

Why are CEOs commenting on racial injustice?

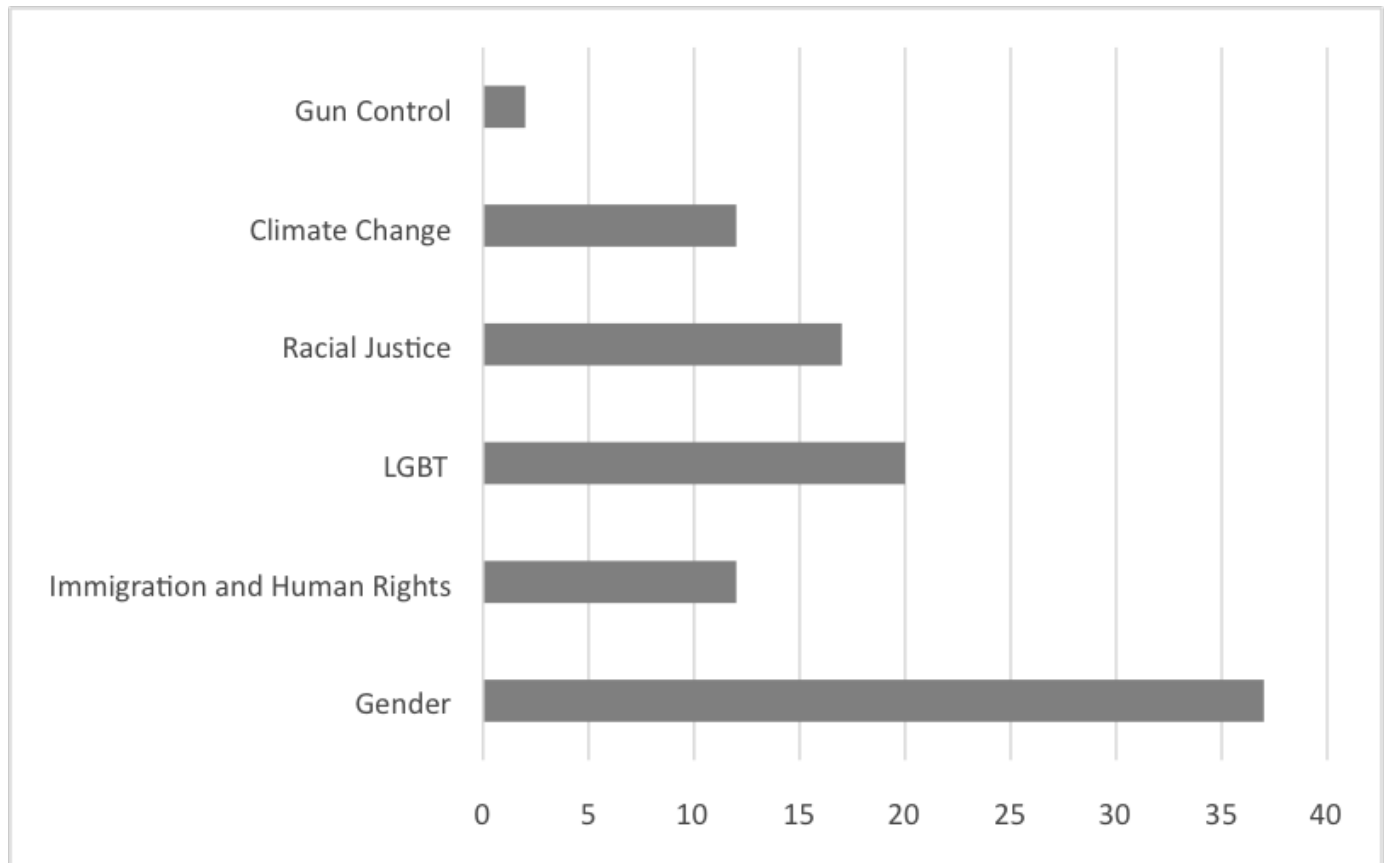


In the last few weeks, CEOs of large American companies have [publicly condemned](#) the death of George Floyd while in the custody of the Minneapolis police. In the last few years, CEOs have been increasingly speaking on social issues, which are not directly related to their core business interests. Why are CEOs speaking on social issues, and what are the consequences of CEOs' social activism for the company?

In this post, which is based on my research in [Homroy \(2020\)](#), I examine the new phenomenon of CEO social activism. There are no objective definitions of CEO activism. Using textual analysis of the public statements and social media posts of CEOs, I classify a statement as activism if the CEO comments on gender equality, racial diversity, immigration, gun control, environmental issues, universal healthcare, and human rights. In total, there are 187 activism statements of S&P 500 firms in the 2014-2019 period. Figure 1 illustrates the frequency with which CEOs speak on different social issues.

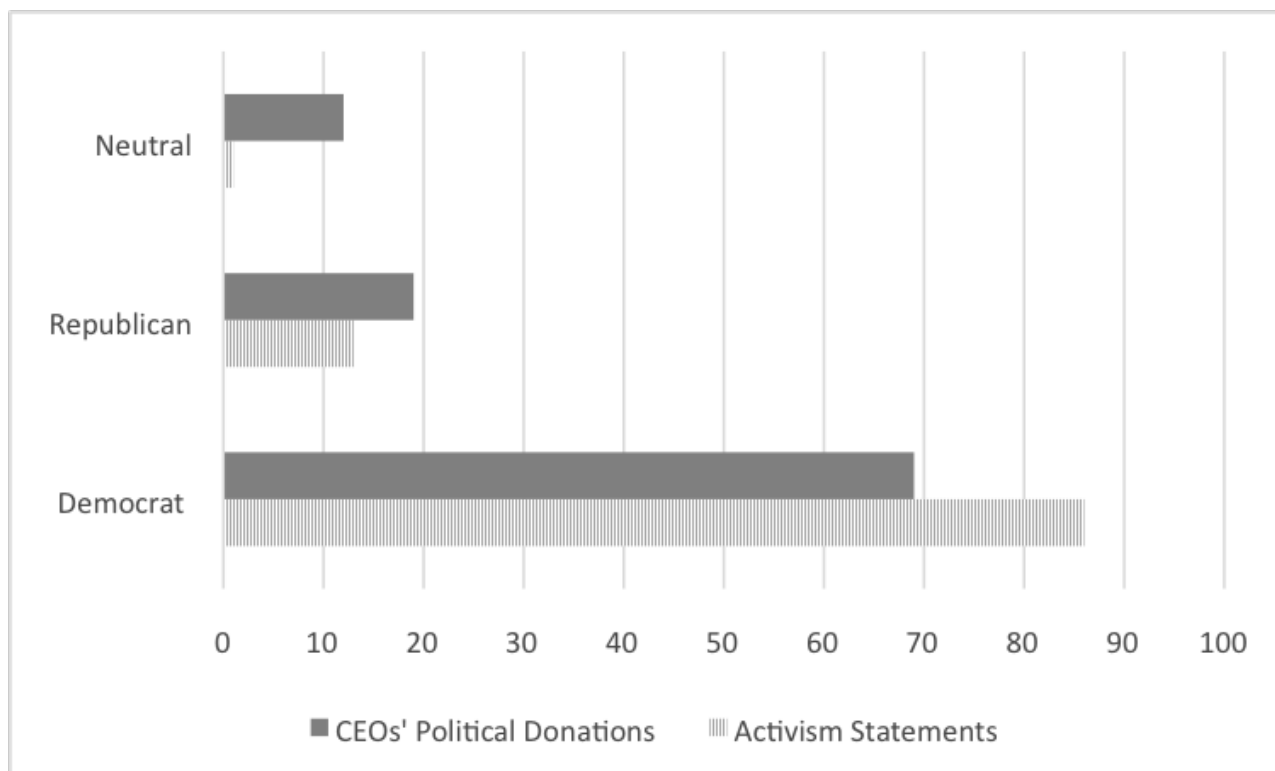
I explore two main questions. Firstly, I examine the motivations for CEO activism. CEO's social statements can reflect a growing demand of customers for corporations to engage with societal concern. Indeed, a [survey](#) by Stanford University shows that customers in the US are supportive of CEOs' social activism. The risk of taking a stance on a social debate is that the CEO will antagonise people who hold the opposing view. The same Stanford University study found that the respondents were more likely to stop using a product because of disagreeing with the CEOs activism stance. This is a concern because social problems in the United States have [political connotations](#). For example, speaking in favour of racial justice, tighter gun controls, pro-choice, pro-immigration, and more robust environmental protection, is leaning towards the Democrat-stance on the debate.

Figure 1. The frequency of CEO social activism topics (2014-2019)



Given the political dimension of the social issues, I analyse the content of CEOs' activism statements. I use the Gallup poll of political preferences to categorise the partisan-slant of CEO activism statements as left-liberal (Democrat) or conservative (Republican). There seems to be a clear partisan-bent of the CEO's social activism statements. Among the 187 instances when CEOs of large US companies have spoken on social issues, 161 are aligned to liberal Democrat ideologies. It, therefore, is plausible that the CEO's activism statements are motivated by their personal views on the socio-political debates. To examine that, I collect information on the political donations of US CEOs from the Federal Election Commission. Based on this data, 70 per cent of US CEOs are Republican donors. Figure 2 illustrates the partisan-bent of CEO activism statements and the political donations of CEOs.

Figure 2. Partisan leanings of CEO activism statements and CEOs' political donations



What explains the paradox of Democrat-leaning social statements made by Republican-donor CEOs? Republican-leaning CEOs account for 122 of the 185 activism events in the sample. Using a linear probability model, I find that Republican-leaning CEOs are 88 per cent more likely to engage in social activism with a Democrat-slant. If furthering their own political views was the dominant motive, the CEOs' political donations and public opinions should be aligned. The opposite correspondence of the political preference of the CEOs and the partisan-slant of the activism statements indicate strategic motives of CEO social activism.

Political opinions among US citizens are increasingly polarised, and there is [a liberal shift](#) in American political views. If the political opinion of customers is polarised, the effectiveness of traditional mass-market advertising strategies decrease. If that is the case, catering to the preferences of one side of the political divide can be beneficial. Indeed, I find that CEO activism is more common among companies operating in the [most politically polarised](#) states like Georgia, Maryland, New York and Texas, compared to companies that operate in less polarised states. When CEOs express their social concerns, they may not try to voice their own moral or political opinions but trying to attract investors and customers with liberal views.

Does the strategy of speaking on social issues with a Democrat-slant in a politically polarised environment work? In an event-study setting, I find a positive market reaction to CEO social activism. In the three-day event windows around CEO social activism, the average cumulative abnormal return is 1.3%. Sales revenue of companies also increases in the next quarter. The positive market reaction may imply a lexicographic preference of stakeholders. Democrat-leaning stakeholders positively view the CEO's social activism, but the Republican-leaning stakeholders have no preference for these activities. The economic benefits of social activism are more significant for companies selling consumer products and highly competitive industries. I find no statistically significant difference in economic consequences for CEOs proactively engaging in social activism (like the current protests about George Floyd's murder) compared to CEOs who are not reacting to a proximal social event.

These results are as timely as they are important. I provide, to the best of my knowledge, the first detailed economic analysis of CEO activism. At a time when the economic powers of corporations rival that of national governments, and the public trust in the political institutions is low, the political ambitions of CEOs are under increased scrutiny. My results show that CEO activism is driven by economic, rather than political incentives.



Notes:

- This blog post is based on the academic paper [All that is Left to say: Why are CEOs speaking on Social Issues?](#)
 - The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.
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