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To Advocate or Not to Advocate: Determinants and Financial Consequences of CEO Activism

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Chief executive officers (CEOs) who engage in activism take public stands on issues that are largely unrelated to the core business of their firms. This study assesses the impact of CEO activism on shareholder value and investigates potential drivers behind the decision to advocate. We conduct an event study centred on a particular episode of CEO activism: the resignation of a group of business leaders from their roles as advisors to President Trump. We choose this setting since activism is likely to have a stronger impact when a CEO is politically connected. However, by engaging in advocacy, a CEO risks severing the very same political links that underlie the strength of the message. We find that shareholders react negatively to the decision to quit a presidential advisory council, which is consistent with a fear of weakening their firm's political influence. The decision to publicly advocate seems to be driven more by a CEO's personal political ideology than by a company's general involvement in corporate social responsibility. We also observe that managers are more likely to take a stand when they are protected by their firm's corporate governance rules. This study provides empirical evidence of the risks associated with CEO activism.

Introduction

Recent years have witnessed a sizeable increase in chief executive officer (CEO) activism (i.e. in the number of business leaders taking public stands on a range of issues largely unrelated to their companies' main business) (Chatterji and Toffel, 2015, 2018). For example, in 2015, Tim Cook of Apple and Bill Oesterle of Angie's List openly opposed Indiana's Religious Freedom Restoration Act, which they viewed as detrimental to LGBT rights. Before the 2015 United Nations Climate Change Conference held in Paris, several CEOs signed a letter calling for an agreement to halt climate change. In 2017, several CEOs resigned from two presidential business councils following President Trump's measures on immigration and climate change and following his remarks on the Charlottesville protests.

CEO activism attracts significant media attention and is generally supported by the general public, as indicated by surveys showing that the majority believes that CEOs should take the lead on public debates and have a responsibility to speak out on political and social issues (Edelman, 2019; Weber Shandwick, 2018). This phenomenon has only recently gained the attention of the academic community. Chatterji and Toffel (2015, 2018) were the first to formalize the concept of CEO activism. To date, and to the best of our knowledge, the

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A free video abstract to accompany this article can be found online at: https://youtu.be/ALKoy7nJuw0 empirical evidence on CEO activism is essentially descriptive and anecdotal, with the exception of Chatterji and Toffel (2019), who study how CEO activism can influence political and consumer attitudes, Voegtlin, Crane and Noval (2019), who investigate the impact of CEO activism on job seekers, and Burbano (2019), who looks at the effect on employees' motivation.

In this paper, we assess the impact of CEO activism on shareholder value and show how activism can pose important practical challenges to firms whose CEOs decide to advocate. In particular, we maintain that those business leaders who are most likely to deliver a stronger message when advocating, such as politically connected CEOs, may have to pay a high price for their choice when it directly jeopardizes their political influence. To the extent that political influence is valuable to their firms, the decision to advocate will likely result in the alienation of certain investors. This perspective may discourage managers from speaking up on key public issues when doing so increases the risk of being dismissed.

We use an empirical analysis to substantiate our arguments where CEO activism involves the resignation of CEOs from their roles as advisors to President Trump. These resignations manifested their disapproval with some of the President's public statements and measures concerning environmental, racial and national security issues. We first conduct an event study to test the impact of CEO activism on shareholder value and, hence, assess its directly measurable market-based consequences. Second, we investigate the potential drivers that influence a CEO's choice to take a stand or remain silent by looking at both CEOs' political values and the corporate social responsibility (CSR) policies of firms. We find that, on average, shareholders react negatively to a CEO's decision to quit a council while they appreciate the choice to remain onboard. The decision to publicly advocate seems to be driven more by a CEO's personal political ideology than by a company's general involvement in CSR. Consistently, we observe that CEOs are more likely to speak out when they feel protected by their firms' corporate governance rules.

From an empirical point of view, there are several advantages from using a set of blue-chip CEOs as a laboratory for the study of the impact of CEO activism on shareholder value. Not only does our sample consist of firms with highly liquid shares, but any public stands of the CEOs are also closely followed by shareholders, media and the general public alike. Given the strength of the CEOs' message coupled with the high liquidity of the shares and the vast media coverage of their actions, any market reaction should be quickly incorporated in share prices.

Our main findings best reflect the financial consequences of *strong CEO activism*, where CEOs put 'skin in the game' by using their political links or leveraging their economic power. Most CEO activism is, however, of a softer type (i.e. uncontroversial in topic and tone, non-partisan and expressed in a collective form to avoid individual retaliation) (Gaines-Ross, 2017; Larcker *et al.*, 2018). Hence, we complement our analysis with an episode of soft activism in the form of a letter signed by 30 CEOs urging President Trump to stay in the Paris climate agreement. We find no significant investor reaction to this episode, and therefore conclude that only CEO activism of a strong form has a measurable impact on shareholder value.

We make significant contributions to the existing literature on CEO activism. First, we provide empirical evidence of the impact of CEO activism on shareholders and the difficulties that managers may face when advocating, particularly in the form of a conflict between their moral compass and the economic interests of value-maximizing investors. So far, the activism literature has focused on the reactions of customers, employees and the general public. Looking at the shareholders' response to activism is of paramount importance given that, ultimately, the CEO is accountable to investors. These findings may prove useful to boards of directors, especially in light of the redefinition of the purpose of a corporation to incorporate the interests of all stakeholders, as recommended by the Business Roundtable.[1] Following the conventional view that firms exist principally to serve their shareholders, our results suggest that activism can represent a cost for the firm. However, with an enlarged perspective on the purpose of the firm, such costs could be mitigated by potential benefits accruing to other stakeholders. Second, we shed empirical light on the motivations and circumstances that render CEOs more likely to take a stand. Our results suggest that management entrenchment and weaker shareholder

[1] https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

protection seem to represent effective means to circumvent potential contrasts vis-à-vis shareholders and encourage managers to speak out on key public issues. Furthermore, our paper complements the literature on shareholder value and CEOs' political connections by showing that when political connections and social activism are intertwined, shareholders ultimately value political connectedness over and above activism.

Institutional background and hypothesis development

Institutional background

Following models established by presidents Eisenhower and Obama, President-elect Trump launched two business advisory councils with the purpose of advising the White House on matters directly related to economic growth, employment and productivity. The Strategic and Policy Forum was established on 2 December 2016 with additional appointments made on 14 December, bringing the total number of members to 19 business leaders. The appointees were 'charged with providing individual views to the President – in a frank, non-bureaucratic, and non-partisan manner – on how government policy impacts economic growth, job creation, and productivity'.[2] On 27 January 2017, the President formed the American Manufacturing Council consisting of 28 corporate and labour leaders whose task was to advise on manufacturing initiatives and 'on how best to promote job growth and get Americans back to work again'.[3]

Between February and August 2017, 12 members resigned from the two councils. Kalanick (Uber) was the first to leave in February 2017, citing disagreement with the immigration ban imposed on certain Muslim-majority nations. Iger (Disney) and Musk (Tesla) resigned in June 2017 in open contrast with Trump's decision to withdraw from the Paris climate agreement. Nine more managers quit in August 2017 following Trump's statements on the Charlottesville riots. On 11 and 12 August, a group of white supremacists gathered in Charlottesville, VA under the so-called 'Unite the Right' rally, where they clashed with counter-protesters, leaving one dead and 38 injured. Trump's remarks on the events received significant attention and criticism, as he did not explicitly denounce white nationalists and instead issued a general statement condemning 'hatred, bigotry, and violence on many sides' (Johnson and Wagner, 2017).

Many interpreted his reaction as implying moral equivalence between the white supremacist marchers and the counter-protesters. To distance themselves from the President, Frazier (Merck), Krzanich (Intel) and Plank (Under Armour) resigned from the American Manufacturing Council on 14 August. Three labour leaders who resigned on 15 August and three more CEOs who quit on the morning of 16 August followed their example. Later that day, the President tweeted his decision to disband both councils: 'Rather than putting pressure on the businesspeople of the Manufacturing Council & Strategy & Policy Forum, I am ending both. Thank you all!'

We interpret the managers' decision to quit the advisory councils as a manifestation of CEO activism. According to Chatterji and Toffel (2018, 2019), CEO activism is characterized by two distinctive features. First, it manifests in the promotion of values and ideals that are generally unrelated to the core business of a company and that go beyond a company's immediate economic interests. In our setting, the CEOs who chose to leave the councils acted chiefly in defence of general social and ethical values rather than heralding the need to protect the economic interests of their firms. The firms belong to a range of different industry sectors, which confirms that the decision to quit was generally disconnected from the core business operations of the companies. For two firms, Uber and Tesla, the decision to quit the councils can however be more directly associated with their core business, as Uber widely employs immigrant drivers and Tesla produces electric cars. We show in the online Appendix that the results still hold when excluding these companies. Second, activism takes place outside of formal channels and is instead openly communicated to the public with the purpose of raising awareness. In our case, the CEOs expressed their views and announced their choice to leave the councils publicly through Twitter and press releases rather than attempting to exercise their political influence privately through their advisory positions. Previous contributions to

[2] https://www.presidency.ucsb.edu/node/319874
[3] https://www.whitehouse.gov/briefings-statements/president-trump-announces-manufacturing-jobs-initiative/

the literature on CEO activism (Chatterji and Toffel, 2018; Gaines-Ross, 2017) also regard the resignation from President Trump's advisory councils as an example of activism.

In this respect, it is important to compare CEO activism with related concepts. The closest concepts to CEO activism are corporate political advocacy (Wettstein and Baur, 2016) and corporate political responsibility (Lyon *et al.*, 2018). Wettstein and Baur (2016, p. 203) introduced the notion of corporate political advocacy to describe the engagement of 'corporations which expose themselves politically on issues without any direct and overt relation to their core business operations'. Lyon *et al.* (2018, p. 4) include in their definition of corporate political responsibility 'a firm's advocacy of socially and environmentally beneficial public policies'. These definitions are closely related to CEO activism but differ along two dimensions. First, CEO activism focuses on the CEO (as opposed to the organization). Second, corporate political advocacy and corporate political responsibility are inherently political in nature, while CEO activism includes a whole spectrum of public stands that extend beyond public policies.

Less related concepts include strategic CSR (i.e. CSR for profit maximization) and traditional non-market strategies such as lobbying which, unlike CEO activism, are motivated by a firm's core activities and immediate interests. Additionally, lobbying takes place behind closed doors instead of in the public domain. Although activism is theoretically distinct from non-market strategies (Chatterji and Toffel, 2019), in which firms work to influence policies related to their core businesses, existing studies on the impact of CEO activism suggest that there may be a link between activism and stakeholder behaviour, such as that of consumers and employees. In this respect, activism can be related to non-market strategies, given its implications for firm performance.

CEO activism and firm value

To draw predictions on the impact of CEO activism on a firm's market value, we first note that while activism differs from strategic CSR, it is related to the broader concept of CSR (Lyon *et al.*, 2018; Wettstein and Baur, 2016). Shareholder theory (e.g. Friedman, 1962, 1970) predicts a negative response of investors to a firm's engagement in social responsibility, in line with views that a firm's sole responsibility is the maximization of its profits and that any time, energy or money devoted to other causes represents a value transfer from shareholders to other stakeholders. A negative reaction from shareholders is also expected when CSR arises from agency conflicts between CEOs and shareholders (Jensen and Meckling, 1976; Tirole, 2001). In this case, CEOs engage in socially responsible actions because of their own social preferences or from their desire to establish a reputation among other key stakeholders (e.g. customers or politicians). Stakeholder theory (Freeman, 1984) argues instead that a company should pursue the interests of everyone involved in or affected by the company itself. To the extent that CSR efforts ultimately translate into an improvement in a company's efficiency, competitiveness, reputation or profitability, we expect to find a positive reaction from shareholders to socially responsible engagement.

The effect of CEO activism *per se* on investors is difficult to predict. Most CEO activism does not draw directly on a company's monetary resources or severe valuable relations, and therefore should not represent a concern for shareholders worried about the diversion of financial resources. However, it can still be perceived as a diversion of time and energy away from the CEO's agenda and, as such, trigger a negative response from shareholders. This reaction is likely to be stronger in the presence of principal–agent problems, where the CEO is driven primarily by his/her own social preferences and values. In line with stakeholder theory, advocating may instead generate an increase in the market value of the firm if it boosts profitability through increased sales or productivity. However, existing studies (Burbano, 2019; Chatterji and Toffel, 2019) on CEO activism show that its impact on consumers' intention to purchase and employees' motivation is ambiguous, as it is positive for those who agree with the message and negative for others. The effect therefore depends on the proportion of those stakeholders who identify themselves with the CEO's message. Taking all the above into consideration, we thus expect the effect of CEO activism to be mild or even negligible. A formal test of this prediction will be provided in the subsection titled 'Soft CEO activism'. However, in our setting, the CEOs who chose to advocate and quit the advisory councils weakened their relationship with the President. To predict the overall effect of CEO activism on shareholder value, this severance of political connections must be considered. The appointment of a firm's CEO to a presidential council grants a certain degree of political influence to the company (Barley, 2010). This may add value to the company, as it enables the CEO to convey specialized business knowledge to uninformed policymakers (Grossman and Helpman, 2001). To the extent that such political influence may be employed to exploit revenue growth opportunities (Hillman, Keim and Schuler, 2004) or influence policymaking and regulation (Oliver and Holzinger, 2008), the effect of political connections should be positive for shareholders. Many empirical studies corroborate the existence of a positive effect on shareholder value from the appointment of a politically connected individual in the USA (Acemoglu *et al.*, 2016; Child *et al.*, 2020; Goldman, Rocholl and So, 2009; Luechinger and Moser, 2014). Overall, we expect the resignations from the advisory councils to have triggered a negative response from shareholders only partially mitigated by any potentially positive effects of the advocacy itself:

H1: Shareholders react negatively to CEOs' resignation from presidential councils both in absolute and relative terms compared to firms whose CEOs remain on the councils.

Determinants of CEO activism

Since the CEOs' decisions to take a stand against the President are likely to jeopardize their political influence and alienate at least some of their investors, it is important to understand why some CEOs chose to advocate and resign from the councils. A natural starting point is to analyse this decision in light of their individual political preferences. It is conceivable that the CEOs who left (stayed) are more (less) loyal to the President due to their political views. According to Bertrand and Schoar (2003), Hambrick (2007) and Hambrick and Mason (1984), the individual traits of firm managers – such as their experiences, personalities and values – play a role in the strategic decision-making process. Arena, Michelon and Trojanowski (2018) further document the importance of personal traits with respect to a firm's CSR engagement. When CEOs' political ideologies reflect their values (Chin, Hambrick and Trevino, 2013), we can expect such beliefs to impact their actions. Since activism represents the most 'political' facet of CEOs' actions, their political preferences should impact the likelihood of taking a public stand on social and political issues. Several studies conclude that the political ideologies of managers affect corporate policies (Hutton, Jiang and Kumar, 2014) and engagement in CSR (Chin, Hambrick and Trevino, 2013; Di Giuli and Kostovetsky, 2014). Hence, we articulate the following hypothesis:

H2: CEOs who withdraw from (stay on) a presidential council have personal political ideologies and values which are less (more) aligned with those of the President.

This hypothesis relies on the assumption that managers are unconstrained in their actions. In this respect, Wettstein and Bauer (2016) emphasize that advocacy relies on the use of power and may override stakeholder dialogue. It is thus plausible to assume that the CEOs who chose to resign from the councils differ from the CEOs who stayed with respect to their relative levels of power within their corporations. Since we expect to find a negative response from shareholders to CEO activism in our setting, we postulate that this power is likely to take the form of CEO entrenchment. Entrenched managers cannot easily be dismissed by the board of directors, even when their actions are not in the immediate interest of shareholders (Fama, 1980), and as a result enjoy greater freedom. Kacperczyk (2009) documents how an increase in takeover protection, which is a manifestation of managerial entrenchment, positively affects corporate attention to non-shareholding stakeholders. We express our third hypothesis as follows:

H3: The CEOs who withdraw from a presidential council are more entrenched than the CEOs who choose to remain.

In addition to being spurred by the individual values of the CEO, activism can be consistent with the general CSR policies of a firm. Though the interaction of social and political strategies may vary across firms due to differing institutional environments and industrial contexts (Frynas, Child and Tarba, 2017), recent contributions emphasize the importance of companies aligning their CSR policies to their corporate activities (den Hond *et al.*, 2013) and corporate political responsibility (Lyon *et al.*, 2018). Since the decision to quit presidential councils is a direct manifestation of corporate political responsibility on social issues (Lyon *et al.*, 2018), it may reflect stronger CSR involvement for companies whose CEOs advocate compared to those companies whose CEOs remain on the councils. We formulate our final hypothesis as follows:

H4: Firms whose CEOs resign from a presidential council score better in terms of general corporate social responsibility metrics than firms whose CEOs remain.

Data and methodology

Data

The list of members appointed to the presidential councils is reported in Table 1. Throughout the paper, we label as *leavers* those managers who, at any point during the life of the councils, decided to quit to voice their disagreement with President Trump's statements or actions. Table 1 indicates which managers are leavers by reporting their resignation date. Managers who left the councils upon retirement or dismissal by their companies are included in Table 1 for completeness but are excluded from the sample. In line with the defining characteristics of CEO advocacy (i.e. the CEO communicates his/her position to the general public with the purpose of raising awareness), we classify as leavers only those managers who publicly voiced their decision to quit before Trump tweeted his intention to dismantle the councils on 16 August 2017 at 1:14 pm EST. In the hours following Trump's tweet, several managers stated that they had communicated to the President (but not openly to stakeholders) their intentions to resign. We classify them as *non-leavers* together with those managers who abstained from commenting on the events and those who openly criticized the President's positions but stayed on the councils. The action of this latter group of CEOs is not consistent with the defining characteristics of CEO activism but more in line with lobbying. For robustness, in the online Appendix we repeat our main analysis by excluding them from the sample of non-leavers. All information on the timing and content of CEOs' statements comes from corporate press releases given on Factiva, corporate blogs and Twitter.

Estimation model

To test the impact of the CEOs' decisions to quit on shareholders, we follow the event-study methodology of Campbell, Lo and MacKinlay (1997) and compute abnormal stock returns around the announcement date. We use a one-factor market model to estimate the 'normal' relation between stock and market returns, since short-horizon event studies are not sensitive to the benchmark specification (Kothari and Warner, 2007):

$$\mathrm{R_{it}} = \alpha_\mathrm{i} + \beta_\mathrm{i} \cdot \mathrm{R_{mt}} + \varepsilon_\mathrm{it} \tag{1}$$

where $\mathrm{R_{it}}$ is the daily return on the common share of company i on day t and $\mathrm{R_{mt}}$ is the daily return on the S&P500 total return index on the same day. The market model is estimated over a 1-year period ending on day $t = -7$ (i.e. 1 week prior to the event date $t = 0$). We derive daily abnormal stock returns $\mathrm{AR_{it}}$ as the difference between raw returns and returns estimated from the market model:

$$\mathrm{AR_{it}} = \mathrm{R_{it}} - \left(\hat{\alpha}_\mathrm{i} + \hat{\beta}_\mathrm{i} \cdot \mathrm{R_{mt}}\right) \tag{2}$$

To account for the impact of the event on shareholders, including delayed reactions, we derive cumulative abnormal returns (CAR) for company i around each event date by aggregating $\mathrm{AR_{it}}$ over the announcement date and the following day, that is, $\mathrm{CAR_i}(0, 1) = \mathrm{AR_{i0}} + \mathrm{AR_{i1}}$. The importance of conducting event studies over very short event windows has been emphasized both in finance (de Jong and Naumovska, 2016) and in management (McWilliams and Siegel, 1997). Short event windows allow us to control for contamination and preserve statistical power of the conventional test statistics. Ideally, one should be using a 1-day event window (Campbell, Lo and MacKinlay, 1997), however, 2-day or 3-day windows are commonly used in finance to account for leakage of information before the event, and/or slow adjustment of stock prices after the event. In our setting, leakage of information is not a concern as all announcements were made suddenly and unexpectedly. Also, we expect all new information to be quickly incorporated in stock prices for our sample of widely traded blue chips. Instead, the problem of a loss in statistical power for event windows larger than 1 day may be particularly severe in our case, given the small size of our sample of leavers (Brown and Warner, 1985).

Table 1. Members of the presidential councils

Member	Organization	Leaving date	Event-study sample
Atkins, P.	Patomak Global Partners		No
Barra, M.	General Motors		No
Brown, W.	Harris		Yes
Cosgrove, T.	Cleveland Clinic		No
Dell, M.	Dell Technologies		Yes***
Dimon, J.	JPMorgan Chase		No
Ferriola, J.	Nucor		Yes
Fettig, J.	Whirlpool		No
Fields, M.*	Ford		No
Fink, L.	BlackRock		Yes
Frazier, K.	Merck	14 August 2017	Yes
Gorsky, A.	Johnson & Johnson		Yes
Hayes, G.	United Technologies		Yes
Hewson, M.	Lockheed Martin		Yes
Iger, B.	Walt Disney	1 June 2017	Yes
Immelt, J.	General Electric		Yes
Kalanick, T.	Uber	2 February 2017	No
Kamsickas, J.	Dana		Yes
Kleinfeld, K.*	Arconic		No
Krzanich, B.	Intel	14 August 2017	Yes
Kyle, R.	Timken		Yes
Lee, T.	AFL-CIO	15 August 2017	No
Lesser, R.	Boston Consulting Group		No
Liveris, A.	Dow Chemical		Yes
Longhi, M.*	U.S. Steel		No
McMillon, D.	Walmart		No
McNerney, J.**	Boeing		No
Morrison, D.	Campbell Soup	16 August 2017	Yes
Muilenburg, D.	Boeing		Yes
Musk, E.	Tesla	1 June 2017	Yes
Nooyi, I.	Pepsi		Yes
Oberhelman, D.	Caterpillar		Yes
Ogunlesi, A.	Global Infrastructure Partners		No
Paul, S.	Alliance for American Manufacturing	15 August 2017	No
Plank, K.	Under Armour	14 August 2017	Yes
Polk, M.	Newell Brands		Yes
Rometty, G.	IBM		Yes
Schwarzman, S.	Blackstone Group		Yes
Sutton, M.	International Paper		Yes
Thulin, I.	3M	16 August 2017	No
Trumka, R.	AFL-CIO	15 August 2017	No
Warsh, K.	Hoover Institution		No
Weeks, W.	Corning	16 August 2017	Yes
Weinberger, M.	EY		No
Welch, J.**	General Electric		No
Yergin, D.	IHS Markit		Yes

Note: This table lists members of the Strategic and Policy Forum and American Manufacturing Council. A leaving date is reported for those members who resigned before the councils were dissolved (i.e. *Leavers*). An * (**) denotes those members who had left their organizations soon after their appointment to the councils (had retired before their appointment) and who are therefore not included in the sample. *** Indicates that Dell Technologies is excluded from the analysis of appointments to councils.

Stock prices adjusted for splits and net dividends come from Bloomberg. We compute AR(0) and CAR(0,1) only for companies with valid stock return data for days in the event window and at least 50% of the days in the estimation window. All the 34 public firms in Table 1 satisfy these criteria. Three of these firms are removed as their managers had quit the organizations soon after their appointment to the councils. Additionally, we control for contamination by excluding all firms that, during the event window, released other corporate press news that has been linked to a stock price reaction (Neuhierl, Scherbina and Schlusche, 2013). Five companies are removed from the sample because of these filters: 3M and Whirlpool, who declared a quarterly dividend; Walmart, who announced quarterly earnings; and General Motors, who announced a voluntary delisting from the Toronto Stock Exchange. As indicated in the last column of Table 1, the final sample for the event study thus consists of 26 firms, including 7 leavers and 19 non-leavers.

Test statistics

Due to our small sample size, we use both parametric and non-parametric tests to assess the impact of CEOs' decisions to quit on stock prices. In all tests, the null hypothesis is zero abnormal returns for the event window (i.e. no significant reactions from shareholders). As parametric tests, we adopt the Patell (1976) test and the BMP test of Boehmer, Masumeci and Poulsen (1991), which are both computed on standardized abnormal returns, defined as abnormal returns divided by the standard deviation of estimation-period residuals. Compared to statistics based on non-standardized abnormal returns, these tests offer superior properties in terms of their statistical power. Due to its simplicity, the Patell test is the statistical test most widely used in event studies. The BMP test improves on the Patell test by adjusting for event-induced variance inflation. Parametric tests, however, tend to over-reject the null hypothesis in cases of non-Gaussian returns (Fama, 1976) and display poor finite-sample properties when the cross-section is very small, as in our case (Brown and Warner, 1985; Corrado, 1989). To overcome these concerns, we employ two non-parametric tests, the rank test (Corrado, 1989) and the sign test (Corrado and Zivney, 1992), which do not rely on the assumption of normally distributed returns and enjoy good small-sample properties. Additionally, non-parametric tests help deal with event-induced volatility and cross-correlation which arise from clustered events like the ones analysed in this study. We adopt the generalized rank and sign statistics proposed by Kolari and Pynnonen (2011) to extend the 1-day rank and sign tests to 2-day CAR(0,1). In the online Appendix we provide additional evidence to show that our findings are not spuriously driven by our selection of test statistics.

CEO activism and shareholder value

Event study on presidential councils

We report the results of our event study testing the impact of CEOs' decisions to leave or remain in a council on shareholder value in Table 2. To compute the abnormal returns, we take the event day, day 0, to be equal to: (i) the day the CEO left the council if the announcement was made during trading hours for companies in the group of leavers; (ii) the first trading day after the CEO left the council if the announcement was made after trading hours for companies in the group of leavers; (iii) the council dissolution day, 16 August, for all companies in the group of non-leavers.[4]

The mean AR(0) and CAR(0,1) for the group of CEOs who did not leave the council are 0.383% and 0.629%, respectively. Conversely, corresponding returns for the group of leavers are both negative with a mean AR(0) of −0.827% and a mean CAR(0,1) of −0.574%. Both parametric and non-parametric tests point to a negative and significant reaction of share prices to the CEOs' decisions to quit the councils. By contrast, shareholders do not seem to punish managers who remain onboard, as the parametric tests indicate an increase in stock prices following the dismantling of the councils. The Wilcoxon rank-sum test confirms that the shareholders' reactions are significantly different across leavers and non-leavers.

To interpret whether the economic magnitude of our findings is meaningful, we relate it to the economic effect of comparable events. In our setting, activism relates both to political connections and to the broader concept of CSR. Thus, it makes sense to compare our results to event studies on these two topics. Flammer (2015) looks at the shareholder response to the approval of CSR proposals and finds an average AR(0) of 0.92%. Leuchinger and Moser (2014) investigate the shareholder value of political connections and

[4]The consequences of *not* quitting the councils may be different from those arising from the dissolution of the councils. In untabulated results, we repeat the analysis by taking as the event date for non-leavers each of the dates on which a member quits a council. The results remain qualitatively unchanged.

Table 2. Leaving the councils: impact on share prices

	N	AR(0)			CAR(0,1)		
		%	Test statistic	p-Value (2-tailed)	%	Test statistic	p-Value (2-tailed)
Non-leavers							
BMP	19	0.383%	1.771	0.077	0.629%	2.830	0.005
PATELL	19	0.383%	1.755	0.079	0.629%	1.938	0.053
RANK/GRANK	19	0.383%	1.290	0.197	0.629%	2.283	0.022
SIGN/GSIGN	19	0.383%	1.184	0.236	0.629%	1.380	0.167
Leavers							
BMP	7	−0.827%	−2.380	0.017	−0.574%	−1.130	0.259
PATELL	7	−0.827%	−1.716	0.086	−0.574%	−1.149	0.251
RANK/GRANK	7	−0.827%	−2.165	0.030	−0.574%	−1.961	0.050
SIGN/GSIGN	7	−0.827%	−1.884	0.060	−0.574%	−1.136	0.256
Wilcoxon rank-sum test							
Non-leavers – Leavers	26		2.630	0.009		1.763	0.078

Note: This table presents parametric (BMP and PATELL) and non-parametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns AR(0) and cumulative abnormal returns CAR(0,1) estimated according to regression (2). The null hypothesis is zero abnormal returns. *Leavers* are those firms whose CEOs left the council before its dissolution (as detailed in Table 1), and *Non-leavers* are remaining firms included in the sample. The event day, day 0, is equal to: (i) for *Leavers*, the day the CEO left the council if the announcement was made during trading hours or the trading day following the day on which the CEO left the council if the announcement was made after trading hours and (ii) for *Non-leavers*, the council dissolution day, 16 August. The Wilcoxon rank-sum test tests the hypothesis that the two samples of abnormal returns for *Leavers* and *Non-leavers* are from populations of the same distribution.

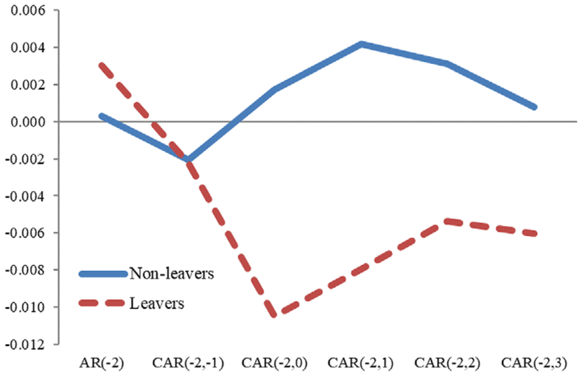

Figure 1. CAR around the dissolution of councils
[Colour figure can be viewed at wileyonlinelibrary.com]

find that the political appointment of a former employee of the company to the U.S. Defense Department results in AR(0) and CAR(0,1) of 0.77% and 0.78%, respectively. The AR(0) of −0.827% from Table 2 is similar in (absolute) magnitude to the market impact of these events.

Our findings suggest that in this context, shareholders may not perceive CEO activism to be in their best interest. Shareholders' reactions seem to be short-lived. In particular, the negative CAR(0,1) for leavers is no longer statistically significant, except for the GRANK test. However, this could be due to the reduced power of event study test statistics in small samples like ours. The difference in CAR(0,1) values observed between leavers and non-leavers diminishes, but remains statistically significant, as indicated by the Wilcoxon rank-sum test. These findings are confirmed by Figure 1, which shows the plot of CAR computed from 2 days before the event to 3 days after. The gap between CAR of leavers and non-leavers reaches its peak on the event date and narrows over the following days, but remains wider than in the pre-event days, thus indicating that CEO activism had a meaningful impact on shareholders both in absolute and relative terms. The graph also confirms that there was no anticipation among investors before the event day.

We conclude that the negative shareholder reaction is in line with H1. The market value effect of quitting the council is large, since the event-day drop represents a loss in total market capitalization of 4,520 million USD for the leavers. It is important to point out that our findings are not trivial, since following the events commentators were convinced that stock prices reacted positively to the decision to quit (*The Business Insider*, 2017; *The Hill*, 2017). Even though these statements were based on a naïve observation of raw share prices and did not correct for general changes in the stock market as required by market models, they are emblematic of the widespread conception that firms would benefit from distancing themselves from the President. Instead, our results indicate that resigning from the councils came at the cost of weakening political connections to the White House. While the council dissolution ex-post led to both leavers and non-leavers losing their advisory roles, this was not known ex-ante. Additionally, the decision to quit can be more directly associated with an open criticism of the President and, consequently, may be more likely to undermine future political connections. The positive reaction to the dissolution of the councils observed for non-leavers is consistent with this interpretation and suggests a relief shared among shareholders that CEOs no longer need to take a stand on a very thorny issue.

To support our argument, we test whether shareholders valued participation on the advisory councils in the first place through an event study focused on appointment to presidential councils. The event day is the appointment date (i.e. 2 and 14 December 2016 for members of the Strategic and Policy Forum and 27 January 2017 for members of the American Manufacturing Council). For those companies whose managers sit on both councils, we take the first appointment as the event date. We exclude Dell Technologies from the sample, as its stock resumed trading only in September 2016 and therefore lacks a sufficiently long time series for the estimation of the market model. The results presented in Table 3 confirm that shareholders of companies whose CEOs would later quit the councils generally welcomed the appointments. The mean AR(0) and CAR(0,1) for the non-leavers are 0.004% and −0.089%, respectively, while the corresponding AR(0) and CAR(0,1) for the leavers are 0.568% and 0.607%, respectively. Five out of eight statistical tests show positive and significant abnormal returns for the group of leavers. By contrast, the stock price reaction for the group of non-leavers is generally not statistically significant. The findings confirm the relevance of establishing political connections for leavers, which explains the negative reactions observed from shareholders when the link was severed upon the CEOs'

Table 3. Appointment to councils: impact on share prices

		AR(0)			CAR(0,1)		
	N	%	Test statistic	p-Value (2-tailed)	%	Test statistic	p-Value (2-tailed)
Non-leavers							
BMP	18	0.004%	−0.166	0.868	−0.089%	−0.442	0.659
PATELL	18	0.004%	−0.183	0.855	−0.089%	−0.354	0.724
RANK/GRANK	18	0.004%	−0.740	0.459	−0.089%	−1.775	0.076
SIGN/GSIGN	18	0.004%	−1.123	0.261	−0.089%	−1.123	0.261
Leavers							
BMP	7	0.568%	1.874	0.061	0.607%	3.425	0.001
PATELL	7	0.568%	1.125	0.261	0.607%	0.943	0.346
RANK/GRANK	7	0.568%	1.834	0.067	0.607%	3.748	0.000
SIGN/GSIGN	7	0.568%	1.231	0.218	0.607%	2.045	0.041
Wilcoxon rank-sum test							
Non-leavers – Leavers	25		−1.695	0.090		−1.997	0.046

Note: This table presents parametric (BMP and PATELL) and non-parametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns AR(0) and cumulative abnormal returns CAR(0,1) estimated according to regression (2). The null hypothesis is zero abnormal returns. *Leavers* are those firms whose CEOs quit the council before its dissolution (as detailed in Table 1) and *Non-leavers* are remaining firms included in the sample. The event day, day 0, is the date of appointment (i.e. 2 and 14 December 2016 for members of the Strategic and Policy Forum and 27 January 2017 for members of the American Manufacturing Council). For companies whose managers sit on both councils, we take the date of the first appointment as the event date. The Wilcoxon rank-sum test tests the hypothesis that the two samples of abnormal returns for *Leavers* and *Non-leavers* are from populations of the same distribution.

resignations from the councils. The lack of significance found for the group of non-leavers is suggestive of pre-existing differences in the degree of political connectedness between the two groups. This will be confirmed in the following section.

It is worth noting that the combined results from Tables 2 and 3 rule out potential concerns that our findings may be driven by alternative explanations such as a more general loss of networking opportunities among the members of the councils. Should investors be worried about the loss of a valuable network other than political connections, we would observe (contrary to our findings) a positive reaction to the appointment to the councils and a negative reaction to the dissolution of the councils in both leavers and non-leavers, since we have no valid reason to assume that our sample firms differ in their networking opportunities before the appointments. Furthermore, leavers and non-leavers share numerous other network connections through their board memberships, committee engagements, educational backgrounds, etc.

Soft CEO activism

We have repeatedly stressed that our empirical laboratory revolves around an episode where CEO activism has manifested itself in a strong form, in the sense that CEOs have put their political connections at risk when advocating. Most CEO activism is, however, of a much softer nature. Gaines-Ross (2017) finds that most reactions to President Trump's measures are collective, to limit the risk of retaliation, and surprisingly non-partisan. Larcker *et al.* (2018) confirm that, when advocating, most CEOs take a benign approach and only some messages are strongly worded and sharp in tone. In this respect, only few CEOs can be considered true activists who put skin in the game by, for example, using their political links or leveraging their economic power. As we mentioned in the hypothesis development, we do not expect CEO activism *per se* to have a strong impact on shareholders, while we predict a negative net effect when the price that CEOs pay to advocate is high. The previous analysis on the shareholders' response to council resignations, however, does not enable us to disentangle the effect of activism from the effect of loss in political connections. To test more directly the stock market impact of CEO activism *per se*, we turn to a soft form of activism which, by nature, is not confounded by other effects.

In May 2017, media reports circulated that President Trump was considering withdrawing from the Paris climate agreement. Subsequently, 30 CEOs wrote an open letter in an attempt to influence the President's decision.[5] The letter, which appeared in the *Wall Street Journal* on 10 May, was non-confrontational and mainly focused on the benefits for American companies and communities from continued participation in the Paris Agreement. Of the 30 CEOs that signed the letter, 12 were members of a presidential council. This event is especially suited for testing the impact of soft activism in our setting as it shares some key features with our main strong activism episodes, namely they both originated from actions undertaken by the President and they involved the same firms.

Since this episode of CEO activism is of a milder form than resigning from a council, it enables us to compare the market impact of mild and strong forms of CEO activism on shareholders. We repeat our event study analysis using 10 May as event day. We calculate abnormal returns for firms where the CEO is a council member and a letter signee, for firms where the CEO is a council member but is not a letter signee, and for firms whose CEO signed the letter but is not a council member. The results are reported in Table 4.

Both the parametric and non-parametric tests yield non-significant mean AR(0) and CAR(0,1) for all three groups. The Wilcoxon rank-sum tests test the hypothesis that the three samples of abnormal returns for council members who are letter signees, council members who are not letter signees, and letter signees who are not council members are from populations of the same distribution. The tests confirm that the shareholders' reactions are not significantly different between letter signees and non-signees, irrespective of whether the CEO was a presidential council member or not. Our findings confirm our intuition that soft forms of CEO activism do not seem to matter to investors, and that for CEO activism to have a measurable impact on shareholder value, it is necessary that it is of a strong form where the CEO puts some skin in the game.

[5] https://www.cargill.com/doc/1432087840652/ceo-open-letter-on-paris-agreement.pdf

Table 4. Open letter to President Trump: impact on share prices

		AR(0)			CAR(0,1)		
	N	%	Test statistic	p-Value (2-tailed)	%	Test statistic	p-Value (2-tailed)
Council members who are not letter signees (CMNLS)							
BMP	19	−0.222%	−1.373	0.170	−0.192%	−0.700	0.484
PATELL	19	−0.222%	−1.001	0.317	−0.192%	−0.507	0.612
RANK/GRANK	19	−0.222%	−0.940	0.347	−0.192%	−1.173	0.241
SIGN/GSIGN	19	−0.222%	−0.214	0.831	−0.192%	−0.642	0.521
Council members who are letter signees (CMLS)							
BMP	12	−0.193%	−1.362	0.173	−0.161%	−0.879	0.380
PATELL	12	−0.193%	−1.571	0.116	−0.161%	−0.749	0.454
RANK/GRANK	12	−0.193%	−0.944	0.345	−0.161%	−0.925	0.355
SIGN/GSIGN	12	−0.193%	−0.597	0.551	−0.161%	−0.595	0.552
Letter signees who are not council members (LSNCM)							
BMP	11	0.090%	0.530	0.596	0.114%	0.982	0.326
PATELL	11	0.090%	0.182	0.856	0.114%	0.457	0.648
RANK/GRANK	11	0.090%	0.474	0.635	0.114%	1.183	0.237
SIGN/GSIGN	11	0.090%	1.347	0.178	0.114%	1.320	0.187
Wilcoxon rank-sum test							
CMNLS − CMLS	31		−0.284	0.777		−0.324	0.746
CMLS − LSNCM	23		−0.739	0.460		−0.985	0.325

Note: This table presents parametric (BMP and PATELL) and non-parametric (RANK/GRANK and SIGN/GSIGN) test statistics for abnormal returns AR(0) and cumulative abnormal returns CAR(0,1) estimated according to regression (2). The null hypothesis is zero abnormal returns. *Council members who are letter signees (Council members who are not letter signees) [Letter signees who are not council members]* are those firms whose CEO was (was) [was not] a member of one of the two presidential council, and who was (was not) [was] a signee of the open letter to President Trump. The event day, day 0, is 10 May 2017, the day when 30 CEOs wrote an open letter to President Trump, in the *Wall Street Journal*. The Wilcoxon rank-sum test tests the hypothesis that the three samples of abnormal returns for *Council members who are letter signees*, *Council members who are not letter signees* and *Letter signees who are not council members* are from populations of the same distribution.

Determinants of CEO activism

Since only 28% of the council members chose to quit following the actions taken by President Trump, it is important to understand which factors make some CEOs more likely than others to take a public stand. We first investigate the role played by a CEO's personal political preferences, which we measure with a standard approach (Chin, Hambrick and Trevino, 2013; Di Giuli and Kostovetsky, 2014) by examining an individual's political contributions in support of the Democratic or Republican Party. We use U.S. Federal Election Commission data on political contributions retrieved from the Center for Responsive Politics.[6] The database provides each contributor's name, full address, occupation and employer, the amount and date of each donation and the recipient's name.

For our purposes, we only consider personal donations (made by managers who would later be appointed to the presidential councils) made to individual candidates, party committees and political action committees (PACs) that can be identified as either Democratic or Republican from 2008 to the 2016 presidential election. We exclude donations made to PACs whose political orientations are unclear (including the company's own PAC). Since stock prices are superfluous for this part of the analysis, we expand the sample to include the CEOs of private firms and institutes. For each manager, we compute the number of donations made to Democrats divided by the overall number of donations made to both Democrats and Republicans.[7]

In panel A of Table 5, we compare the proportion of donations made to Democrats for CEOs who quit the councils and for those who remain. On average, 63% of the contributions of leavers went to Democrats, against 40% of the contributions of non-leavers. The Wilcoxon rank-sum test confirms that the difference in donations is statistically significant ($p < 0.08$) across the two groups.

In the first column of Table 6, we regress an indicator variable that is equal to 1 (0) for a leaver (non-leaver) on the fraction of donations made to Democrats and we confirm the positive relation between the two. These findings support H2 on the importance of the managers' political orientations in spurring CEO activism: CEOs who openly oppose President Trump are more likely to have supported Democrats in the past. The results are also consistent with shareholders' reactions to appointments to the councils discussed in the previous section. Given the CEOs' political views, shareholders are more likely to be positively surprised by appointments in the case of leavers, while appointments may be less unexpected in the case of non-leavers.

Second, we investigate to what extent the choice to engage in advocacy is linked to a company's more general adherence to CSR. We collect CSR scores from the Thomson Reuters Environmental Social Governance (ESG) Scores database. We use the latest available scores recorded before either a CEO quit the council (for leavers) or the council's dissolution (for non-leavers). The database provides individual and combined scores measuring the sustainability and ethical impacts of a corporation within its industry. The environmental (social) [governance] score combines information on resource use, emissions and innovation (actions in terms of workforce, human rights, community and product responsibility) [management, shareholders and CSR strategy]. To ensure comparability across firms, the environmental and social scores are benchmarked at the industry level and the governance score is benchmarked at the country level. The three scores are combined into the main ESG score. In addition, a separate ESG controversy score is based on controversies that the company has faced across the 10 categories. The ESG score and ESG controversy score are combined into the ESG combined score. A rating of A+ to D− is associated with each score, which we map into values of 1 (for A+) to 12 (for D−).

In panel B of Table 5, we report the ESG scores for leavers and non-leavers. Surprisingly, we find that, in general, firms whose CEOs quit the councils do not score better in terms of individual or aggregated CSR measures than those who remain on the councils. This runs in contrast to H4. The only exception is represented by the ESG community score, which is better ($p < 0.09$) for leavers, suggesting their stronger commitment to 'being a good citizen, protecting public health and re-

[6] https://www.opensecrets.org

[7] We repeat the analysis using the dollar amount of donations made by each CEO to Democrats divided by the total dollar amount of donations made to both parties. The correlation between the proportion and amount of contributions is 98%, and the results remain essentially unchanged.

Table 5. *CEOs' political preferences and CSR policies across leavers and non-leavers*

		Non-leavers		Leavers		Wilcoxon rank-sum	p-Value (2-tailed)
		Mean	Std. dev.	Mean	Std. dev.		
Panel A: CEOs' political preferences							
Donations Democrats		0.396	0.338	0.633	0.280	−1.734	0.083
Panel B: CSR policies							
Environmental	Resource use	3.273	2.995	4.250	4.132	−0.312	0.756
	Emissions	4.500	3.349	3.875	2.900	0.381	0.703
	Innovation	4.091	3.022	5.250	3.615	−0.664	0.507
Social	Workforce	4.091	3.069	4.375	3.623	−0.072	0.943
	Human rights	3.136	1.807	3.875	3.482	0.000	1.000
	Community	2.955	1.759	2.125	2.232	1.718	0.086
	Product responsibility	4.227	3.280	3.875	3.314	0.334	0.738
Governance	Management	3.364	2.854	3.250	3.327	0.414	0.679
	Shareholders	4.227	2.506	7.250	3.196	−2.219	0.027
	CSR strategy	3.545	2.988	2.250	2.435	1.470	0.142
ESG score		3.818	2.403	4.000	2.928	−0.144	0.886
ESG controversy		9.455	3.035	11.625	0.744	−1.737	0.082
ESG combined		6.773	1.771	7.750	1.581	−1.018	0.308
Entrenchment index		1.000	0.707	1.625	0.518	−2.127	0.034

Note: This table presents basic summary statistics for CEOs' political preferences and CSR policies for *Leavers* and *Non-leavers*. In Panel A, Donations Democrats refers to the number of individual donations made by a CEO to Democrats divided by his/her overall number of donations made to Democrats and Republicans. Panel B reports Thomson Reuters ESG ratings of our sample firms for the 10 individual CSR categories as well as the overall ESG score and ESG combined score (adjusted for ESG controversy). The ESG ratings are mapped into numerical values of 1 (A+) to 12 (D−). Entrenchment index ranges from 0 (low) to 4 (high) and is based on the presence of staggered boards, golden parachutes, poison pills and supermajority vote requirements. The Wilcoxon rank-sum test tests the hypothesis that the two samples of *Leavers* and *Non-leavers* are from populations of the same distribution.

Table 6. CEOs' political preferences and CSR policies across leavers and non-leavers: probit regressions

	Leavers = 1	Leavers = 1	Leavers = 1	Leavers = 1	Leavers = 1
Donations Democrats	1.439*			2.345**	1.098
	(0.837)			(1.073)	(0.883)
ESG community		−0.155			
		(0.188)			
ESG shareholders		0.293**		0.318**	
		(0.136)		(0.127)	
ESG controversy		0.253			
		(0.188)			
Entrenchment index			0.956**		0.855*
			(0.458)		(0.478)
Constant	−1.330**	−4.547*	−1.855***	−3.622***	−2.297***
	(0.521)	(2.373)	(0.699)	(1.179)	(0.835)
Observations	29	29	29	29	29
Pseudo R-squared	0.094	0.348	0.156	0.350	0.203

Note: This table presents estimates from probit regressions where the dependent variable is an indicator variable that equals 1 (0) for *Leavers* (*Non-leavers*). Donations Democrats refers to the number of individual donations made by a CEO to Democrats divided by his/her overall number of donations made to Democrats and Republicans. ESG score, ESG community, ESG shareholders and ESG controversy denote the selected Thomson Reuters ESG ratings for our sample firms. The ESG ratings are mapped into numerical values of 1 (A+) to 12 (D−). Entrenchment index ranges from 0 (low) to 4 (high) and is based on the presence of staggered boards, golden parachutes, poison pills and supermajority vote requirements. Standard errors are shown in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% levels, respectively.

specting business ethics' (Thomson Reuters, 2018). Leavers significantly underperform relative to non-leavers in terms of both ESG controversy and ESG shareholders scores, as shown by the results of the Wilcoxon rank-sum test. The ESG shareholders score measures both a company's effectiveness towards equal treatment of shareholders and the use of anti-takeover devices. To further gauge the level of CEO entrenchment, we also compute a more standard measure based on the presence of staggered boards, golden parachutes, poison pills and supermajority vote requirements. In the spirit of Bebchuk, Cohen and Ferrell (2009), we construct an entrenchment index as the sum of the four provisions, which ranges from 0 to 4, where a higher number indicates a higher degree of entrenchment. The E-index of Bebchuk, Cohen and Ferrell (2009) ranges between 0 and 6 as it distinguishes among three forms of supermajority voting. The Thomson Reuters Governance Scores database only provides information on supermajority vote requirements in general, hence our entrenchment indicator takes values between 0 and 4. Consistently with the findings on the ESG shareholders score, we see from the Wilcoxon rank-sum test that leavers are significantly more entrenched than non-leavers.

In Table 6, we perform a series of probit regressions to explore the impact of these indicators on the decision to leave the councils, where the dependent variable takes the value 1 (0) for CEOs who are leavers (non-leavers). Given the small sample size, we restrict the explanatory variables to those that the rank-sum test in Table 5 suggests are most likely to be significant. In the second (third) column, we regress the indicator variable for being a leaver on the ESG community score, ESG shareholders score and ESG controversy score (entrenchment index). Among the CSR measures, only the ESG shareholders score turns out to be a significant determinant of the likelihood to openly advocate against the President and remains significant after controlling for the CEO's political preferences, as shown in the fourth column of Table 6. This result is supportive of H3, as the ESG shareholders score not only represents a measure of shareholder protection and equal treatment but also includes key indicators of CEO entrenchment. Consistently, we show in columns three and five that the entrenchment index variable, which is a neater measure of CEO entrenchment, is significant.

Our analysis highlights several interesting findings. First, since entrenched CEOs are considered to be more difficult to fire and, hence, more powerful than non-entrenched CEOs (Graham, Kim and Leary, 2020), we confirm our prediction that CEO activism is associated with more degrees of freedom for the CEO to act on individual ideological matters without fear of being dismissed by the board. Second, we can now better explain the negative reactions of shareholders to CEOs' decisions to leave the councils. This decision is likely to alienate some shareholders, who are free to either voice their disagreement or vote with their feet. However, in firms such as those led by leavers, where shareholders are less protected and less equally treated, alienated shareholders are more likely to sell their shares (Gompers, Ishii and Metrick, 2003), thus depressing the share price. Third, CEO activism is more closely associated with managers' individual ethical beliefs than with the more general social policies of firms as measured by the ESG scores, which are similar across leavers and non-leavers. This adds empirical weight to the arguments of Lyon *et al.* (2018), who call for improved CSR measures that would better capture action and advocacy.

Limitations and extensions

This paper has a number of limitations. First, caution should be used when generalizing our findings. Our activists are a sample of CEOs of U.S. blue-chip companies, hence our conclusions may not extend to non-industry leaders or non-US firms. The stock price reaction to CEO activism likely depends upon the liquidity of the individual stock and of the overall stock market, the media attention to the company/CEO and the corporate governance legislation. Additionally, we study one manifestation of activism that led to the loss of political connections, but other types of advocacy that do not carry such consequences may trigger different shareholder responses. Our soft activism example indeed suggests that the investor reaction differs according to how much skin in the game the CEO puts when advocating. We choose to test the effects of CEO activism around one particular event, in the interests of statistical identification. A natural extension of this study would be to look at other manifestations of CEO activism.

Second, our analysis is not free from endogeneity concerns. We lack data on the involvement of the board of directors in the CEOs' decisions to quit or remain on the council. While the evidence from press releases around the events suggests that the leavers quit the councils because they wanted to do so and not because they were asked to do so by their boards, we cannot rule out a potential omitted variable bias when looking at the determinants of CEO activism, in case the board played a major role in shaping the CEO's decision. Investigating the interplay between board and CEO in the context of CEO activism is a fruitful avenue for future research. A residual endogeneity concern may arise in the form of a sample selection bias if presidential council CEOs differ from peer CEOs along dimensions which are correlated with the decision to advocate or the impact of such a decision on shareholder value. To address this point, we perform a Heckman selection model in the online Appendix, which suggests that our findings are not affected by sample selection bias. Residual concerns may apply if unobservable variables affect the appointment to the councils.

Third, our analysis, especially the multivariate part, is limited by small sample size and lack of statistical power. Finally, the lack of ownership data prevents us from looking at which investor types decided to sell upon the CEOs' announcement to quit the presidential councils. It would be of great interest to explore whether institutional investors react differently to advocacy compared to retail investors, or whether domestic investors view advocacy in a different light from foreign investors.

Conclusions

We find that a manifestation of CEO activism in the form of resigning from a presidential advisory council is, on average, associated with negative abnormal stock returns. The shareholders' negative reactions are consistent with their perceptions of a weakening of their firms' political influence as CEOs give up their seats at the President's advisory table. Hence, the costs of quitting outweigh any associated benefits. Our investigation of the mechanisms behind a CEO's choice to either take a stand or remain silent reveals that both a CEO's personal political ideology and the degree of entrenchment vis-à-vis shareholders are key driving forces.

Our findings carry three general implications. First, when political connections and CSR (broadly defined) are intertwined, shareholders ultimately value political connectedness over and above CSR involvement. Second, more management entrenchment and lower levels of shareholder protection may encourage managers to speak out on key public issues. Third, while CEO activism is more likely to have a stronger impact when a CEO is visible and politically connected, by engaging in advocacy, the CEO risks severing the very same political links that underlie the strength of his/her message. Thus, paradoxically, when a CEO takes a stance that truly has a widespread impact, he/she puts the firm's ability to engage in future advocacy at risk. Overall, our results make an important contribution not only to the growing literature on CEO activism on public and social issues, but also to the general literature on the impact of political connections and CSR on shareholder value.

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Supporting Information

Additional supporting information may be found online in the Supporting Information section at the end of the article.

Table A1 Placebo test on abnormal returns for leavers
Table A2 Testing for the presence of outliers among leavers
Table A3 Leaving the councils: impact on share prices with alternative non-leavers sample
Table A4 Leaving the councils: Heckman selection regressions