

CSR As Insurance: The Case of Japanese Automobile Manufacturers

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This paper empirically investigates the possibility of firms using CSR activities as reputation insurance by focusing on product recalls in the Japanese auto industry. We combine firm level data on CSR activities with corporate and stock price data to investigate whether or not the stock prices of firms who engage in CSR activities fall less upon the announcement of product recalls than the stock prices of firms who do not engage in CSR activities. Using an event study framework, we find that the stock price of firms that do engage in CSR activity enjoys a 4%-9% abnormal return over a 3-day window, suggesting that CSR functions as insurance for a firm's reputation. Those firms who have built up stakeholder goodwill through CSR activities are punished less when problems arise.

The results presented in this paper, which are consistent with earlier studies, suggest that CSR activity may indeed have an economic rationale that helps to explain the long-lasting puzzle of firm investment in CSR activities.