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.

JOURNAL OF LABOR RESEARCH
Volume IX, Number 3 Summer 1988

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^{th} firm for the t^{th} day, assumed to be mean zero in the absence of a union-sponsored boycott effect, are defined as:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt}, \qquad t = -20, \ldots, +20,$$

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:

$$CAR_i = \Sigma_{t=T_1}^{T2} AR_{it}.$$

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

$$AR_t = 1/N\, \Sigma_{i=1}^{N} AR_{it} \quad \text{and} \quad \overline{CAR} = 1/N\, \Sigma_{i=1}^{N} CAR_i.$$

Table 1

Union-Sponsored Boycotts, Target Firms, and Date of Inititation

Sponsoring Union	Target Firm	Date of Initiation
AFL-CIO	Shell Oil Company	2/23/73
ILGWU	J. P. Stevens	3/8/76
United Farm Workers	Coca-Cola	8/18/77
AFL-CIO	Winn-Dixie Stores	12/21/77
AFL-CIO	Pet Corporation	4/17/78
Uniformed Fire Officers	American Airlines	11/21/78
United Steel Workers	Tandy Corporation	12/21/78
United Farm Workers	Lucky Stores	1/26/80
AFL-CIO	Proctor and Gamble	11/15/81
Chemical Workers	Proctor and Gamble	5/4/82
Service Employees Intl.	Equitable Life	3/15/83
AFL-CIO	Louisiana Pacific	12/20/83
AFL-CIO	Amerada Hess	8/28/84
UFCW	Armour	12/21/84
AFL-CIO	Shell Oil Company	1/10/86
UFCW	Hormel	1/27/86

Tests of the statistical significance of the AR_t and the $\overline{CAR}$ are performed using the same procedures employed by Hite and Owers (1983), Harris and Gurel (1986), and Pruitt and Friedman (1986), and are not reproduced here due to space considerations.

IV. *Empirical Results*

Table 2 presents a summary of the mean cumulative abnormal returns, $\overline{CAR}$, mean abnormal returns, AR_t, and their associated t-statistics for the 16 union-sponsored boycotts comprising the basic research sample. As is evident from Table 2, the aggregated union boycotts led to a significant downward trend in stock prices over the 10 event days surrounding the first public announcement. Indeed, over this period (event days -4 to $+5$), the cumulative abnormal returns for the boycotted firms total -2.33 percent. This result is statistically significant at the 5 percent level (two-tailed test, $t = -2.13$) and strongly suggests that financial market participants viewed the initial announcement of the union boycotts as an unfavorable development from the standpoint of the target firms. The total

Table 2

Cumulative Abnormal Returns, Abnormal Returns, and Their Associated T-Statistics Surrounding the Announcement of Union-Sponsored Boycotts

Event Day	Abnormal Return	Abnormal Return *T*-Statistic	Cumulative Abnormal Return
−20	−0.0775	−0.5136	−0.0775
−19	0.4168	0.8827	0.3393
−18	0.0924	−0.0583	0.4317
−17	−0.0126	0.4065	0.4191
−16	0.2088	0.4411	0.6279
−15	0.0907	0.2376	0.7186
−14	0.3870	1.6051	1.1056
−13	0.2487	0.4992	1.3543
−12	−0.2179	−0.4956	1.1364
−11	−0.1301	−0.1358	1.0062
−10	−0.4589	−1.3829	0.5474
−9	0.4751	1.0101	1.0225
−8	0.0095	0.0096	1.0319
−7	0.1793	0.6087	1.2112
−6	0.1297	0.1468	1.3409
−5	0.4857	1.2422	1.8266
−4	−0.3403	−0.5538	1.4863
−3	−0.3399	−0.7234	1.1465
−2	−1.0777	−2.4040	0.0688
−1	0.2405	0.8794	0.3093
0	−0.0275	−0.2666	0.2818
1	0.5971	0.9471	0.8789
2	−0.0117	−0.9585	0.8672
3	−0.4455	−0.9328	0.4218
4	−0.6233	−1.9762	−0.2015
5	−0.3010	−0.7538	−0.5026
6	0.5289	1.3632	0.0263
7	−0.4065	−0.7108	−0.3802
8	−0.2143	−0.5251	−0.5945
9	−0.2422	−0.6859	−0.8366
10	0.2880	0.8209	−0.5486
11	0.4017	0.9610	−0.1470
12	−0.1213	−0.2838	−0.2683
13	0.5472	1.1156	0.2789
14	0.8498	2.2863	1.1287
15	0.4770	1.3124	1.6057
16	0.1345	0.6785	1.7402
17	−0.0336	−0.4178	1.7067
18	−0.4512	−0.5100	1.2554
19	0.2640	0.8299	1.5195
20	−0.0006	0.6667	1.5188

equity damage represented by this loss is non-trivial. Given that the mean market value of the union targets on event day −21 is $1.708 billion, the 2.33 percent cumulative abnormal return loss in response to the announcement of the union boycotts represents a loss to shareholders of almost $40 million.

If the analysis were to end at event day +5, the conclusion would be drawn that union-sponsored boycotts cause economically and statistically significant wealth losses for shareholders of target firms. However, as the information presented in Table 2 illustrates, beyond event day +5 the noted decline in the cumulative abnormal returns over event days −4 to +5 is almost completely reversed by event day +20. Indeed, the gain in the cumulative abnormal returns over the 15 event days from +6 to +20 (2.02 percent) virtually erases the 2.33 percent loss over the previous 10 days. The t-statistic for this gain (t = 1.78) is significant at the 10 percent level (two-tailed test) and indicates an almost complete reversal of the initial boycott damage to stock prices.

V. *Conclusion*

An examination of stock market price patterns of target companies both before and after the initial announcement of union boycotts strongly suggests that union boycotts initially lead to economically and statistically significant losses in the stock prices of the target firms. However, the short-term price damage inflicted by boycott announcements is almost completely erased by price rebounds over the ensuing 15 trading days. In summary, it appears that the financial community does not generally believe that union-sponsored boycotts result in lasting sales declines or other economic damage to the firm's shareholders. Thus, based on the stock price criterion, union-sponsored boycotts do not appear to be particularly effective.

REFERENCES

Friedman, Monroe. "Consumer Boycotts in the United States, 1970-1980: Contemporary Events in Historical Perspective." *Journal of Consumer Affairs* 19 (March 1985): 96-117.

Harris, Lawrence and Eitan Gurel. "Price and Volume Effects Associated with Changes in the S&P 500: New Evidence for the Existence of Price Pressures." *Journal of Finance* 41 (September 1986): 815-30.

Hite, Gailen L. and James Owers. "Security Price Reactions Around Corporate Spinoff Announcements." *Journal of Financial Economics* 12 (December 1983): 409-36.

Pruitt, Stephen W. and Monroe Friedman. "Determining the Effectiveness of Consumer Boycotts: A Stock Price Analysis of Their Impact on Corporate Targets." *Journal of Consumer Policy* 9 (December 1986): 375-88.