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TWO ESSAYS ON THE EFFECTS OF CEO SOCIAL ACTIVISM

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ABSTRACT

TWO ESSAYS ON THE EFFECTS OF CEO SOCIAL ACTIVISM

Habib Islam
Old Dominion University, 2022
Director: William Q. Judge

The first essay theorizes and quantifies the effects of CEO activism on firms' financial performance. We examine this relationship within the framework of screening theory. We find that CEO social activism generally leads to adverse investor reactions. This negative effect is most prominent when there is interdimensional incongruence in CEO social activism messages. In addition, we find that the negative effect of CEO social activism is moderated by organizational characteristics that resolve incongruence caused by disparate signals.

The second essay seeks to understand how a CEO's social activism influences corporate social performance. We hypothesize that CEO social activism will have a negative influence on a wide variety of firm-level social performance indicators due to previous theory and research which finds that firms have self-serving intentions behind corporate social responsibility. Consistent with our prediction, we find that CEO social activism negatively influences the firms' social performance with respect to human rights. We also find partial support for a negative relationship between CEO social activism and the firms' subsequent social performance regarding the natural environment. Contrary to our theoretical prediction, we find that CEO social activism positively influences firms' social performance with respect to the community dimension; and we find no relationship between social performance related to employee well-being. These findings suggest that by and large, CEO social activism has negligible or negative influences on various aspects of the firm's social performance, with the possible exception of social activism within the firm's local communities. We also find that CEO power sometimes accentuates these relationships.

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This thesis is dedicated to Herbert Simon- my intellectual guide.

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CHAPTER 1

ALL IS NOT AS IT SEEMS: THE EFFECTS OF CEO SOCIAL ACTIVISM ON FIRMS' FINANCIAL PERFORMANCE

ABSTRACT

This research theorizes and quantifies the effects of CEO activism on firms' financial performance. We examine this relationship within the framework of screening theory. We find that CEO social activism generally leads to adverse investor reactions. This negative effect is most prominent when there is interdimensional incongruence in CEO social activism messages. In addition, we find that the negative effect of CEO social activism is moderated by organizational characteristics that resolve incongruence caused by disparate signals.

Keywords: *CEO Social Activism, Stakeholders, Screening theory*

1. INTRODUCTION

It is well documented in the literature that firms may follow non-market strategies to influence rules of the marketplace by inhibiting or promoting government policies regarding human resources, taxation, trade, subsidies, and environmental issues, among others (Baron, 1995; Bonardi, Holburn, & Vanden Bergh, 2006). In practice, there are numerous examples of CEOs employing such strategies. For example, Microsoft CEO Satya Nadella lobbied Congress to allow high-skilled workers to immigrate to the United States. Since Microsoft relies on such high-skilled labor for its competitive edge (Romm, 2014), this was a move that would clearly benefit the company and its investors. Jeffry Immelt, former CEO of General Electric, advocated for adoption of clean energy policies and regulations (Behr, 2010). Yet, GE's large wind turbine business would also likely benefit from this socially responsible advocacy. These non-market strategies, arguably constitute a win-win for both the firm whose CEO is advocating such change and for the larger social cause (e.g. improved environmental sustainability, immigration quality).

However, there are instances when firms' CEOs take public positions on socio-political issues that have broader societal effects and are not directly related to the firm's short-term economic wellbeing. These personal and public attempts by CEOs to influence public opinion actions on socio-political issues that may or may not directly impact firm operations, is referred to as CEO activism (Hambrick & Wowak, 2019). For instance, the CEO of Ben & Jerry's CEO Matthew McCarthy said "Business should be held accountable to setting very specific targets, specifically around dismantling white supremacy in and through our organizations… You treasure what you measure. You measure what you treasure. If you don't put goals around these things, they simply don't happen." (Forbes, 2016). This type of activism espouses to sway public opinion in a particular direction. Formally, CEO social-political activism as "a business leader's personal and public expression of a stance on some matter of current social or political debate, with the primary aims of visibly weighing in on the issue and influencing opinions in the espoused direction" (Hambrick & Wowak, 2019; p:4). However, we refine this construct even further in this paper. We decide to only focus on CEO social activism since prior literature has focused on political activism in the form of political donations (e.g., Gupta, Briscoe, and Hambrick, 2017).

A CEO's social activism can represent his or hers public position regarding an issue that directly affects their firm's bottom line, as when a gun manufacturer's CEO speaks out about second amendment rights. Or it may be associated with issues that have more distal impact, as when the CEO of an aerospace firm speaks of his or support for the Black Lives Matter movement. Scholars have identified three key characteristics of CEO social activism (Chatterji & Toffel, 2019; Hambrick & Wowak, 2019). First, CEO social activism may (or may not) align with the firm's culture and values, as well as with its tangible policies, such as corporate social responsibility, but it is theoretically separate from them. Second, CEO social activism is always communicated in a public forum, separate from the private corporation. Third, the CEO's social activism audience is investors, employees, consumers, competitors, and the broader public, as opposed to just regulators and politicians, as is the case in non-market strategy (e.g., Chatterji & Toffel, 2019). As such, CEO social activism is a mechanism by which a CEO communicates their personal values to all of the firm's stakeholders, as opposed to trying to influence regulation to have a direct impact on the firm's short-term economic prospects. Therefore, the CEO might use a public forum such as social media, editorials, and television interviews to make her opinion known (Chatterji & Toffel, 2015).

Critiques of the practice of CEO social activism suggest that if activities that CEOs take part in do not align closely to that of the core elements of the business, they can hurt the firm's social standing in society (Lantos, 2001; McWilliams, Siegel, & Wright, 2006; Porter & Kramer, 2006) and may hurt economic outcomes (Bhagwat, Warren, Beck, & Watson, 2020). Additionally, critics suggest that CEO social activism may be interpreted as a disguised attempt to enhance brand loyalty and attract new customers as opposed to a genuine effort to raise awareness of social issues that are aligned with the values of the CEO and the corporation that he or she represents (e.g., Hess & Warren, 2008; Karnani, 2010; Lyon & Maxwell, 2011).

Despite these cautionary issues, CEOs often take the opportunity to speak as individuals and influence social issues that are consistent with their personal values. Prominent CEOs such as Tim Cook, Sundar Pichai, Satya Nadella, Mary Barra, and Marc Benioff have consistently spoken in public social media forums, such as Twitter, on issues that are not directly related to the bottom line of the firm and are related to issues that hold personal value to them. For instance, Marry Barra, the CEO of GM (the third-largest motor-vehicle manufacturer in the world), tweeted on Feb 20, 2020, "My message for all young women today for #IntroduceAGirlToEngineeringDay: you can be and do anything!" We view these types of statements as CEO social activism, where CEOs, such as Barra, use their massive social media following and prestige power to communicate a personal value—in Barra's case, the importance of engineering education for women's empowerment.

Despite increasing incidences of CEO social activism, few studies have systematically and empirically examined the effects of CEO social activism on firm outcomes. In an important first study, Chatterjee and Toffel (2019) found that CEO social activism raises public awareness surrounding a particular social issue, but not more so than other sources do, such as newspapers' opinion pieces or cable news opinion discussions, that also try to influence public awareness. In addition, they show that the framing of issues is an important determinant of how such issues are perceived by the public. Finally, they found that CEO social activism is positively related to the purchase intention of customers who hold a similar view to the CEO. As such, CEO social activism serves as a signal to show where the CEO's opinion is situation in contentious social issues (Chatterji & Toffel, 2019). Regarding CEO activism's effect on firm economic value, evidence is less than conclusive. Mkrtchyan et al., (2021) found that CEO social activism is positively related to firm value. However, Bhagwat et al.,(2020) found that socio-political activism might have a negative impact on firm value if socio-political activism deviates from key stakeholder values.

Despite these important studies, it is clear that the impact of CEO social activism on firm value is more nuanced. An important determinant of a firm's long-term success is investors' perception regarding CEOs' ability to lead the firm (Fama & Jensen, 1983). The corporate finance literature suggests that CEO reputation matters regarding long-term shareholder value, earning quality, and capital investment (e.g., Millbourn, 2003; Gaines-Ross, 2000; Jian & Lee 2011), and it is possible that individual activism efforts influence the value of the firm. Screening theory provides insight into how investors might screen signals embedded in CEO social activism. Screening theory suggests that at the crux of evaluation of a signal is the resolution of interdimensional incongruence- the idea that if a signal contains multiple dimensions, screeners use available information to resolve incongruence created by these multiple dimensions. Based on this mechanism, we hypothesize and find that if CEO social activism contains multiple dimensions, investors appraise these signals negatively. We also find that contextual factors that allow for additional information-firm size and information dilution-firm diversification affect this relationship

Our research makes make several contributions. First, we advance the non-market strategy literature by introducing CEO social activism as a strategic option with implications for stakeholder relationships. We also provide a theoretical framework to understand how this non-market strategy is interpreted by the primary stakeholders of the firm (i.e., Shareholders).

Second, we contribute to the literature focused on signal incongruence (e.g., Paruchuri et al., 2021; Drover et al., 2018; Vergne et al., 2018) by showcasing how interdimensional incongruence can be embedded in social activism messages and how screeners (e.g., investors) may resolve interdimensional incongruence not only by evaluating the content of the message but also by taking into account relevant information available about the firm.

Third, we contribute to the emergent literature in CEO socio activism. CEO political ideology has been linked to a firm's risk-taking (Christensen et al., 2015) and corporate social responsibility (Chin et al., 2013). A related but distinct construct of corporate political activism has been associated with a firm value (Bhagwat et al.,2020) and corporate social responsibility (Gupta et al., 2017). In this paper, we show that CEO social activism, a contract distinct from firm sociopolitical activism, affects shareholders' valuation of the firm.

2. THEORETICAL DEVELOPMENT

2.1. Signaling and Screening Processes and CSA

According to signaling theory, organizations (transmitters of signals) convey pertinent information to their receivers through signals in order to help reduce information asymmetry and better inform receivers' behavior (Spence 1974). Screening theory builds upon signaling theory and addresses what receivers do once they obtain a signal, including how they search for and evaluate cues to interpret it more accurately (Connelly et al., 2011). Society has become more concerned about CEOs' sociopolitical values (Adelman 2018), yet firms often hide these values (Gaines-Ross 2017), which gives rise to information asymmetry. CEOs may engage in social activism for a variety of reasons such as being motivated by morality, business interests, or a combination of morality and economic self-interest (e.g., talent recruitment). We posit that even if a CEO expresses a partisan sociopolitical position to help meet certain firm objectives, it qualifies as social activism because it bears the risks that such views would create a backlash from opposing stakeholders.

Whatever a CEO's underlying motivation may be, commitment to social activism signals the CEO's sociopolitical values. There signals reduce information asymmetry between the firm and its stakeholders by educating the stakeholders of the sociopolitical values held by the firm's CEO. Stakeholders will then perform additional evaluations of the firm's position regarding the focus of the activism to help close the gap between what they know about the firm and the desired information they need about the firm (Miller & Triana 2009). While customers, employees, legislators and government regulators want to know how the CEOs' values compare to their own values, investors will evaluate the signal in order to predict its anticipated effect on shareholder wealth and firms' future cash flows (Sanders and Boivie 2004; Saboo and Grewal 2013). Our focus in this study is on investors' responses to CEO social activism.

When evaluating a signal, investors look for observable cues that notify them about (1) what outcome they can expect as a result of the signal and (2) unobservable characteristics of the firm (Bergh et al., 2014). We organize our theoretical framework accordingly. First, we clarify the overall effect of CSA. We then hypothesize predictions based on two key mechanisms in screening theory: (1) incongruency of signals and (2) firm characteristics that resolve investor's anxiety caused by CSA.

2.2. Investors' Response to CSA

Investors consider that managers have a fiduciary responsibility to uphold shareholder interests that will lead to enhanced profits (Mishra & Modi 2016). From the perspective of the investors, CSA is fundamentally risky, can endanger future cash flows, and redirects the organizational efforts from conventional shareholder value maximization endeavors. This is due to CSA's partisan nature. In particular, while CSA may be appealing to some stakeholders who agree with the stance that the CEO has taken, it may inexorably offend other stakeholders who hold dissenting values (Kotler & Sarkar 2017). Therefore, the polarizing nature of CSA may raise the dispersion of the evaluations of a company's brands, and previous studies have linked dispersion to lower abnormal stock returns (Luo, Raithel, & Wiles 2013). In addition, it is difficult to calculate the enormity of the unfavorable responses to CSA and whether the positive reactions will lead to quantifiable benefits, such as an increase in revenue.

Investors may also consider that the more attention, resources, and time CEOs allocate to CSA, the less likely they are to dedicate time towards innovation, operation, and other critical profit-generating activities (Nalick et al., 2016). This worry could persevere even when CSA conveys a business interest or is aligned with some groups of stakeholders (e.g., customers & employees), since it can still offend a large segment of the population, which generates more uncertainty and necessitates firms to allocate more of their resources and efforts to managing any backlash. Additionally, engagement in CSA may signal a fundamental shift in the firm's strategic posture, suggesting unpredictable and long-lasting changes in strategic commitments (Ghemawat 1991). Therefore, we hypothesize:

H1: Investors react negatively to CEOs' engagement in social activism.

2.3. Information Incongruity in CSA

When evaluating sets of signals, consistency across signals of a given set is the key to the usefulness of the signals (Connelly et al., 2011). While congruent signals magnify the impact of one another because they mutually confirm the signaled content (Plummer et al., 2016; Stern et al., 2014), incongruent signals create uncertainty (Zhao & Zhou, 2011). For instance, when a graduate program applicant submits a high GMAT score and a poorly written essay, assessors find it hard to assess the applicant's academic writing ability. In the same vein, a wine with a Napa Valley appellation (a high-standard designation) but that has been ranked poorly by the critics conveys a confusing image that curbs the winery from charging a premium (Zhao & Zhou, 2011)

When CSA contains multiple categories (e.g., community, environment, human rights, and employee), it may create interdimensional incongruence. When interdimensional incongruence is high due to having multiple categories, investor reactions are shaped, in addition to the negative reaction to CSA itself, by resolution of this interdimensional incongruence (Connelly et al., 2011). Essentially, investors resolve the interdimensional incongruence by extending their negative reactions to the CSA to incongruity in the announcement that is cognitively available and relevant to the firm evaluation process (Bonardi & Keim, 2005; Pollock et al. 2008). Thus, investors have additional negative reactions to the extent to which those CSA are salient. For instance, Paruchuri et al. (2021) found that silence of incongruent signals increased investors' negative reaction to accounting restatements. Therefore, we hypothesize,

H2: Investors' negative reaction to CEOs' engagement in social activism is amplified when that social activism contains multiple dimensions.

2.4. Firm Characteristics that Resolve Investors' Anxiety Related to CSA

Firm size . Larger firms' visibility makes them particularly prone to maintaining legitimacy (Goodstein, 1994; Ingram & Simons, 1995). They attract greater media attention because they have greater visibility in their locality (Ingram & Simons, 1995), and these firms are typically held to a higher standard than their smaller counterparts (Goodstein, 1994). Large firms actively provide information to external stakeholders, typically through well-defined and codified routines and procedures executed by investor relations departments (Carter, 2006; Rao & Sivakumar, 1999), and additional stakeholders such as the media and analysts provide significantly more coverage of large firms (Bhushan, 1989).

In contrast, information about small firms is often scarce and costly to obtain (Hong, Lim, & Stein, 2000). Consequently, researchers have found that investors react more positively to alliance announcements from small firms than from large firms (Das et al., 1988; Koh & Venkataraman, 1991; McConnell & Nantell, 1985), reflecting higher salience of such announcements from small firms. Thus, when CSA occurs, that signal will be more salient for smaller firms than for more prominent firms. Because CEOs set the tone at the top and it is hard for investors to find information elsewhere for smaller firms, CSA for smaller firms will send a more salient negative message. Therefore, we hypothesize,

H3: Investors' negative reaction to CEOs' engagement in CSA is amplified for smaller firms.

Firm Diversification. A firm that is more diversified serves more market segments compared to a firm that is less diversified (Palepu, 1985; Teece, 1982). The literature in strategy suggests that by diversifying into new business segments, organizations can benefit from economies of scope. (Teece, 1982). increased market power and competitive advantage (Markides & Williamson, 1994), higher debt capacity (Llewellyn, 1971), and more efficient internal capital markets (Rajan, Servaes, & Zingales, 2000). However, despite these potential advantages of corporate diversification, evidence suggests that diversification diminishes shareholder wealth (see Barnes & Hardie-Brown, 2006; Berger & Ofek, 1995; Lins & Servaes, 1999).

Strategy literature suggests a positive relationships between corporate diversification and information asymmetries which might exacerbate outside investors' effort to assess the value of diversified firms appropriately. Extant literature shows that there is a positive relationship between corporate diversification and information asymmetries (see Duru & Reeb, 2002; Krishnaswami & Subramaniam, 1999; Nanda & Narayana, 1999). This line of inquiry points to the ‘transparency hypothesis’ (Hadlock, Ryngaert & Thomas, 2001), which posits that, while firms’ managers have access to disaggregated information about the present and future cash flows and growth estimates of individual segments of the diversified organization, investors receive consolidated information that makes it difficult for them to assess the value of such Diversification (Thomas, 2002). In addition, the interactions between different business segments, which are constituted out of different cognitive assets, make diversified organizations more complicated and difficult for outsiders to assess (Akoi, 2010).

Diversification affects the degree to which CSA may affect a firm’s value proposition at the corporate level (Carter, 2006; Connelly et al., 2011). This occurs because the signals from diversified firms are often distorted and have limited signaling value due to the complexity of operations (Carter, 2006; Fombrun & Shanley, 1990). Therefore, for investors, CSA signals might be challenging to assess for highly diversified firms. For instance, a diversified firm might operate a water treatment facility that produces clean water for a community, while that same firm might have a facility that produces chemicals for irrigation purposes. As such, the CEO of such a firm might have to speak out on a broad spectrum of issues, including environmental degradation due to fertilizer misuse to community wellbeing due to clean water supply. Because of these reasons' investors have a hard time assessing CSA for a diversified firm. Therefore, we hypothesize,

H4: Investors' negative reaction to CEOs' engagement in CSA is reduced for highly diversified firms.

3. RESEARCH DESIGN

3.1. Data and Sample

Our sample frame consists of all CEOs of publicly traded firms in the USA, which includes firms in the New York Stock Exchange and NASDAQ. We track the CEOs of publicly traded firms who are active on Twitter between the years 2007 to 2020, from which we collect CEO social activism data, as Twitter is a public forum where CEOs can express their values and opinions. Twitter is ranked as the fourth most-visited website in the world, with over 300 million active users (Similarweb, 2020), and is widely regarded as one of the most influential social media platforms. We follow several steps to collect our data. First, the online platform CrunchBase tracks the social media presence of the CEOs of publicly traded firms. We matched CrunchBase with the ExecuComp database on CEOs' first and last names and their company name. This allowed collection of both CEO Twitter handles and their firm-specific information. Our initial sample contained 253 CEOs. Then we manually checked whether the Twitter account belongs to the CEO or whether it is a company account where the CEO is sometimes mentioned. This dropped the number to 153 Twitter accounts, which belong to the CEO personally, After we established that the 153 CEO accounts are trackable, we used Twitter's API (Application Programming Interface), which is available to developers and researchers, and wrote a scraper program using R programming language's TwitterR library to collect all of the tweets written by these 153 CEOs over the period of January 2007, when Twitter came into existence, to November 2020.

Our initial data contained 330,000 tweets. However, many of these tweets were solely about firms' strategy, profitability, organizational structure, and performance and did not relate to CEO social activism. Hence, we created a filter using R's built-in machine learning tool, "topicmodels", that uses an LDA algorithm, and scanned the data about strategy, profitability, organizational structure, and performance-related words among these tweets and discarded the tweets that mentioned those words. After discarding those tweets, our sample contained 175,000 tweets from 135 CEOs. We then merged the data with CRSP daily stock price data using the tweet date and the firm's Ticker symbol. Finally, we merged this dataset with the segments database collected from COMPUSTAT. Our final sample contained 21,913 tweet events for 138 firms over the period of 2007-2020. Table 1 provides descriptive statistics for the data.

***************Insert table 1 here*********************

3.2. Variables and Measures

3.2. 1. Dependent Variable: The dependent variable in our analysis is the *cumulative abnormal return (CAR)* to a company's stock price. Because we are interested in investors' reactions to a particular tweet, we control for the market-wide fluctuations in stock price returns in addition to the correlation between the incumbent firm's returns and the market return. Market fluctuations could occur for a number of exogenous reasons, none of which have to do with the CEO's social activism using Twitter. Similarly, some stocks are more prone than others to vary in conjunction with the market. CAR is a standard measure of stock price return in event studies (Patel, 1976; Brown and Warner, 1985; Chatterjee, 1992; Gaver, Gaver, and Battistel, 1992; Zajac and Westphal, 2004) which allowed us to estimate fluctuation in the stock price as it differs from the expected return based exogenous fluctuation of the market. I obtain data on daily stock price returns from the CRSP database.

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

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

where R_{jt} is the rate of return for a day around a personal activism tweet, and a_{jt} and b_j are regression coefficients taken from the following expected return equation:

$$R_{jt} = \text{alpha}_j + \text{beta}_j R_{mt} + \varepsilon_{jt}$$

where R_{jt} is the rate of return for firm j for a period of days preceding the tweet, R_{mt} is the market return (the equally weighted daily return for all firms in the CRSP index) on day t, beta_j is the systematic risk of firm j, alpha_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 were 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 (e.g., Zajac & 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 with what we should expect.

Following a commonly accepted procedure, we calculate CAR as the sum of all of the daily abnormal returns for a 3-day period around the tweet event for each focal firm. Included in the CAR window are the one day prior to the activism tweet (day -1) and the one day following the tweet event (day +1). For ease of interpretation we standardized this variable.

3.2.2. Independent and Moderator Variables: To measure the *CEO's social activism event*, we conduct a text analysis on the tweets. We use the text analysis software CAT scanner (McKenny & Short, 2012), and the dictionary established by Pencle and Malaescu (2016). The analysis generates a set of word counts for words such as "Discriminatory," "Bio Diversities," "Medicaid," and "white privileges". Pencle and Malaescu (2016) provide a dictionary for CEO Social Activism along four dimensions — human rights, social and community, environment, and employee. We code a tweet as an activism event if any of these four dimensions are present in the tweet.

CSA dimensions were coded on a scale of 1-4, representing whether only one dimension or all four dimensions of CSA were present in the tweet. If all four dimensions are present, a tweet represents the highest incongruence, and if only one dimension is present, a tweet represents the lowest incongruence.

We operationalized *Firm size* was as the log-transformed total revenue of the firm as reported in the quarter before the tweet event (e.g., Gomulya & Mishina, 2017). Following prior research, we log-transformed the variable to correct the skewness of the distribution (Collins &

Clark, 2003; Kimberly, 1976). We collected this information from the quarterly financial data of the Compustat database.

We measured the level of a *Firm's Diversification* by Diversification was measured using Palepu's (1985) entropy measure for total diversification. This information was collected from the Compustat Segment database. Entropy is calculated as one minus the Herfindahl index. Herfindahl index is calculated as the sum of squares of sales in each segment divided by the square of the firm's total sales. This implies that a greater score for entropy indicates a higher level of diversification.

3.2.3. Control Variables: A set of control variables that are standard in event study models (e.g., Westphal & Zajac, 2004) were introduced in the analysis. We controlled for Firm, CEO, and Industry characteristics that could impact the market's reaction activism tweets. The firm characteristics variable is ***past performance*** (Zajac & Westphal, 2004) which has consistently been shown to affect the market reaction. We also controlled for ***CEO ownership***, which is calculated using the percent of the firm's stocks owned by the CEO. CEO ownership is associated with firms' value as measured by tobin'1 q (Griffith, 1999), abnormal returns, especially among firms with weak external governance (Lilienfeld-Toal & Ruenzi, 2014).

Finally, we included dummy variables for year and industry (using primary two-digit SIC codes of adopting firms) (coefficients for these dummy variables are not reported and are available from the authors)

***************Insert table 2 here*********************

3.3. Data Analysis and Results

Hypotheses were tested using an event study methodology. Event studies in financial economics literature regularly examine the impact of treatment variables on excess returns with the use of subgroup analyses. Scholars have also advocated the use of multiple regression analysis to control for possible exogenous variables (e.g., McWilliams & Siegel, 1997). Because the data set comprises excess returns from different time intervals, there could be autocorrelation in the data (cf., Binder 1998). Following Zajac and Westphal (2004), we test my hypotheses within a linear probability framework (OLS) and use the Cochrane Orcutt transformation to adjust for first-order autocorrelation.

To account for potential endogeneity caused by the selection bias from the non-twitter CEOs , we follow Lall, Chen, and Roberts (2020) by estimating a selection function from the full sample and include a Inverse Mill's Ratio in estimation models.

In addition to the Cochrane-Orcutt transformation, we address the possibility of time-varying correlation in two ways: (a) in a different model, we control for higher-order autocorrelation and the results remain unchanged, and (2) we also account for time effects by entering robust standard errors clustered by year, and we find that the results were unchanged. In addition, to ensure that the results are not susceptible to our research design, we performed two sets of additional analyses. First, we executed my analyses with several implementation windows, which included time frames of (1) one year and (2) six months (e.g. Zajac & Westphal, 2004), and the results are consistent with what we report below. Table 2 presents results that test Hypotheses 1-4. Model 1 includes control variables. The results are consistent with past research. Past performance is positively related to CAR, and CEO ownership is negatively related to CAR, supporting the entrenchment argument.

Hypothesis 1 suggests a negative relationship between CEO activism and investor reaction. We find support for this in the full model (beta= -0.0629; p<0.05). Hypothesis 2 asserts that interdimensional incongruence due to multiple dimensions with a single tweet would exacerbate the negative reaction of the CEO. We find support for this hypothesis in the partial model (beta= -0.0357; p<0.001) but in the full model. We also find support for the first moderating effect (Hypothesis 3) which suggests that as firm size increases, the negative effect of activism events would diminish (beta= 0.0101; p<0.05). The moderating effect (Hypothesis 4) of Diversification was not supported.

***************Insert figure 1a & 1b about here********************

To test the economic significance of our analyses, we proceeded with a marginal effects analysis. Figure 1a and 1b shows the predictive margins of both the moderating variables. It is evident from figure 1a as firm size increases, the negative effect of CSA decreases highlighted by the less steep slope of the larger firms compared to the much greater slope steepness of the smaller firms. Figure 1b also shows regardless of the levels of diversification, the effect of CSA remains unchanged, as evident by the parallel slopes of firms with varying degrees of diversification.

4. DISCUSSION

Our aim has been to explicate the theoretical and empirical consequences of CEO social activism (CSA), a somewhat unexplored but extremely important managerial behavior. Screening theory suggests that investors react negatively to signals that do not directly convey information regarding the enhancement of their wealth. Screening theory also suggests that at the core of evaluation of any signal is the resolution of interdimensional incongruence- the assertion that signals contain multiple dimensions and screeners use the information available to them to resolve incongruence caused by these multiple dimensions. Based on these mechanisms, we find overall support for the theory. More specifically, we find that CSA has a negative effect on shareholders' reactions, and if CSA contains multiple dimensions, investors appraise these signals more negatively. We also find that for larger firms, this negative effect goes away because investors have many lines of information to assess firms' efforts to increase shareholder value. Therefore, the differential effect of CSA does not make a significant impact on investors' assessment of firm value.

4.1. Theoretical Implications

We make several contributions. We expand the non-market strategy literature by showcasing CEO social activism as a strategic option with implications for stakeholder relationships. We also provide a theoretical framework to understand how this non-market strategy is interpreted by the primary stakeholders of the firm (i.e., Shareholders). Specifically, we argue that CEO social activism will be negatively affect investors' reaction because as primary stakeholders they do not see the CEO social activism directly affecting their wealth. Shareholders would postulate CEO energy is better spent in value creating activities of the firm as oppose worrying about social causes that are tangentially or unrelated to wealth generation. We also argue that shareholders' negative reactions to CEO social activism are amplified in cases where there is interdimensional incongruence- i.e., the activism message contains disparate dimensions. Our argument is based on screening theory which suggests suggests that screeners tend to negatively appraise messages that contain multiple disparate dimensions because such messages are difficult to interpret and evaluate. Finally, we argue that firm characteristics that alleviate information disparity or make it difficult to assess firm specific information for the screener would positively moderate the negative relationship between CEO activism and shareholders negative reaction to such activism.

We find overall support for out theory. We find that CEO social activism is negatively related to shareholders reaction measured over a there day CAR window. We also find that if CEO social activism contain multiple dimensions this negative effect is magnified. Finally, we find that for large firms, who has well established channels of communication with the shareholders, CEO social activism is viewed positively by the shareholders supporting our moderating hypothesis. For diversified firms the effect is positive but not significant.

Our insights contribute to the literature in signal incongruence (e.g., Paruchuri et al., 202; Drover et al., 2018; Vergne et al., 2018) by showcasing how interdimensional incongruence can be embedded in social activism messages and how screeners (e.g., investors) may resolve interdimensional incongruence not only by evaluating the content of the message but also by taking into account relevant information available about the firm.

Our insights contribute to the emergent literature in CEO sociopolitical activism. CEO political ideology has been shown to be linked to a firm's risk-taking (Christensen et al., 2015), corporate social responsibility (Chin et al., 2013). Additionally, a related but distinct contract of corporate political activism has been associated with a firm value (Bhagwat et al.,2020) and corporate social responsibility (Gupta et al., 2017). In this paper, we show how CEO social activism, a contract distinct from firm sociopolitical activism, affects shareholders' valuation of the firm.

Our theory and findings have implications for several neighboring theoretical perspectives beyond screening theory, most notably upper echelons theory and rational investor theory. Despite Hambrick and Mason's (1984) preliminary arrangement of upper echelons theory, highlighting the role of CEOs' personal values, extant research on values has been significantly limited compared to examinations into CEOs' other attributes, chiefly CEOs' experiences and personalities (see Finkelstein et al., 2009 for a detailed summary). In recent years, researchers have begun to gain insights into CEOs' value systems through their public activism behaviors (e.g., Chin et al., 2013). Research has highlighted that CEOs' values are highly important for a range of organizational outcomes (e.g., Chin & Semadeni, 2017; Gupta et al., 2018)). Building on the same logic, we show that CEO values reflected in activism behavior have important consequences regarding shareholders. Shareholders seem to reject the idea that CEOs should discuss their personal values in a public forum.

Finally, we contribute to the discussion of investor rationality. Recent work in behavioral economics has shown that investors are neither fully rational nor fully irrational (Mukherjee & De, 2019). An investor is confronted with a continuum that ranges from behavioral to rational positions. Researchers have shown that a movement toward rationality is a choice since it is costly to be rational because of the mental calculations involved. However, investors tend to become rational if they see a benefit from being rational (Mukherjee & De, 2019). Even though CSA is welcomed—even demanded—by customers (Chatterji & Toffel, 2019), investors react negatively toward CSA. This could be because they fail to see the benefits (e.g., customer purchasing intentions) arising from CSA.

4.2. Limitations and Future Research

There are several limitations to this research that could be avenues for future study. First, we examine activism in only one public platform—Twitter. CEO activism might look different and might have a different impact on other social media platforms such as Facebook, LinkedIn, and YouTube because the way content is delivered is different in those platforms. Additionally, we do not know whether CEOs walk the talk- in that whether they mobilize the political structures within the organization to implement their activism agendas. We only categorize CSA into four dimensions. Future research can examine more granular aspects of CSA dimensions and their effect on investor reaction. For instance, researchers can examine questions such as whether reproductive rights activism has a different impact on shareholders' reaction than gun rights activism.

4.3. Conclusion

This research attempts to theorize and quantify the effects of CEO activism on firms' financial performance. We theorize and test these relationships within the framework of screening theory. We find that CEO social activism generally leads to adverse investor reactions. This negative effect is most prominent when there is interdimensional incongruence in CEO social activism messages. In addition, we find that the negative effect of CEO social activism is nullified in larger organizations.

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TABLE 1.1
Pairwise Correlations and Descriptive Statistics

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) CAR	-.0008598	.0506653	1.000						
(2) CSA-dimension	.8250839	1.233004	-0.017*	1.000					
(3) CSA-event	.3731353	.4836409	-0.022*	0.873*	1.000				
(4) Firm size	1.873957	1.776987	0.013	0.049	0.022	1.000			
(5) Diversification	1.9653	.76814	0.013	0.109	0.090	0.298	1.000		
(6) CEO Ownership	1.522635	2.693052	-0.009	0.025	0.020	-0.412	-0.130	1.000	
(7) Past performance	.8948558	1.049271	-0.014	-0.011	-0.026	0.408	-0.128	-0.113	1.000

* P<0.05

TABLE 1.2
Linear probability model depicting the effect of social activism on investor reaction (CAR)

	(1)	(2)	(3)	(4)	(5)	(6)
	car	car	car	car	car	car
CEO Ownership	-0.0150*	-0.0150*	-0.0148*	-0.0252***	-0.0144**	-0.0242***
	(0.00551)	(0.00554)	(0.00554)	(0.00546)	(0.00412)	(0.00623)
Past Performance	-0.0850*	-0.0852*	-0.0850*	-0.102*	-0.0557	-0.0913*
	(0.0354)	(0.0361)	(0.0358)	(0.0399)	(0.0300)	(0.0368)
CSA event	-0.00283	0.0730	-0.0241	-0.00132	-0.00132	-0.0629*
	(0.0229)	(0.0402)	(0.0243)	(0.0345)	(0.0345)	(0.0236)
Inverse Mills ratio	2.614	2.356	2.507	0.190	3.587	1.496
	(3.549)	(3.305)	(3.192)	(5.052)	(3.635)	(4.966)
CSA dimensions			-0.0357**			-0.0307
			(0.0119)			(0.0151)
Firm size				-0.0406**		-0.0357*
				(0.0142)		(0.0152)
CSAevent*Firm size				0.0144*		0.0101*
				(0.00672)		(0.00474)
Diversification					-0.00447	-0.00185
					(0.00255)	(0.00280)
CSAevent*Diversification					0.00443	0.00312
					(0.00239)	(0.00223)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
_cons	0.00184	0.00210	0.00208	0.00297	0.00457	0.00530
	(0.00228)	(0.00229)	(0.00230)	(0.00230)	(0.00266)	(0.00274)
R^2	0.008	0.009	0.009	0.009	0.010	0.010
AIC	-77592.5	-77595.3	-77594.4	-73563.5	-73835.8	-71530.9
BIC	-77432.6	-77427.4	-77418.5	-73380.6	-73653.1	-71325.0
N	21913	21913	21913	20951	20799	20254

FIGURE 1.1
Graphical depiction of the moderating effect of firm size on the relationship between CEO social activism event and investor reactions.

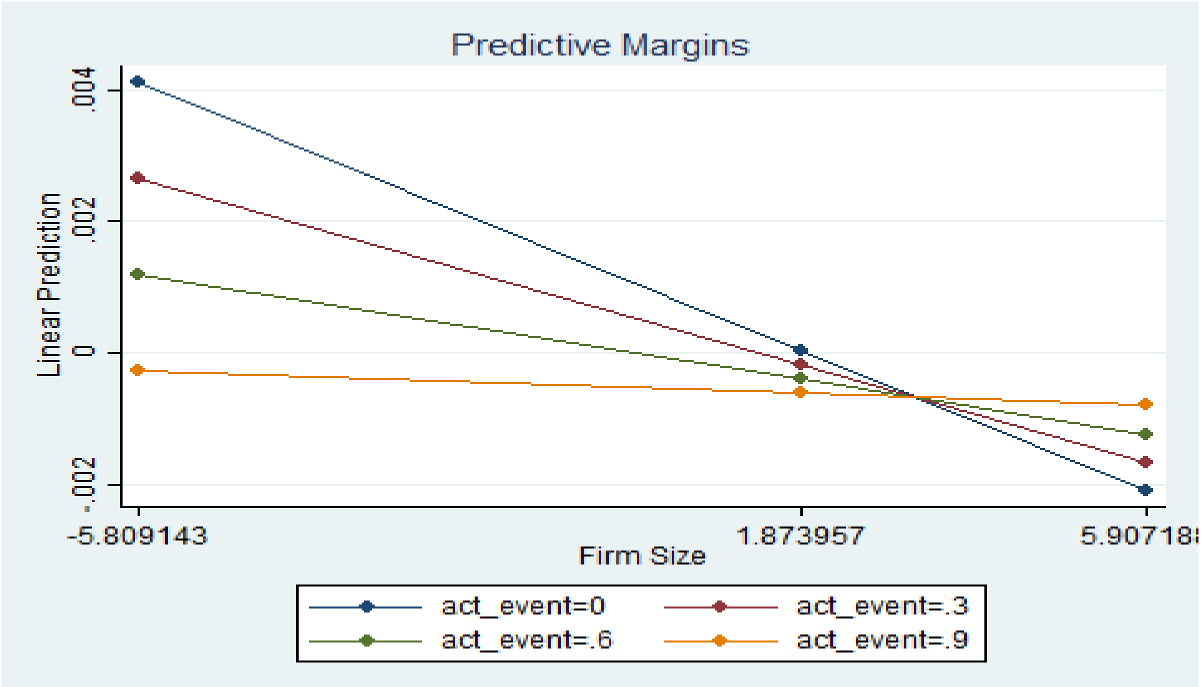
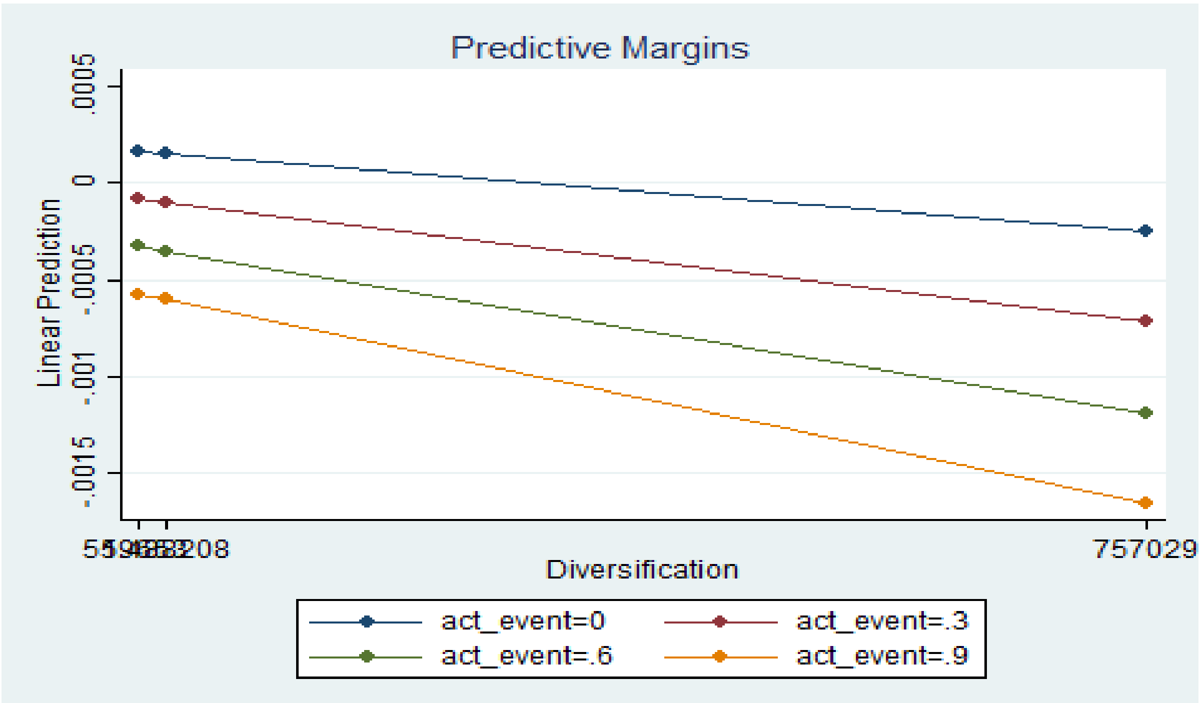


FIGURE 1.2
Graphical depiction of the moderating effect of diversification on the relationship between activism event and investor reaction.



CHAPTER 2

WALKING THE WALK: THE EFFECTS OF CEO SOCIAL ACTIVISM ON FIRMS' SOCIAL PERFORMANCE

ABSTRACT

This study seeks to understand how a CEO's social activism influences corporate social performance. We hypothesize that CEO social activism will have a negative influence on a wide variety of firm-level social performance indicators due to previous theory and research which finds that firms have self-serving intentions behind corporate social responsibility. Consistent with our prediction, we find that CEO social activism negatively influences the firms' social performance with respect to human rights. We also find partial support for a negative relationship between CEO social activism and the firms' subsequent social performance regarding the natural environment. Contrary to our theoretical prediction, we find that CEO social activism positively influences firms' social performance with respect to the community dimension; and we find no relationship with social performance related to employee well-being. These findings suggest that by and large, CEO social activism has negligible or negative influences on various aspects of the firm's social performance, with the possible exception of social activism within the firm's local communities. We also find that CEO power sometimes accentuates these relationships.

Keywords: *CEO Social Activism, Corporate Social Performance, CEO Power*

1. INTRODUCTION

A corporation's involvement in socio-political issues is not a new phenomenon (McDonnell & Werner, 2016; Walker & Rea, 2014). Firms often take socio-political action on issues that align with their strategies, such as issues pertaining to taxation (Baloria & Klassen, 2018) and regulation (Jerolmack & Walker, 2018). However, CEOs have recently begun weighing in on social causes that are often not directly related to their core business. For instance, the CEO of PayPal rescinded a plan of building a new campus in North Carolina because the state passed a law that is viewed as discriminatory toward the LGBTQ community (Katz & Eckholm, 2016). On the eve of the 2018 midterm elections, Ben and Jerry's released an ice-cream flavor named "Pecan Resist." According to Ben and Jerry's, the release of the flavor was "about resisting the Trump administration's regressive and discriminatory policies and building a future that values inclusivity, equality, and justice for people of color, women, the LGBTQ community, refugees, and immigrants" (Ben & Jerry's, 2018).

Why is it that CEOs engage in socio-political activism? Scholars have argued that socio-political activism is a function of environmental pressure caused by broader social movements and institutional pressures (Briscoe & Safford, 2008; Briscoe, Chin, & Hambrick, 2014; Briscoe, Gupta, & Anner, 2015; Hiatt, Grandy, & Lee, 2015; McDonnell & King, 2013; McDonnell, King, & Soule, 2015; McDonnell & Werner, 2016). For example, there are situations when a firm's strategy is aligned with activism causes, such as when a firm endorses and supports grassroots activists that promote a socio-political stance that benefits the firm (Walker, 2014). In such instances, a firm's socio-political activism is nothing more than an extension of its lobbying effort (Walker, 2012). However, there are increasingly more situations when the CEO takes socio-political stances that are controversial and have limited to no bearing on the firm's business strategy (e.g., Chatterji & Toffel, 2019; Friedman & Gostin, 2017; Katz & Eckholm, 2016; McGregor, 2016).

Although studies have tried to uncover the antecedents of CEO social-political activism (Branicki, Brammer, Pullen, & Rhodes 2021), little is known about the consequences of CEO socio-political activism as it relates to firms' social performance. In this paper, we focus on social activism that CEOs display in online social media across four dimensions of CEO social activism (CSA): (1) natural environment, (2) human rights, (3) community well-being, and (4) employee welfare. We then explore how these dimensions of activism affect each of the four aspects of the firms' social performance.

Legitimacy theorists posit that CEOs craft different rhetorical strategies in the hope of achieving different types of legitimacy. Legitimacy theory suggests that there are three types of legitimacy that firms strive to achieve: (1)moral, (2) cognitive, and (3) pragmatic legitimacy (Suchman, 1995). Scholars have suggested that different rhetorical strategies are required to attain these different types of legitimacy, namely values rhetoric for moral, normative rhetoric for cognitive, and instrumental rhetoric for pragmatic legitimacy (Marais, 2012). In this study, we theorize that CEO social activism is a values rhetoric strategy that is geared toward a broader audience in order to gain moral legitimacy to favorably influence constituencies inside and outside of the firm. We also theorize that such rhetoric can often be substitutive of the firms' true moral standing (e.g., Prior, Surroca, & Tribó, 2008) which would be associated with substandard social performance. In addition, we theorize that powerful CEOs are even less likely to devote resources to improve firms' social standing, even though they are partaking in values rhetoric, since powerful CEOs tend to be insulated from stakeholder pressure (e.g., Li, Li, & Minor, 2016).

We find that CEO social activism is generally associated with diminished corporate social performance, but not in all instances. The moderating effect of CEO power is also different for different types of activism, suggesting the interaction between CEO power and CEO social activism is more nuanced than anticipated.

Our theoretical framework and findings make several contributions to the literature on non-market strategy. We theorize that different types of rhetoric can be used for different types of audiences in order to attain different types of legitimacy. This is crucial because moral legitimacy is critical for the survival of a firm, especially in a world where stakeholder needs are becoming increasingly conflicting and bipolar (e.g., Davis, 2022), and where stakeholders seek to rein in the power that firms have over their choice sets (e.g., Vasi & King, 2012).

We also contribute to the literature on CEOs' rhetorical strategy by showcasing how CEO social activism is a specific case of values rhetoric that is designed to be consumed by a mass audience, to attract customers to the firm and generate "buzz". This rhetorical strategy is intentionally developed to be more general and align the interests of disparate stakeholder groups with those of the firm. However, such rhetoric does not mean that CEOs would allocate resources to improve the social standing of their firm. In fact, in many cases, these could be substitutive of one another. CEOs often take part in values rhetoric specifically because their firm does not intend to invest resources to improve its social standing.

Finally, we contribute to the literature on CEO social activism and power. We show that not all CEO activism is a good thing, and that power can be corrosive to firms' social standing. In a world where it is becoming a social norm for CEOs to be socially active, not all activism can be beneficial for the broader stakeholders. Policymakers need to ensure that CEOs are held accountable such that they may "walk the walk".

2. THEORETICAL DEVELOPMENT

2.1. Rhetoric to Gain Legitimacy

Organizational legitimacy is one of the most critical issues that firms face in today's business environment. Organizational legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). This issue is gaining importance in a post-crisis world as critics have voiced concerns about the firm's role in today's society (Champion & Gendron, 2005). Mistrust has been specifically voiced regarding how conscientiously firms are managed (Goodman, 2009).

Without negating their principal purpose of economic value creation, firms are expected to be accountable for the impact of their activities on society. For instance, the European Union has proclaimed that one of its objectives is to enhance corporate awareness of social and environmental issues (Steurer et al., 2012). Similarly, the Business Roundtable has been adamant about the social impact of the corporation and ways to hold firms accountable for their social impact. These decisions are powered by stakeholders' growing expectations in regard to more responsible ways of conducting business operations. This rise in social and political pressures concerning social performance has necessitated that firms integrate new values emerging in society. As Boesso and Kumar (2007, p. 278) observed, "given the strategic and operational complexities that are faced by most of the organizations today, a continued dialogue with not just shareholders, but also with other stakeholder groups, appears to be necessary for the continued success of a company." Thus, firms today must not only communicate operational and strategic decisions, but also commit resources and act on social issues.

Being accountable regarding social issues can be risky for the firm. Although strategic decisions often lead to outcomes that create conflict between stakeholders, choices regarding firms' social standing are even more contentious. First, firms need to provide meaning to an ambiguous and multifaceted concept that is often vague for practitioners and academics alike (Brammer & Millington, 2004; Kakabadse et al., 2005; Lydenberg, 2005; Matten & Crane, 2005). Firms also need to parse out the specific groups that they want to address in their social commitment (Carroll, 1991). And in the process of doing so, firms have to defend why such social standings are relevant, especially when the business case for social standings has yet to be clearly demonstrated (Barnett, 2007). For instance, even though firm employees may have a favorable attitude towards advancing certain social initiatives (e.g., diversity in recruitment, career development, protection of employment), shareholders may be unhappy about such initiatives when a firm is underperforming financially (Dincer, 2011). Similarly, while some customer groups might want companies to take a stand regarding some social issues, other customer groups might not be inclined for firms to get involved in contentious social issues.

Managing disparate stakeholders is of paramount importance for the firm. According to legitimacy theory, corporate legitimacy is gained when firms operate within the standards and beliefs of society and voluntarily disclose information to attain, maintain or repair legitimacy with the relevant stakeholders (Deegan, 2002; O'Donovan, 2002). In this context and under the pressure of changing societal expectations, firms are starting to introduce new dialogue with stakeholders (Castelló & Lozano, 2011), especially to address social issues.

Although being transparent and responsible can help to build legitimacy, there are limits on the amount of information that can be delivered as well as the content of such information. Embracing a "self-promoting" approach may be counterproductive and harm a firm's credibility

(Morsing & Schultz, 2006). On the other hand, the right kind of communication can bolster a firm's social standing (Kakabadse et al., 2005). The goal and form of a firm's communication regarding its social standing have to be carefully assessed (Johansen & Nielsen, 2011). Therefore, making an appropriate rhetorical choice regarding communication about social standing is essential.

Rhetoric is defined as the art of persuasion by the means of written or spoken words (Kennedy, 2006). The goal of rhetoric is to convey future intentions that may guide future action and gain legitimacy both within and outside of the firm. It is a deliberate use of language in structuring social action, and does not merely express the passive statement of preferences (Chanal & Tannery, 2007). A rhetorical perspective, therefore, assumes that implicit categories and structure of dialogue have been considered (Berg, 2004) and have been carefully evaluated regarding the nature of its audience and the way it was formulated.

In this study, we focus on how CEOs' rhetorical strategies may be driven by their need to attain a specific type of legitimacy (Suchman, 1995). The first type, "moral" legitimacy, is centered on a deliberate decision to solicit ethical approval concerning a firm's actions (Barkemeyer, 2007). Stakeholders tend to consider a firm as morally legitimate if it showcases ethical behavior and the characteristics of good citizenship. In these cases, communication tends to focus on values and moral principles (Reynolds & Yuthas, 2008). For instance, a firm's CEO can tweet about a firm's moral standing regarding community welfare, post-COVID. In the process of doing so, firms strive to build strong stakeholder commitment centered on shared set values and principles that help to build legitimacy. The significance of values rhetorical strategies increases when a firm faces organizational crisis, such as COVID, economic recessions, financial worries, strikes, fraud, or environmental disaster. This type of strategy can assist a firm to defend its social posture (Young & Marais, 2012).

The second type of legitimacy, termed “cognitive”, hinges on reasoning in that stakeholders are given the necessary information to comprehend and weigh a firm’s standing (Suchman, 1995) on social issues. In order to develop cognitive legitimacy, a firm must provide detailed information that illustrates its commitment to social causes. This type of rhetorical strategy is known as normative rhetoric. For instance, to gain this type of legitimacy a firm’s CEO might disclose detailed spending to improve community welfare in their annual letter to the stakeholders. As such, cognitive legitimacy is attained through normative rhetoric that aligns a firm with commonly accepted social practice trends.

Last, “pragmatic” legitimacy is based on the self-interest of a firm’s stakeholders, who either want to influence a firm’s action or seek a tangible payback in return for granting legitimacy for their own interests. In other words, if a firm fulfills stakeholders’ utility, they provide legitimacy to the firm in return. As such, rhetorical strategies to improve a firm’s social standing regarding pragmatic legitimacy would highlight the gains of being committed to social issues. Such rhetorical strategies tend to be instrumental and outcome-oriented, such as an improvement of a firm’s reputation, attracting talented employees, innovation in processes, and product quality.

2.2. CEOs’ Role in Rhetorical Strategies

CEOs have a significant influence on such discretionary decisions, and therefore a firm’s propensity to engage in socially responsible acts may be affected by chief executives’ moral preferences (Chatterjee & Hambrick, 2007; Gerstner, König, Enders, & Hambrick, 2013; Hambrick & Mason, 1984). CEOs play a crucial role in addressing a firm’s social standing. This is especially true because of the conflicting interests of stakeholders: “management’s challenge is to decide which stakeholders’ merit and receive consideration in the decision-making process” (Carroll, 1991, p. 43). CEOs, set the tone at the top because they represent the firm in legal, professional, and social contexts (Zahra & Pearce, 1989).

Scholars suggest CEOs are responsible for making strategic decisions that resolve the conflicting concerns of the firm’s stakeholders (Hill & Jones, 1992) through mediation. CEOs’ leadership is thus a determinant regarding what shape and orientation a firm’s actions would take to address socially accepted norms of behavior (Fernando & Sim, 2011). Through their actions and communications, CEOs play a role fundamental to a firm’s strategic communication (Chanal & Tannery, 2007; Hung, 2011), because they possess a high level of discretion (Hambrick & Fukutomi, 1991). In this context, rhetoric is a key element regarding stakeholder management and a major responsibility of the CEO (Szwajkowski, 2000; Wiedermann-Goiran et al., 2003).

Communication and rhetorical content are increasingly powerful tools for stakeholder management (Windell, 2006). This is confounded by the rise in the amount of information being diffused (e.g., social media) and stakeholders’ sensitivity to actions undertaken by firms (Gray et al., 1996). Communication regarding a firm's social standing has become crucial for CEOs (e.g., Prado-Lorenzo and Garcia-Sanchez, 2010) as a means of enhancing corporate and managerial legitimacy (Arvidsson, 2010).

2.3. CEO Social Activism and Varieties of Social Performance

Although there could be many dimensions of CEO social activism, we focus on dimensions that have a direct impact on corporate social performance. Within the literature on corporate social responsibility (CSR), the concept of corporate social performance (CSP) is widely researched but not often clearly defined. That is not to suggest that no definitions for

CSP exist; rather, based on the stream of literature, CSP has been defined in numerous ways. The existence of many definitions has led some scholars to conclude that CSP is a socially constructed concept and could mean many different things to different people (Dahlsrud 2008). Despite the lack of consensus about a single definition of CSP, there is a high level of agreement on the notion that CSP has multiple dimensions, and its impact is measured differently by different stakeholders (McWilliams, Siegel, & Wright 2006; Deegan 2002; Gray, Owen, & Adams 1996; Dahlsrud 2008). We adopt the definitions provided by Pencle and Mălăescu (2016) which identifies the four primary dimensions of corporate social activism:

The environment dimension considers the firm's participation, attitude, and influence on actions connected to natural resources such as water, energy waste, pollution, biodiversity, greenhouse gasses, and, in general, material stewardship (McWilliams et al., 2006; Pencle & Mălăescu, 2016).). The *employee* dimension considers the firm's participation, attitude, and influence on actions associated with its internal stakeholders, including employees, suppliers, and distributors (McWilliams et al., 2006; Pencle & Mălăescu, 2016). *The human rights* dimension considers the firm's participation, attitude, and influence on actions associated with individual and collective rights of all stakeholders which includes minorities and underrepresented groups, and concerted efforts for inclusiveness (McWilliams et al., 2006; Pencle & Mălăescu, 2016). Finally, the *community* dimension considers the firm's participation, attitude, and influence on activities related to social issues such as civic engagement, indigenous people, and societal development (McWilliams et al., 2006; Pencle & Mălăescu, 2016)

2.4. Substitutive Nature of CEO Social Activism

As discussed earlier, different forms of legitimacy require different rhetorical strategies by the CEO. Research has shown that CEOs very rarely use normative rhetoric and are more likely to use such strategies if their financial performance is lackluster (Marais, 2012). Researchers have also shown that instrumental rhetorical strategies to address pragmatic legitimacy are generally used by the CEO to address internal stakeholders, such as the board of directors (Marais, 2012). CEO social activism is a form of rhetoric geared toward achieving moral legitimacy among the broader stakeholders (e.g., Marais, 2012) as such, it is a values rhetoric to drive home the core values of the firm. CEO activism in social media, such as Twitter, is one such deliberate rhetorical strategy (e.g., Steele & Lock, 2015), geared toward achieving moral legitimacy.

However, researchers have also found that investment in social standing and managers' moral values can "substitute" for each other. For example, Prior, Surroca , & Tribó (2008) found that managers who engage in earning manipulation are more likely to invest in firms' social performance because they want to shield themselves from outside scrutiny by using firms' social performance as a smokescreen from their unethical behavior. They also find that such behavior is greater when there is a greater discrepancy between firms' social and financial performance. Values rhetoric is therefore used for corporate moral legitimacy, because such rhetoric aims to create emotions and passions to seduce the audience and allay their concerns about the firm's behavior (Marais, 2012). Researchers have suggested that such rhetoric is often used for myth construction and for creating a firm's identity and does not represent firms' commitment to social causes (e.g., Igalens, 2007).

When CEOs take part in values rhetoric such as values related to the environment, employees, community, and human rights, they seek to gain moral legitimacy among the broader stakeholders. However, as we discussed earlier, values rhetoric does not imply that the firm is going to increase resource allocation toward social causes, or even that CEOs truly care about social performance. In fact, morality and social welfare can be substitutive (e.g., Prior et al., 2008). We contend that when CEOs deliberately use values rhetoric in social media forums, they are less likely to mobilize resources to improve firms' social performance, because they consider such rhetorical strategies as substitutes for allocation of resources to improve the firm's societal impact in order to gain moral legitimacy.

H1. CEO social activism related to a) environment b) employees c) human rights and d) community dimensions is negatively related to firms' social performance along those same dimensions.

2.5. Moderating Influence of CEO Power

CEOs differ in how much power they hold, and such differences moderate the extent to which CEOs' dispositions are exhibited in firm-level outcomes (Finkelstein, 1992; Hayward & Hambrick, 1997). Since CEO activism is a blatant expression of personal beliefs and bears a considerable risk that the CEO would be seen as merely promoting personal agendas, a CEO's power is particularly crucial in forecasting such behaviors (Hambrick & Wowak, 2021). In fact, we anticipate that a requisite amount of power is essentially mandatory for even contemplating activism, particularly vivid activism.

Although CEOs can obtain power from their own virtues, for example, by being charismatic or having unique skills (e.g., Finkelstein, 1992; Flynn & Staw, 2004) and from having broadly distributed shareholders (e.g., Galaskiewicz, 1997), notably established are the variations in CEOs' power in comparison to that of their boards (Gilson & Kraakman, 1991; Finkelstein, Hambrick, & Cannella, 2009). CEOs may vary in regards to financial ownership of their firms relative to outside directors, which confers formal voting rights power and legitimacy (Morck, Shleifer, & Vishny, 1988); they diverge in their structural power, as some CEOs also occupy the position of board chair, but others do not (Finkelstein & D'Aveni, 1994); and they diverge in the extent to which their boards are cautious and independent (Westphal & Fredrickson, 2001).

Fluctuations in CEO power influence CEO-specific outcomes, such as dismissal and compensation (Boeker, 1992; Main, O'Reilly, & Wade, 1993). CEOs' power also moderates relationships between CEOs' proclivities and strategic outcomes. For example, studies have shown that CEOs' power moderates the relationship between various indicators of CEOs' hubris and the magnitude of premiums paid for large acquisitions (Hayward & Hambrick, 1997), as well as the likelihood of founder CEOs effectively blocking takeover bids (Gao & Jain, 2012).

Research in this stream of the literature suggests that CEO power is a crucial contextual factor that determines the extent to which the CEOs' preferences are reflected in a firm's outcomes. Consequently, we expect that powerful CEOs are even less likely to mobilize resources to improve their firms' social standing if they are using values rhetoric on social media. This is because powerful CEOs are more insulated from outside stakeholders' pressure (Prior et al., 2008) and are less likely to act on their values rhetoric.

H2. CEO power moderates the negative relationships between CEO social activism related to a) environment b) employees c) human rights and d) community dimensions and firms' social performance, such that as CEO power increases, the relationship becomes stronger.

3. RESEARCH DESIGN

3.1. Data and Sample

Our sample frame consists of all CEOs of publicly traded firms in the USA, which includes firms on the New York Stock Exchange and NASDAQ. We track the CEOs of publicly traded firms who are active on Twitter, from which we collect CEO social activism data. Twitter is a public forum where CEOs can express their values and opinions. Twitter is ranked as the fourth most-visited website in the world, has over 300 million active users (Similarweb, 2020), and is widely regarded as one of the most influential social media platforms. We track CEOs who are active on Twitter between the years 2007 to 2020.

More specifically, we follow several steps to collect the data. First, the online platform CrunchBase tracks the social media presence of the CEOs of publicly traded firms. We matched CrunchBase with the ExecuComp database on CEOs' first and last names and their company name. This allowed us to collect both CEO Twitter handles and their firm-specific information. Our initial sample contained 253 CEOs who had a presence on Twitter during the sample period. Then we manually checked whether the Twitter account belongs to the CEO or whether it is a company account where the CEO is sometimes mentioned. This dropped the number of accounts to 153, which belong to the CEO personally. After we established that the 153 CEO accounts are trackable, we used Twitter's API (Application Programming Interface), which is available to developers and researchers, and wrote a scraper program using R programming language's TwitterR library to collect all of the tweets written by these 153 CEOs over the period of January 2007, when Twitter came into existence, to November 2020.

Our initial data contained 330,000 tweets. However, many of these tweets were solely about firms' strategy, profitability, organizational structure, and performance, and did not relate to CEO social activism. Therefore, we created a filter using a supervised machine learning package, which uses a “Latent Dirichlet Allocation” algorithm that scanned the data about strategy, profitability, organizational structure, and performance-related words among these tweets and discarded the tweets that mentioned those words. After discarding those tweets, the final sample contained 175,000 tweets from 135 CEOs.

We then merged this data using Twitter CEOs’ firms and years with KLD ratings with data from Kinder, Lyndenberg, Domini, and Company (KLD), a financial advisory firm that specializes in Corporate Social Responsibility evaluations (Godfrey et al., 2009; Mattingly & Berman, 2006; Waddock & Graves, 1997). KLD ranks firms along the four CSR dimensions using a cumulative ranking system . This merge allowed construction of firms’ social performance-related dependent variables. Finally, we merged this data with the ISS governance database to create the CEO power index. The final sample consisted of 153 firm-year observations. Variables were log-transformed if they had a non-normal distribution.

3.2. Variables and Measures

3.2.1. Dependent Variable*:* Corporate social performance along the four previousl described dimensions was measured by using KLD ratings, which have been broadly regarded as the most comprehensive data available to measure CSP (e.g., Choi & Wang, 2009; Graves & Waddock, 1994; Kacperczyk, 2009). We operationalize CSP as a net score of KLD at $t_{weetyear+1}$ of the four CSR dimensions reported in the data following the most commonly utilized approach in the literature (Choi & Wang, 2009; Dahlmann & Brammer, 2011; David et al., 2007; Graves & Waddock, 1994; Hillman & Keim, 2001; Hull & Rothenberg, 2008; Wong et al., 2011). The KLD data contains seven dimensions including environment, employee, human rights, community, corporate governance, diversity and product dimensions. KLD ranks each firms’ strengths and weaknesses along all seven dimensions (see Appendix A for a breakdown of number of strengths and weeknessses, and Appendix B for detailed descriptions of strengths and weaknesses indicators). Since we are only concerned about CEO social activism along environment, employee, human rights, and community dimensions, we ignored the other three dimensions. To construct our measure for each of the four dimensions, we took the difference between the sum of strength indicators and the sum of weakness indicators (e.g., Barnett & Salomon, 2012). To address reverse causality issues, this variable was lagged by one year.

3.2.2. Independent Variables: To measure the CEO's social activism along the corporate social responsibility dimensions, we conducted a text analysis of the tweets. We used the text analysis software CAT scanner (McKenny & Short, 2012) and the dictionary established by Pencle and Mălăescu (2016). As mentioned earlier in the data collection section, in addition to matching with chrunchbase database, we manually checked to make shure that these twitter accounts belonged to the CEOs themselves, and did not just mention the CEO. The analysis generated a set of word counts for words such as "Discriminatory," "Bio Diversities," "Medicaid," and "white privilege." Pencle and Mălăescu (2016) provide a valid and reliable dictionary for CSP along four dimensions — human rights, social and community, environment, and employee, and their data dictionary was used in this study as well. In this study, we measure CEOs' social activism relating to each of these dimensions in each tweet by measuring the frequency of word usage along the four individual dimensions of the CEO's Social Activism. See Table 1 for detailed descriptive statistics of the variables.

[Insert Table 1 about here]

3.2.3. Moderator Variable: we calculated an additive index of CEO power (Diamantopoulos & Winklhofer, 2001; McDonald, Westphal, & Graebner, 2008), comprising three variables that have been widely used in past studies (Finkelstein, 1992; Pollock, Fischer, & Wade, 2002; Haynes & Hillman, 2010): an indicator variable for CEO duality, coded as one if the CEO was also board chair; the CEO's relative ownership, calculated as the proportion of the percentage of stock owned by outside directors and the percentage of stock owned by the CEO; and the percentage of outside directors appointed after the CEO. In order to verify whether all three indicators belong to the underlying construct of CEO power, we constructed a principal component analysis model with varimax rotation. All three indicators loaded onto a single factor (Eigenvalue>1) indicating construct validity of CEO power. See Table 2 for a detailed analysis. We then standardized and logged this variable as a convention.

[Insert Table 2 about here]

3.2.4. Control Variables: A set of control variables that are standard in corporate social performance literature (e.g., O'Sullivan et al., 2021) were introduced in the analysis. We collected all control variables from the Compustat yearly database. We controlled for the firm, CEO, & industry characteristics that could impact corporate social performance.

We used firm size because previous researchers have repeatedly found that it positively affects social performance (Johnson & Greening, 1999; Udayasankar, 2008; Waddock & Graves, 1997). We measured firm size using the natural log of net sales (Brammer & Millington, 2008; Kacperczyk et al.,2008). We added ROA (return on assets) as a control variable as well, because it signifies the most pertinent information regarding the results of resource allocation by a firm, as it seeks competitive advantage (Hull & Rothenberg, 2008) and has been shown to affect firms' social performance (Padgett & Galan, 2010). ROA is calculated as operating income over total assets. We also controlled for the Market-to-book ratio which is calculated by dividing the total market value of the firm by the total value of the firm. Market value, which signifies a firm's growth and investment opportunity, has been shown to affect corporate social performance (e.g., Flammer, 2015; O'Sullivan et al., 2021). In addition, we controlled for firms' R&D intensity, which has shown to have a direct impact on a firm's social performance (e.g., Padgett & Galan, 2010). We calculated R&D intensity by dividing total expenditure on R&D by total sales (e.g., McWilliams & Siegel, 2000). A firm's governance structure has been shown to affect its corporate social performance. For instance, Zhang et al., (2013) has shown that independent directors affect firms' social performance. In addition, Judge and Dobbins (1996) found that outsider's awareness of CEO decision style affects firm level outcomes. As such we control for proportion of independent directors which is calculated by dividing the total number of outsiders by the total number of board members (e.g., Zhang et al., 2013).

We controlled for CEO tenure, calculated by taking the difference between when the CEO took office and when the CEO left office. Tenure has been shown to affect firm-level outcomes including social performance (e.g., O'Sullivan et al., 2021). We controlled for the CEO's unexercised options, which are calculated as the value of the CEO's unexercised stock options. CEO options are one of the key incentive alignment mechanisms used to keep CEOs' interests aligned with that of the firm (Fama & Jensen, 1983). Options are used to incentivize managerial risk-taking (e.g., Sanders, 2001) and can affect many firm-level outcomes including corporate social performance (e.g., Padgett & Galan, 2010).

Finally, we included eight dummy variables for industry sectors (using primary two-digit SIC codes of adopting firms) (coefficients for these dummy variables are not reported and are available from the authors).

3.3. Data Analysis and Results

Table 3 reports the descriptive statistics and bivariate correlation matrix of the variables. To assess whether the variables in our study are affected by multicollinearity, we first construct a linear probity model on our theoretical variables. Afterward, we utilize regression post-estimation method for assessing the variance inflation factors (VIF) of our theoretical variables. The mean VIF was less than 3 for all models. Therefore, multicollinearity should not be an issue for this analysis (Hair et al., 1998).

[Insert Table 3 about here]

Our hypothesized relationships which predicted the effect of CSA's four dimensions on the likelihood of focal firms performing well along those CSP dimensions were tested within a generalized least squared (GLS) framework allowing for random effects. We also conducted the analysis within a fixed effect framework and conducted the Hausman test to check if errors are correlated with the regressors. The Hausman test failed to reject the Null ($p > 0.05$) suggesting the random effect was appropriate.

We acknowledge that our analysis may be prone to endogeneity concerns. For example, perhaps the firms have already invested in social causes and therefore the CEOs are engaged in social activism to highlight the fact that firms have invested in those social causes. To minimize this issue, we lag all our independent and moderator variables one year. In addition, as noted by Antonakis, Bendahan, Jacquart, and Lalive (2010, p. 1103), finding an appropriate instrumental variable to test for endogeneity is "one of the biggest challenges that researchers face." Because we could not theoretically identify a covariate that is correlated with the treatment variable and uncorrelated with the outcome variable, we use a lagged dependent variable (Lu et al., 2018) as an instrument to estimate our full theoretical model in order to address endogeneity concerns.

Greene (2003) outlines a generalized least square approach with stringent asymptotic normality assumption in which a lagged dependent variable is appropriate. We follow Greene (2003) and estimate our theoretical model using a GLS estimator and use the lagged dependent variable as an instrumental variable. Instrument validity tests confirmed the viability of this method.

In each of tables, Model 1 contains only the control variables, Model 2 includes the addition of the independent variables, Model 3 adds the moderator variable, and Model 4 represents the instrumented full model. The tested sample contained 153 firm-year observations. Since KLD scores are measured yearly, we constructed a simple yearly average of CEO social activism scores. We also lagged all treatment variables except for industry and firm size by one year.

Table 4 presents the regression results of CSP performance along the environmental dimension on CEO social activism along the environmental dimension. The coefficient of CEO social activism along the environmental dimension is negative but not significant ($\beta = -2.34$; $p > 0.05$). Therefore, we did not find support for H1a. In addition, CEO power did not moderate this relationship, rejecting H2a ($\beta = 0.66$; $p > 0.05$).

[Insert Table 4 about here]

Table 5 presents the regression results of CSP along the employee dimension on CEO social activism along the employee rights dimension. The coefficient of CEO social activism along the employee rights dimension is negative but not significant ($\beta = -43.9$; $p>0.05$). Thus, Hypothesis 1b was not supported. In addition, we did not find support for moderating the effect of CEO power ($\beta =21.1$, $p>0.05$).

[Insert Table 5 about here]

Table 6 presents the regression results of CSP along the human rights dimension on CEO social activism along the human rights dimension. The coefficient CSP along the human rights dimension is negative and significant (β = -1.60, $p<0.05$). As such, H1c was supported. However, we did not find support for the moderating effect of CEO power (β = 0.13, $p > 0.05$).

[Insert Table 6 about here]

Table 7 presents the regression results of CSP along the community dimensions on CEO social activism with respect to the community dimensions. The coefficient of CEO social activism along community dimensions is positive and significant (β = 3.13; $p<0.05$), which suggests a relationship opposite to the hypothesized direction. As such, H1d was rejected. Interestingly, CEO power did intensify this relationship in the original direction that was hypothesized, therefore, H2d was supported (β = -1.26; $p<0.05$) .

[Insert Table 7 about here]

To analyze this further, we conducted marginal effects analysis and created interaction plots of the simple slopes of CEO social activism along the community dimension and CEO power. Figure 1 depicts the predictive margins of the interaction plots. We observe at low levels of CEO power as depicted by the blue line the effect of CEO social activism along the community dimension on fims' social performance regarding the community is positive. However, as CEO power increases, the relationship between CEO social activism along the community dimension and firms' social performace along the community dimension becomes negative as depicted by the red and green lines. As such, CEO power decreases the impact of CEO social activism for this particular dimension. All of these results are discussed below.

[Insert Figure 1 about here]

4. DISCUSSION

In this paper, we investigate the effect of CEO social activism on firms' social performance. In order to do so, we utilize legitimacy theory by incorporating how CEOs use rhetorical strategy in order to legitimize social activism. We theorize that firms need to employ different types of rhetorical strategies for different types of legitimacy gains. In this particular case, the social activism of the CEO is a type of value rhetoric that is geared towards achieving moral legitimacy among the various stakeholders of the firms (Marais, 2012). However, we argue that value rhetoric is often used to substitute for true morality (e.g., Prior et al., 2008) and thus when such rhetoric is used by the CEO, they are less likely to devote resources towards the improvement of the social standing of the firm (e.g., Marais, 2012). We also argue that CEO power would positively impact the negative relationship between CEO social activism and the firm's social standing, because powerful CEOs are shielded from stakeholder pressure and are even less likely to "walk the walk."

First, we hypothesized that CEO social activism regarding the natural environment was negatively related to firms' social performance regarding the natural environment. We also hypothesized that CEO power strengthened this negative relationship. We did not find support for this relationship. Second, we did not find support for the hypothesized negative relationship between CEO social activism regarding employees and a firm's social performance along the employee dimension. We also did not find support for CEO power moderating this relationship. Third, we find that CEO social activism regarding human rights was negatively and significantly related to firms' social performance regarding human rights, providing support for our theory. We also did not find support for the moderating effect of CEO power.

Finally, we find that CEO social activism regarding the community was positively and significantly related to firms' social performance regarding the community. Interestingly, this relationship is opposite to what we hypothesized. We discuss the consequences of this finding in the Implications section below. We also find CEO power moderated this relationship in the hypothesized direction such that at high levels of CEO power the relationship between CEO activism along the community dimension and the firm's social performance along the community dimension became negative. This finding is discussed in detail in Figure 1 and associated marginal effects analysis.

4.1. Implications for Theory

Our first contribution is to the theory of moral legitimacy. We hypothesize that CEO social activism is a form of value rhetoric designed to attain moral legitimacy. However, as Prior et al. (2008) suggested, true morals can be hard to assess and CEO activism could be substitutive for resource allocation to improve firms' social standing. Such activism is designed to decouple the firm's actual performance from its rhetoric (Sauerwald & Su, 2019).

Our theory also suggests that CEO social activism is a deliberate value rhetoric that is designed to attract the masses and create awareness about the activism issue. Such value rhetoric is designed to attract customers and generate buzz. It is conceivable that such value rhetoric is also a self-promotional strategy by the CEO. Recent work by Lovelace, Bundy, Pollock and Hambrick (2021) suggests that self-promoting CEOs are more likely to achieve celebrity status through sustained coverage by news media. The deliberative nature of value rhetoric such as CEO social activism would suggest that some CEOs might be self-promoting to increase their exposure through the use of such rhetorical techniques.

Among all four hypothesized negative relationships, we found that the effect of CEO social activism regarding local communities had a positive impact on firms' social performace regarding local communities. Typical involvement of businesses with the community is seen in areas of education, health, and income generation. CSR towards the community is seen in terms of philanthropic giving, public-private partnerships, community relationships, and participation in social and economic development issues. For instance, Microsoft's Airband initiative is geared toward extending affordable broadband access to millions of people in their local communities, since many people in rural America lack fast broadband access. In addition, Microsoft's TechSpark program is designed to help to close the skills gap and prepare employers to hire and support employees in new ways. GM, in collaboration with the Muscular Dystrophy Association, offered a STEM (science, technology, engineering, and math) programming track at its annual summer camp. Students with neuromuscular disabilities attended the virtual camp free of cost to undergo STEM learning. Participants heard from GM STEM experts about the importance of accessibility inclusion in STEM fields and vehicle design. Although the other dimensions of social activism might not generate tangible and immediate benefits for firms, investments in community development initiatives may help a firm gain competitive advantages through tax savings, decreased regulatory burden, and improvements in the quality of local labor (Waddock & Graves, 1997).

There is some empreical evidence that suggests that investing in local community is positively related to firm perfomace (e.g., Mishra & Suar, 2010; Rockefeller, 2003). A socially responsible image of the firm among the local community improves the brand loyalty of consumers (Mishra & Suar, 2010). Consumers reward firms that practice good corporate citizenship through higher and prolonged patronage (Luo & Bhattacharya, 2006). In addition, positive impact in communities enhances firms' overall product evaluation by consumers (Brown & Dacin, 1997). Consumers pay attention to the CSR records of firms, involving primarily their community initiatives, while making purchacing decisions (Gildea, 1994; Owen & Scherer, 1993). These firm performance benefits, both in terms of financial gains and customer purchasing intentions, from community-related social investments might be the reason why CEOs' activism regarding the community dimesion is positively related to the firms' performance along the community dimension.

From the perspective of moral legitimacy, it is more difficult for consumers to meaningfully measure whether CEOs are walking the walk regarding environment, employee or human rights dimensions, because consumers cannot directly see the impact of those social investiments. However, they are much better equipped to assess firms' investment in local comminty as they are part of it. Therefore, consumers might sanction the firm negatively if the CEO does not walk the walk regarding the community dimension and withhold giving the firm the moral legitimacy it seeks.

Our results also indicate that powerful CEOs could be more insulated than their contemporaries in that they may use social activism as value rhetoric to substitute for firms' resource commitment to social issues. By highlighting this relationship, we contribute to the conversation in upper echelons and CEO discretion. Consistent with recent theoretical work in CEO social activism (e.g. Hambrick & Wowak, 2021), CEO power is a crucial contextual factor that determines the amount of discretion available to the CEO to shield them from both internal and external forces.

Our tests show that the relationship between CEO social activism types and firms' social performance along those different dimensions follow different directionality. Typically, all four dimensions of firms' social performance are lumped together in a composite measure of social performance. Our results suggest that it might be better to separate these dimensions because such a measure gives us a more nuanced understanding of firms' social performance. Scholars have suggested that firms' social performance means different things to different stakeholders (Dahlsrud 2008). As such there might be varying levels of resources allocated to various aspects of social performance depending upon the type of stakeholders that the firm wants to appease. Breaking down social performance by the four categories we discussed not only sharpens the empirical precision of the results but also illustrates different causal relationships that future studies can uncover.

4.2. Implications for Managers and Policymakers

One of the primary functions of the board of directors is to hold managers accountable on behalf of the stakeholders. The directors have to make sure that CEOs' social activism is truly beneficial for the shareholders, so that substitutive non-market strategy truly does what it is supposed to do- give moral legitimacy to the firm and create a buzz on social media. If CEO activism does not generate those benefits, it might be interpreted by customers as CEOs grandstanding and being offish.

Our findings suggest that CEOs should only be active in social media if they are walking the walk. Although consumers might not be able to detect if the CEO does not walk the walk regarding environment, human rights, and the employee dimension, other stakeholders (e.g., investors, employees) might detect such deviation and negatively sanction the firm.

Policymakers also have to hold CEOs accountable for their actions. If they are not walking the walk, there might be other underlying issues associated with the firm that the securities and exchange commission (SEC) may want to investigate. For instance, Prior et al.,

(2008) found that earnings management is associated with higher corporate social performance. Since CEO social activism is substitutive of social performance, it follows that CEO social activism might be associated with earnings management.

4.3. Limitations

Our study has several limitations. First, we excluded other social media platforms such as LinkedIn, YouTube, and Facebook where long-form communication is possible. Twitter limits each tweet to 280 characters, which means CEO social activism presents differently on this platform than it does in other media. The reason for choosing Twitter is that, unlike LinkedIn, YouTube or Facebook, Twitter posts are always public and are geared toward a broader audience. However, it would be interesting to explore these relationships on other platforms. Relatedly, since Twitter's character count is limited to 280, topic modellling (e.g. LDA, FCA) to distill more nunanced dimensions of CEO social activism is a challenge. Such machine learning algorithms require many words to train them to recognize relevant patterns, and therefore are infeasible for analyzing a single tweet. Additionally, scholars have argued that a dictionary-based approach, such as the one used in this paper, sometimes fails to detect context or detects false negatives.

Second, CEO social activism may take other forms in traditional media such as television and newspaper interviews, opinion pieces, participation in town halls, rallies, and protests. Not only that the rhetoric used, and casual effects of activism in these might be different from social media as well.

A third limitation is our assumption that these are one-way, causal relationships. While we lagged the dependent variable to follow CEO social activism, it is possible that poor firm social performance may lead to CEOs trying to regain legitimacy through online activism.

Future research should examine the possibility that CEO online activism is a response to faltering social performance.

4.4. Future Research Directions

In this paper we examined the effect of CEO social activism on firm social performance. One stark finding is that CEO social activism regarding the human rights dimension was negative related to firms' social performance along the human rights dimension. Future research could examine whether firms are sanctioned by stakeholders if they do not walk the walk. For instance, if CEOs speak publicly about human rights and do not actually invest to improve human rights, do other firms in the same industry cut ties with the dissenting firm (less collaboration)? Do employees leave such firms? How do these dissenting firms fare in the labor market for talented employees? Do rating agencies (such as Moody's) identify such dissent and adjust their rankings?

4.5. Conclusion

In this paper, we investigate the effects of CEO social activism on firm performance. We theorize that this rhetorical strategy is a substitute for resource allocation to improve firms' social standing. We also suggest that CEO power would amplify this relationship. We find that CEO social activism in the human rights dimension is negatively related to firms' social performance in this area, supporting our theory. We also find that, consistent with our prediction, CEO power affects this relationship such that as CEO power increases, the effect of CEO social activism regarding human rights becomes negative and stronger on firms' social performance along the human rights dimension. We also find that CEOs' social activism related to the community dimension is positively related to firms' social performance. Our paper highlights the substitutive nature of CEO social activism. We find that when CEO social activism in social media is substitutive of firms’ resource allocation decisions to improve their social standing and powerful CEOs are even more likely to not “walk the walk” with respect to social activism since they are more shielded from repercussion than their peers.

5. CHAPTER 2 REFERENCES

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TABLE 2.1
Descriptive statistics of CSA dimensions

Variables	Obs	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.
CSA-Environment	195	.17	.173	0	1	0	1	2.207	9.659
CSA-Employee	195	.3	.312	0	2.723	0	1.25	2.705	15.935
CSA-Human rights	195	.167	.185	0	1.348	0	1	2.461	11.553
CSA-Community	195	.325	.313	0	2.275	0	1.76	2.272	11.393

TABLE 2.2
Factor Analysis of CEO Power Variable

Factor analysis/correlation	Number of obs	=	394
Method: principal-component factors	Retained factors	=	1
Rotation: orthogonal varimax	Number of params	=	3

Factor	Variance	Difference	Proportion	Cumulative
Factor1	1.290	.	0.430	0.430

LR test: independent vs. saturated: chi2(3) = 27.04 Prob>chi2 = 0.0000
Rotated factor loadings (pattern matrix) and unique variances

Variable	Factor1	Uniqueness
Relative owensership	0.506	0.743
Duality	0.683	0.533
Percent outsiders appointed	0.752	0.434

TABLE 2.3
Descriptive Statistics

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) Env Performance	.63	1.55	1.0															
(2) Empl Performance	.75	1.9	.34*	1.0														
(3) Hrts Performance	.07	.41	-.02	.01	1.0													
(4) Comm Performance	.18	.77	.19***	.05	.21***	1.0												
(5) CSA-Env	.17	.17	-.06	-.04	-.03	-.10*	1.0											
(6) CSA-Empl	.3	.31	.05	-.04	.09*	-.05	.34***	1.0										
(7) CSA-Hrts	.17	.19	-.04	-.05	.04	-.02	.44***	.71***	1.0									
(8) CSA-Comm	.33	.31	.12**	.08	.08*	-.02	.33***	.75***	.62***	1.0								
(9) CEO-power	.32	.79	-.03	.02	-.05	.06	.03	.05	-.03	.03	1.0							
(10) Firm Size	.01	1	.32***	.14***	.11**	.06	.07	.25***	.21***	.33***	.05	1.0						
(11) Past performance	2.06	2.03	.03	.05	.13**	.06	.01	-.01	-.03	.02	-.08	-.03	1.0					
(12) Market to book	.01	.09	.06	-.05	.02	-.05	-.02	.04	.00	.04	.01	.14***	.01	1.0				
(13) R&D intensity	.33	6.9	.06	.05	.07	.01	-.23***	-.10	-.11*	-.18**	.07	-.05	.00	.07	1.0			
(14) Num of director	.79	.11	-.05	.08	.13**	.08	-.01	.04	.00	-.01	.40***	-.01	.15***	-.02	-.09	1.0		
(15) CEO tenure	8.97	8.86	-.19***	-.17***	-.11**	-.07	-.02	-.03	.00	-.02	.07	.15***	-.11**	.03	-.02	-.16***	1.0	
(16) CEO options	6.76	16.29	-.05	-.02	-.03	.08*	.05	.00	.02	.02	-.05	-.03	.62***	.02	-.01	.07	-.05	1.0

*+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$*

TABLE 2.4
GLS regression of the effect of CEO social activism on firms' environmental performance

	(1)	(2)	(3)	(4) Instrumented
Firm size	0.64^{***}	-0.13	0.60^{***}	-0.15
	(0.16)	(0.54)	(0.16)	(0.77)
Past performance	-0.22	-0.52^{+}	-0.21	-0.41
	(0.19)	(0.29)	(0.19)	(0.36)
Market to book	3.39^{**}	3.84^{***}	3.30^{**}	3.72^{**}
	(1.25)	(1.05)	(1.24)	(1.15)
R&D intensity	0.0051	0.00070	0.0021	-0.0076
	(0.01)	(0.01)	(0.01)	(0.01)
Proportion of outsiders	-0.55	-1.24	-0.96	-2.42
	(0.74)	(1.18)	(0.80)	(2.75)
CEO tenure	-0.020	-0.035	-0.024	-0.041
	(0.02)	(1.25)	(0.02)	(0.37)
CEO options	-0.00032	-0.00044	-0.00032	-0.00044
	(0.00)	(0.01)	(0.00)	(0.00)
Industry	Yes	Yes	Yes	Yes
CSA-Environment (ENV)		-1.06		-2.34
		(3.86)		(6.90)
CEO power			0.19	0.32
			(0.16)	(0.56)
CSA-ENV*CEO power				0.66
				(2.65)
_cons	1.84^{*}	2.90	2.04^{*}	3.66
	(0.82)	(32.24)	(0.83)	(10.09)
N	153	153	153	153
Chi-squared	52.0	27.2	51.8	29.0

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.5
GLS Regression of CEO social activism on the firm's employee welfare performance

	(1)	(2)	(3)	(4) Instrumented
Firm size	0.32	2.34	0.33	1.59
	(0.21)	(1.52)	(0.21)	(1.51)
Past perform-ance	0.16	-0.47	0.14	0.62
	(0.29)	(1.21)	(0.30)	(1.58)
Market to book	-1.56	-2.79	-1.40	-13.0
	(3.08)	(11.72)	(3.10)	(18.99)
R&D intensity	0.012	-0.025	0.013	-0.13
	(0.03)	(0.11)	(0.03)	(0.19)
Proportion of outsiders	0.56	6.92	0.69	12.8
	(1.41)	(6.80)	(1.65)	(13.44)
CEO tenure	-0.0091	-0.032	-0.0083	-0.12
	(0.02)	(0.09)	(0.02)	(0.16)
CEO options	-0.00032	0.00044	-0.00032	0.00056
	(0.00)	(0.00)	(0.00)	(0.00)
Industry	Yes	Yes	Yes	Yes
CSA-Employee (EMP)		-27.0		-43.9
		(17.10)		(37.37)
CEO power			-0.046	-5.47
			(0.26)	(5.06)
CSA-EMP*CEO power				21.1
				(18.76)
_cons	0.42	1.45	0.37	-0.44
	(1.38)	(5.38)	(1.47)	(7.58)
N	153	153	153	153
Chi-squared	17.1	3.59	16.4	2.09

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.6
GLS Regression of CEO Social Activism on firms' human rights performance

	(1)	(2)	(3)	(4) Instrumented
Firm size	0.081**	0.087	0.084**	-0.30
	(0.03)	(0.12)	(0.03)	(0.19)
Past performance	0.020	0.13	0.015	0.17
	(0.04)	(0.12)	(0.04)	(0.13)
Market to book	-0.68	-0.60	-0.61	-0.44
	(0.51)	(0.74)	(0.52)	(0.62)
R&D intensity	0.0045	0.0056	0.0052	0.0051
	(0.00)	(0.01)	(0.00)	(0.01)
Proportion of outsiders	0.20	1.26*	0.32	1.35**
	(0.21)	(0.52)	(0.25)	(0.52)
CEO tenure	-0.0020	-0.00038	-0.0011	-0.0044
	(0.00)	(0.01)	(0.00)	(0.04)
CEO options	-0.000014	-0.000020	-0.000014	-0.00010
	(0.00)	(0.00)	(0.00)	(0.00)
Industry	Yes	Yes	Yes	Yes
CSA-Human Rights (HR)		-2.11*		-1.60*
		(0.87)		(0.73)
CEO Power			-0.032	-0.067
			(0.04)	(0.12)
CSA-HR*CEO power				0.13
				(0.29)
_cons	-0.13	-0.87	-0.20	-1.07
	(0.20)	(0.54)	(0.22)	(1.23)
N	153	153	153	153
Chi-squared	26.2	9.14	26.4	15.0

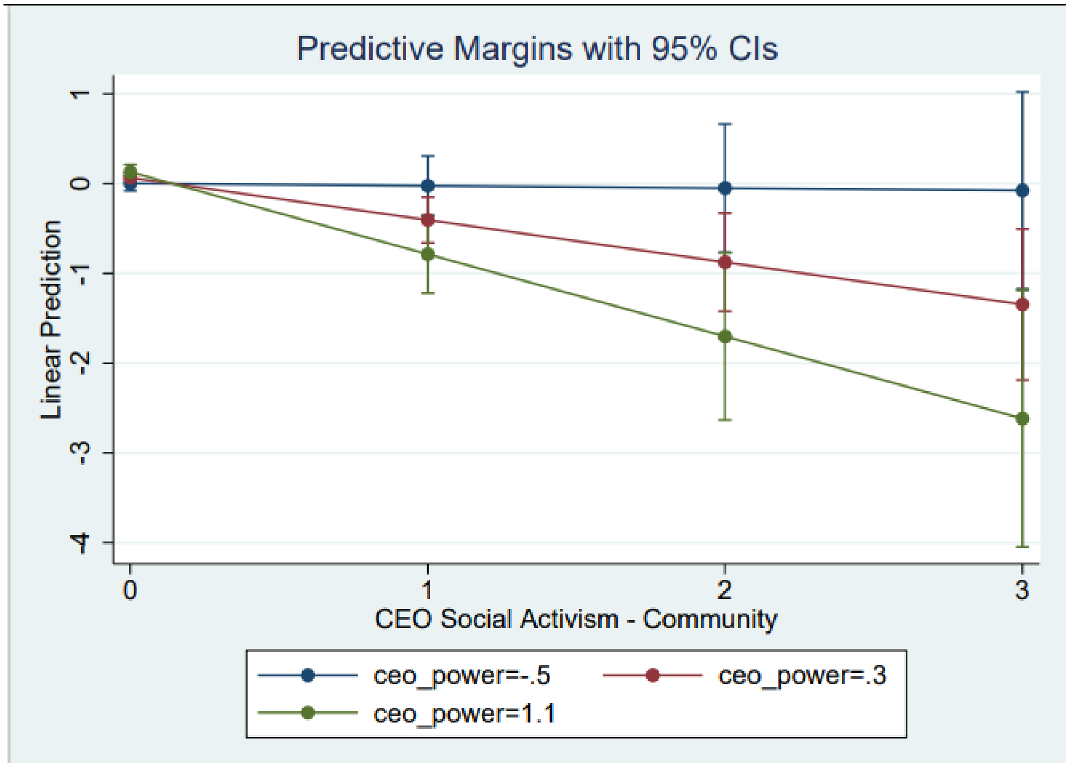
Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2.7
GLS Regression of CEO Social Activism on the community welfare performance

	(1)	(2)	(3)	(4) Instrumented
Firm size	0.022	-0.34	0.019	-0.30
	(0.02)	(0.22)	(0.02)	(0.20)
Past performance	0.018	-0.019	0.025	-0.064
	(0.03)	(0.16)	(0.03)	(0.16)
Market to book	-1.76***	-1.24	-1.82***	-0.82
	(0.46)	(0.90)	(0.46)	(1.01)
R&D intensity	0.0039	0.011	0.0034	0.012
	(0.00)	(0.01)	(0.00)	(0.01)
Proportion of outsiders	-0.029	-1.19^{+}	-0.15	-1.95*
	(0.16)	(0.68)	(0.20)	(0.91)
ceo_tenure	-0.0021	-0.00021	-0.0029	-0.0062
	(0.00)	(0.02)	(0.00)	(0.02)
CEO options	-0.0000096	-0.000083	-0.000011	-0.000044
	(0.00)	(0.00)	(0.00)	(0.00)
Industry	Yes	Yes	Yes	Yes
CSA-Community (COM))		2.75*		3.13*
		(1.12)		(1.30)
CEO power			0.028	0.62*
			(0.03)	(0.29)
CSA-COM*CEO power				-1.26*
				(0.63)
_cons	0.039	0.44	0.11	0.84
	(0.16)	(0.76)	(0.17)	(0.79)
N	153	153	153	153
Chi-squared	20.8	11.8	21.7	12.8

Standard errors in parentheses
$^{+}$ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

FIGURE 2.1
Graphical Depiction of Interaction between CEO Power with Community Social Activism



6. CHAPTER 2 APPENDICES

Background Information on KLD Dimensions & Variables

Data Collection Process: This KLD data is collected by Morgan Stanley Capital International (MSCI) indexes. MSCI ESG Research employs a global team of over 140 experienced research
analysts to assess how well companies manage their ESG risks and opportunities.
In order too assess Firms' exposure to and management of ESG risks and opportunities, MSCI ESG Research collects data from the following sources: i) Macro data at segment or geographic level from academic, government, NGO datasets ii) Company disclosure (10-K, sustainability report, proxy report, AGM results, etc.) iii) Government databases, 1600+ media, NGO, other stakeholder sources. Firms surveyed are invited to participate in a formal data verification process each year. S&P 1500 firms reside in the KLD database, all of which are based in the United States.

APPENDIX A. KLD DIMENSIONS

Dimensions	**Number of strength items**	**Number of concern items**
Environment	8	7
Employee	7	5
Human rights	4	7
Community	8	5
Corporate governance	5	6
Diversity	8	3
Product	4	4

APPENDIX B. KLD VARIABLES

Name	Description
ALC_con_A	Alcohol Involvement
ALC_con_num	Alcohol - Number of Concerns
ALC_con_X	Alcohol Other Concern (through 2002)
CGOV_con_B	High Compensation
CGOV_con_F	Ownsership Concern
CGOV_con_G	Accounting Concern (from 2005)
CGOV_con_H	Transparency Concern (2005-2012)
CGOV_con_I	Political Accountability Concern (from 2005)
CGOV_con_J	Public Policy Concern (from 2007 through 2011)
CGOV_con_K	Governance Structures Controversies
CGOV_con_L	Controversial Investments
CGOV_con_M	Business Ethics
CGOV_con_num	Corp. Gov - Number of Concerns
CGOV_con_X	Corp. Gov Other Concerns
CGOV_str_A	Limited Compensation
CGOV_str_C	Ownership Strength
CGOV_str_D	Transparency Strength (1996-2012)
CGOV_str_E	Political Accountability Strength (from 2005)
CGOV_str_F	Public Policy Strength (from 2007 through 2011)
CGOV_str_G	Corruption & Political Instability
CGOV_str_H	Financial System Instability
CGOV_str_num	Corp. Gov - Number of Strengths
CGOV_str_X	Corp. Gov Other Strength
Com_con_A	Investment Controversies
COM_con_B	Negative Economic Impact
COM_con_D	Tax Disputes
COM_con_num	Community - Number of Concerns
COM_con_X	Community Other Concerns
COM_str_A	Charitable Giving (from 1991 through 2011)
COM_str_B	Innovative Giving
COM_str_C	Support for Housing
COM_str_D	Support for Education (from 1994)
COM_str_F	Non-US Charitable Giving
COM_str_G	Volunteer Programs (from 2005)
COM_str_H	Notabel community engagement programs
COM_str_num	Community - Number of Strengths
COM_str_X	Other Strengths (from 1991 through 2011)
DIV_con_A	Controversies
DIV_con_B	Non-Representation (from 1993 through 2011)
DIV_con_C	Board Diversity
DIV_con_D	Board of Directors - Minorities
DIV_con_num	Diversity - Number of Concerns
DIV_con_X	Diversity Other Concerns
DIV_str_A	CEO
DIV_str_B	Promotion (from 1991 through 2011)
DIV_str_C	Board of Directors
DIV_str_D	Work-Life Benefits (from 1991 through 2011)
DIV_str_E	Women and Minority Contracting
DIV_str_F	Employment of the Disabled
DIV_str_G	Gay and Lesbian Policies (from 1995 through 2011)
DIV_str_H	Firm’s efforts to promote diversity
DIV_str_num	Diversity - Number of Strengths

DIV_str_X	Diversity Other Strength
EMP_con_A	Union Relations
EMP_con_B	Health and Safety Concern
EMP_con_C	Workforce Reductions
EMP_con_D	Retirement Benefits Concern
EMP_con_F	Supply Chain Controversies
EMP_con_G	Child Labor
EMP_con_H	EMP-con-H
EMP_con_num	Emp. Relations - Number of Concerns
EMP_con_X	Emp. Relations Other Concerns
EMP_str_A	Union Relations
EMP_str_B	No-Layoff Policy (through 1994)
EMP_str_C	Cash Profit Sharing
EMP_str_D	Employee Involvement
EMP_str_F	Retirement Benefits Strength
EMP_str_G	Health and Safety Strength
EMP_str_H	Supply Chain Policies, Programs & Initiatives
EMP_str_I	Compensation and Benefits
EMP_str_J	Employee Relations
EMP_str_K	Professtion Development
EMP_str_L	Human Capital Development
EMP_str_M	Labor Management
EMP_str_N	Waste Management - Electronic Waste
EMP_str_num	Emp. Relations - Number of Strengths
EMP_str_X	Employee Strengths - Other Strengths (from 1991 through 2011, From 2013)
ENV_con_A	Hazardous Waste
ENV_con_B	Regulatory Problems
ENV_con_C	Ozone Depleting Chemicals
ENV_con_D	Substantial Emissions
ENV_con_E	Agriculture Chemicals
ENV_con_F	Climate Change (from 1999)
ENV_con_G	Negative Impact of Products and Services
ENV_con_H	Land Use & Biodiversity
ENV_con_I	Non Carbon Releases
ENV_con_J	Supply Chain Management
ENV_con_K	Water Management
ENV_con_num	Environment - Number of Concerns
ENV_con_X	Environment Other Concerns
ENV_str_A	Beneficial Products and Services
ENV_str_B	Pollution Prevention
ENV_str_C	Recycling
ENV_str_D	Clean Energy
ENV_str_F	Property, Plant, Equipment (through 1995)
ENV_str_G	Management Systems Strength
ENV_str_H	Natural Capital = Water Stress
ENV_str_I	Natural Capital - Biodiversity & Land Use
ENV_str_J	Natural Capital - Raw Material Sourcing
ENV_str_K	Climate Change - Financing Environmental Impact
ENV_str_L	Environmental Opportunities = Oppertunities in Green Building
ENV_str_M	Environmental Opportunities - Opportunities in Renewable Energy
ENV_str_N	Polution & Waste - Electonic Waste
ENV_str_num	Environment - Number of Strengths
ENV_str_O	Climate Change - Energy Efficiency
ENV_str_P	Climate Change - Product Carbon Footprint
ENV_str_Q	Climate Change - Climate Change Vulnerability
ENV_str_X	Environment Other Strength

FIR_con_A	Firearms Involvement (from 1999)
GAM_con_A	Gambling Involvement
GAM_con_num	Gambling - Number of Concerns
GAM_con_X	Gambling Other Concern (through 2002)
HUM_con_A	South Africa (1991-1994)
HUM_con_B	Northern Ireland (1991-1994)
HUM_con_C	Burma Concern (from 1995)
HUM_con_D	Mexico (1995-2002)
HUM_con_F	Labor Rights Concern (from 1998)
HUM_con_G	Indigenous Peoples Relations Concern (from 2000)
HUM_con_H	The company has operations or direct investment in, or sourcing from, Sudan
HUM_con_J	Freedom of Expression & Censorship
HUM_con_K	Human Rights Violations
HUM_con_num	Human Rights - Number of Concerns
HUM_con_X	Human Rights Other Concerns
HUM_str_A	Positive Record in S. Africa (1994-1995)
HUM_str_D	Indigenous Peoples Relations Strength (from 2000)
HUM_str_G	Labor Rights Strength (from 2002)
HUM_str_num	Human Rights - Number of Strengths
HUM_str_X	Human Rights Other Strength
MIL_con_A	Military Involvement
MIL_con_B	Minor Weapons Contracting (1991-2002)
MIL_con_C	Major Weapons-related Supplier (1991-2002)
MIL_con_num	Military - Number of Concerns
MIL_con_X	Military Other Concern (through 2002)
NUC_con_A	Nuclear Involvement
NUC_con_C	Nuclear Design (through 2002)
NUC_con_D	Nuclear Fuel Cycle (through 2002)
NUC_con_num	Nuclear - Number of Concerns
NUC_con_X	Nuclear Other Concern (through 2002)
PRO_con_A	Product Safety
PRO_con_D	Marketing-Contracting Concern
PRO_con_E	Antitrust
PRO_con_F	Customer Relations
PRO_con_G	PRO-con-G
PRO_con_num	Product - Number of Concerns
PRO_con_X	Product Other Concerns
PRO_str_A	Quality
PRO_str_B	R+D-Innovation
PRO_str_C	Benefits to Economically Disadvantaged
PRO_str_D	Social Opportunities - Access to Finance
PRO_str_E	Social Opportunities - Access to Communications
PRO_str_F	Social Opportunities - Opportunities in Nutrition and Health
PRO_str_G	Product Safety - Chemical Safety
PRO_str_H	Product Safety - Financial Product Safety
PRO_str_I	Product Safety - Privacy & data Security
PRO_str_J	Product Safety - Responsible Investment
PRO_str_K	Product Safety - Insuring Health and Demographic Risk
PRO_str_num	Product - Number of Strengths
PRO_str_X	Product Other Strengths
TOB_con_A	Tobacco Involvement
TOB_con_num	Tobacco - Number of Concerns
TOB_con_X	Tobacco Other Concern (through 2002)

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