Social Movements as Extra-institutional Entrepreneurs: The Effect of Protest on Stock Price Returns[1]

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Abstract

Organizational theorists have recently used social movement theory to explain how outsiders gain corporate influence. This paper adds to this literature by looking at one way in which secondary stakeholders may influence organizational processes, even if they are excluded from participating in legitimate channels of organizational change. Using data on activist protests of corporations, we look at the effect of protest on abnormal stock price returns – an indicator of investor reaction to a focal event. Empirical analysis demonstrates that protests are more influential when they target issues dealing with critical stakeholder groups or when generating greater media coverage. Corporate targets are less vulnerable to protest when the media has given substantial coverage to the firm prior to the protest event. Past media attention provides alternative information to investors that may contradict the messages broadcast by protestors.

How do corporate outsiders gain influence inside the corporation? Hirschman's (1970) classic work, *Exit, Voice, and Loyalty,* identifies the avenues of influence used by dissatisfied stakeholders. "Exit" takes resources (e.g., revenue) away from the firm as stakeholders seek other options. In contrast, "voice" involves an active effort to change the conditions that brought about dissatisfaction in the first place. Attempts to influence through exit, such as switching to a different product, are ineffective when stakeholders constitute a disproportionately small share of the firm's base. In these situations, voice may be the only real option for influence-seeking stakeholders.

Hirschman's (1970) ideas foreshadow recent scholarship at the nexus of social movements and organizational studies, which emphasizes social movements' collective ability to initiate institutional change via the expression of "voice" (e.g., Davis, McAdam, Scott, and Zald 2005). Some scholars in this area have examined how movements challenge institutionalized organizational arrangements and offer alternative organizing logics. For example, it has been demonstrated that movements can influence organizational decision-makers to change policies related to employee benefits (Scully and Segal, 2002; Raeburn, 2004), unionization (Manheim, 2001) and to adopt recycling programs (Lounsbury 2001, 2005; Lounsbury, Ventresca and Hirsch 2003). Others have examined how social movements can be agents of change within organizational fields, by offering new solutions to collective problems or by creating competing organizational forms that undermine field stability (Hoffman, 1999; Schneiberg, 2002; Greenwood, Suddaby, and Hinings, 2002; Rao, Monin, and Durand, 2003). Finally, other research has examined how corporate elites can organize social movements to influence state policy related to corporate interests (Davis and Thomson 1994; Vogus and Davis 2005). Thus,

social movement theory's contribution to organizational studies is to provide an explanation for the origin of change in highly institutionalized settings.[4]

Much of this scholarship examines how social movement actors *within* organizations and industries challenge institutions (e.g., Lounsbury, 2001; Zald and Berger, 1978; Raeburn, 2004; Scully and Segal, 2002), but we still know very little about how movements *external* to the organization attempt to influence organizational-level processes, policies, and procedures. That is, most research has focused on the insider paths to legitimate organizational change and, as such, has largely ignored the most provocative cases of outsider influence on the corporation. By external or outsider movements, we mean those collective attempts to influence corporate change that are initiated by the secondary stakeholders of a corporation.

We address the lack of attention to outsiders' influences on corporations by examining the effect of social movement protest on a firm's market value. We ask the empirical question: Does social movement protest affect a company's stock price? Theoretically, this allows us to examine one of the most salient ways that outsiders may initiate change. By influencing investor confidence in a corporation, activists influence corporate decision-makers. If it can be demonstrated that protest is a viable form of corporate influence, we can make a strong case for Hirschman's (1970) "voice" as an avenue of corporate influence, even when expressed by secondary stakeholders.

[4] The intention of this paper is to explore how social movement theory and analysis can shed light on organizational phenomena, but it is important to note that social movement scholars also draw on organizational theories to help explain organizational processes related social movements (McAdam and Scott 2005).

To do this, we use an event study methodology. Our dependent variable, abnormal stock price returns, measures investor reaction to an unanticipated corporate event (McWilliams and Siegel, 1997). Positive abnormal returns indicate that investors perceive an event favorably, while negative returns suggest the opposite. Typically, scholars use abnormal stock returns to assess value created as the result of corporate actions, such as takeovers (e.g. Travlos, 1987), stock repurchases (Zajac and Westphal, 2004), and corporate restructuring (Markides, 1992). In our case, we use abnormal stock returns to assess investor perceptions of a protest event directed at a corporation. The underlying theory of event studies suggests that abnormal returns reflect new information about the firm's value (Mackinlay, 1997). Events that provide redundant information about the firm's value should have no effect on stock price returns as it is assumed that such information has already been absorbed by the market. Therefore, by demonstrating that protest affects abnormal stock returns, we provide evidence that investors consider protest to be consequential to the firm, independent of previously available information.

We argue that social movements play an important role as *extra-institutional entrepreneurs*[5] – external agents of change that attempt to reconfigure the meaning system and institutional logics upon which a dominant system of authority is based. Thus, we identify an important avenue for potential institutional change, even when insiders oppose this change. Understanding the role of social movements as extra-institutional agents of change also helps us to better understand the stakeholder environment of the corporation. Although there has been much discussion of a stakeholder theory of the firm (e.g. Donaldson and Preston, 1995), we know very little about

[5] We use the term "extra-institutional" to highlight the distinction between social movements and other institutional entrepreneurs whose purpose is to bring about change, but who are also insiders to the corporation (Leblebici, Salancik, Copay, and King, 1991; Fligstein, 1997). Examples of institutional entrepreneurs that are *not* outsiders to the corporation may be found in the work of Raeburn (2004) and Scully and Segal (2002), which examines the effects of social movements comprised of organizational insiders (e.g., employees) on organizational policies. See also Zald and Berger (1977).

how secondary stakeholders, like activist groups, may affect organizational policymaking (although see Baron, 2001; 2003; Schneper and Guillen, 2004). Finding evidence for social movement influence through protest makes a strong case for the potential efficacy of secondary stakeholders, given the radical, extra-institutional nature of protest.

Social Movements and Corporate Targets: The Use of Protest Demonstrations

Social movements emerge proactively as a collectively expressed grievance to a perceived social problem or reactively to a threatened change to a way of life (Tilly, 1978). Rejected by the dominant standards of some portion of society, social movements adopt "oppositional identities" that pit their interests against power-holders in mainstream institutions (Taylor and Whittier, 1992). Social movements thus target existing systems of authority, such as the state, non-governmental organizations, religious organizations, educational institutions, and, of course, corporations.

Despite the fact that movements address a variety of social problems in diverse societal spheres, scholars studying social movements have predominantly looked at those that target political or state-oriented systems of authority (McAdam, Tarrow, Tilly, 2001; Van Dyke, Soule, and Taylor, 2004; Giugni,1999; Earl, 2001). Scholarship has recently begun to examine how movements impact systems of authority other than the state, such as businesses or nongovernmental organizations (Soule, 1997; Baron, 2001; Lounsbury, 2001; Raeburn, 2004; Davis, McAdam, Scott, and Zald, 2005; Van Dyke, Soule, and Taylor, 2004; Friedman, 1985; Spar and La Mure, 2003; Pruitt and Friedman, 1986; Pruitt, Wei and White, 1988; Eptsein and Schnietz, 2002; Maxwell, Lyon, and Hackett, 2000). Some of this research has even examined the effect of protest on stock prices (e.g., Epstein and Schnietz, 2002).

As social movements attempt to create change in the world of corporations and business, they use a tactical repertoire designed to complement their status as outsiders to those corporations (Walker, 1991; Soule, McAdam, McCarthy, and Su, 1999; King and Cornwall, 2005). Frustrated by their inability to receive recognition via institutional means, social movements present themselves as alternative democratic voices. Perhaps the quintessential tactic that social movements use to do this is the *protest demonstration,* or the organized, collective, and public expression of discontent.[6]

Protest demonstrations – or protest for short – capitalize on the outsider status of individuals and movements that choose to use them. For example, protests involving picketing accentuate the extent to which activists are "shut out" from institutional channels of change by bringing their grievances to a public place and appealing to a wider audience than the decision-makers operating "behind closed doors."

Protest is also explicitly a public action. Rather than going to authorities with expressions of desired changes and keeping this information and debate in a more enclosed environment, protestors choose to openly vent to a broad audience and bypass direct communication with insiders. Protest thus calls for the involvement of various audiences in the change process, appealing as much to the masses as to internal decision-makers.

[6] Obviously, corporate outsiders use a variety of tactics, which include more legitimate expressions of discontent like shareholder proposals. Protest represents a more radical means of influence available to stakeholders mostly shut out from these other institutionalized channels of change. Thus, protest is an extreme case by which to assess outsider influence.

As such, protest is a natural social movement tactic for corporate targets where hierarchy is the dominant mode of governance. Like legislative bodies, corporations are public institutions that broadly affect social life. Unlike governmental organizations however, corporations are not directly responsible for the welfare of the entire citizenry. This feature is accentuated in the United States where the corporate governance system is characterized by a shareholder-approach and dispersed ownership (Buhner, Rasheed, Rosenstein, and Yoshikawa, 1998; Roe, 2000; Guillen, 2000). Under this approach, corporations' first responsibility is to shareholders, whose return to invested capital they try to maximize (Friedman, 1962). The influence of other stakeholders (e.g., like employees, communities, or social movement organizations) is much weaker, especially when those stakeholders lack resource leverage (Frooman, 1999; Mitchell, Agle, and Wood, 1997). While this institutional context may be somewhat unique to the United States, the setting casts non-shareholder constituencies in the role of outsider.

Furthermore, there are fewer channels whereby the public can access the hierarchy of corporate decision-making. While legislatures and government agencies presumably have public forums where interested citizens can express grievances and thereby attempt to influence decision-making, most decisions within corporations take place privately and involve only those actors whose bureaucratic responsibilities require their input. The forms of decision-making input for various stakeholders are often ambiguously interpreted. Market mechanisms, such as Hirschman's "exit" option discussed above, often do not adequately communicate stakeholder grievances (Vogel, 2005). Even if consumers, for example, decide to boycott a product due to dissatisfaction with a corporate policy, decision-makers are unlikely to detect the cause of grievance unless accompanied by some expression of "voice," such as protest. Thus, corporate

policymaking is a more closed process than that of the polity, making protest a particularly apropos tactic to be used by outsiders.

The importance of extra-institutional tactics is also discussed by Baron (2001; 2003; 2005), who argues that non-market mechanisms (e.g., voice) are strategically chosen by activists to influence targets unsusceptible to market influence. When exit is not sufficient to spur change, activists may seek more direct tactics, like protest. The goal of non-market mechanisms, however, is ultimately to shape the way in which the larger public perceives the targeted issue, either through public opinion or through media, and force concessions upon the target firm (Baron, 2005). This paper seeks to solve an important piece of that puzzle: given that activists resort to protest as a means of influence, what factors determine their ability to influence the firm's primary set of stakeholders - the investors?

The Influence of Protest on Stock Price: Argument and Hypotheses

Why should we expect social movement protest to matter to investors and, ultimately, to corporate decision-makers?[7] If social movements lack internal influence through legitimate channels of change, executives might interpret protest as the discontent of a radical minority of stakeholders. Following the assumption that only stakeholder groups that leverage resources may exert corporate influence (Clarkson, 1995; Frooman, 1999; Hendry, 2005; 2006; Dentchev, 2004), we might expect that protest, as a tactic of last resort, is relatively ineffective. One might

[7] While we focus on the effect of *protest* on stock prices, several studies have recently shown that the announcement of an organized boycott by a social movement organization appears to negatively affect the financial picture of targeted firms. While Friedman (1985) concluded that only about a quarter of 90 separate consumer boycotts were successful, additional quantitative studies using his data have shown boycotts to be more effective at decreasing stock prices. For example, Pruitt and Friedman (1986) examined 21 consumer boycotts that took place between 1970 and 1980 in the US and found that these boycotts resulted in both a decrease in stock price and in the overall market value of firms targeted. And, Pruitt, Wei and White (1988) examine union-sponsored boycotts and find these to be successful at causing financial losses of the targeted firm.

also argue that corporate executives do not view protest as a serious threat to their firm or its market value because it does not provide any new information about the company. According to a semi-strong form of the "efficient markets hypothesis," all relevant, publicly-available information about a firm is already contained in its stock price (Fama, 1970; Shleifer, 2000) and social movements tend to act on publicly available information.

We suggest that protests can, however, be relevant sources of new information about a firm's cash flow, which can shape investor confidence in the targeted firm. We assume that there is heterogeneity in the kinds of information communicated by protests. For example, some protests may have their own disruptive effects on the firm. Other protests do not necessarily impose costs, but they draw attention to existing stakeholder concerns and cause investors to question the firm's managerial soundness (Oliver, 1992). In both cases, the protest conveys information suggesting that the corporate target may have difficulty maintaining its current market value.

We bring up these two examples because they are likely common reasons that investors may link protests to constraints on future cash flow. Social movement scholars have long argued that the disruptive qualities of protest are costly to its target (see Piven and Cloward, 1977; McAdam, 1982; Kennan, 1986; Gamson, 1990; McAdam and Su, 2002; Luders, 2006; Rojas, 2006). In the case of corporate targets, investors may believe that protests threaten revenue flows or impose costs by tampering with organizational inputs, like labor or suppliers. One example of how protests threaten to impose disruption costs is through association with a consumer boycott. Some groups have used the boycott to effectively curtail sales, including animal rights groups aimed at deterring corporations from using animals in product safety tests (Friedman, 1999). Politicized consumer groups are seen as threatening because firms are directly dependent on their

support for survival. Perretti (2004) contends that protests and other activist tactics tend to politicize and globalize personal consumer decisions, which makes them threatening in the eyes of investors and corporate decision-makers.

A second example, described by Luders (2006), involves the protests of businesses in Greensboro, North Carolina during the 1960 civil rights sit-in campaign to protest segregation. Many businesses reported loss of sales revenue as the sit-in protests repelled regular customers who found the setting uncomfortable or distasteful. One Woolworth's manager reported that the "activities had cost the store some $200,000, and 1960 profits dropped by 50%" (Luders, 2006: 977). Eventually Woolworth's and other store managers yielded to the protestors and consented to an integration agreement.

Although potential disruption costs are an important consideration, they are not the only, or even the most important, information that protests yield. Most protests against corporations are fairly benign in their direct effects on business activity and may not sway investors to quickly dispose of company stock (Vogel, 2005). Yet, even if protests do not pose a direct threat to a firm's revenue, they still communicate dissatisfaction among stakeholders, and investors may see this dissatisfaction as a threat to a firm's reputation and legitimacy. Organizational scholars argue that reputation and legitimacy are intangible assets that firms use to acquire resources and create shareholder value (Fombrun and Shanley, 1990; Fombrun, 1996; Deephouse, 2000; Sanders and Boivie, 2004). Investors may also fear that protest will actually intensify negative perceptions of the firm. If stakeholders were satisfied with the firm's practices before the protest, their feelings may consequently change. Protest, then, represents a threat to the intangible assets that are based in favorable stakeholder perceptions (Elsbach, 2006). Inasmuch as protest signals a decline in

reputation and legitimacy, the market reacts to a protest as if it will lead to a loss in future cash flow.

An example of protest's ability to communicate lost stakeholder satisfaction was the controversy surrounding Cracker Barrel's policy to dismiss all gay and lesbian employees of the restaurant in 1991. These dismissals occurred following a CEO's memo stating that the restaurant would not "continue to employ individuals . . . whose sexual preferences fail to demonstrate normal heterosexual values" (Niebuhr, 1991:C1). The outraged National Gay and Lesbian Task Force (NGLTF) begin staging protests of restaurants and formed a national boycott of the chain (Raeburn, 2004). The NGLTF framed the actions of the restaurant chain as egregious and socially irresponsible. Fueled by the protests against the company and fearing a decline in their reputational standing, shareholders began making noise, despite the fact that there was no evidence of a drop in sales revenue. Although company officials retracted the blatant discrimination policy, shareholders introduced a resolution to force the company to adopt a nondiscrimination policy against those with same-sex orientation (Davis and Useem, 2002). During the month of January, Cracker Barrel's stock fell an abysmal 26% below the expected return. This decline in stock price coupled with shareholder discontent undoubtedly spurred the executives to reconsider the policy. Subsequent to the protests, Cracker Barrel has continued to face criticism from activist groups and investors for having discriminatory employment policies (Adentuji, 2002).

The protests used to defeat the licensing of the Shoreham nuclear power plant during the late 1970's and early 1980's also illustrate how protests raise questions about a company's legitimacy. In the early planning phases, public opinion favored LILCO's (Long Island Lighting

Company) project to construct a nuclear plant in Shoreham, New York. After an initial approval, the anti-nuclear movement began to protest the construction of the plant. Aided by the imagery of nuclear disaster following the Three Mile Island accident, anti-nuclear activists framed the new plant as a safety threat. Protests forced officials of LILCO to account for the growing public perception that nuclear energy posed a danger to local inhabitants (McCaffrey, 1991; Aron, 1998). Rather than simply provide new information about the viability of the Shoreham plant, activists changed the debate from one of energy efficiency to a question of safety and emergency preparedness. This transformation changed investor confidence in the project, generated community concern that LILCO did not regard safety as important, and ultimately caused an escalation of costs that forced LILCO to abandon the project (Ross and Staw, 1993).

Both examples (Cracker Barrel and LILCO) demonstrate that protests reveal information about previously-ignored stakeholder perceptions and may at times change perceptions among key stakeholder groups. Investors fear that lack of public support for a corporation signals a decline in reputation and legitimacy. Without these intangible assets, investors recognize that the target firms may be less capable of efficiently carrying out their objectives. Also made evident by the above examples, protests often occur in a sequence of social movement activity. Activists may schedule multiple protests against a target corporation, often in various settings, in order to make a broad impact. However, not all protests are equally effective. Some protests may escape the notice of the firm and its investors. Protests that receive no media coverage may be invisible to the broader public and investors. As such, activists often compete for media attention as a strategy for influencing public perception about a corporation (Baron, 2005) or as an outlet to communicate grievances to a larger set of corporate stakeholders (Bonardi, 2005). As Lipsky argues, "If protest tactics are not considered significant by the media…protest organizations will

not succeed. Like a tree falling unheard in the forest, there is no protest unless protest is perceived and projected" (1968:1151).

Therefore, the negative influence of protests is mediated by at least a minimal level of national media coverage. When protests are reported in the media, they signal to investors the potential disruptive costs and a loss of intangible assets upon which the firm's cash flow depends. Based on these expectations, we suggest the following hypothesis:

H1: Social movement protest events covered by the national media will provoke a negative reaction by investors in the target firm.

While we expect protest to be effective at causing at least minimal investor flight, we also expect there to be a great deal of variation in investor reaction, as not all protests are equally effective. As well, corporations will not be equally susceptible to the influence of protest. Therefore, in the following sections we provide detail about the dynamics of corporate protests that explain variation in investor reaction to them. First, we expect that certain protest events are better at generating information about the corporate target and thus will make investors more wary. Second, some firms may be better positioned to buffer themselves from protests. In the following section we present several hypotheses about the level of expected change in stock price during the event of a protest. We suspect that protests yield heterogeneous information about the firm that accounts for the hypothesized effect. While the overall effect of protest is to provoke a negative investor reaction to the target company's stock, it would be impossible to statistically discern between the various mechanisms generating the variables' effects. Rather than attempt to distinguish between different kinds of information, we instead identify those

features of protests that accentuate the information content of protests and the features of corporate targets that buffer firms from the damaging effect of protests.

Hypotheses Related to Protest Characteristics

Certain factors are known to be associated with protest effectiveness. For example, the level of threat posed by a protest has been shown to affect a number of different movement processes, such as favorable policy outcomes (Gamson, 1990) and police repression (Earl, Soule, McCarthy, 2003; Davenport, 2000). Threatening protests may be more effective signals to investors that stakeholders no longer trust a company and may be more disruptive. Therefore, the overall level of threat posed by a protest should be positively correlated with its ability to influence investor confidence.

One of the most common indicators of threat is protest size (typically measured by the number of participants). Large protests garner a more severe reaction from authorities (Earl, Soule, and McCarthy, 2003) and grab the attention of a wider public audience (Earl, Martin, McCarthy, and Soule 2004). As well, larger protests have a greater impact on their targets because of their ability to disrupt the target's routine activities (Luders, 2006). Based on this, we offer a second hypothesis:

H2: The larger the protest is in size, the greater the negative reaction by investors to the target firm.

Another traditional indicator of threat is the organizational strength of the movement (McCarthy and Zald, 1977). When multiple organizations collaborate to sponsor a protest, they draw on a

larger resource base, which allows them to more effectively coordinate every aspect of the event (Gamson, 1990; Skocpol et al., 1993; Cress and Snow, 2000; Andrews, 2001; Minkoff, 1997, 1999; Soule et al., 1999; Van Dyke, 2003). As well, protests involving more organizations may indicate to investors that the expressed grievance is widespread. Following these observations, we suggest the following hypothesis:

H3: The greater the number of organizations sponsoring a protest event, the greater the negative reaction by investors to the target firm.

The effectiveness of the protest may also vary by the targeted issue. Issues relating to resource flows critical to the firm's survival may be particularly damaging to investor confidence. This argument may be reformulated in stakeholder terms: managers and investors view issues raised by stakeholder groups that are more central to the operations and functioning of the firm as more relevant and legitimate claims (Albert and Whetten, 1985; Clarkson, 1995; Mitchell, Agle, and Wood, 1997; Agle, Mitchell, and Sonnenfeld, 1999). For example, labor and consumer satisfaction is necessary to maintain successful production and distribution processes. When either one of these constituencies becomes dissatisfied with the services or treatment of the firm, resource flows may be immediately stymied. Compare these issues with others that relate to societal needs or collective goods, like the protection of the environment or moral claims made against the firm. Dissatisfaction with a company's environmental performance or moral stance rarely translates into revenue reductions (Vogel, 2005). In contrast, companies that fail to address consumer complaints, such as those relating to faulty products or labor grievances face more serious direct consequences to their vitality. Investors are sensitive to changes in satisfaction among consumers and employees (e.g., Nayyar, 1995). Investors may see labor or

consumer protests as reliable information regarding loss of consumer confidence or pending labor strikes.

Thus, protests relating to labor or consumer issues should be more troublesome to investors, given that they signal an underlying discontent with two stakeholder groups central to organizational survival. In addition, protests accompanied by consumer boycotts may constrain future revenue and impose a direct threat to profitability. Based on these insights, we suggest the following two hypotheses:

H4: Protests relating to labor or consumer issues provoke a stronger negative reaction by investors to the target firm.

H5: Protests accompanied by consumer boycotts provoke a stronger negative reaction by investors to the target firm.

Protests related to deep-seated issues involving institutionalized policies and practices of a corporation may generate stronger investor reactions than protests dealing with temporary or situational organizational problems. Many protests aim to change fairly peripheral aspects of the organization, such as pricing or the release of an offensive product. Protests aimed at peripheral features may have relatively quick solutions (e.g., a television network takes an offensive program off the air). Highly institutionalized practices or policies, on the other hand, are costly to repair and may not have easy solutions. For example, corporations judged by protestors to have discriminatory hiring policies may have to undergo significant internal changes in order to address the grievance. Part of the cost is represented by the level of commitment that the organization made to previously defined rules, programs, and policies (Selznick, 1957). These

institutionalized features of the organization become highly resistant to change, as they take on both cognitive legitimacy within the organization and represent significant resource endowments (Ghemawat, 1991). Costs incurred by changes to these rules and policies have potentially greater negative effects on future firm performance than changes to more peripheral characteristics.

H6: Protests related to institutionalized programs, policies, or practices provoke a greater negative reaction by investors to the target firm.

As we argued above, protestors need a minimum level of media coverage to communicate their grievances (Gamson, 2004; Baron, 2005). But, beyond this minimum level, we expect that investors will be more receptive to protests with greater levels of coverage. Intensified media coverage amplifies investors' attention to negative aspects of a corporation's behavior and is a proxy for information about the value of a firm absent firm-generated data (Fombrun and Shanley, 1990; Elsbach and Bhattacharya, 2001). Additionally, under conditions of imperfect information, where investors are unaware of how salient an issue is in the public's mind, the level of media coverage of a protest may convey urgency (Baron, 2001).[8] Thus, we suggest:

H7: Protests with greater levels of media coverage provoke a stronger negative reaction by investors to the target firm.

Hypotheses Related to Corporate Target Characteristics

[8] Importantly, the effect of media coverage on investor reaction should be net of the size of protest, as we would naturally expect larger protests to get more coverage.

In addition to our hypotheses about the effects of protest characteristics on stock price, some protests may have a greater effect on stock price because the firms themselves are less able to deal with the protests. Certain corporations may be more susceptible to protest influence because they do not have alternative information to offer investors that would alleviate concerns about the well-being of the company.

Media representations of a corporation contain important information that shapes investor sentiment (Deephouse, 2000; Rindova, Pollock, and Hayward, 2006). Thus, we might expect that past media attention to a firm has already significantly molded investors' perceptions of the target firm (Fombrun and Shanley, 1990). Past media attention may actually protect firms from further reputational damage because firms that have been scrutinized in the past already have their public "warts" exposed. In addition, past media coverage may draw investors' attention to a variety of attributes (both positive and negative) that may offset the protest's effect (Elsbach and Bhattacharya, 2001). Past media attention provides investors with sufficient information to dampen their negative reaction to a protest and, as such, it buffers firms from protests' negative impact.

H8: Companies with high levels of past media attention will experience less negative investor reaction to protest.

Like past media attention to a firm, the financial security of the corporation may also mediate the effect of a protest on investor perceptions. Firms with strong financial performance may also have excess cash flow to buffer them from potential costs threatened by protests. Companies with strong cash flows facing protest should be less of a concern to investors than cash-strapped

companies with precarious market positions. If protests contain information that makes investors concerned that future cash flow will be impeded, firms with currently healthy cash flows will be more protected from this negative perception. Part of the buffering effect of financial performance may simply be due to the correlation of corporate reputation with financial performance (Fombrun and Shanley, 1990; Roberts and Dowling, 2002). Firms with strong financial performance tend to have good reputations. Therefore, companies with poor financial performance should face greater scrutiny by investors and be more likely to experience investor retreat when an attack is made against the firm.

H9: Companies with weaker financial performance will experience greater negative investor reaction to protest.

Methodology

To test these hypotheses, we assess the extent to which a protest event affects the abnormal returns to a target firm's stock price. We use the event study methodology developed by finance scholars to assess the influence of a single protest event on stock price returns (e.g., Epstein and Schneitz, 2002; Koku, Akhigbe, Springer, 1997; Pruitt and Friedman, 1986). The event study structure uses the past performance of the firm's stock to calculate the extent to which the current performance of the stock deviates substantially from expected performance (see MacKinlay, 1997 for a review).

Data on protest events were collected from daily editions of the *New York Times* (*NYT*) as part of a larger research project initiated by Doug McAdam, John McCarthy, Susan Olzak, and Sarah Soule (other papers using these data include McAdam and Su, 2002; Earl, Soule, and McCarthy,

2003; Van Dyke, Soule, and Taylor, 2004; Soule and Earl, 2005; and Earl and Soule, 2006). We extracted protest events targeting public corporations between 1962-1990 from the larger dataset.[9] In addition to targeting a publicly traded corporation, we only use events that involved more than one person, because protests are *collective* expressions of discontent. Finally, the protest event must have happened publicly for us to include it in our analysis. So, for example, we do not count private arbitration between activists and a corporation.

Newspaper data on protest events are one of the most frequently used forms of data in the field of social movements (see Earl et al. 2004, for a review). Because of the popularity of newspaper data, there have been many attempts to assess the potential biases associated with this source (see recent comprehensive review in Earl et al., 2004). In particular, studies have asserted that there are two main sources of bias in newspaper data: *selection bias* and *description bias*. Selection bias refers to the fact that not all protest events will be covered by a given newspaper and the possibility that what *is* covered is not a random sample of all events that took place. While no single newspaper contains all events in a given time period, this data source is ideal for our study, given that *NYT* covers a large metropolis and the financial center of the country. Because the major financial exchanges in the U.S. are located in New York City, the *NYT* is ideally positioned to cover protests of business corporations. Moreover, the data collection methods used in this study are much more comprehensive than that which has been done in other event studies, given that the research assistants skimmed *daily* editions of the newspaper and identified *all* reported protest events.[10] This strategy reduces selection bias by not introducing further sources of selection (in this case, researcher-induced or indexing procedure-induced).

[9] Some financial data on the targeted firms were not available prior to 1962, thus although we have protest data beginning in 1960, we omit those cases from the analysis.

[10] Researcher assistants then content coded these events, achieving inter-coder reliability rates that were consistently at or above 90% agreement.

Description bias refers to the veracity of event coverage. In their extensive review of the literature, Earl et al. (2004) conclude the "hard news" (or the facts of the event) is generally accurately covered by newspapers. Because for this paper we draw on "hard news" items (as will be described in detail below), and not on "soft news" items (such as opinions on the issue), we are confident that the accuracy of our data is acceptable.

As further evidence that our data source is comprehensive, we searched for data on events in both the *Wall Street Journal (WSJ)* and the *Washington Post (Post)*. Searching these sources for relevant keyword combinations (e.g., protest, activist, and demonstration) produced a small subset of the articles already found in our *NYT* data.[11] The *WSJ* appears to cover some of the issues that motivated protests, but often initiated coverage following the actual protest event, while the *Post* tends to cover protests involving court cases, but not protest events. Neither source appears to cover protests that were not also reported by the *NYT*. Thus, we conclude that of the national newspapers, the *NYT* provides the most comprehensive coverage of corporate protests.[12]

We want to be clear that by using the *NYT* as a data source, we do not assume that this is necessarily the source of information used by investors. We make no assumptions about the form of media or other private sources that investors use to get information regarding a protest event. Investors likely receive their news about firm-related events from a variety of sources,

[11] Specifically, we searched the *Wall Street Journal* and *the Post* for six years (1964, 1968, 1974, 1978, 1984, 1988). We found that the *WSJ* reported only 6% of the protest events covered by the *NYT*. Only two protests during these 6 years were reported in the *WSJ* and not by the *NYT*. The *Post* reported less than 10% of all protests reported by the *NYT* in these 6 years. And, we found no events reported in the *Post* that were not also covered in the *NYT*.

[12] For example, both of the protests mentioned earlier in the paper (the Greensboro sit-ins and protests of the Cracker Barrel discrimination policy) were covered by the *NYT* shortly following the dates of the actual protests (Sitton, 1960; Smothers, 1991), but the *WSJ* only immediately covered the Cracker Barrel protest (Niebuhr, 1991).

including but not limited to the *NYT* (Figlewski, 1982; Brennan and Hughes, 1991; Barber and Odean, forthcoming). Most event studies, in fact, begin the calculating the event window prior to the day of the event precisely because some investors initially reacting to an event receive their information about the event from a private, non-news source, as when information is passed through social networks (e.g. Zajac and Westphal, 2004). We make the same assumption. Information about a protest need only be held by a few investors (or by other people who inform a few investors) for the information to diffuse to the larger investor population. We emphasize that for a stock price to change in reaction to a protest, it is only necessary for a few investors to actually get that information from a media source. One plausible way the information may enter the market is that a few initial investors who do have information about the protest react to the event, which then leads to feedback among additional investors (Shleifer, 2000). Institutional investors of sufficient size could alone account for the price change, but given the presence of feedback processes, it is likely that other investors become aware of the protest event and the related issues. Further, if it is true that most investors do not consider the *NYT* to be their primary source of information about the market, an analysis of protest' effect on stock price with data gathered from the *NYT* is a strong test of the hypothesis. We, therefore, feel confident that our data source would not overstate the effect of protests on stock price.

The dependent variable in our analysis is the *cumulative abnormal return* (CAR) to a company's stock price. Because we are interested in investor reaction to a particular protest event, we must control for the market-wide fluctuations in stock price returns in addition to the correlation between a target firm's returns to the market return. Market fluctuations could occur for a number of exogenous reasons, none of which have to do with the protest event. Similarly, we should expect that certain stocks are more likely to fluctuate in conjunction with the market than

others. CAR is a standard measure of stock price return in event studies (Patell, 1976; Brown and Warner, 1985; Chaterjee, 1992; Gaver, Gaver, and Battistel, 1992; Zajac and Westphal, 2004) that allows us to estimate fluctuation in stock price as it deviates from the expected return, based on exogenous market fluctuation. We obtain data on daily stock price returns from the CRSP database.

We derive CAR in three steps. First, we calculate the daily abnormal return for an individual stock. The daily abnormal return for a firm, j, is described as

$$\text{abnormal return}_{jt} = R_{jt} - a_j - b_j R_{mt}$$

where R_{jt} is the rate of return for a day around a protest event and a_j and b_j are regression coefficients taken from the following expected return equation:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}$$

where R_{jt} is the rate of return for firm j for a period of days preceding the protest, R_{mt} is the market return (the equally-weighted daily return for all firms in the CRSP index) on day t, β_j is the systematic risk of firm j, α_j is the rate of return on firm j when R_{mt} is zero, and ε_{jt} is a serially independent disturbance term with $E(\varepsilon_{jt}) = 0$. R_{jt} can be interpreted as the expected return for the stock of firm j holding constant shifts in the overall market portfolio. The regression coefficients for expected return are calculated for a 239-day period prior to the beginning of the event window. A 239-day prior period is often used in event study analyses (see, for example, Zajac and Westphal, 2004).

Thus, the daily abnormal return tells us the difference between the actual daily stock price return and the expected return, which is based on a firm's stock price correlation with the CRSP equally-weighted market index. A positive abnormal return indicates that a firm's return was

greater than would be expected based on recent past performance. A negative abnormal return tells us that the stock price is declining compared to what we should expect.

We calculate CAR as the *sum of all of the daily abnormal returns for a 26-day period* around the protest event for each target firm. Included in the CAR window are the twenty days prior to the protest (day -20) and the five days following the protest event (day +5). The reason for extending the window to twenty days prior to the event is because in many cases information about a protest will leak to investors before it actually occurs. Much of the investor reaction is anticipatory of the protest. In fact, if a social movement group announces the occurrence of a protest several days before its staging (as often happens) one would expect investor reaction to begin in the days preceding the protest. CAR captures this information leakage (see Fama, Fisher, Jensen, and Roll, 1969). For this reason most event studies calculate CAR using a window that begins on a day prior to the actual event (see, for example, Chaterjee, 1992). Calculating the CAR using this window conforms to similar analyses looking at the effects of boycotts on CAR (e.g., Koku, Akhigbe, and Springer, 1997; Pruitt and Friedman, 1986) and protest on CAR (e.g., Epstein and Schneitz, 2002). To assure that the findings are not sensitive to the length of the window, we calculated CAR for two additional event windows (one window consisting of eleven days [day -5 to +5] and another window consisting of two days [day -1 to 0]). The smaller windows provide a more conservative test, but they may not capture the entire effect of the protest on investor behavior. We do not use a longer window following the protest (e.g. 180 days following the protest) because we are only interested in investors' initial reactions to protest and not on long-term effects. Over a longer period of time other factors confound investor reactions (including the corporations' response to the protest), while a short analysis more likely reflects the investors' initial judgments.

Because we are using CRSP data to calculate the CAR for protest target firms, we only included those firms in the analysis for which daily stock return data were available. For firms that were protested on a non-trading day, we counted the event day as the first day of trade following the protest. Activists protested against some firms repeatedly in a short period of time. We were concerned that including protests with overlapping CAR windows would provide a biased estimate of investor reaction. To deal with this we only included the initial protest when protests were within the same month time period.

The resulting dataset includes 342 protest events that occurred between 1962 and 1990. This number represents the entire set of protests reported in the *NYT* that targeted publicly-traded firms with available stock price data during this time period. While this may not seem like a large number of protests, the dataset allows us to test hypotheses about the effect of protest on investor reaction over a longer period of time and across a wider variety of protest issues than has been done in any other such analysis. Coders categorized protests into various issue categories, with protests against corporations covering forty-five different issues, ranging from environmental concerns to sex discrimination complaints to morality issues. The most prominent were those addressing labor concerns (67 protests), nuclear threat and safety (38 protests), and discrimination against African-Americans (25 protests). The breadth of this dataset makes our results generalizable to a variety of protests covered by the national media.

In addition to assessing the direct effect of protest on stock price returns per our first hypothesis, we want to determine whether certain characteristics of a protest or of a target firm affected abnormal returns, per hypotheses 2 through 9. To this end, in a second analysis, we regress

target firms' CAR on independent variables capturing variation in the mechanisms of protest influence. We use the largest time-window in order to capture variation in investor reaction distributed unevenly around the protest event date.

According to hypotheses 2 and 3, larger protest events and those protests with multiple sponsoring organizations should have more negative returns because of the greater potential threat they may pose. To assess these hypotheses, we include two different variables. First, our measure of *protest size* is the total number of people involved in the protest divided by 1,000. Second, our measure of *SMO involvement* is the number of social movement organizations that were recorded as sponsoring a protest. Information on both of these variables came from the *NYT* articles used to generate the protest event dataset.

To test hypothesis 4, which regards the effect of two different issues articulated at a protest, we included two variables indicating whether the protest targeted *labor- or consumer-related issues*. These are dummy variables that equal 1 if labor or consumer issues were mentioned during the protest itself and 0 if otherwise. Note that these protests do not include labor strikes or other union-sponsored events. Rather these are protests generated by the social movement sector that may be sympathetic with labor causes but that are not necessarily union-driven. For example, in 1986, 200 junior high and high school students in Austin, Minnesota left classes to march in support of striking workers of the Hormel Food Company. The march was not sponsored by union organizers, but it did center on a labor issue. Recognizing that strikes may actually be driving down stock prices in these cases, we also include a control variable to indicate whether a strike occurred during the event window of the protest.

To test our hypothesis that protests accompanied by a boycott will lead to a greater decline in stock prices (H5), we include a dummy variable indicating whether the protest was associated with a *consumer boycott*. In our dataset, 7% of the protests were coupled with a consumer boycott. Examples of protests accompanied by boycotts include a 1970 boycott of the energy company, Consolidated Edison, by New York residents who protested drastic rate increases, and a 1990 boycott by civil rights activists of Nike to encourage the company to do more business with black-owned businesses.

To test the hypothesis that protests directed at an *institutionalized feature* of a firm will lead to greater declines in stock prices (H6), we include a dummy variable indicating whether the protest targeted such an institutionalized organizational program, policy, or practice (e.g., hiring policies, investment practices). Issues *not* considered institutionalized features of the organization include decisions like changing a pricing scheme or releasing a new product.

To determine whether the amount of *media coverage* of a protest event negatively affects returns (H7), we include a variable indicating the number of paragraphs in the *NYT* article dealing with the protest event. We recognize that *all* of the protest events in our dataset had sufficiently high media salience to have been covered by a national newspaper, but this measure allows us to capture variation in the extent to which the media focused on a given event.

To test our argument that firms that received more *past media attention* will be less susceptible to declines in stock prices as a result of protest (H8), we include a measure of the number of articles in the *NYT* citing the target firm in the year preceding the protest event window.

To assess the hypothesis that companies with weaker financial performance will experience greater declines in stock price (H9), we include a measure of *industry-adjusted cash flow*. We use cash flow as an indicator of performance because research shows that cash flow is often managed by firms to create the outward appearance of elevated financial performance (Burgstahler and Dichev, 1997). Cash flow also captures the extent to which firms have excess resources with which to absorb potential costs. Cash flow is a firm's operating income plus depreciation value divided by the firm's common shares. This measure is then adjusted for the industry mean cash flow for that given year (cash flow – mean industry cash flow). Data for this and other financial variables came from *Standard and Poor's* COMPUSTAT database.

In addition to these measures designed to test our nine hypotheses, we also include several control variables in our analysis. First, we include a variable indicating whether the target firm of the protest was a *subsidiary* of a larger corporation. Targets of protest that are subsidiaries may be less scrutinized by investors because their operations may be only loosely coupled with the performance of the stock price. Second, we control for the size of the firm by including *the natural logarithm of corporate assets*. Third, because some protest events last longer than others and thus may potentially provoke a stronger reaction among investors, we include a variable of *protest length*, which is a dummy variable equaling 1 when the protest occurred over a series of days. Fourth, as mentioned above, we control for the presence of a *labor strike* during the event window. Fifth, we control for other issue-specific effects to validate the uniqueness of labor and consumer issues on investor perceptions of the firm. Specifically, we include two dummy variables to indicate protests related to *environmental* and *morality issues*. Table 1 contains descriptive statistics and correlations for all independent variables.

[Table 1 about here]

Although we have 342 protest events in the event study, we lose 55 observations in the regression analysis because of gaps in the COMPUSTAT data. We did not observe any substantive differences between the protests for which financial data were available on the target firm and those protests for which data were unavailable. Although it is impossible to assess given lack of comparable data, censored firms may have been smaller and younger than those included in COMPUSTAT. Following standard practice in financial analysis, we also do not include any cases in the regression model for which confounding events occurred in the time-window of the analysis. Confounding events, such as acquisitions and strategic alliance announcements, are other significant corporate events that may change the market return for the observed time period.[13] Thus, we lose an additional 32 observations due to confounding events. We use standard OLS regression to obtain estimates, as is common for analyses where the dependent variable is the firm's CAR (e.g. Kale, Dyer, and Singh, 2002). Because we have multiple observations for some firms in the analysis, we obtain robust standard errors by clustering the observations by firm. We also include annual time dummies in the analysis (not shown in Table 3) to control unmeasured temporal heterogeneity. Checking the VIF scores, we determined that multicollinearity was not a problem in the model.

Event Analysis of CAR

To test our hypothesis (H1) that protest events lead to negative returns to stock price, we assess the statistical significance of the CAR. The null hypothesis is that CAR equals zero across the

[13] Confounding events include corporate restructuring, price changes, new products, dividends or earnings announcements, joint ventures, acquisitions, litigation, executive changes, changes in forecasted earnings, layoffs, debt-related events, or contract awards.

event period given that market returns, net of exogenous market effects, are thought to be randomly distributed. Any significant deviation from random returns indicates that the protest event had a discernable effect on a firm's stock price. A *negative* CAR indicates that a firm exhibited returns below that which we would expect based on past performance.

Figure 1 shows the distribution of daily abnormal returns over the 26-day time window. In the figure we only include those abnormal return values that were statistically significant from the expected market return. The figure demonstrates that, as we hypothesized, firms that were targets of protest experienced significant declines in stock price.

[Figure 1 about here]

Table 2 shows the test statistics for CAR for the 26-day event window, as well as the two shorter event windows, 11- and 2- day. The first column shows the mean CAR for firms targeted by protest. This is expressed as a percentage and can be thought of as the mean cumulative percentage change in a stock price below that which was expected. The second column shows the cumulative average abnormal return (or CAAR). This is an alternative way of signifying average change and can be interpreted as the cumulative percentage change in the daily means of the firms' abnormal returns. The third column contains the Patell Z, which is a standard measure of statistical significance in event studies (Patell, 1976). The mean CAR and CARR are both negative in all three windows and are statistically significant from zero using Patell's Z as a test of significance. These indicators provide strong evidence that protest has a significant *negative* influence on investor confidence. Rather than fluctuating randomly, stock prices tend to fall in the window of time around a protest event. Stock prices, on the average, declined by 1% during

the 26-day event window; importantly, this magnitude of the abnormal returns is comparable to returns associated with other corporate events (see Footnote 14). Using corporate acquisitions as a benchmark and adjusting for a similar time-window, the effect of protest on stock price returns is about 70% of the effect of acquisitions on returns (Dyer, Kale, and Singh, 2004).

[Table 2 about here]

Scholars using the event study methodology have argued that results may be biased if cases associated with potential confounding events are included in the analysis (McWilliams and Siegel, 1997). To check the robustness of these findings, we ran the analyses again eliminating cases where confounding events occurred in the time window. In the reduced analyses, we had 274 observations. In the bottom three rows of Table 2 we list those returns. Although the size of the returns is slightly smaller, these robustness checks confirmed the finding that protests reduced the stock price of the target firm.

Regression Analysis of CAR

Protest Characteristics Effects

Table 3 shows the results of models regressing CAR (expressed as a percentage change from expected returns) on a set of independent variables described above. Based on these results, it appears that investors are greatly concerned about the nature of the issue that is protested. Protests targeted at labor and consumer issues led to lower than expected returns to stock price. This provides support for the hypothesis that protests targeting issues related to critical resource inputs should make investors more wary (H4). Because both labor and consumers are valued inputs to organizational success, investors may fear that protests indicate problems with key stakeholders and may signal a decline in future cash flow.

[Table 3 about here]

Surprising to us, the size of protest, organizational involvement, and the presence of a boycott do not have statistically significant effects. These results do not support the hypothesis that the character of protests themselves has an effect on the way that protests are perceived by investors. While not statistically significant, we hypothesized (H5) that protests accompanied by boycotts should lead to negative returns. Our results do not support this hypothesis. One might argue that the threat of boycott may be dependent on the size of the threat or the amount of media attention given to the protest. Larger protests may signal to investors the threat of a larger loss to revenue. Alternatively, media coverage may amplify the potential threat of a boycott. We test both of these possibilities in models 2 and 3 by including interactions (separately) of the boycott variable and media coverage (model 3) and protest size (model 2).[14] The results provide little support for these arguments. Neither interaction effect is statistically significant. We, therefore, do not find support for the idea that investors view protests associated with boycotts as more threatening.

Media coverage of the event also has a negative effect on stock price. For each additional paragraph written about the protest in the NYT, stock price returns decline a tenth of a percent below that which we expect. This effect is quite significant given the extensive media coverage given to some protests. The median article consisted of 8 paragraphs and the longest article in our dataset consisted of 202 paragraphs. Thus, extensive media coverage significantly swayed investor reaction to protests.

[14] We mean center the continuous variables used in these interaction effects in order to reduce problems associated with multicollinearity.

Corporate Target Effects

According to our findings, some corporations are more capable of buffering themselves from the negative effects of protest. Our analysis provides support for the hypothesis that past media attention to the firm positively affects returns. This suggests that when attention to a firm is high, investors (and the public more generally) already have sufficient information about the target firm to make an assessment of its market value. Extensive past media coverage may have already shaped investor perceptions, thus protests may not provide much new information to investors. The significance of this effect points to the importance of protest as an information source for investors. We did not find support for the hypothesis that financial performance protected corporate targets from protest influence.

Robustness Checks

We conducted additional analyses to check the robustness of the findings presented in Table 3. In particular, we wanted to correct for the potential of *selection bias*. Not all firms are equally likely to face protest as activists pick their targets strategically, focusing their efforts on firms that are most salient to the public (Baron, 2001; 2002; 2005). Furthermore, past protest against the target may affect both a) the likelihood that the company will protested against in the future and b) change the way in which the public reacts to future protests. We might expect, for example, that investors become indifferent to protests if a particular corporation is targeted frequently. Some industries may also exhibit higher levels of protest (e.g., the textile industry was targeted for protest frequently in the 1980s for their labor policies). Intra-industry protest levels may have the same kinds of endogenous effects on the way that investors perceive future protests.

In order to assess to what extent past protest influence investor perceptions, we add two control variables to the analysis that measure *the number of past protests against the firm* and *the number of past protests against other firms in the target's main industry*. Both variables capture the number of protests in the five years preceding the focal event. For the second variable, industry is conceived as the target firm's primary SIC grouping. Model 4 in Table 3 shows the results for this model. Note that because we do not have protest data for the years prior to 1960 and we needed five-years of data to construct these variables, we omit cases prior to 1965. The results provide general support for the main findings. More importantly, we find that these variables do not have statistically significant effects on the CAR. Thus, we do not find support for idea that the number of past protests directed at the firm or at other firms in the firm's industry influences investors' perceptions.

The above analysis does not, however, deal with the possibility that there is a correlation between the error terms of a model predicting the likelihood that a firm is targeted for protest and of a model predicting investor reaction to that protest. To account for this selection bias, we run a regression model using Heckman's two-stage estimation (1979). The intuition of this model is that the estimates in the abnormal returns regression need to be corrected for the propensity of certain firms to be targeted by protestors. To do this analysis, we obtained data on all firms operating in the same industry as known protest targets. We first conduct a Probit analysis assessing the probability that a specific firm will be the target of protest. From this we generate an estimate for selection correction (known as the inverse Mills ratio or λ). Substantively, λ can be interpreted as the probability that a firm will not be targeted for protest. Adding this selection coefficient to the CAR regression model assures that our results will be unbiased and consistent if the errors between the two models are correlated. This approach is a standard method for

dealing with selection bias in the management literature (e.g. Shaver, 1998; Leiblein, Reuer, and Dalsace, 2002). We used STATA's *heckman* function to perform the regression and adjusted standard errors by clustering cases at the firm-level. Table 4 contains the results for the Probit model. The regression reveals that protestors tend to target large, weakly performing firms. Firms that have been targeted by protestors in the past are more likely to be protested against in the future.

[Table 4 about here]

Model 5 in Table 3 contains the second-stage results of the Heckman selection analysis. Correcting for the selection effect, the coefficients do not change greatly from the standard OLS estimates. Moreover, the selection correction effect is not statistically significant, indicating that unobserved heterogeneity predicting the occurrence of protest against a firm does not predict investor reaction to that protest. This result leads us to conclude that estimates obtained from the OLS regression are unbiased.[15]

Discussion of Key Findings

This paper explores the effect of social movement protest on a key medium of communication in the contemporary corporate world – change in stock price. We find that social movements can

[15] We ran additional robustness checks with models that included firm fixed effects for firms that had multiple observations and that checked for temporal interaction effects by running the model for targeted firms in each decade. Although the coefficients were not always significant due to loss of statistical power (e.g. a fixed-effects model dropped the N from 287 to 223), the results of these robustness checks supported our findings. We also checked for bias that may result from outliers in the dependent variable. Regressions in which cases were dropped where the CAR fell in the 95th percentile had similar results to those presented here. We also ran a model using weighted-least squares regression, where protest events are weighted by the proportion of all protests that occurred in a given year. This weighting corrects for potential heteroskedasticity problems that would result if the proclivity to protest in a given year was attributable to an exogenous event that affected corporate targets in the same way. Again, this additional model did not substantively differ from those presented in Table 3. These additional models are available upon request.

affect stock price by staging public protest and garnering media coverage. Our analyses also demonstrate that some protests are more effective at causing an investor reaction, and some corporations are more susceptible to protest influence.

Activists are most influential when they target critical issues like labor or consumer issues. Thus, it appears that protest's effect is at least partially a function of its ability to inform investors about dissatisfaction among key stakeholder groups whose support is critical to the survival of the organization. Our findings highlight the importance of media coverage as an important mediator of activist influence (Baron, 2005). Social movement activists compete with other organizational stakeholders for media coverage as a means to frame information about corporations. Activists who are more successful in shifting attention to their activities are more effective at gaining influence through non-market mechanisms.

It is surprising to see that boycotts, which could conceivably have a direct impact on a firm's revenues, do not affect investor perceptions. As Vogel (2005) has argued most boycotts are ineffective in shaping consumer buying habits. If investors learn that boycotts do not actually threaten revenue, then they would not react negatively to protests associated with boycotts. Of course, this finding should not be interpreted to mean that boycotts by themselves do not negatively influence investor perceptions of the firm. Rather, boycotts do not make protests anymore effective than they already are.

In addition, we find that certain corporations are more susceptible to the negative effects of protest. Protests upset investor confidence by providing a signal to investors that something is amiss. Social movement protestors contest the appropriateness of corporate practices. In

response, the target firm must develop a plausible account of the protestors' complaints. Inasmuch as protest provides information about a firm's ability to secure future cash flow, investors need assurance that this is not the case. Past media attention may provide evidence that contradicts activist claims. Past media attention buffers protest targets as an alternative source of information that investors can use to assess the corporation's financial fitness.

One limitation of this study is that we only examined the effects of protests staged in the United States. Although this is an important set of observable protests, given the stature of U.S.-based corporations globally, the results should be interpreted as limited to a particular type of institutional environment. Notably, organizational scholars have argued that U.S. corporations are extreme in their adherence to a shareholder view of the firm, wherein the primary purpose of the firm is to create shareholder wealth regardless of the effects of corporate actions on other stakeholders (Guillen, 2000; Roe, 2000). Corporations based in other countries, like Germany and Japan, are more likely to take a stakeholder-centered approach to corporate governance (Schneper and Guillen, 2004). In a stakeholder-centered model, stakeholders have more power over corporate decision-making. Thus, in the setting observed for this study, corporations are likely to treat secondary stakeholders like social movement activists as true corporate outsiders. In settings where the stakeholder-centered approach dominates, activists may have more insider status to corporate governance, making protest less likely and perhaps changing the reaction of investors to staged demonstrations.

Conclusion

Although organizational theorists have become more interested recently in social movement theory as a way of thinking about processes and causes of organizational change (Davis et al.,

2005), very little research has addressed how social movements as organizational outsiders influence firms. Given the fact that many social movements lack access to the traditional channels of corporate decision-making, one contribution to the literature is to examine the efficacy of alternative mechanisms of influence available to these outsiders. On a more theoretical level, institutional and organizational scholars need to address the question of how institutional outsiders gain influence in realms of society where there are no or few legitimate avenues of influence. One answer seems to be that outsiders may attempt to indirectly influence institutional insiders who have a more direct stake in the operation and functioning of the institution (in this case, the corporation).

Hirschman (1970) led the way in the discussion of corporate outsider influence by noting that stakeholders can attempt influence through exit or voice. Our analysis indicates that voice, as an alternative to exit that is available to secondary stakeholders, is a powerful mechanism to influence the exit of other, more influential stakeholders. By expressing discontent with a corporation's policies or practices, stakeholders who might be considered irrelevant under normal circumstances gain leverage over valuable resources (the market capital of the firm). As Hirschman originally stipulated, voice and exit are often interdependent mechanisms. Exit, in this case, is not only strengthened by expression of voice, but it is actually instigated by voice. The combination of voice with exit gives the change of stock price a substantive meaning that it would not have under normal circumstances.

The findings of this study make it apparent that social movements, despite their status as outsiders, can have real influence in the corporate sphere. Their role as outsiders gives them a unique place; rather than participating in decision-making processes directly, they are often

forced to the periphery where they actively engage in meaning construction activities that shape the way the public perceives typically closed-off corporations. Through protest, social movements act as extra-institutional entrepreneurs with the goal of changing the discussion and debate surrounding the targeted corporation (Rao, Morrill, and Zald, 2000; Fligstein, 2001a; 2001b). A central task of extra-institutional entrepreneurs is to reconstruct the meaning environment around a focal organization so that changes - technological or those relating to organizational policies - are freer to take place (Munir and Phillips, 2005). Movement activity is oriented in broader institutional logics that provide activists with the cultural and discursive tools used to destabilize institutionalized corporate interests (Lounsbury and Glynn, 2001). Protests' stark contrast with legitimate channels of change is an important source of their influence.

Although we do not directly address consequent changes within the target corporations, we clearly demonstrate that social movements play a part in shaping the corporations' environment. By changing investors' perceptions of a firm's value, they make executives within the target firm aware of their grievances and force elite decision-makers to deal with problems that they would rather not address.

Our findings also have implications for those who study corporate social responsibility as a part of a firm's strategic mindset (e.g. Mackey, Mackey, and Barney, forthcoming). Inasmuch as social movements translate stakeholder concerns into corporate financial costs (loss of equity capital), movements are capable of forcing a firm to take stakeholders into account when setting strategy. One of the main implications, we believe, of the finding that protest affects stock market returns is that corporations can be shown the strategic value of paying attention to societal stakeholders who may not have a direct investment in the firm (Hart, 2005). If firms do

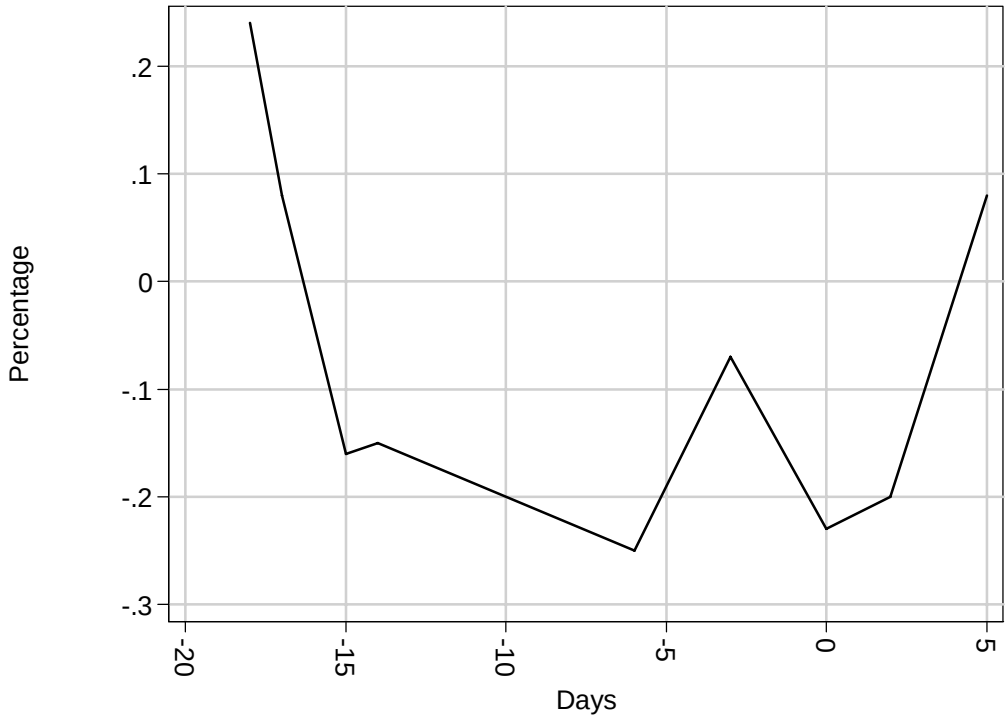
not incorporate activists as a part of the internal decision-making process, they run the risk of giving them reason to publicly express their grievances, at which point the corporation loses control of the issue to the public. Managing relations with stakeholder groups, no matter how irrelevant their concerns may appear to be, is an important firm behavior. We demonstrate here the link between this aspect of image management and stock price performance, but clearly the implications are broader. Improper management of stakeholder concerns likely affects various components of the corporation's image (e.g. reputation).

The findings also suggest that certain stakeholder groups will be more influential than others. Obviously, much of the influence of stakeholder groups is due to their ability to leverage resources (Clarkson, 1995; Frooman, 1999), but stakeholder groups without the direct ability to threaten costs may also gain some influence. These stakeholders gain influence by manipulating public perceptions through the media to broadcast negative images of the corporation. Future researchers examining stakeholder influence should pay attention to a group's skill in using the media as a potential resource.

The paper also speaks to the study of social movement outcomes. While earlier research by social movements scholars has focused almost exclusively on outcomes in the political domain (Giugni, 1999), this study emphasizes the importance of looking at additional types of movement outcomes. In particular, social movement scholars should pay more attention to movements that target corporations and other business organizations. Given the central role that business organizations play in contemporary society, it is curious that social movement scholars have not yet made this a focus of their research.

Future research might expand on the findings of this paper in several ways. First, case studies are needed to flesh out the theory proposed in this paper. In particular, we need to know more about strategies used to affect corporations through extra-institutional means. Are protestors aware of investors as a powerful audience? If so, do they plan protests in a way that grabs the attention of the investor public? Second, scholars should examine the effects of decreased returns to stock price on corporate decision-makers. We argue in this paper that protest and investor reaction is a mechanism to understanding organizational change. Future research might investigate this causal chain further. Scholars should also explore further the various discursive and framing tools that movements use to influence corporate insiders. If one of the primary functions of protest is to disrupt image management, scholars should focus more attention on the various framing devices and narratives that assist movements in changing existing institutional logics. Finally, future research should explore the cross-institutional differences of social movement access to corporate decision-making and its consequences on outsider influence. This study provides an important step in understanding the dynamics of outsider influence, but more work is needed in this area to flesh out a comparative approach of the stakeholder corporation.

Figure 1. Daily abnormal returns over event study window*



*Only daily abnormal returns that were statistically significant from the expected market return were included in the figure.

Table 1. Descriptive statistics and correlation matrix

Variables	mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Protest size	.09	.34	1.0													
2 # of SMOs present	.81	1.31	.006	1.0												
3 Media coverage	11.3	14.7	.03	.12*	1.0											
4 Labor	.20	.40	.04	.02	.05	1.0										
5 Consumer	.07	.26	-.03	-.003	.006	-.11	1.0									
6 Boycott	.07	.25	.07	.09	.05	-.10	.23***	1.0								
7 Inst. feature	.27	.45	-.10	-.01	-.08	.001	.04	.06	1.0							
8 Past media attention	.49	.77	-.03	.01	.003	.11*	-.07	-.01	.01	1.0						
9 Cash flow	5.81	4.56	.04	.01	-.04	.05	.004	-.01	.15*	.22***	1.0					
10 Subsidiary	.16	.37	-.02	-.02	-.02	-.007	-.09	-.12*	-.19	.10	-.01	1.0				
11 Log of assets	8.02	1.60	.06	-.01	.03	-.04	.01	-.06	-.007	.48***	.63***	.11	1.0			
12 Protest length	.09	.29	.00	-.04	.12*	-.01	-.09	.10	.06	-.05	.05	.02	-.003	1.0		
13 Labor strike	.08	.27	.11*	-.06	.12	.54	-.09	-.08	-.005	-.03	-.03	-.10	-.05	.03	1.0	
14 Environmental issue	.07	.28	-.03	.04	.05	-.16**	-.04	.01	-.15	-.02	.01	-.07	.10	.03	-.09	1.0
15 Moral issue	.02	.14	.003	-.02	-.04	-.01	-.04	-.04	-.09	.24***	-.02	.07	.04	-.05	-.04	-.05
16 Boycott * protest size	.006	.08	.23***	-.05	-.03	-.05	.06	.31***	-.002	-.08	-.03	-.04	-.11	-.003	-.03	-.05
17 Boycott * media	.18	2.79	-.03	.04	.19**	-.06	.01	.24***	-.06	.01	-.04	-.03	-.01	.03	-.02	-.04
18 Past protests against firm	.99	2.10	.02	-.08	.00	-.01	.008	-.06	-.11	-.04	.03	.007	.12	-.004	-.02	-.07
19 Past protests in industry	1.81	4.01	.10	-.04	.03	-.06	-.05	-.09	-.11*	-.11	.02	.13*	.15*	.09	-.05	-.08
20 Selection correction (λ)	3.26	.77	-.04	.08	.02	.07***	-.05***	-.04***	-.08**	-.10**	-.008	-.08**	-.88***	-.05***	-.04***	-.05***
21 CAR	-.80	8.83	-.05	-.05	-.15**	-.17*	-.13*	.03	-.12*	.02	-.004	.11	-.09	-.08	-.12*	.08

Table 1, continued

Variables	15	16	17	18	19	20
15 Moral issue	1.0					
16 Boycott * protest size	-.01	1.0				
17 Boycott * media	-.01	-.14*	1.0			
18 Past protests against firm	.04	-.04	-.03	1.0		
19 Past protests in industry	.00	-.04	-.03	.73***	1.0	
20 Selection correction (λ)	-.03***	.08	.05	-.18***	-.12***	1.0
21 CAR	.01	.01	-.07	-.01	.02	.03

***p<.001 **p<.01 *p<.05 (two-tailed tests)

Table 2. Mean CAR, CAAR, and Patell Z for protest events, 1962-1990

Event window	Mean CAR	CAAR	Patell Z
All protests (N = 342)			
26-day window (days -20 to +5)	-1.03%	-1.53%	-3.43***
11-day window (days -5 to +5)	-.49%	-.90%	-3.09***
2-day window (days -1 to 0)	-.27%	-.21%	-1.84*
Protests with no confounding events in event window (N = 274)			
26-day window (days -20 to +5)	-.40%	-.96%	-1.90*
11-day window (days -5 to +5)	-.24%	-.73%	-2.02*
2-day window (days -1 to 0)	-.30%	-.27%	-1.93*

***p<.001 **p<.01 *p<.05 (two-tailed tests)

Table 3. OLS regression analysis of CAR of target firms of protest, 1962-1990 with robust standard errors[16]

Variables	*Coefficients/(Standard errors)*				
	Model 1	Model 2	Model 3	Model 4 Post-1964	Model 5 W/ Heckman correction
Constant	11.13	11.00	10.15	12.08*	9.43
	(5.80)	(5.85)	(5.82)	(5.98)	(6.21)
Protest characteristics					
Protest size	-1.50	-1.36	-1.68	-1.71	-1.55
	(.94)	(.95)	(.93)	(.1.02)	(.86)
SMO involvement	-.35	-.37	-.36	-.38	-.37
	(.48)	(.49)	(.47)	(.49)	(.45)
Labor issue	-4.05*	-4.07*	-4.19*	-3.87	-4.01*
	(2.06)	(2.06)	(2.08)	(2.06)	(1.92)
Consumer issue	-5.55*	-5.58*	-5.83*	-5.27*	-5.57*
	(2.39)	(2.44)	(2.53)	(2.33)	(2.18)
Boycott	2.16	2.48	2.95	2.24	2.09
	(2.22)	(2.57)	(2.16)	(2.12)	(1.97)
Institutional feature	-2.37	-2.37	-2.56	-2.51	-2.45
	(1.64)	(1.64)	(1.62)	(1.78)	(1.67)
Media coverage	-.10*	-.09	-.08	-.10*	-.09*
	(.05)	(.05)	(.05)	(.05)	(.04)
Corporate target characteristics					
Past media attention	1.86*	1.84*	1.88*	2.05*	1.75*
	(.92)	(.93)	(.94)	(.90)	(.86)
Cash flow	.28	.28	.27	.28	.25
(industry-adjusted)	(.29)	(.29)	(.29)	(.29)	(.25)
Boycott * protest size		-3.20			
		(5.55)			
Boycott * media coverage			-.30		
			(.18)		
Control variables					
Subsidiary	2.65	2.63	2.61	2.43	2.43
	(1.93)	(1.94)	(1.93)	(1.96)	(1.79)
Log of firm assets	-1.25*	-1.26*	-1.25*	-1.36*	-1.10
	(.59)	(.59)	(.60)	(.61)	(.58)
Protest length	-3.77**	-3.83*	-3.80**	-3.98**	-3.76**
	(1.44)	(1.47)	(1.35)	(1.46)	(1.41)
Labor strike	-.75	-.74	-.73	-.82	-.71

[16] Annual time dummies are included in the analysis but are not shown here. Robust standard errors obtained by clustering firm observations.

	(3.25)	(3.26)	(3.20)	(3.25)	(3.03)
Environmental issue	3.17	3.15	3.02	3.31	3.05
	(3.13)	(3.14)	(3.11)	(3.25)	(2.93)
Moral issue	-3.32	-3.31	-3.33	-3.21	-3.12
	(6.08)	(6.12)	(6.17)	(6.19)	(5.70)
Protests against firm in last 5 years				-.34	
				(.29)	
Protests in industry in last 5 years				.22	
				(.15)	
Selection correction effect (λ)					.16
					(.76)
R-squared	.20	.20	.20	.20	N/A
Observations	255	255	255	253	253

***p<.001 **p<.01 *p<.05 (two-tailed tests)

Table 4. Probit estimates for first-stage protest target model with robust standard errors[17]

Variables	*Coefficients*	*Standard errors*
Log of assets	.27***	.03
Industry-adjusted cash flow	-.00009***	.000009
Protests against firm in last 5 years	.62***	.05
Protests in industry in last 5 years	-.03	.01
Observations	26756	
Log-pseudolikelihood	-1904.85	

***p<.001 **p<.01 *p<.05 (two-tailed tests)

[17] Annual time dummies are included in the analysis but are not shown here.

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