group Wins LGBTQ Workplace Award" (UnitedHealth Group, 2020)
	Product	Announcement of launching or modifying a product to support/recognize a sociopolitical issue	"As Pride goes virtual, Apple Watch Pride Edition helps community and advocacy continue worldwide" (Apple, 2020)
	Event or initiative	Announcement of hosting an event or starting an initiative to support/recognize a sociopolitical issue; initiatives include e.g. hashtags or challenges	"JPMorgan Chase's The Fellowship Initiative Expands to Help More than 1,000 Young Black and Latinx Men in U.S. Cities Access Economic Opportunity" (JPMorgan Chase & Co., 2020)
	Other undertaking	Other announcements of brand activism, often a written statement or an open letter from the CEO	"Letter from Starbucks CEO: Courageous conversations in the wake of George Floyd's murder" (Starbucks, 2020)
Issue	Gender equality	Announcements that concern gender equality, often supporting women	"Morgan Stanley Wealth Management Launches Women Without Limits, a New Initiative to Empower Women and Girls Through Financial Literacy and Professional Development" (Morgan Stanley, 2020)
	LGBTQ+	Announcements that concern LGBTQ+ issues, often advocating for LGBTQ+ rights	"Here's How Target's Helping Guests and Team Members Honor Pride Month" (Target, 2020)
	Civil rights	Announcements that concern civil rights inequalities, often supporting people of color	"AT&T Supports the Fight for Racial Equality and Justice" (AT&T, 2020)
	Election	Announcements that concern the 2020 U.S. presidential election, often encouraging election participation	"Coca-Cola Makes Election Day a Paid Holiday, Joins Voter Education and Access Efforts" (Coca-Cola, 2020b)
	Other issue	Announcements that concern other social or political issues, for example expressing support for a specific political party	"Exelon applauds President Biden's decision to rejoin the landmark Paris Climate Agreement" (Exelon, 2021)

Table A2. CAR (AR) Regression Results

	Dependent Variable		
	AR[0]	CAR[-1:1]	CAR[-2:2]
β_1Admirability	0.314	-0.141	-0.763
	(0.192)	(0.739)	(0.137)
β_2Donation	-0.269	0.334	-0.135
	(0.343)	(0.512)	(0.833)
β_3Award	0.520	-0.377	-1.836*
	(0.153)	(0.606)	(0.060)
β_4Product	-0.725	-0.241	-1.416
	(0.154)	(0.804)	(0.191)
β_5Event	-0.147	-0.0001	-0.650
	(0.616)	(1.000)	(0.327)
β_6Gender equality	-0.610**	0.283	0.663
	(0.040)	(0.618)	(0.347)
β_7LGBTQ+	0.035	0.484	0.401
	(0.916)	(0.369)	(0.521)
β_8Civil rights	0.104	-0.115	0.182
	(0.736)	(0.831)	(0.796)
β_9Election	-0.338	-1.131	-0.056
	(0.700)	(0.236)	(0.973)
β_{10}B2C	0.190	0.825*	0.426
	(0.447)	(0.089)	(0.454)
Constant	-0.120	-0.541	0.205
	(0.718)	(0.401)	(0.807)
Observations	279	279	279
R2	0.042	0.020	0.025
Adjusted R2	0.006	-0.017	-0.011

This table shows the results from the regression for three different event windows: [0], [-1:1], and [-2:2]. *CAR* (*AR*) is the dependent variable. P-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A3. CAV (AV) Regression Results (ETF)

	Dependent Variable		
	AV[0]	CAV[-1:1]	CAV[-2:2]
β_2Donation	-0.630**	-0.641	-0.620
	(0.042)	(0.376)	(0.550)
β_3Award	-0.560	-1.043	0.382
	(0.324)	(0.399)	(0.805)
β_4Product	0.743	-0.213	0.275
	(0.350)	(0.880)	(0.878)
β_5Event	-0.297	-0.885	0.124
	(0.367)	(0.242)	(0.911)
β_6Gender equality	-0.355	-0.091	-1.486
	(0.353)	(0.925)	(0.245)
β_7LGBTQ+	-0.407	-1.029	-1.830
	(0.368)	(0.350)	(0.178)
β_8Civil rights	0.344	1.099	1.530
	(0.398)	(0.220)	(0.205)
β_9Election	-0.952	-1.351	-3.393
	(0.188)	(0.429)	(0.172)
β_{10}B2C	0.276	0.085	-0.636
	(0.347)	(0.899)	(0.498)
Constant	0.051	-0.208	-0.057
	(0.901)	(0.809)	(0.964)
Observations	279	279	279
R2	0.052	0.037	0.044
Adjusted R2	0.021	0.005	0.012

This table shows the results from the regression for three different event windows: [0], [-1:1], and [-2:2]. *CAV* (*AV*), using the ETF, is the dependent variable. P-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A4. Results from Significance Tests on CAV (AV) (Index)

	AV[0]	CAV[-1:1]	CAV[-2:2]
Mean	0.0493	0.2896	0.1110
Standard Deviation	2.0655	4.6310	6.8987
Z-Statistic	0.3991	1.0444	0.2688
P-Value (Z)	(0.6898)	(0.2963)	(0.7881)
W-Statistic	18969	20282	19122
P-Value (W)	(0.6778)	(0.5774)	(0.7626)
Skewness	0.5710	0.2737	0.3563
Kurtosis	0.4122	-0.4894	-0.2087

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAV* and *AV*, using the index, for three different event windows: [0], [-1:1], and [-2:2], with the corresponding p-values presented in parentheses. *CAV* and *AV* are the cumulative abnormal volume and the abnormal volume, respectively, expressed as percentages.

Table A5. Results from Significance Tests on CAV (AV) Subsamples (Index)

Subsample	Test	AV[0]	CAV[-1:1]	CAV[-2:2]
Donation or investment	Z	1.4862	-0.5858	-1.1912
		(0.1372)	(0.5580)	(0.2336)
	W	1298**	1553	1399
		(0.0436)	(0.3896)	(0.1189)
Award	Z	0.2533	0.5256	0.1192
		(0.8001)	(0.5992)	(0.9051)
	W	124	131	117
		(0.7854)	(0.6091)	(0.9729)
Product	Z	1.6393	0.8438	1.1690
		(0.1011)	(0.3988)	(0.2424)
	W	66	59	63
		(0.1677)	(0.3757)	(0.2439)
Event or initiative	Z	0.0325	1.0389	1.3991
		(0.9741)	(0.2989)	(0.1618)
	W	1391	1613	1683
		(0.7112)	(0.4389)	(0.2558)
Gender equality	Z	0.1444	1.9578	1.2776
		(0.8852)	(0.0503)	(0.2014)
	W	918	1135	1060
		(0.9853)	(0.1061)	(0.2874)
LGBTQ+	Z	-0.2428	-0.6738	-1.2630
		(0.8081)	(0.5004)	(0.2066)
	W	240	229	202
		(0.6645)	(0.5239)	(0.2539)
Civil rights	Z	-0.0106	0.3720	-0.1775
		(0.9915)	(0.7099)	(0.8591)
	W	7297	7935	7392
		(0.3964)	(0.9323)	(0.4783)
Election	Z	-0.1793	0.2419	0.1492
		(0.8577)	(0.8088)	(0.8814)
	W	17	20	18
		(0.9453)	(0.8438)	(1)

This table shows the results from the Z-tests and Wilcoxon signed-rank tests on *CAV* and *AV*, using the index, for three different event windows: [0], [-1:1], and [-2:2] and across eight subsamples. The table discloses the test statistics and corresponding p-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A6. CAV (AV) Regression Results (Index)

	Dependent Variable		
	AV[0]	CAV[-1:1]	CAV[-2:2]
β_2Donation	-0.551*	-0.760	-0.828
	(0.078)	(0.272)	(0.402)
β_3Award	-0.065	0.248	1.003
	(0.905)	(0.854)	(0.592)
β_4Product	0.779	1.170	3.553*
	(0.245)	(0.423)	(0.085)
β_5Event	-0.202	-0.104	1.375
	(0.511)	(0.884)	(0.196)
β_6Gender equality	-0.132	1.164	0.540
	(0.706)	(0.218)	(0.672)
β_7LGBTQ+	-0.425	-1.010	-2.604*
	(0.303)	(0.364)	(0.077)
β_8Civil rights	-0.209	0.149	-0.208
	(0.569)	(0.863)	(0.853)
β_9Election	-0.821	0.018	-0.418
	(0.327)	(0.993)	(0.885)
β_{10}B2C	0.625**	0.267	-0.112
	(0.022)	(0.682)	(0.902)
Constant	0.004	0.043	0.151
	(0.993)	(0.962)	(0.901)
Observations	279	279	279
R2	0.045	0.024	0.035
Adjusted R2	0.013	-0.009	0.003

This table shows the results from the regression for three different event windows: [0], [-1:1], and [-2:2]. *CAV* (*AV*), using the index, is the dependent variable. P-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A7. Results from Normality Tests

	Return			Volume		
	AR[0]	CAR[-1:1]	CAR[-2:2]	AV[0]	CAV[-1:1]	CAV[-2:2]
Jarque-Bera	52.22***	136.12***	116.71***	16.79***	0.49	0.29
P-Value (JB)	(0.00)	(0.00)	(0.00)	(0.00)	(0.78)	(0.87)
Shapiro-Wilk	0.97***	0.95***	0.93***	0.98***	0.99	0.99
P-Value (SW)	(0.00)	(0.00)	(0.00)	(0.00)	(0.49)	(0.26)

This table shows the results from the Jarque-Bera tests and the Shapiro-Wilk tests on *CAR* (*AR*) and *CAV* (*AV*), using the ETF. P-values of less than 0.05 indicate that the distribution significantly deviates from normal distribution. This is true for both the Jarque-Bera and the Shapiro-Wilk test. P-values are presented in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Table A8. Results from Heteroscedasticity Tests

	Return Regressions			Volume Regressions		
	AR[0]	CAR[-1:1]	CAR[-2:2]	AV[0]	CAV[-1:1]	CAV[-2:2]
Breusch-Pagan	8.32	5.13	5.80	6.39	2.62	4.57
P-Value (BP)	(0.60)	(0.88)	(0.83)	(0.70)	(0.98)	(0.87)

This table shows the results from the Breusch-Pagan tests on the six regression models, where *CAR* (*AR*) and *CAV* (*AV*), using the ETF, are the dependent variables. P-values of less than 0.05 indicate that heteroscedasticity is present. P-values are presented in parentheses.

Table A9. Results from Multicollinearity Tests

	Return Regressions			Volume Regressions		
	AR[0]	CAR[-1:1]	CAR[-2:2]	AV[0]	CAV[-1:1]	CAV[-2:2]
β_1Admirability	1.15	1.15	1.15			
β_2Donation	1.40	1.40	1.40	1.39	1.39	1.39
β_3Award	1.37	1.37	1.37	1.34	1.34	1.34
β_4Product	1.15	1.15	1.15	1.15	1.15	1.15
β_5Event	1.51	1.51	1.51	1.41	1.41	1.41
β_6Gender equality	1.87	1.87	1.87	1.87	1.87	1.87
β_7LGBTQ+	1.53	1.53	1.53	1.52	1.52	1.52
β_8Civil rights	2.36	2.36	2.36	2.35	2.35	2.35
β_9Election	1.23	1.23	1.23	1.22	1.22	1.22
β_{10}B2C	1.06	1.06	1.06	1.05	1.05	1.05

This table shows the results from the Variance Inflation Factor (VIF) test on *CAR* (*AR*) and *CAV* (*AV*), using the ETF. A VIF that exceeds 10 indicates multicollinearity, i.e. correlation among independent variables.