The Impact of Union-Sponsored Boycotts on the Stock Prices of Target Firms

STEPHEN W. PRUITT
Indiana University, Indianapolis, IN 46223

K. C. JOHN WEI
University of Miami, Coral Gables, FL 33124

RICHARD E. WHITE
University of North Florida, Jacksonville, FL 32216

An empirical analysis of the impact of union-sponsored boycotts on the stock prices of target firms strongly suggests that union boycott announcements initially lead to economically and statistically significant losses in the stock prices of the target firms. However, this short-term price decline is almost completely erased by rebounds in stock prices over the ensuing 15 trading days.

I. Introduction

Despite the emergence of union-sponsored boycotts as a standard tool of protest, no empirical research has yet documented whether these actions are generally successful in damaging the wealth positions of the stockholders of the target firms. Although, in a recent study, Pruitt and Friedman (1986) suggest that consumer boycotts in general are an effective protest tool, only a few of the 21 boycotts analyzed in their research were initiated by unions.

This study investigates the effectiveness of union-sponsored boycotts by examining the stock market price patterns exhibited by the target companies both before and after the initial announcement of the boycotts. Stock price data offer an objective measure of boycott "success" free of the problems inherent in more subjective, interview-based techniques (see, for example, Friedman, 1985). Since investors must continuously make judgments concerning the impact of various market events on affected companies, an examination of the net changes in the stock prices of boycott targets provides insight into the market's independent assessment of the damage inflicted upon target firms by union sponsors. In the remaining sections, the data sources and research methodology are described and the major findings of the research are detailed and summarized.
II. Data

Although union-sponsored boycotts have received considerable attention in both the popular and business media, few of the boycotts meet the data requirements necessary for inclusion in the present analysis. Since extant research in economics and finance strongly suggests that stock market investors rationally adjust the prices of financial instruments quickly and unbiasedly in response to new information, relatively precise identification of the date of initiation of each boycott action is required. Thus, those boycotts reported only in weekly or monthly publications are not included in the study. Further, since the machine-readable stock price data employed in the analysis are limited to firms traded on either the New York or American Stock Exchanges, all union boycotts of privately held or unlisted concerns or of publicly held corporations traded elsewhere are also excluded. Announcement dates for the 16 union-sponsored boycotts analyzed in the research are obtained from the yearly indexes of The New York Times, The Wall Street Journal, The Chicago Tribune, The Los Angeles Times, or The Washington Post. All stock price data are obtained from the University of Chicago’s Center for Research in Security Prices (CRSP) daily data tapes. Table 1 lists the 16 boycotts analyzed in this study and the date of initiation.

III. Empirical Methodology

The event-time methodology employed in the research is widely accepted in the fields of finance, accounting, and economics. Commonly referred to as the “market-model,” the methodology involves the estimation of a time-series of stock market returns to measure the effects of specific events, such as union-sponsored boycotts, upon the stock prices of firms. Abnormal stock price movements for the i\textsuperscript{th} firm for the t\textsuperscript{th} day, assumed to be mean zero in the absence of a union-sponsored boycott effect, are defined as:

\[ AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt}, \quad t = -20, \ldots, +20, \]

where the coefficients, \( \hat{\alpha}_i \) and \( \hat{\beta}_i \), are OLS estimates from a regression of the returns of stock \( i \) with the CRSP value-weighted index over event days \(-120\) to \(-21\) relative to each boycott announcement date \((t = 0)\), \( R_{it} \) is the actual observed return on stock \( i \) for event day \( t \), and \( R_{mt} \) is the observed return on the CRSP value-weighted index at time \( t \).

Cumulative abnormal returns for stock \( i \) from event days \( T_1 \) to \( T_2 \), \( CAR_i \), are defined as:

\[ CAR_i = \sum_{t=T_1}^{T_2} AR_{it}. \]

The mean abnormal return for event day \( t \), \( AR \), and the mean cumulative abnormal returns for event days \( T_1 \) to \( T_2 \), \( CAR \), for the complete sample of \( N(16) \) union-sponsored boycotts are defined as follows:

\[ AR_t = \frac{1}{N} \sum_{i=1}^{N} AR_{it} \quad \text{and} \quad CAR = \frac{1}{N} \sum_{i=1}^{N} CAR_i. \]