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# Market Response to Corporate Social Justice Engagement: Evidence from Event Study

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**Abstract**

Social justice remains a deeply contested concept and much of the debate centers on differing perspectives about the relative importance of equality of opportunity versus equality of outcome, as well as whether observed disparities reflect systemic forms of discrimination and structural disadvantage. This study provides causal evidence from event study approach that investors view favorably firms' public support for social justice. The methodology used in this study significantly relieves endogeneity concern in prior studies in this field and contributes to a growing literature on economic consequences of social justice movement and yields meaningful implications for public policy.

**Keywords:** *Social Justice, Corporate Governance, Event Study, Firm Value*

**JEL Codes:** *D63, G14, G32, G34*

## Introduction

Social justice is a highly debated social issue (Williams, 1987; Flower 2010; Chipriyanov, Chipriyanova, Krasteva-Hristova, Atanasov & Luchkov 2024; Berkman, Jona & Soderstrom 2024). Social justice controversies arise from competing perspectives on equity, individual rights, and the role of institutional reform in addressing social inequalities. Prominent areas of debate include LGBTQ+ rights—particularly issues surrounding gender-affirming care and access to public accommodations—reproductive rights and healthcare access, systemic racism within policing and the criminal justice system, and immigration and border policy. These issues often reflect broader ideological disagreements over the balance between individual liberties, equal treatment, and government intervention. The effect of corporate engagement in social justice issues on firm value remains relatively underexplored in the literature. This study employs an event study methodology to examine the impact of firms' public commitments to supporting social justice initiatives on shareholder wealth. Specifically, this study investigates investor reactions to firms' public responses following the death of George Floyd in May 2020, a landmark event that catalyzed widespread social justice activism and corporate engagement with issues of racial equity.

The death of George Floyd on May 25, 2020, during an arrest by Minneapolis police officers became a pivotal event in contemporary discussions of policing, racial justice, and systemic inequality in the United States (Grewal, Serafeim & Yoon 2016; Balakrishnan, Copat, De La Parra & Ramesh 2023). Protests against police brutality and racial inequality, sparked by the police killing of George Floyd, spread rapidly across all 50 U.S. states and around the world. The scale and momentum of the movement were undeniable, prompting many companies to respond publicly. Within the first few weeks, numerous corporations and brands issued statements condemning racism and expressing support for racial justice. These events provide an optimal opportunity to investigate the research topic.

The primary methodological advantage of employing the death of George Floyd as an exogenous shock within an event study framework lies in its ability to establish strong causal inference regarding the impact of corporate social justice engagement on firm value (Leuz, 2007; Khan, Li, Rajgopal & Venkatachalam 2017). Because his tragic death was an unforeseen, sudden, and exogenous event—unrelated to corporate operating performance, pre-existing market trends, or strategic announcements—it effectively mitigates common endogeneity concerns, particularly omitted variable bias and reverse causality. Consequently, the immediate and widespread emergence of the Black Lives Matter movement served as an unexpected, intense catalyst that compelled firms to publicly signal their social justice commitments. By analyzing abnormal stock returns surrounding this sharply defined event window, researchers can isolate the capital market's immediate valuation of corporate social justice engagement, establishing a credible identification strategy that links corporate activist positioning directly to shareholder value creation or destruction.

Corporate support for social justice can positively influence firm value through multiple channels: it alters the perceptions, trust, and behavior of key stakeholders—consumers, employees, and investors (Dhaliwal, Li, Tsang & Yang 2011; Cheng, Ioannou & Serafeim 2014; Kimbrough, Wang, Wei & Zhang 2024). When such engagement aligns with stakeholder values, it may enhance revenue generation, strengthen customer loyalty, and improve employee attraction and retention. First, Consumers increasingly evaluate firms based on their positions on salient social issues and are more likely to support companies whose values align with their own. Consequently, corporate social justice initiatives that resonate with target stakeholders can strengthen brand loyalty, enhance customer engagement, and contribute to sustained revenue growth and improved financial performance. Second, a firm's engagement with social justice issues can have important implications for its workforce by influencing employee retention, organizational stability, and productivity. Employees are generally more likely to remain with organizations whose social values align with their own, particularly when firms demonstrate a commitment to workplace equity and inclusion. Moreover, organizational initiatives such as Diversity, Equity, and Inclusion (DEI) programs have been associated with enhanced organizational resilience and, in some studies, improved financial performance. Finally, investors increasingly view social justice–related issues as material business risks, contributing to the growing emphasis on socially responsible and values-based investment strategies. Firms that fail to address social justice concerns within their supply chains, labor practices, or broader operations may face heightened legal, regulatory, and reputational risks, as well as stakeholder conflict. These risks can adversely affect long-term firm value by increasing operational uncertainty and undermining sustainable business performance.

The empirical result of this event study documents a positive effect of firms' commitment to supporting social justice, and we add to the large literature investigating the influence of corporate governance and regulations on firm value (Bhattacharya, Christensen, Liao, and Ouyang, 2022; Ouyang, Tang, Wang and Zhou 2021; Efendi, Files, Ouyang and Swanson, 2013).

**Literature Review**

The impact of corporate social justice engagement on firm value is an increasingly central domain within finance, accounting, and management research (Dhaliwal, Li, Tsang & Yang 2011; Cheng, Ioannou & Serafeim 2014; Matsumura, Prakash & Vera-Muñoz 2024). Early literature framed corporate involvement in social issues predominantly through the lens of traditional Corporate Social Responsibility (CSR) and agency theory. Standard economic theory suggests that non-core socio-political expenditures divert scarce corporate capital away from wealth-maximizing activities, imposing direct financial costs on shareholders without yielding proportional economic benefits. In contrast, stakeholder theory asserts that taking proactive stances on equity, human rights, and social justice signals robust governance, builds moral capital, and strengthens vital relationships with key internal and external stakeholders—

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including employees, consumers, and institutional investors—thereby mitigating long-term operational and systemic tail risks.

Academic literature examining the impact of corporate social justice engagement on firm value primarily focuses on resolving the tension between shareholder wealth maximization and stakeholder-aligned value creation. Empirical research evaluates corporate social advocacy—public stances on socio-political issues—through competing theoretical lenses (Dhaliwal, Radhakrishnan, Tsang & Yang 2012; Plumlee, Brown, Hayes & Marshall 2015). Proponents argue that taking proactive stances on equity and inclusion signals strong governance, enhances brand reputation, mitigates systemic exposure to legal and operational risks, and strengthens relationships with key stakeholders like consumers and employees. Conversely, critics suggest that corporate engagement in politically sensitive domains can lead to value destruction by alienating key consumer segments or serving as a costly, agency-driven managerial distraction from core business operations.

As corporations increasingly move from broad ESG commitments to explicit Corporate Social Advocacy (CSA)—publicly taking positions on politically charged socio-political topics—empirical scholars have sought to isolate how capital markets evaluate these actions (Garvey & Swan 2010; Buallay 2019). Recent empirical work leverages event study methodologies to examine short-window abnormal stock returns surrounding corporate announcements and public advocacy stances (Friedman & Ormazabal 2024). Cross-sectional analyses demonstrate that market reactions to corporate advocacy are rarely uniform. Investors evaluate CSA as a complex signal of resource allocation. When advocacy aligns closely with a firm's core consumer values, brand identity, or labor requirements, the capital market tends to view engagement favorably. Conversely, when advocacy is perceived as ideological deviation or an expensive distraction, markets often penalize the firm with short-term negative abnormal returns.

A central challenge in this literature is identifying whether market reactions are driven by genuine corporate commitments or by superficial public relations signaling. Empirical studies utilizing textual analysis of corporate disclosures, conference calls, and ESG ratings highlight a systematic market penalty for "performative activism" or tokenism (Campbell, Evans, Kaduvinal, Olbert & Vasvari 2023; Christensen, Serafeim & Sikochi 2022). Investors discriminate between rhetoric and operational changes. Vague statements of support or superficial social commitments without structural follow-through are frequently priced as reputationally risky. On the other hand, capital markets demonstrate a positive valuation effect when firms back public advocacy with concrete structural changes, such as verified supply-chain equity goals, dedicated oversight departments, or meaningful board diversification.

To address endogeneity concerns—such as omitted variable bias and reverse causality—recent literature heavily utilizes sharp, unexpected exogenous shocks to measure market reevaluations of social justice commitments. A prominent identification strategy relies on the murder of George Floyd on May 25, 2020, and the subsequent mass Black Lives Matter (BLM) protests as a systemic exogenous shock. Because the event was completely exogenous to firm operating performance and pre-existing market trends, it abruptly altered market expectations regarding corporate exposure to social and racial justice risks. Empirical studies utilizing this natural experiment (e.g., Balakrishnan et al., 2023; Dzabarovs et al., 2021) document that firms exposed to racial diversity issues experienced negative stock price reactions around the shock, but mitigated these losses through credible structural actions, such as appointing Black directors or committing capital to diversity programs.

Overall, empirical consensus suggests that the valuation impact of social justice engagement is highly conditional rather than universally positive or negative. The economic consequences depend on a firm's baseline exposure to social issues, stakeholder demographic expectations, and the perceived authenticity of its actions. While socio-political advocacy can introduce heightened exposure to regulatory scrutiny and consumer polarization, genuine integration of social equity principles into firm strategy generally protects firm value during societal crises and enhances long-term risk-adjusted returns.

## Methodology

This study extends the event study framework used to examine DEI rollback announcements to the opposite end of the same corporate cycle (Liao and Ouyang, 2026), *hereinafter* rollback study: the initial DEI commitment announcements that many U.S. public firms made in the weeks following the murder of George Floyd in late May 2020. As before, each firm's event date corresponds to the day it publicly announced a new or expanded DEI commitment, and abnormal returns (AR) are calculated by subtracting an expected return from the actual return on each day of the event window.

Because a market benchmark index is not available in this dataset, expected returns are again estimated using a mean-adjusted model: each firm's own average daily return over the 250 trading days preceding the event window serves as its expected, “normal” return. As with the rollback study, this approach does not separate firm-specific reactions from broader market-wide movements occurring over the same period — a limitation that is especially salient here, since the sample window (June 2020) coincides with the sharp, volatile market recovery following the COVID-19 crash, which is a much larger source of day-to-day variance than in the 2024–2025 rollback sample.

Abnormal returns are summed into cumulative abnormal returns (CAR) over an event window spanning day -3 to day +3 around each announcement, capturing both short-term pre-announcement investor positioning and the immediate post-announcement market reaction. A positive CAR after the event would suggest investors read DEI commitments as good news —

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or at minimum, that the announcements did not signal a costly change in firm strategy; a negative CAR would suggest the opposite, or that the announcements were overshadowed by other contemporaneous news (including COVID-19 developments) during the same window.

## Data

The sample includes 16 publicly traded firms that announced DEI commitments in June 2020, with event dates ranging from June 2 to June 23, 2020. For each firm, the dataset covers daily stock returns, expected returns, abnormal returns, and cumulative abnormal returns across the full (-3, +3) window. The firms span a range of industries — technology, consumer staples, financial services, retail, apparel, automotive, and media — and include companies such as Apple (AAPL), PepsiCo (PEP), Bank of America (BAC), Walmart (WMT), Nike (NKE), Alphabet (GOOG), Microsoft (MSFT), and Adidas (ADDYY), among others. As in the rollback study, the dataset includes industry classification, firm size (measured by annual sales revenue), and profitability (measured by diluted earnings per share) as firm-level controls, alongside each firm's day+3 cumulative abnormal return. Table 1 reports these figures.

Table 1

| Firm | Ticker | Industry | Revenue ($ millions) | EPS | CAR |
|---|---|---|---|---|---|
| PepsiCo, Inc. | PEP | Beverages / Consumer Staples | 67,161 | 5.2 | -0.0221 |
| Adidas AG (ADR) | ADDYY | Apparel / Consumer Discretionary | 26,460 | 10.86 | -0.0757 |
| Bank of America | BAC | Financial Services | 91,244 | 2.75 | 0.0806 |
| PayPal Holdings | PYPL | Financial Technology / Payments | 17,772 | 2.07 | 0.0230 |
| Comcast Corporation | CMC SA | Media & Telecommunications | 108,942 | 2.83 | -0.0373 |
| IBM | IBM | Technology Services | 77,147 | 10.57 | -0.0603 |
| Nike, Inc. | NKE | Apparel / Consumer Discretionary | 39,117 | 2.49 | -0.0416 |
| Walmart Inc. | WMT | Retail / Consumer Staples | 523,964 | 5.19 | -0.0383 |
| CVS Health | CVS | Healthcare / Retail Pharmacy | 256,776 | 5.08 | -0.0453 |
| Netflix, Inc. | NFLX | Media & Entertainment /Technology | 20,156 | 4.13 | 0.0216 |
| General Motors | GM | Automotive | 137,237 | 4.57 | -0.0991 |
| Alphabet Inc. (Google) | GOO G | Technology Services | 161,857 | 49.16 | 0.0250 |
| PVH Corp. | PVH | Apparel / Consumer Discretionary | 9,911 | 5.6 | 0.3670 |
| Microsoft Corporation | MSFT | Technology Services | 125,843 | 5.06 | -0.0004 |
| Starbucks Corporation | SBUX | Restaurants / Consumer Discretionary | 26,509 | 2.92 | -0.0775 |
| Apple Inc. | AAPL | Technology / Consumer Electronics | 260,174 | 11.89 | 0.0452 |

**Results**

Table 2 reports average cumulative abnormal returns (CAR) from event day -3 through day +3. Across the seven-day window, average CAR was positive on every single day, ranging from 0.29% on day -2 to a peak of 1.30% on day -1, before declining to 0.40% by day +3.

Table 2

| Event Day | Average CAR |
|---|---|
| -3 | 0.41% |
| -2 | 0.29% |
| -1 | 1.30% |
| 0 | 0.73% |
| 1 | 0.93% |
| 2 | 1.15% |
| 3 | 0.40% |

By day +3, average CAR sits at approximately 0.40%, suggesting, at first glance, a small positive market reaction to DEI commitment announcements across the sample — the opposite sign from the negative reaction later found for DEI rollbacks in 2024–2025. Unlike a sustained post-announcement re-rating, however, the pattern instead peaks the day before the announcement (day -1) and steadily fades over the following days, ending close to where it started. This shape is more consistent with anticipatory trading or information leakage ahead of the formal announcement than with a distinct reaction to the announcement itself: investors appear to have priced in, or reacted to, the coming news before it was made public, with the effect eroding rather than building afterward.

This result also needs to be qualified by a closer look at the underlying firm-level distribution. The positive average CAR in this sample is driven almost entirely by a single outlier: PVH Corp's day+3 CAR of 36.70% is roughly an order of magnitude larger than any other firm in the sample, and by itself accounts for approximately two-thirds of the total positive CAR summed across the sample. Excluding PVH, the average day+3 CAR across the remaining 15 firms falls to approximately -2.0%. More tellingly, the median CAR across all 16 firms is -2.21% — meaning more than half the sample had a negative reaction, even though the mean is positive.

Because PVH's stock also carried substantial idiosyncratic volatility in this period (its April 1, 2020 earnings release had disclosed a COVID-19-driven inventory writedown just months before its DEI announcement), this observation plausibly reflects firm-specific recovery dynamics unrelated to the DEI announcement itself. Its outsized influence on the sample mean

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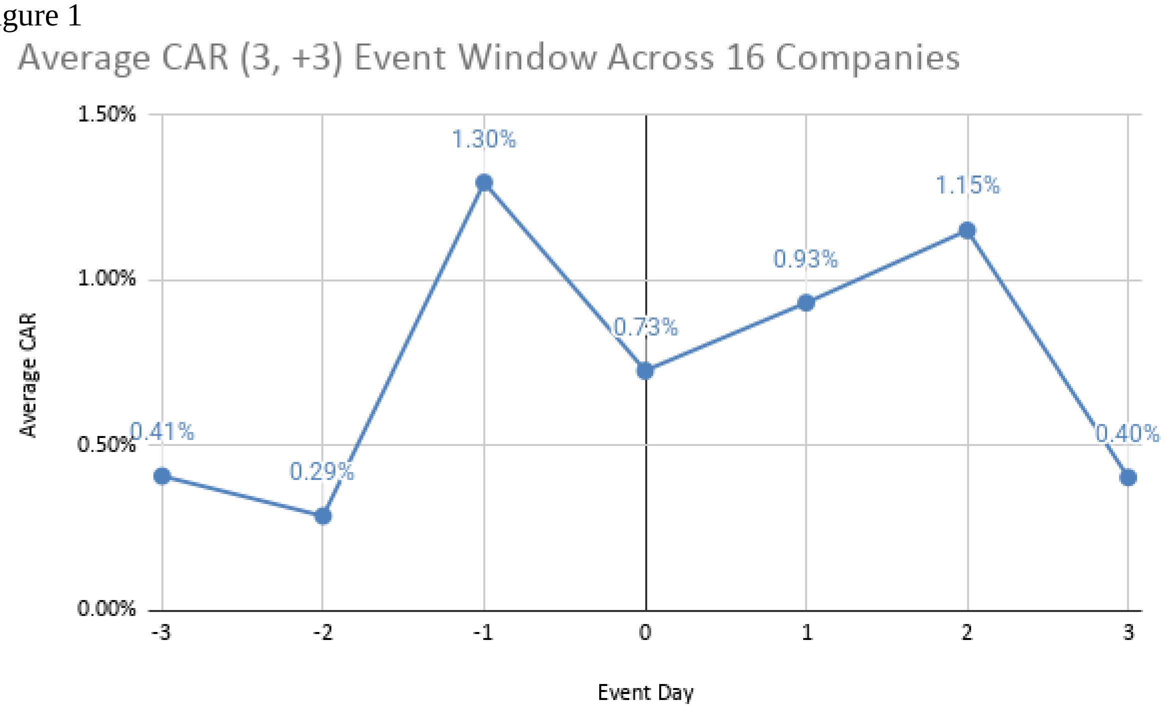
means the headline positive result is fragile, and a trimmed mean or median CAR — which point in the same negative direction as the rollback study — may be a more representative summary statistic for this sample than the arithmetic mean.

As with the rollback study, this pattern cannot be cleanly attributed to firm-specific news given the mean-adjusted benchmark used here. The sample period (June 2020) overlaps with the sharp, broad-based market recovery following the March 2020 COVID-19 crash, when most major indices posted strong gains independent of any individual firm's DEI announcement. A modest positive average CAR during this window is therefore also consistent with a general market-wide upward drift that a mean-adjusted, rather than market-adjusted, model does not net out. A market-adjusted or market-model benchmark, which would subtract contemporaneous market returns, would be needed to isolate how much of this drift reflects investor sentiment about DEI commitments specifically, as opposed to the unusually strong broader market conditions of that month.

Figure 1 plots the average CAR trajectory across the event window. The rise to a peak just before the announcement (day -1), followed by a gradual decline through day +3, stands in contrast to the rollback study's pattern of persistently negative CAR with no single dominant turning point. Here, the pre-announcement peak is the most distinctive feature of the trajectory, and — to whatever extent it reflects firm-specific anticipation of DEI commitment announcements rather than general market movement — suggests that any positive reaction was already largely priced in before the news became public.

Figure 1



Taken together, the results offer only weak and fragile evidence of a positive average market reaction to DEI commitment announcements over the (-3, +3) window. The headline average CAR is positive, but that result depends heavily on a single outlier firm, is not concentrated around the announcement date itself, and coincides with a market-wide period of unusually strong gains that the mean-adjusted benchmark does not separate out. Read alongside the median CAR of -2.21%, a figure much closer in sign and magnitude to the rollback study's finding, the more defensible interpretation is that the typical firm in this sample experienced a modestly negative or flat reaction to its DEI commitment announcement, and that the positive sample mean is an artifact of a single extreme observation rather than a broad-based investor endorsement of DEI commitments.

## Conclusion

This study examines the capital market consequences of corporate engagement with social justice issues by analyzing investor reactions to firms' public commitments to racial equity following the death of George Floyd in May 2020. Using an event study methodology, this study finds that investors respond positively to firms' announcements supporting social justice initiatives. These findings suggest that investors generally view corporate commitments to social justice as actions that can enhance firm value.

These results are consistent with the view that corporate social engagement can create economic value through multiple channels. Public support for social justice initiatives may strengthen customer loyalty, improve employee attraction and retention, and appeal to investors who increasingly incorporate social considerations into their investment decisions. In this way, corporate responses to major social events can serve as credible signals of a firm's commitment to stakeholder interests, organizational values, and long-term sustainability.

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