



Stock Market Reaction to Corporate Stands Against Racism: Summer 2020

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Abstract

Title: Stock Market Reaction to Corporate Stands Against Racism: Summer 2020

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Abstract: The purpose of this paper is to investigate the market reaction to Corporate Sociopolitical Activity, utilizing an event study methodology to determine the impact of an event on the companies' abnormal stock returns. The sample consists of Standard & Poor's 500 Index, US-based companies that made a statement condemning racism after the death of George Floyd on May 25 of 2020. Daily stock return is used to calculate the Cumulative Abnormal Returns (CAR) and Cumulative Average Abnormal Returns (CAAR) for the [-1,1] event window, which includes the day before, the day of, and the day after the event took place. Main results indicate that there is marginal evidence to believe that companies that made those statements saw a positive stock market return. Furthermore, using the Multiple Regression model, it was shown that the level of liberalism by the employees in the firm that made the statement negatively impacts the stock market returns.

Keywords: Non-market strategy, Corporate Sociopolitical Activity, Racism, Event Study, Stock Market Reaction, Cumulative Abnormal Return, Stakeholder Theory, Resource Dependence Theory

Abstrato

Título: Reação do Mercado a Declarações de Empresas Contra o Racismo: Verão de 2020

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Resumo: O objetivo deste estudo é investigar a reação do mercado a Estratégias Sociopolíticas Corporativas, utilizando a metodologia de estudos de eventos, de modo a determinar o impacto de um evento nos retornos anormais da cotação de mercado da empresa. A amostra consiste em empresas americanas, pertencentes ao Index Standard & Poor's 500, que emitiram comunicados a condenar o racismo, após a morte de George Floyd, a 25 de maio de 2020. Os retornos da cotação de mercado diários são aplicados, de maneira a calcular Retornos Anormais Acumulados e os Retornos Médios Anormais Acumulados para a janela de evento $[-1,1]$, que inclui o dia antes, o dia e o dia depois de o evento acontecer. Os resultados principais indicam que existe provas marginais para acreditar que as empresas que efetuaram esses comunicados tiveram uma reação positiva do mercado. Adicionalmente, ao usar o modelo de Regressão Múltipla, verificou-se que o nível de liberalismo dos empregados das empresas que emitiram os comunicados afeta negativamente os retornos na bolsa.

Palavras-chave: Estratégia de Não-Mercado, Estratégias Sociopolíticas Corporativas, Racismo, Estudo de Eventos, Reação do Mercado, Retornos Anormais Acumulados, Teoria de Stakeholders, Teoria da Dependência de Recursos

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1. Introduction

“This isn’t over, not by a long shot. America’s cities are still in turmoil, as are hearts and minds across the world, after we watched the horrifying death by suffocation of George Floyd, an African American man whose life was snuffed out under the knee of a police officer over 526 seconds. He pleaded for his life, asked for his mother. Onlookers begged the officers holding Floyd’s neck and body to the ground to stop — to have mercy.”

Statement by Gabrielle Starr, President of Pomona College, for the Financial Times; June 4, 2020

On May 25 of 2020, George Floyd, an African American man, tragically passed by the hands of a Minneapolis police officer in the street during broad daylight. This could have been just another name to add to a broad collection of African American people who have passed away by police officers' hands. Rayshard Brooks, Daniel Prude, Breonna Taylor, all individuals who died in 2020 alone, added to a concerning number of black people killed during police interventions. But what was different with the case of George Floyd? What made so many people come forward and speak out on racial inequality? Companies were standing up for this cause, were standing up against racism. Abruptly, the video of the tragic event reached the media and was covered worldwide, with news outlets repeatedly showing the footage and bringing the topic of racism to the center of discussion. Protests sparked in multiple countries (Noble, 2020), especially in the United States, with more than 2000 protests across all 50 American states (Eligon, 2020). The chilling phrase “I can’t breathe”, which George muttered upon his death, was used as a cry for change by protesters.

Research shows that around 93% of the protests in the US were peaceful (Kishi & Jones, 2020). Still, there were instances of violent protesting (Shubber, 2020), and that is where the focus of the President of the United States, Donald Trump, fell upon. Responses related to “law and order” and the suggestion of the use of the military to intervene in the protests (Kishi & Jones, 2020) were made. While the Black Lives Matter movement gained a lot of support in early June, right after the killing of George Floyd, it has since decreased (Center, 2020). It is partly due to the disparity in political orientation and media bias, that exhibited a disproportionate coverage of the violent protests (Kishi & Jones, 2020; Lahut, 2020).

As mentioned, George Floyd is just one name in a big group representing the ugly consequences of racism, particularly in the United States. As its origins dated back to the 16th century, racism in the United States, with the transatlantic slave trade (Solly, 2020), has changed and evolved into the 21st century, with systemic inequality. Racial, educational and economic disparities between races is a current reality (Solly, 2020), with black people being three times more likely to be poor compared to white people, having more racial profiling by the police, or having less valuable housing in comparison to white people (Bonilla-silva, 2006). Through the years, African Americans have been the targets of racial physical violence, associated with public lynching, false accusations that have led to violence, and, more recently, police brutality (Solly, 2020). The United States has a deep-rooted problem with racism that has persisted throughout the centuries and transformed itself. And while there is a long way to go in terms of fighting systemic racism, the summer of 2020 was crucial in the fight against racial inequality.

With society speaking out and condemning the events in Minneapolis, US companies suffered considerable pressure to help in the fight against racism, with a study suggesting that 60% of consumers would boycott or buy from a brand, depending on their response to the death of George Floyd (Edgecliffe-Johnson, 2020). Lately, companies are suffering significantly more pressure from stakeholders to speak out on social issues, such as LGBTQ rights, abortion, and climate change. Previous studies have shown that almost 64% of consumers will buy or boycott a brand based on their stances on sociopolitical issues (Edelman, 2018). With this pressure, CEO and company activism has increased, particularly during the Trump administration (Gaines-Ross, 2017). An example of a company taking a stand on social issues is the Merck CEO resigning from Trump's Manufacturing Jobs Initiative after Trump's response to Charlottesville's events (Bryan, 2020). Another example is Delta Airlines cutting ties with the NRA (National Rifle Association) after a school shooting, which lead them to suffer consequences from the local government (Matousek, 2018). There is also Nike's example of using Colin Kaepernick on their ad campaign (Gazette, 2018), after the controversy of Colin kneeling during the national anthem at a football game, which ultimately cost him his job (Bond, 2018). Such actions can be considered Corporate Sociopolitical Activities, which are defined as "a firm's public demonstration (statements and/or actions) of support for or opposition to one side of a partisan sociopolitical issue." (Bhagwat et al., 2020).

This event ties with the growing necessity to further develop research on the phenomenon of Corporate Sociopolitical Activity (hereinafter referred to CSA). It is a recent segment of the non-market strategy. Its concept will be expanded and examined, using two critical theories of the non-market strategy, which are Corporate Political Activity (hereinafter referred to CPA) and Corporate Social Responsibility (hereinafter referred to CSR). Considering the growth of importance in non-market strategies, particularly CPA and CSR, it is crucial to analyze their influence in companies' performance, whether it's financial or societal, and how they can help shape CSA's concept. So, with the assist of these two ideas, this paper will construct the concept of CSA, its main differences with the two former mentioned notions, the reason why companies are engaging in CSA, and its company performance results regarding the engagement in the fight against racism, in the summer of 2020.

Investors expect companies to maximize shareholder value (Jensen, 2001), and tensions created by engaging in CSA can be financially detrimental to the firm, with previous research showing that there is conflict between shareholder value maximization and engagement in CSR (Mishra & Modi, 2016). Given the controversial factor playing for CSA, CSA engagement can generate even more significant tension with shareholder value maximization. Thus, prior research on the financial benefit of CSA shows that investor reaction may be adverse, with investors worried about resource commitment and the deviation from the values and beliefs of important firm' stakeholders (Bhagwat et al., 2020). It will be interesting exploring if the results obtained in this dissertation follow the conclusions of previous papers regarding the outcome of CSA engagement.

Furthermore, it is pivotal to be aware of what firm characteristics influence the stock market performance, resulting from CSA engagement. This dissertation will investigate the influence that the ties with the federal government may have in this analysis, seeking to know if companies being dependent on federal government contracts may hurt or benefit investor response to CSA engagement. Additionally, the relationship with the local government will be explored, as one strives to understand the market response to a company statement in relation to the state's political ideology, in which their headquarters are located. Finally, an evaluation of the firm's employees' political ideology will be conducted to better understand the effect that the employee ideology may have on stock market results, on statements condemning racism.

Therefore, the aim of this paper is to help contribute to the literature on CSA and to offer the possibility to test the financial impact that sociopolitical activism may have on a companies'

stock market performance, specifically for a distinct social problem, such as racism. The study is based on American companies that spoke out against racial inequality after the death of African American George Floyd and the influence that had on abnormal stock market returns, reflecting the market reaction to such an event. The reported added stakeholder pressure may be of great significance for this research and help to better frame when companies should speak out.

This thesis is organized as follows. In the second chapter, a literature review will be conducted, where previous research on the topic is presented, and the theoretical perspectives necessary to help understand the issues raised, with the respective hypothesis tested in this paper. The following chapter will present the methodology used throughout the project to collect the sample necessary to run the tests. The data will be analyzed in the fourth chapter, where the main results will be presented. The final chapter will have the main conclusions of the thesis, as well as limitations, recommendations for future research, and managerial implications conducted in the topic.

2. Literature Review

Companies are open systems that interact and exchange information, capital, energy, and material with other actors, in the environment in which they operate (Anand & Daft, 2007). They aren't just economic actors but also a political and social actor (Donaldson & Preston, 1995), and what happens in their environment is crucial to determine their success and future. The business conditions are split into two in the literature, the market and non-market environments (Baron, 1995). Since they are not exclusive, decision-makers tend to integrate strategies compatible with both environments (Lawton et al., 2013). The market environment can be explained as "those interactions between the firm and other parties that are intermediated by markets or private agreements". In contrast, non-market environment consists of "those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions" (Baron, 1995). Analyzing both definitions, it is clear to observe that the non-market environment is more extensive and incorporates a wide array of business actors, such as the communities, the government and overall general public, which can help sustain a firm's competitive advantage (Liedong et al., 2015).

Developing the idea of market and non-market environment, strategic decisions must be taken to address both concepts, thus dividing into two perspectives: market strategy and non-market strategy. Market strategy is defined as a concerted pattern of actions taken in the market environment that create value and improve the firm's economic performance, whereas non-market strategy is a concerted pattern of actions taken in the non-market setting to create value by enhancing the firm's overall performance (Baron, 1995). The non-market strategy focuses on the institutional and societal context of economic competition (J. J. Boddewyn, 2003), going beyond the firm's market environment.

Diving more in-depth in the non-market strategies' topic, two distinct research concepts emerge, CSR and CPA (Mellahi et al., 2016). Both ideas are similar on crucial aspects of the relationship between firms and society's norms, institutions, and laws (Rodriguez et al., 2006), suggesting firms can be actors of change in their business environment. Previous literature has worked on linking both notions to understand possible non-market strategies better, how corporations can behave, and how it can influence their performance (Mellahi et al., 2016). Even though there are similarities between both concepts, and they should be aligned, they are not interchangeable. They should be considered as two distinct notions since companies can

use different tactics under each concept to gain a competitive advantage (Den Hond et al., 2014), with the example of lobbying for CPA and partnerships with nonprofit organizations for CSR.

Analyzing both concepts, firstly, Corporate Social Responsibility is defined as the companies' actions that advance social good beyond what is required by law (Korschun et al., 2014; McWilliams & Siegel, 2001; Nalick et al., 2016). It is an old concept, dated back to the 1950s, suggesting businesses have the responsibility to attain objectives based on social fairness and economic prosperity for an extensive range of stakeholders (Bowen, 1953). Despite the advancements in research and a growing consensus on the importance of CSR engagement for businesses, arguments against the basis of CSR exist, with literature defending that the only goal of companies is to make profits (Friedman, 1970). Nonetheless, there is a sense of agreement that CSR activities are beneficial for society and the firm if CSR actions are used to strengthen the relationship with essential stakeholders, which, in turn, can improve shareholder value (Hillman & Keim, 2001; Margolis & Walsh, 2003). Existing literature also argues that firms incur in socially responsible behaviors to secure legitimacy and a competitive advantage (Arya & Zhang, 2009; Bansal & Hunter, 2003). Research indicates that shareholders can pay a premium price for socially responsible companies and, socially responsible investors can turn non-responsible companies into socially responsible companies (Chen et al., 2020; Gollier & Pouget, 2014; Heinkel et al., 2001; Riedl & Smeets, 2017). Prior studies have shown that firms that engage in CSR investments are likely to gain from such investment (Kang et al., 2016; Pelozo, 2009). CSR actions can generate a positive company image, bigger customer loyalty, and more resiliency to negative events (Klein & Dawar, 2004; Luo & Bhattacharya, 2006), as well as positive financial results, thus reducing the probability of firms falling into financial distress (Godfrey, 2005). Recently, there has been an expansion of CSR tactics and a more significant connection with political issues, such as tax avoidance (Jenkins & Newell, 2013). Also, firms are becoming increasingly important in providing services that were once only provided by the state (J. Boddewyn & Doh, 2011). This research links with the idea that there is a growing interest in CSR activities since 77% of consumers consider that companies should contribute more to society (Burbury, 2013). There is a wide variety of tactics that firms can implement and create real social impact, which impacts the environment in which the firm is competing. The development of CSR and its success has led the government to develop more obligations to businesses and expand the law (Gond et al., 2011), showing the growing importance of CSR in the business world.

In short, these last few years have seen an expansion in CSR. Companies are incrementally adopting CSR strategies, as the belief by research is moving away from companies just being bounded to the generation of profits and reaching to an idea that firms should focus, as well, on the creation of shared value for society (Latapí Agudelo et al., 2019).

While there is an association between CSR and political matters, CPA better explains firms' tactics and the political role they can play in society. One key stakeholder of firms is the government, which directly influences the firm's environment, whether through legislation or market regulations, but CPA goes beyond that direct connection. CPA attempts to elucidate on the businesses' exerted influence in the political scenery, and that is why it can be broadly described as "corporate attempts to shape government policies in ways favorable to the firm" (Hillman et al., 2004), to gain a competitive advantage (Lawton et al., 2013). Those attempts can include the engagement in lobbying or political campaign contributions (Delmas & Montes-Sancho, 2010; Lawton et al., 2013) and even engagement in electoral politics (Walker & Rea, 2014). While engaging in CPA does not directly impact the companies' financial performance, the impact on public policies and regulations may, later, help firms gain a competitive advantage (Hadani et al., 2017; Lux et al., 2011). Engaging in CPA can be a key to achieving a competitive advantage by exerting influence in opposition to competitors' resources (Capron & Chatain, 2008; McWilliams et al., 2002). Existing research does show contradictory results in understanding the positive effect of firms engaging in CPA for their financial performance (Aggarwal et al., 2012; Cooper et al., 2010; Hadani et al., 2017; Lux et al., 2011).

Nonetheless, there is agreement on the general factors that push companies to participate in CPA, such as government regulation and firm size (Lawton et al., 2013; Lux et al., 2011). But CPA does not live without controversy and ethical concerns regarding transparency issues and benefit gaining at the expense of individual citizens (Barley, 2007; LaPira & Thomas, 2014), especially if there is perceived corruption (Oberman, 2004). Overall, there isn't a consensus on the effectiveness of CPA engagement and how beneficial it can be for firms.

Considering the two initial ideas presented above, the central notion that is the driver of this paper will be explained, which is the concept of Corporate Sociopolitical Activity. CSA is a recent idea in the theory, so CSR and CPA's notions can help illustrate it. The main focal point in the difference between CSA and CSR lies in the consensus of the matter at hand. CSR issues are highly consensual within society, as opposed to CSA topics, which are highly polarizing, given their partisan nature (Bhagwat et al., 2020). CSR typically helps strengthen the

relationship between both parties (Mishra & Modi, 2016). In contrast, stakeholders' responses to firms engaging in CSA are highly variable since they depend on the person's beliefs and values (Bhattacharya & Elsbach, 2002). Companies have to balance their stakeholders' different views (Nalick et al., 2016). Another key difference is the risk involved. Previous research has found that CSR reduces firms' idiosyncratic risk (Luo & Bhattacharya, 2009), even though it can have a more significant initial investment. Contrasting with CSA, it typically doesn't require a significant initial monetary expense but can increase the firm's risk in the eventuality of a boycott (Bhagwat et al., 2020). Moving to CPA, CSA differs in the targeted exposure of the activity. While CSA warrants a big platform so that the message can reach a substantial number of people (Bhagwat et al., 2020), most CPA wants a quieter approach (Lux et al., 2011) since it can endanger the reputation of the firm.

Thus, CSA is defined as “a firm's public demonstration (statements and/or actions) of support for or opposition to one side of a partisan sociopolitical issue” (Bhagwat et al., 2020). Sociopolitical issues can be identified in three parameters, the first being that it lacks consensus among society, where opinions are split between being “for” and “against” in multiple levels of society. There is low information rationality since there is a limitation for factual information around the social topics. The general public has the feeling that they know enough about the issue at hand and don't need to collect more opinions (Haider-Markel & Meier, 1996). Lastly, the social issue has evolving perspectives and has salience in society (Nalick et al., 2016). Thus, we can describe sociopolitical issues as “salient unresolved social matters on which societal and institutional opinion is split, thus potentially engendering acrimonious debate among groups.” (Nalick et al., 2016). Sociopolitical issues can create controversy among the public, which can either hurt or benefit the company that engages in CSA.

With the growing engagement of firms utilizing their platform to speak out on different social issues, it is essential to understand why companies are doing so. Prior research has shown that CEO ideology can be a notable factor. It can be whether CEOs are mainly concerned with a group of stakeholders, such as employees and the community (Nalick et al., 2016). Or whether they are speaking out on values they believe in, since there is a growing progressive mentality within younger CEOs (Chin et al., 2013; Chatterji, 2016; Chatterji & Toffel, 2018). Additionally, stakeholders have been pressuring companies to speak out, particularly companies that are more sensitive on the subject (Briscoe et al., 2014; Nalick et al., 2016). Social media, which is an amplifier for companies' voices (Chatterji, 2016), has also been a deciding factor on companies taking a public stand, with activists threatening to boycott firms

that don't speak on said issues (McDonnell & Werner, 2016). If that boycott becomes a big business threatening risk, companies will respond to stakeholders' pressure (Baron & Diermeier, 2007; Eesley & Lenox, 2006) or will attempt to neutralize the implemented boycott by social activists (McDonnell & King, 2013). Protests effectively affect investor response if the matter has prominent media coverage or targets key stakeholder groups (King & Soule, 2007).

A tendency exists for firms to be more open to taking political and social stands according to their member's political ideology. Liberal-leaning firms will be more open to social activism (Gupta & Briscoe, 2019). Not just that, the propensity for shareholder activism has grown, with shareholders actively trying to influence social practices done by companies (Cundill et al., 2018). Research has indicated that there is favorable evidence among the public that firms should take public stands on societal issues (GSG, 2014), even though there is a risk for the firm in doing so (Eilert & Nappier Cherup, 2020). At hand, several factors lead companies to speak out on sociopolitical issues, with firms balancing all stakeholders and the positive or negative reactions they may have towards the firm and their stance.

The big question mark in this area is if it is beneficial for companies to take public stands on pressing societal issues and how it can benefit their financial performance. Since CSA is a recent phenomenon, there isn't much research done on this subject. Some general studies on CSA issues have revealed adverse investor reactions to companies practicing the activity, focusing on sociopolitical activity engagement deviating from the values of critical stakeholders and brand image, thus being essential factors to the unfavorable response. Implementation of company resources in areas that are not part of their business is additional reasoning to justify the results. (Bhagwat et al., 2020).

In 2020, with the tragic passing of George Floyd and the fight against racism, the Black Lives Matter movement gained traction. Findings in June of 2020, time frame where most firms took a public stance against racism, found that 67% of adults supported the Black Lives Matter movement (Center, 2020). Also, there were multiple protests, not just in the United States, but globally against what occurred (Shubber, 2020), alongside the ample media coverage around the occurrence and protests (Heaney, 2020), with the public pressuring firms to speak out on what transpired. Companies suffered tremendous stakeholder pressure from their customers, who will choose brands that are aligned with their ideology (Escalas & Bettman, 2005; Kim et al., 2018). They also suffered pressure from their community and employees to rise against

racial inequality. Stakeholder theory has its origin back to the 1980s, outlining that organizations have a wide variety of stakeholders to manage, whether internal (i.e., employees) or external (i.e., community) (Freeman, 1984). Stakeholder theory helps delineate the relationship development between the company and its multiple stakeholders. There may be gains related to CSA's engagement, mostly if the company and the stakeholders' views are aligned (Bhagwat et al., 2020). Existing literature has shown that almost 64% of consumers buy or boycott a brand based on their stances on sociopolitical issues (Edelman, 2018). Suppose an alignment exists with important stakeholders from the company, such as customers. In that case, firms can expect an increase in sales, which benefits the company's financial performance and, ultimately, results in investors gaining from these circumstances. A strengthened relationship with multiple stakeholders, as well as customer acquisition, may lead to a more favorable investor reaction. All these arguments can help support the hypothesis that firms may have seen positive stock market reactions during the period where they spoke out, which leads to the first hypothesis proposed in this thesis:

Hypothesis 1 (H1): Companies who make statements condemning racism will see a positive stock market reaction.

2.1. The Contingent Nature of Market Reaction to Statements Against Racism

At hand, different key stakeholders can influence the market effect of taking a stand on social issues, with their personal views affecting their judgment towards the firm's actions. One stakeholder that can be analyzed is the federal government. The extent of firm cash flows derived from government sales has been critical for firms to engage in CPA and manage the relationship with the federal government (Hillman et al., 2004; Lux et al., 2011). Bringing the resource dependence theory into perspective, the more dependent the firm is on the government, the more the firm would like to stay on good terms with the government. United States President Donald Trump has not been shy about his views on the Black Lives Matter movement and what he thinks of the people that participated in the protests against racism, calling them “thugs” and “anarchists, not protesters” (Villarreal, 2020). These statements indicate that the federal government's ideological views and the companies' taking a stand don't align, which may agitate investors. There is a concern of retaliation by the federal government on the companies

that make such statements, particularly in more difficult negotiations with the federal government, particularly regarding the contracts, which may hurt the companies' future financial performance. Thus, it leads us to the next hypothesis:

Hypothesis 2 (H2): Companies making statements condemning racism, who have federal government contracts, will see a worse stock market reaction than companies that don't have such agreements.

Other stakeholders are interested in what ensues on the firm. These stakeholders have their personal views and beliefs. A great deal is related to the political affiliation that the individual possesses since political party identification can be characterized as a person's social identity (Tajfel, 1981). The United States has a peculiar political party scenery, with two parties: Democrats and Republicans. Parties and ideologies are aligned, with liberals in the Democratic party and conservatives in the Republican party (Levendusky, 2009). Recently, there has been an increase disliking between Republicans and Democrats (Iyengar et al., 2012). Individuals tend to treat political parties like sports teams, voting for them to have bragging rights if their party wins rather than voting for society's common good (Miller & Conover, 2015). A company's location affects the stakeholders said company has, specifically stakeholders from the state where the company has its headquarters. While firms try to maintain a good relationship with the local government, through political donations (Lux et al., 2011), firms engaging in CSA can create conflict with the local government, with the instance of firms speaking out in Georgia against discrimination of the LGBTQ community (Wattles, 2016). Clashing with the local government may hurt the company, with the example of Atlanta-based Delta Airlines being punished by Georgia legislators for their stance against the NRA (Matousek, 2018), and investors will take that into mind for their investment decisions (Bhagwat et al., 2020). While the local government has to follow the national laws, they can create their policies. It is a somewhat more straightforward process to establish newer regulations, facilitating local government punishing companies, with the Georgia legislators' example above evidencing that setting. Therefore, firms have more interactions with their local government than the federal government, and home-state governments are sensitive to a firm's actions and stances, and more likely to punish a company whose CSA engagement they disapprove of (Bhagwat et al., 2020). If a company's public view aligns with the state's political ideology in which it is headquartered, I hypothesize that the market reaction will be positive.

In this case, deriving once again from stakeholder theory, there is overwhelming support for the Black Lives Matter movement by white democratic adults (Center, 2020), so the third hypothesis will be:

Hypothesis 3 (H3): Companies who make statements condemning racism, whose headquarters are in Democratic states, will see a more favorable stock market reaction comparing to companies whose headquarters fall in Republican states.

Employees comprise a critical stakeholder for firms since they are a big reason why firms can achieve a competitive advantage (Edmas, 2012) and have success. Their satisfaction can lead organizations to have more talent recruitment (Slavković et al., 2018) and greater customer satisfaction that, in turn, leads to better financial performance (Chi & Gursoy, 2009). There is evidence of greater employee satisfaction levels through the company's CSR practice (Barakat et al., 2016; Tziner et al., 2011; Vlachos et al., 2013). But, as previously detailed, there is a lying consensus among what issues CSR treats. On the other hand, that is not the case with CSA, which relates to controversial topics and may hurt the relationships with the company's employees (Bhagwat et al., 2020), since employees will interpret companies' actions through their personal experiences and values (Gupta et al., 2017). If an alignment of values exists amongst the firm and its employees, investors will be more favorable to the stance made by the firm, which leads to our last hypothesis for this study:

Hypothesis 4 (H4): Companies making statements condemning racism, that have employees with a more liberal/democratic ideology, will see a more favorable stock market reaction.

3. Methodology

3.1. Event Study

This study's primary goal is to analyze the abnormal stock returns observed after companies made statements condemning racism and racial inequality after the passing of George Floyd, on May 25 of 2020. To conduct the research, the event study methodology was applied (Corrado, 2011; John J. Binder, 1998; Peterson, 1989; Ziemba, 2007). It is one of the most common research methods used to evaluate the fluctuation in stock price changes anticipated by the occurrence of an event (Arya & Zhang, 2009; Bhagwat et al., 2020). In this case, the short-term event study was conducted (Brown & Warner, 1985). The event study presumes that the recent information presented to the market will trigger an investor reaction, reflected in the stock returns. Therefore, it provides information to evaluate the market response to the event, by analyzing the specific incident's stock prices.

In this research, the examined event will be the engagement of companies in CSA, by delivering a statement against racism. Insofar that investors expect such a stand to positively influence the companies' future cash flows and profitability or even decrease the companies' stock's risk, their reactions to news of CSA should be positive (and vice-versa, if they anticipate negative firm implications).

The sample encompasses all S&P 500 that made public statements related to the fight against racial inequality and condemning the events of May 25 of 2020. Corporate statements on companies' websites or blogs, Twitter page of the firm, or the CEO's LinkedIn page, were the sources utilized in this research. This indicates that the statements were fully disclosed to investors between May 25 of 2020 and September 30 of 2020. The specific time window was chosen to evaluate the aftermath of the passing of George Floyd and the consequential protests in the reaction to the fight against racism by the US population and, more precisely, by the investors. To collect all discernible corporate statements condemning racism, first, the companies' website and blog were consulted, then, if nothing was revealed, the next platform was Twitter. Lastly, if there weren't any statements on Twitter, the LinkedIn profile of the company CEO was searched. These were the most used channels, by the companies or their respective representatives, for putting out comments. Only observations that had an identifiable date to the statement were used for the database.

From the entire population of S&P constituents, 219 different companies put out statements against racism during the focal point. All 219 firms have US headquarters and did not experience any confounding events on the previous day, the day of, and the following day from the firm releasing the public statement. If the company experienced a confounding event in any of the three days, they were excluded from the sample (Arya & Zhang, 2009; Sorescu et al., 2017). Confounding events comprise the releases of earnings reports, dividend announcements, executive adjustments, stock splits or structural stock adjustments, damage suits, product recalls, new product announcements, and merger and acquisition activities (Bhagwat et al., 2020), as identified through a search on the companies' press releases, and by using the information 8-K form submitted to the US Securities and Exchange Commission (SEC), that is mandatory when there are major events that investors should be aware of.

To estimate the effect of CSA on the firm's stock market returns, it is necessary to control for returns of the market. Thus, the abnormal market returns were calculated using the market model methodology (McWilliams & Siegel, 1997). The abnormal returns are the difference between the returns during the estimation period, and the actual observed returns during the event period (Bhagwat et al., 2020). The parameters of the model are estimated through the relationship between the companies' returns over a set window period and the market returns for the same period (Arya & Zhang, 2009; Bhagwat et al., 2020), which will allow controlling for external market effects that take place during that period.

Short window lengths for the event study have been recommended by prior research to minimize other factors' effects in the relationship being analyzed (McWilliams & Siegel, 1997). But even in short time windows, confounding events may still occur. This study's time window is a 3-day window (the day before, the day of, and the day after) [-1, 1]. The examination of the day before and after the event allows for possible information leaks or lag time in investors' reactions to the statements (Sorescu et al., 2017). Moreover, it was also essential to study the political affiliation of firms' employees, so companies that did not have enough information on that subject were excluded from the sample. In total, 28 observations were removed from consideration on the data sample.

To perform the event study, the abnormal returns, using the market model, were calculated to estimate the relationship between the firm's equity returns and the market returns (Sorescu et al., 2017), over a time frame of 200 days. The return of the S&P 500 was used since the list of companies in the data sample was taken from that index. By estimating the connection

between each firm's return and the return of the S&P 500 index, it was easier to control for external shocks and trends in the market that may have impacted the stocks' fluctuation (Arya & Zhang, 2009).

All analyses were performed using the EventStudy tool made available by the Wharton Research Data Services.

3.2. Cross-Sectional Variation in Cumulative Abnormal Returns

3.2.1. Dependent Variable

The stock market reaction to companies speaking out against racism serves as the measure for investor's reactions (Sorescu et al., 2017), which will test Hypothesis 1 (H1). The data was taken from the Center for Research in Security Prices (CRSP), which was used to estimate each firm's abnormal stock returns on the day the firm made a statement.

$$AR_{it} = R_{it} - E[R_{it}]$$

R_{it} represents the firm's daily return, $E[R_{it}]$ the expected return for the firm in that particular day, and AR_{it} is the firm's abnormal return, which captures if there is a difference between what was the observed return of the company on a specific day and the return expected for that day.

Given that the measurement window is three days, the daily abnormal returns are summed up to obtain the cumulative abnormal returns (CAR), which constitutes the total incremental value computed to the company by the information provided in the event (Geyskens et al., 2002).

$$CAR_{i(t', t)} = \sum_{t'}^t AR_{it}$$

The CAR is computed for different time windows [-1, 0, 1], and then the significance in the time window is tested (Sorescu et al., 2017; Bhagwat et al., 2020).

To test Hypothesis 2 to 4, regarding how different the effect in Cumulative Abnormal Returns may be relating to characteristics of the firm and its stakeholders, the Ordinary Least Squares (OLS) was employed.

$$CAR_i = b_0 + bZ_i + \theta X + e_i$$

For the calculations, the dependent variable in the analysis is CAR_i . For the 3-day event window, Z_i is the vector for the independent variables for hypothesis 2-4, X is the vector for the control variables, and e_i represents the error term.

To compute the results and see the evidence for each hypothesis, Hierarchical Multiple Regressions were used. Three models were estimated for the hypothesis: Model 1 for Hypothesis 2 (H2), model 2 for Hypothesis 2 (H3), and model 3 for Hypothesis 4 (H4). Model 0 and 4 were ran for more precise information about the independent variables' relevance when explaining the dependent variable's variation.

3.2.2. Independent Variables

To test Hypothesis 2, that links companies with the federal government, the dummy variable *Government Contract* was used, coding firms with federal government contracts with 1, and 0 if otherwise. The companies with federal contracts were taken from the *Federal Procurement Data System – Next Generation*, from the database of *Top 100 Contractors Report* of the fiscal year of 2019. There were not only the Top 100 companies with federal contracts in the database, but there were also companies divided by different industrial sectors. Companies that appeared in, at least, one of the existing lists of the database were considered for companies that had government contracts.

To test Hypothesis 3, which is related to the company's location, the data was retrieved from the *Thomson Reuters* database, related to the "State of Headquarters", giving information in which state the companies' headquarters were located. Using the percentage of votes given to the Democratic party in the 2016 US Presidential Elections, the ratio of state liberalism was measured, indicated in the variable *Percentage of State Liberalism*.

To test Hypothesis 4, which refers to employee ideology, the individual monetary contributions of firm' employees to candidates, parties, and linked associations with the democratic and republican parties were collected from the website *Open Secrets*. *Open Secrets* tracks money in US politics and reports corporate expenses related to political reasons. The years for the analysis were 2016, 2018, and 2020 (Appendix 1). It was calculated the financial contribution given from members, employees, or owners of the organization and those individuals' immediate family members to the Democratic party, to the years in question. Then, it was conducted a mean of those three election cycles to find the overall money donated to the

Democratic party, as a proportion of total donations (i.e., including contributions to the Republican party), which is interpreted as the percentage of employee level of liberalism, an indicator of employee ideology.

3.2.3. Control Variables

The control variables used to capture the company's attributes that might have influenced the study's outcome include financial leverage, performance, firm size, and industry membership. Prior literature has shown that firm value for shareholders depends on the company's financial structure (Schulze et al., 2012). *Debt-to-Equity Ratio* represents the firm's financial leverage situation and reflects shareholder equity's ability to cover all the firm's debts. For profitability, the *Return on Equity* was the chosen indicator. As for firm size, the *Total Assets* were accounted for. The variable was measured in log amount. Finally, according to the industry they belonged to, each firm was linked to a Standard Industrial Classification (SIC) code to control industry fixed effects, taken from *Barchart*. Next, two digits SIC codes were grouped to control for possible fixed effects of each sector. All the mentioned variables are from the year 2019.

All the following analyses were conducted with the use of R Studio.

4. Results

The descriptive statistics for the variables presented above are contained in Table 1. All the variables vital to test the previously proposed hypothesis are available for all 219 observations. There are a few control variables that do not have information available for all the 219 firms, but since there is no reason to indicate that it did not happen at random, all observations were accounted for in this study. Relating to potential selection bias, given that only companies that made statements against racial inequality from May 25 to September 30 were included, there isn't a concern regarding selection bias.

Table 1 – Cross-Sectional Descriptive Statistics

Reported are the number of observations, the average, standard deviation, the minimum, and maximum value for the following variables: Cumulative Abnormal Return, the logarithm of Total Assets, the Debt-to-Equity Ratio, the Return on Equity, the Employee Liberalism, State Liberalism, and Government Contract. Financial values and the Government Contract are related to the year 2019. The State Liberalism is for the 2016 time period, and Employee Liberalism was calculated based on 2016, 2018, and 2020. The CAR value is taken from the subperiod between May 25 and September 30 of 2020.

	N	Mean	SD	Minimum	Maximum
CAR	219	.004	.042	-.168	.183
Log (Total Assets)	219	10.348	1.487	5.676	14.804
Debt-to-Equity Ratio	201	1.716	4.95	.023	67.068
ROE (%)	180	2.129	23.541	-.248	315.6
Employee Liberalism	219	.603	.257	.003	1
State Liberalism	219	.517	.085	.276	.615
Government Contract	219	.183	.387	0	1

As for the correlations between variables, they are introduced in Table 2. Apart from Employee Liberalism and State Liberalism, none of the other variables are significantly

correlated with our dependent variable, CAR. For other correlations, the correlation between State Liberalism and Employee Liberalism was relatively high and statistically significant. To test if there would be a problem in the regression model regarding multicollinearity, the Variation Inflation Factor (hereafter referred to as VIF) was run. Results show that the VIF (VIF = 1.3) was well below the threshold of 10, so there is reason to believe that it does not hurt the regression model (Meyers et al., 2006). There is also a statistically significant Correlation between Government Contracts and the logarithm of Total Assets, representing firm size, but VIF (VIF = 1.03) also confirms results below 10, which does not undermine the regression model results. The most robust correlation is between ROE and Debt-to-Equity Ratio, with almost a perfect correlation. While VIF was below the 10 value (VIF = 8.67), it was still relatively high. As a precautionary measure, the analysis was conducted using both variables separately and observing if that would change the main hypothesis results. Results remained similar, however.

Table 2 – Correlations Matrix for Cross-Sectional Analysis

The correlations and their significance levels are reported between the following variables: Cumulative Abnormal Return, the logarithm of Total Assets, the Debt-to-Equity Ratio, the Return on Equity, the Employee Liberalism, State Liberalism, and Government Contract. Financial values and the Government Contract are related to the year 2019. The State Liberalism is for the 2016 time period, and Employee Liberalism was calculated based on 2016, 2018, and 2020. The CAR value is established on the subperiod between May 25 and September 30 of 2020.

	1	2	3	4	5	6	7
1. CAR							
2. Log (Total Assets)	-.041						
3. Debt-to-Equity Ratio	.03	-.033					
4. ROE	.012	-.033	.94***				
5. Employee Liberalism	-.15**	.026	.107	.107			
6. State Liberalism	-.129*	.011	.05	.065	.448***		
7. Government Contract	-.083	.124*	-.042	-.04	.021	-.046	
*** Correlation is significant at the 99% confidence level							
** Correlation is significant at the 95% confidence level							
* Correlation is significant at the 90% confidence level							

4.1. Event Study Results

Table 3 indicates the main results of the event study, as well as the robustness tests, conducted to alternatively estimate the values of CARs (Market-Adjusted Model and Fama-French 3 Factor Model), and a different time window of 10 days. The outcome of the main time window [-1,1], using the Market Model, reported in the first line, specifies that the Cumulative Average Abnormal Return (hereinafter mentioned as CAAR), for the sample, is 0.415%, which is a positive result. The first step was to test if the abnormal returns were normally distributed to evaluate their statistical significance. Applying the Shapiro-Wilk test in R Studio, we conclude that the CAAR distribution is not normal, so the next step was to use the Patell Standardized Residual test (Patell, 1976), to find if the results were significant. The null hypothesis is that CAAR is equal to 0, which means there aren't substantial changes in the CAAR, given the studied event. The results are statistically significant at the 90% confidence level ($p < 0.1$), which indicates that we can reject the null hypothesis. Evidence suggests a marginal reason to believe that companies that made a statement against racism would see a positive significant abnormal return, which can help marginally confirm Hypothesis 1 (H1). To test this effect's robustness, a different time window, and other risk models were employed. For a separate 10 day [-5,5] time window, the results present a positive, statistically significant CAAR value of 99% confidence level ($p\text{-value} < 0.01$). For the Market-Adjusted Model, the positive effects are only significant at a 90% confidence level ($p\text{-value} < 0.1$). Lastly, using the Fama-French 3 Factor Model, it indicates that the positive results are not statistically significant ($p\text{-value} > 0.1$). Given the robustness tests' results, there is reason to believe that evidence regarding Hypothesis 1 (H1) shows a marginal, statistically significant positive effect.

Table 3 – Stock Market Reaction to CSA Engagement

Reported are the event window, the Cumulative Abnormal Average Return, the number of Cumulative Abnormal Return observations on each model, the Patell Z value related to CAAR and the p-value for the Patell Z test, for the following stock market reaction models: Market Model, Market Model for the 10 day time window, Market-Adjusted Model and Fama-French 3 Factor Model. The CAAR value is based on the subperiod between May 25 and September 30 of 2020.

Risk Model	Event Window	CAAR Value	Number of CARs	Patell Z for CAAR	Patell Z CAAR p-value
Market Model	[-1,1]	.00415	219	1.445	.074
Market Model	[-5,5]	.0236	219	7.54	0
Market-Adjusted Model	[-1,1]	.0035	219	1.405	.08
Fama-French 3 Factor Model	[-1,1]	.00228	219	.5276	.2989

4.2. Cross-Sectional Variables Results

Conducting the study for hypotheses 2, 3 and 4, the Hierarchical Multiple Regression (Cortina, 1993) was utilized, from models 0 to 4, shown in Table 4. This method allows to measure the contributions of the independent variables and control variables in blocks and understand how well each block contributed to explaining the independent variable's variation. Model 0 includes just the control variables, whereas model 4 consists of all variables. The table presents the coefficient of each variable's contribution to explaining the value of CAAR and each's standard error.

To understand the importance of firm related characteristics in explaining the variation in the value of CAAR, the factors employed were the logarithm of Total Assets, the Return on Equity, the Debt-to-Equity Ratio, and the SIC Codes to account for industry effects. Model 0 (Appendix 2) shows that some of the industry effects are statistically significant at explaining the variability in CAAR, although the other controls are not statistically significant. This model

helps explain 27% of the variance of CAAR. For models 1 to 3, the control variables were computed first, followed by the independent variables to be tested, to understand the contribution in explaining the variability of CAAR. For model summaries, check Appendix 3.

Table 4 – Cross-Sectional Variation in the Value of CAR

Results are obtained by running the Hierarchical Regression Models, to understand the impact in the CAR value, in the 3-day window event, given changes in the following independent variables: Government Contract, State Liberalism, Employee Liberalism, the logarithm of Total Assets, ROE, Debt-to-Equity Ratio. The Constant of each model is reported. 5 Models were produced to test the established hypothesis.

Dependent Variable	CAR [-1,1]	CAR [-1,1]	CAR [-1,1]	CAR [-1,1]	CAR [-1,1]
Variables	Model 0	Model 1	Model 2	Model 3	Model 4
Government Contract		-.009 (.008)			-.009 (.008)
State Liberalism			-.080** (.037)		-.037 (.040)
Employee Liberalism				-.039*** (.012)	-.034** (.014)
Log (Total Assets)	-.001 (.002)	-.0005 (.002)	-.001 (.002)	-.0004 (.002)	-.0001 (.002)
ROE	-.0004 (.0004)	-.0003 (.0004)	-.0004 (.0004)	-.0003 (.0004)	-.0002 (.0004)
D/E Ratio	.002 (.002)	.002 (.002)	.002 (.002)	.002 (.002)	.001 (.002)
Constant	.062 (.041)	.067 (.041)	.106** (.045)	.092** (.041)	.114** (.045)

Industry effects are omitted from the table given the limited space

*p<0.1 **p<0.05 ***p<0.01

Table presents the regression coefficients and the standard errors of the coefficients for models 0-4

In model 1, after the introduction of the variable Government Contract, which measures if firms have an important federal government contract, the total variance of the independent variable was explained by the model in 27%. The addition of the Government Contract was not statistically significant (R^2 change of 0.001 and p -value = 0.3), when compared to model 0. Government Contract variable recorded $\beta = -0.009$ and it is not statistically significant (p -value > 0.1). Calculations were also conducted in finding if there were statistically significant differences in CAAR between firms with Government Contracts and firms in the Top 100 Government Contracts, which are shown in Appendix 4.

For model 2, the State Liberalism was introduced, measuring the state's level of liberalism in which the companies have their headquarters. The variability of CAAR was explained by the model in 28.9%, with the introduction of the new variable being statistically significant (R^2 change of 0.0056 and p -value = 0.03) compared with model 0. Contrary to expectations, the coefficient for State Liberalism is negative ($\beta = -0.080$) and statistically significant at the 95% confidence level (p -value < 0.05).

For the final hypothesis, model 3 brings in the variable related to Employee Liberalism, representing the level of liberalism of the firms' employees. The model explains the variability of CAAR in 31.6%, a statistically significant contribution compared with the original control model (R^2 change of 0.012 and p -value = 0.002), model 0. Again, contrary to expectations, the Employee Liberalism coefficient is negative ($\beta = -0.039$) and statistically significant at the 99% confidence level.

Finally, all variables were included in model 4 to account for and measure the level of importance of all variables. The total variance of CAAR explained by the model is 31.7%, which is the model that better explains the variation of CAAR. In this model, our independent variables used to test the proposed hypothesis have the following coefficients, with Government Contract having a $\beta = -0.009$, State Liberalism having $\beta = -0.037$ and Employee Liberalism registering $\beta = -0.034$. Aside from statistically significant industry effects of several industries, the coefficient of Employee Liberalism is the only statistically significant variable, at the 95% confidence level (p -value < 0.05).

The evidence shown on this model does not support hypothesis 2 (H2), which states that companies that spoke out against racism and had important federal government contracts would see a worse investor reaction. While the response is negative, companies with essential federal government contracts see a decrease of -0.009 units, on average, in their CAAR value, if

everything else remains constant, the value is not statistically significant. Therefore, we cannot claim that having federal government contracts negatively influences investors' reaction to firms making statements against racial inequality.

The model shows a different expected outcome to the one theorized in Hypothesis 3, which claimed that firms taking stands against racism, whose headquarters were in more democratic states, would see a more favorable market reaction. In this case, that was the contrary. Evidence shows that the more liberal the state, the more negative the variation in CAAR is. On average, a 1-unit change in State Liberalism sees a -0.037 change in CAAR, *ceteris paribus*. The value is not statistically significant, so there isn't enough evidence to reject the hypothesis that companies would see a positive market reaction to speaking out on racism when they have headquarters in more democratic states, which means there isn't support for Hypothesis 3 (H3).

Similar to what occurred in Hypothesis 3, there is a contrast between the hypothesis's expected results and the observed result for Hypothesis 4. Evidence supports that a 1-unit change in Employee Liberalism leads to a -0.034 change, on average, in the CAAR value, while everything else remains constant. It is statistically significant at the 95% confidence level ($p\text{-value} < 0.05$), which indicates that the more liberal the employees are, the less favorable the market reaction is, so we must reject Hypothesis 4 (H4).

5. Main Conclusion and Future Research

5.1. Discussion

This paper aimed to understand if companies benefited from making statements against racial inequality, particularly after the passing of George Floyd in 2020, and how characteristics related to the firm could influence the strength of that benefit. There isn't much research done on the financial performance of firms taking sociopolitical public stands. As priorly advanced, in general, investors have adverse reactions to these stands since social issues are such polarizing issues and are bound to offend stakeholders with opposing views. This can lead to adverse market reactions (Luo et al., 2013), but there isn't enough research measuring the differences in responses across the spectrum of issues.

This paper aimed to explore the reaction to a CSA event, by measuring the market reaction to firms speaking out on the subject matter. The main objective was to measure the effect of the statements on companies' stock market returns, reflecting investors' reaction to the event. And also, to further investigate if company-related factors, such as having key federal government contracts, location of headquarters, and employee ideology, affect investor response.

The results of the study conducted in this paper show marginally significant abnormal returns around the statements in question. The research around the Cumulative Average Abnormal Returns and the Average Abnormal Returns, using the event study mechanism, indicates that companies making statements condemning racism saw a significant positive influence on stock prices, independent of firm characteristics, the use of different event periods and risk models. Prior research on investor response for CSA events is still relatively scarce, with CSA related event study still vastly unexplored, as well as the different characteristics that may influence response. Therefore the effects of engaging in CSA are still considerably unpredictable. Nonetheless, results demonstrate that this specific event and some firm related characteristics influence market reaction.

Seeking to understand the study results better, several points should be considered. The study focused on market reaction to these statements after a very tragic and news casted event took place. This study did not just focus on CSA engagement on racism, it focuses on one of the most discussed events that took place in the year 2020, with news outlets all over the world reporting and discussing the death of George Floyd, which originated one of the biggest waves of protests against racial inequality in decades. Society had its eyes on people's responses to

what transpired and was ready to morally judge anyone regarding their response to the event (Edgecliffe-Johnson, 2020).

However, the more exciting discussion driven by the results is the evidence that the more liberal/democratic the firm's employees are, the less favorable the market response is to the statements. This is conflicting with prior research results that show that CSA engagement can strengthen the relationship between firms and employees when there is alignment in the values (Bhagwat et al., 2020). Prior literature has shown evidence that supports liberal/democratic individuals being more likely to support the Black Lives Matter movement and the fight against racism (Center, 2020). We now move to understand what the reason may be as to why investors had a negative response to statements made from companies that have more a more liberal ideology within their employees. A possible clarification for this situation is that previous studies have found that employees can pressure a firm's management team to act, in order to feel good about themselves and have a sense of justice (Aguilera et al., 2007). This would arise as a problem if investors noticed the situation and perceived a firm's statement against racism as indicative of an agency problem within the firm. Specifically, investors may believe that the top management team is no longer making decisions with the maximization of shareholder value in mind, but rather because of the pressure exerted by employees of the firm. More liberal employees may have pressured the management teams on their firms to speak out on the matter, and, consequently, investors were aware of the pressure and reacted negatively to it.

Although evidence shows that the level of liberalism of a state is not statistically significant in explaining the Cumulative Average Abnormal Returns variation, it is also interesting to note that the relationship between the two is negative. The more liberal the local government is, the less favorable was the market reaction. Given the significant correlation between state liberalism and employee liberalism, it can be assumed that one influenced the other's result, but further research on the topic can help understand the contribution of both state and employee liberalism to the CSA literature.

The findings of this research help advance the body of literature in non-market strategies, particularly CSA. Thus far, the literature has focused on studying the reaction of general CSA events (Bhagwat et al., 2020) and trying to clarify who is responsible for the initiation of such engagement (Nalick et al., 2016). This research takes an important step in tackling a distinct social issue regarding the consequences of a tragic event related to said issue. This is important given the turbulent environment that we are currently living in and giving a sense of what can

happen to firms that decide to speak out on social issues in such uncertain times. Additionally, this study's significant positive results contradict a previous sense that the literature on the subject had of a negative investor response to CSA engagement (Bhagwat et al., 2020). Furthermore, this paper also helps to understand one crucial characteristic related to the firm that can influence investors' response and opens the possibility for further research on the matter, given how interesting this paper's results were.

5.2. Limitations

Regarding the limitations for this study, first and foremost, we cannot affirm that investors have an overall positive reaction to firms engaging in CSA, particularly with the subject of racism, given that this paper focused on a particular time frame, where reasons previously discussed may have influenced the overall results of the study. It is unclear how outcomes would change if the study conducted had a bigger time frame. Secondly, one of the limitations of any short-term event study is that results only convey short term reactions, remaining unclear if CSA engagement can impact the firm for a more extended time period. It is indeterminate if these short-term results would be similar for the long-term period. Nevertheless, it is challenging to conduct such a study on an extended period time frame due to confounding events that can impact the stock market reaction. A further reason, there may be a biased picture of CSA engagement, given that firms that are part of the research sample are only publicly traded firms part of the S&P 500. Such a sample may not be the best picture to represent the US business environment fully. Time constraint limitations on the measurement of variables also exist. The most prominent example is Employee Liberalism, which was only measured through monetary expenses, which may not accurately represent the full picture of employee ideology in the firm (Gupta et al., 2017). Furthermore, this research paper was only conducted in US territory, so it is not possible to generalize results for other countries, since the evidence is distinct for the US business and societal environment. Separate studies would have to be conducted to see if similar results are observed in other locations. Finally, it is not clear if the type of platform used to make statements influences the study results, and how investors may react. It is unclear if investors value all news and statements on all platforms equally, or if there is a preference for such communications.

5.3. Future Research

While the number of studies around CSA is growing, there is still much to unpack and examine on this important topic. Additional research needs to be conducted to have stronger insights on the differences between the concepts of CPA, CSR, and how their interconnection can help build the notion of CSA. This paper focused on market response to stands against racism by companies after the passing of George Floyd but, other events, such as the emergence of the Black Lives Matter group after the acquittal of George Zimmerman on the shooting death of African-American Trayvon Martin, can be analyzed. Additional specific societal problems, including the likes of LGBTQ+ rights, gun rights, or abortion, need to be examined and comprehend why they may or may not, positively or negatively, influence investor reaction to firms taking stands on the topics. This research suggests that the market positively reacted to firms condemning racism after the death of George Floyd. Still, it was an event with conditions priorly discussed on how they may have influenced investor reaction. It would be fundamental to see a more extensive study on response to racism for several years and how certain events may have played a part in influencing the response. Furthermore, the study focused on employee and state liberalism and had surprising results, which provide more room for future research on how these two factors can influence response to firms' statements around racism and other social subjects. More research on the consequences of the interaction between CEO ideology and the ideology of employees in market response to CSA, focusing on the agency theory, is a topic worth analyzing, given the interesting evidence of this paper. Future research also has room to explore other stakeholders apart from employees, state and federal government, with the inclusion of CEO ideology or customer values, as examples. Additionally, firm authenticity to such statements was not measured in this study. It leaves room to understand the market response to firms' statements depending on their consistency in supporting the fight against racism in the past. We often see customers calling out companies making statements supporting a cause because, in the past, that company had done something against the cause they are now embracing. It is an exciting aspect to dive in and have a better grasp. Lastly, there is a more significant research body on the short term effects of companies engaging in CSA. Still, it will be interesting to understand the long-term effects of CSA engagement on a companies' reputation, long-term financial performance, and customer base composition. Companies are now looking at CSA as a strategy for their business.

5.4. Managerial Implications

The most critical aspect for managers related to CSA is if they should engage in such practice and how it can impact their firm. This study's findings help to better understand the short-term financial impact (abnormal stock returns) on firms that spoke out against racial inequality. While investor response was positive, managers should consider that the event's conditions, such as media coverage, may directly impact investor response to the statements. Thus, managers concerned about CSA's impact on shareholder value should first consider the type of attention and general societal response to the subject at a certain point in time.

Moreover, managers should not engage in CSA due to the pressure employed by the firm's employees. Investors can become more doubtful of the firm's intentions and how the decisions are made if they believe that the top management team is succumbing to pressure from employees and does not have their best interest in mind. Thus, CSA's idea should be coming from the top management team as opposed to the pressure exerted by the firm's employees.

This research also highlights the growing importance of non-market strategies and how CSA can impact the firm's short-term financial performance, so top management teams must study the possibility of using these strategies to grow their business and strengthen the relationship with their stakeholders. With such fast-changing business environments and conditions, firms must have a good understanding of the issues that they should approach. In conclusion, managers need to assess the potential benefits and costs inherent in engaging in CSA, particularly the environment surrounding the social issue, how much pressure is being applied by society in companies, and how the message may align with company stakeholders.

5.5. Conclusions

The research conducted attempted to better understand the effects of CSA engagement on the firms' market returns. To do so, an analysis of statements against racial inequality was conducted. Contrary to previous papers' findings, evidence shows that investors had a positive response to the companies' engagement in the fight against racism, given the significant positive market reaction on companies' abnormal market returns, after the passing of George Floyd. Evidence also showed that employees' liberalism could negatively affect the market response to activism despite the literature review's contrary expectations.

Through CSA, companies are attempting to influence their business and social environments, closely followed by their stakeholders. This research shows that firms can observe positive reactions to their activism. It can help firms dedicate more time to formulating strategies and engaging in CSA, speaking out on issues they may deem worthy of attention.

6. Appendices

1. Measurement of Employee Liberalism

To build this variable, the individual monetary contributions of firm' employees to candidates, parties, and linked associations with the democratic and republican parties were collected from the website *Open Secrets* for the years 2020, 2018, and 2016. The inclusion of the year 2018 was made because the individual monetary contributions were not available for 2016 for two of the 219 firms. Moreover, the study where the information collection was based also utilized three different years (Gupta et al., 2017).

2. Relevant Industry Fixed Effects

Given the space constraints, the following industries were proved to have statistically significant roles in explaining the variability of CAAR in model 4:

- SIC Code 20 – Food and Food Products
- SIC Code 44 – Transportation
- SIC Code 49 – Utilities
- SIC Code 52 – Retail
- SIC Code 60 – Banking
- SIC Code 65 – Real Estate
- SIC Code 70 – Personal Services
- SIC Code 73 – Business Services

Source: Fama-French 48 Industry Codes

3. Full Results of Cross-Sectional Variation Analysis

Table 5 – Model 0 Summary

Reported are R Square, the Adjusted R Square, the Residual Standard Error, and the F Statistic for model 0, with the control variables. All control variables are from the year 2019.

Model	R Square	Adjusted R Square	Residual Std. Error	F Statistic
1	0.447	0.270	0.035 (df = 131)	2.520 (df = 42; 131)

4. **1. Predictors:** (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects
5. **Dependent Variable:** CAR for event window [-1, 1]

Table 6 – Model 1 Summary

Reported are R Square, the Adjusted R Square, the Residual Standard Error, and the F Statistic for model 1, firstly for the control variables and, after, for the control variables with the variable Government Contracts. This independent variable, and the control variables, are based on the year 2019. The change in statistics is presented, with RSS, the Sum of Squares, the Df, and Sig F Change, to check for the independent variable's impact in explaining the changes in CAR.

Model	R Square	Adjusted R Square	Residual Std. Error	F Statistic	Change Statistics			
					RSS	Sum of Squares	Df	Sig F Change
1	0.447	0.270	0.035 (df = 131)	2.488 (df = 42; 131)	0.16154		131	
2	0.451	0.270	0.035 (df = 130)	2.488 (df = 43; 130)	0.16018	0.00135	130	0.2969

1. **Predictors:** (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects
 2. **Predictors:** (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects, Government Contract
- Dependent Variable:** CAR for event window [-1, 1]

Table 7 – Model 2 Summary

Reported are R Square, the Adjusted R Square, the Residual Standard Error, and the F Statistic for model 2, firstly for the control variables and, after, for the control variables with the variable State Liberalism. This independent variable is based on the year 2016, with the presidential election cycle. The control variables are from the year 2019. The change in statistics is presented, with RSS, the Sum of Squares, the Df, and Sig F Change, to check for the independent variable's impact in explaining CAR changes.

Model	R Square	Adjusted R Square	Residual Std. Error	F Statistic	Change Statistics			
					RSS	Sum of Squares	Df	Sig F Change
1	0.447	0.270	0.035 (df = 131)	2.488 (df = 42; 131)	0.16154		131	
2	0.466	0.289	0.035 (df = 130)	2.638 (df = 43; 130)	0.15595	0.005589	130	0.0327

1. Predictors: (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects

2. Predictors: (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects, PercentageofStateLiberalism

Dependent Variable: CAR for event window [-1, 1]

Table 8 – Model 3 Summary

Reported are R Square, the Adjusted R Square, the Residual Standard Error, and the F Statistic for model 3, firstly for the control variables and, after, for the control variables with the variable Employee Liberalism. This independent variable is based on the mean of the years 2016, 2018, and 2020. Control variables are from the year 2019. The change in statistics is presented, with RSS, the Sum of Squares, the Df, and Sig F Change, to check for the independent variable's impact in explaining the changes in CAR.

Model	R Square	Adjusted R Square	Residual Std. Error	F Statistic	Change Statistics			
					RSS	Sum of Squares	Df	Sig F Change
1	0.447	0.270	0.035 (df = 131)	2.488 (df = 42; 131)	0.16154		131	
2	0.486	0.316	0.034 (df = 130)	2.861 (df = 43; 130)	0.15003	0.0115	130	0.00198

1. Predictors: (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects

2. Predictors: (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects, PercentageofEmployeeLiberalism

Dependent Variable: CAR for event window [-1, 1]

Table 9 – Model 4 Summary

Reported are R Square, the Adjusted R Square, the Residual Standard Error, and the F Statistic for model 4, including all variables.

Model	R Square	Adjusted R Square	Residual Std. Error	F Statistic
1	0.495	0.317	0.034 (df = 128)	2.787 (df = 45; 128)

1. Predictors: (Constant), log_Assets, ROE, DebttoEquityRatio, IndustryEffects, Government Contract, PercentageofStateLiberalism, PercentageofEmployeeLiberalism
Dependent Variable: CAR for event window [-1, 1]

Source: Own research

6. Top 100 Government Contracts

In the *Federal Procurement Data System – Next Generation*, from the database of *Top 100 Contractors Report* of the fiscal year of 2019, there was information for companies that possessed important federal contracts by industry and the comprehensive list of the Top 100 Contracts that the federal government has. Further research was conducted to have a clearer understanding if there was a difference in the market reaction between the companies that had Top 100 contracts and those that did not.

Results show the mean differences are not statistically significant (p-value>0.1), which indicates that there is no reason to believe that the difference in means is different than 0. Hence, there isn’t a statistically significant difference in the market reaction between companies that had important federal contracts and firms with Top 100 federal contracts.

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