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Exploring the Financial Value of a Reputation for Corporate Social Responsibility During a Crisis

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Abstract

Is there financial value in a reputation for corporate social responsibility during a crisis? The existing empirical evidence for a corporate social–financial performance link has been mixed, but perhaps this is, in part, due to most studies' emphasis on a reputation's impact on positive news. What of the opposite case — whether a reputation for social responsibility acts as a ‘reservoir of goodwill’ during corporate crises? This paper draws on literature from the fields of reputation, strategy, risk and social responsibility to outline the reasons why there might be financial value in a reputation for corporate social responsibility during a crisis and then tests them by examining investor reaction to the 1999 Seattle World Trade Organization (WTO) failure, caused by disagreement among member nations on labor and environmental standards and public protests over the same. Seattle represented apparent heightened demand for corporate social responsibility and an increased risk of stricter, future regulation. It was found that a reputation for social responsibility protected firms from stock declines

associated with this crisis, even when controlling for possible trade and industry effects.

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