

## Activist CEOs are focusing on the bottom line

Progressivism may last only as long as it boosts sales and share prices

**BROOKE MASTERS**



Mourners pay their respects to the 22 people who were shot dead at a Walmart in El Paso, Texas, in 2019. The retailer decided to stop selling ammunition for military-style weapons as a result of the massacre © Mark Ralston/AFP/Getty

**Brooke Masters** DECEMBER 15 2020

US corporate leaders have been on the political front lines all this year, taking positions on Covid-19 lockdowns, [supporting Black Lives Matter protests](#), calling for [acceptance of the presidential election results](#) and continuing to push for increased diversity in company leadership.

Most recently, Nasdaq, the stock exchange with a technology focus, [proposed new listing rules](#) that would require all companies to have at least two “diverse” directors — a woman, and a person who identifies as an under-represented minority or LGBTQ — or explain why they do not. This comes after Goldman Sachs said it [would not take US or European companies public](#) without one diverse director.

If you support the mostly liberal causes these companies are espousing, this all sounds like great news. National politicians, faced with a sharply divided electorate, have shied away from dealing with such issues, and courts have limited power.

By contrast, many chief executives, spurred on by groups such as [the Business Roundtable](#), claim to be looking beyond shareholder returns to the needs of a wider group of stakeholders. That could make them the best hope for progress on issues from racial justice to [overcoming vaccine hesitancy](#).

But [recent research](#) by Swarnodeep Homroy, an economics professor at the University of Groningen, should give progressives pause about relying too much on corporate leaders. He examined 187 incidents where CEOs took overtly political positions from 2014-2019 on issues that were not directly part of their business model. That means Salesforce chief **Marc Benioff's** 2015 threat to [cancel spending in Indiana](#) over a law that limited LGBTQ rights was included, but remarks by oil majors on climate change were not.

Such public stances have grown more common but rarely match personal preferences: 73 per cent of CEOs who staked out Democratic policy positions donated primarily to Republican candidates, more than S&P 500 chiefs in general. Instead, Professor Homroy's research suggested a different reason for the posturing: investors and customers like it. He found statistically significant positive share price moves in the week after liberal activist statements, as well as sales increases in the current and following quarters. "These signals may not be an outpouring of CEO beliefs but an effort to increase market share," Prof Homroy says. "This change of heart is a business case."

There are two ways for progressives to interpret these findings. One is to rejoice that popular opinion is pushing CEOs to take positive steps to solve social problems and promote diversity. The other is to worry that corporate support is entirely self-interested and could evaporate overnight.

After all, there is every reason to believe that conservative consumers can, and do, act on their political beliefs. Saint Louis University finance professor **Marcus Painter** [took a hard look](#) at Walmart's 2019 decision to stop selling ammunition for military-style weapons after a shooting in one of its Texas stores. The company doesn't release revenue by store or local area, so he used geolocation data to track footfall, which correlates reasonably well with sales.

Store visits rose by 2.8 per cent in Democratic counties relative to competitors in the five months after the policy change but dropped by 8.3 per cent in Republican ones, leading to a 3.3 per cent fall overall. "It paints a picture of how hard it is to satisfy all customers," Prof Painter says.

Liberals have made the mistake of relying on unelected elites before. They rejoiced when the US Supreme Court handed them groundbreaking decisions on abortion rights, racial justice and the rights of the accused. But these victories have gradually been eroded as more conservative justices joined the court.

Rather than trust corporate chieftains to do the right thing, progressives need to do the hard work of building support for laws that will ensure they have no choice. Given the gridlock in Washington, that may have to be at the state level, but it can be done — and not just in Democratic strongholds. Florida leans Republican but voters have in recent years approved referendums restoring the [rights of felons to vote](#) and to [increase the state minimum wage](#).

All this brings us back to Nasdaq and Goldman Sachs and their plans to push companies to select diverse directors. That's nice as far as it goes. But for something with teeth, take a look at California's law requiring companies based in the state to have both women and — [new this autumn](#) — under-represented minorities on their boards. It calls for fines for companies that do not comply.

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