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Study finds that social protests hurt stock prices: Media coverage, not size, matters

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Corporate leaders at Dow Chemical, Cracker Barrel and Kodak Eastman have learned the hard way that public protests can drive down the value of an otherwise healthy stock.

A new study led by Sarah Soule, professor of sociology at Cornell, and Brayden King, assistant professor of sociology at Brigham Young University, examines how organized public protest affects "abnormal stock price returns" -- an indicator of investor reaction to a focal event. The report, "Social Movements as Extra-institutional Entrepreneurs: The Effect of Protest on Stock Price Returns," is published in the September 2007 issue of Administrative Science Quarterly.

Among the findings: Protests are more influential when they target issues dealing with critical stakeholder groups -- shareholders, for instance -- or when generating greater media coverage. Also, corporate targets are less vulnerable to protest when the media has given substantial coverage to the firm prior to a protest.

The study uses data from 342 protests between 1962 and 1990, as reported in The New York Times. The reliance on a single media source makes sense, Soule said, given that "there is a long history of using The New York Times for data on protest in the U.S., and [it] has been called the 'gold standard'" for such information. Nonetheless, the authors conducted extensive reliability and validity checks using The Wall Street Journal and The Washington Post as alternative sources.

"Because the major financial exchanges in the U.S. are located in New York City, the Times is ideally positioned to cover protests of business corporations," she said. "[However] we do not assume that this is necessarily the source of information used by investors."

The researchers found that protests related to labor or consumer issues provoke a more negative reaction from investors and, perhaps more obviously, that protests with greater levels of media coverage provoke a stronger negative reaction by investors. In fact, media coverage had far more influence on investor behavior than the actual size of the protest itself, the study showed. However, the study showed that prior media coverage of a firm mitigated the influence of a protest because it "provides alternative information to investors that may contradict the messages broadcast by protestors."

Protests by the National Gay and Lesbian Task Force against Cracker Barrel's disastrous 1991 policy to dismiss all gay and lesbian employees, for example, resulted in a national boycott of the chain. The company's stock fell 26 percent below the expected return -- in one month -- even though national sales remained stable. Although Cracker Barrel officials retracted the policy, shareholders forced the company to adopt a nondiscrimination policy regarding same-sex orientation.

In the 1960s, Dow Chemical's stock took a beating when investors organized a protest against its production of napalm; protests against discriminatory hiring policies at Eastman Kodak in the late-1960s hurt the Rochester-based company and forced change.

"Many activists feel that their actions have little or no effect on what corporations do," said Soule.

"To the extent that corporations care about their stock price, it seems important to emphasize that social movement activity -- for example, protest -- can affect stock price."