

# CORPORATE SOCIAL RESPONSIBILITY AND FIRM REPUTATION

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## Abstract

Identifying tools for improving financial performance and other dimensions of competitiveness has become increasingly important in our current turbulent global economy. Many studies have shown that corporate social responsibility (CSR) activities can be used as a tool to improve financial performance. Based on a review of this work, Vilanova et al. (2009) develop a recent model of how CSR affects financial performance and other dimensions of competitiveness. Specifically, they posit that CSR positively affects reputation which then improves performance. The purpose of our study is to empirically examine Vilanova et al.'s (2009) hypothesized positive association between CSR and corporate reputation. We use a sample of highly reputable firms from *Fortune's* 2006 Most Admired Companies list along with a sample of matched firms in our empirical analyses. Our analyses consistently support the positive relationship between CSR and reputation in Vilanova et al.'s (2009) developed model relating CSR and dimensions of performance competitiveness.

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## INTRODUCTION

Locating tools for maintaining and improving financial performance in addition to overall firm competitiveness is increasingly critical in today's stagnant global economy. As a result, corporate social responsibility's (CSR's) effects on financial performance have received increasing attention in recent years. Many studies have demonstrated a positive relationship between CSR and financial performance. Vilanova et al. (2009) summarize this work and develop a model of how CSR relates to dimensions of competitiveness including financial performance. Specifically, they model a positive relationship between CSR and corporate reputation which, in turn, is positively related to dimensions of firm competitiveness. In the spirit of Stuebs and Sun (2010), the purpose of this paper is to test the hypothesized relationships in Vilanova et al.'s (2009) model. Specifically, we empirically test the posited positive relationship between CSR and reputation. Can CSR activities improve reputation? We use a sample of highly reputable firms from *Fortune's* 2006 Most Admired Companies list along with a sample of matched firms. We find that CSR is positively associated with corporate reputation.

Our work provides empirical evidence supporting the positive relationship between CSR and reputation in Vilanova et al.'s (2009) model. Our results imply that socially responsible companies possess improved reputation. These results should be of interest to managers who develop strategies and engage in behavior leading to or maintaining CSR initiatives. Often envisioned benefits resulting from an improved reputation are used to sell CSR initiatives. This study empirically documents the positive relationship between CSR and reputation. Also, the results can increase individual investors' confidence in investing in companies with superior CSR.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

CSR is a corporate objective whereby business organizations are asked to consider the interests of society in their actions. They do this by taking responsibility for the impact of their activities on stakeholders in various aspects of operations. CSR goes beyond good citizenship in that it asks businesses to voluntarily take steps beyond statutory obligations to improve society's quality of life (Martin, 2008). The focus of socially responsible corporations is not solely profit maximization.

Because CSR investments are not solely focused on profit maximization, they can still be somewhat controversial. Some argue that these additional CSR investments increase costs, hurt performance and compete with value-maximizing activities. Others argue that these additional CSR investments benefit firm performance and contribute to value-maximizing activities. CSR activities improve trust and relationships with stakeholders which can ultimately lead to improved returns. A socially-responsible firm may face fewer labor problems, fewer complaints from the community, and fewer environmental concerns from the government. In addition, socially-responsible firms may have improved relationships with their investors, bankers, and government officials. For example, Barnett and Salomon (2006) suggest that increasing numbers of investors have started to value the way corporations meet their social responsibilities. The above factors suggest positive performance benefits from CSR investments.

Many empirical studies have examined the association between CSR and financial performance (Chand and Fraser, 2006, McWilliams and Siegel, 2001) and suggested that performance is indeed a key driver for adopting CSR (Bansal and Roth, 2000, Haigh and Jones, 2006, Hess et al., 2002, Juholin, 2004, Porter and Van Der Linde, 1995). The majority of those studies support a positive association between CSR and financial performance (Barnett and Salomon, 2006, McWilliams and Siegel, 2001, Griffin

and Mahon, 1997, Luo and Bhattacharya, 2006, Goll and Rasheed, 2004, Ruf et al., 2001, Graves and Waddock, 1999, Waddock and Graves, 1997, Preston and O'Bannon, 1997, Pava and Krausz, 1996, Herremans et al., 1993). Recent literature reviews (Beurden and Gössling, 2008, Roman et al., 1999), meta-analyses (Wu, 2006, Allouche and Laroche, 2005, Orlitzky et al., 2003), and bibliometric analyses (De Bakker et al., 2005) summarize the general findings and conclusions from CSR research. This work generally finds clear empirical evidence for a positive relationship between CSR and financial performance and, in some cases, a positive relationship between reputation measures and financial performance. For example, sixty eight percent of the studies reviewed in Beurden and Gossling (2008) support a positive correlation between CSR and financial performance. Thus, empirical evidence reveals that being socially responsible can bring benefits to companies although the nature of the relationship between CSR and performance is still somewhat unclear (McWilliams and Siegel, 2001, Porter and Kramer, 2006, Harrison and Freeman, 1999, Smith, 2003).

Recently, Vilanova et al. (2009) built on this work and developed a model to explain *how* CSR activities relate to financial performance and other dimensions of firm competitiveness. They posit that corporate reputation is part of the framework linking CSR and competitiveness. Adopting a CSR strategy has an impact on image and reputation, which then has an impact on competitiveness. According to the model, CSR strongly influences reputation, and reputation is a key determinant of firm competitiveness (Vilanova et al., 2009, p. 60). In other words, CSR impacts firm competitiveness mainly through reputation; reputation links CSR and performance (Vilanova et al., 2009, p. 63).

It is useful to first clarify the three variables used in Vilanova et al. (2009): CSR, reputation and competitiveness. CSR can be defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary

basis...[This] means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders" (Commission of the European Communities, 2001, p. 6).<sup>1</sup> Fombrun (1996, p. 72) defines reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals." Roberts and Dowling (2002) suggest that corporate reputation is a general organizational attribute that reflects the extent to which external stakeholders view the company as "good" or "bad". Finally, competitiveness is described as the strength of an organization in comparison with its peers (Murtha and Lenway, 1994). Competitiveness consists of five key dimensions of performance (Vilanova et al., 2009, p. 59-60, Ambastha and Momaya, 2004): (1) financial performance (Hamel and Prahalad, 1989), (2) quality and customer satisfaction (Barney, 1991), (3) productivity and efficiency (Porter, 1985), (4) innovation (Mintzberg, 1993), and (5) image (Kay, 1993).

Strategic management theory suggests that good reputation can create competitive advantages for firms (Fombrun, 1996, Roberts and Dowling, 2002, Podolny, 1993). Reputation can become an increasingly valuable asset in turbulent economic times and buffer financial performance in a variety of ways insulating

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<sup>1</sup> This definition of CSR is similar to other CSR definitions presented over the years (Gössling and Vocht, 2007, Holme and Watts, 1999, p. 3, Wood, 1991, p. 693, Carroll, 1979, p. 500). Vilanova et al. (2009, p. 58-59) group CSR activities into five categories presented in Figure 1: (1) CSR vision and governance activities (Carter et al., 2003, Freeman, 1999, Humble et al., 1994, Joyner and Payne, 2002, Pruzan, 2001, Sison, 2000), (2) community relations activities (Hess et al., 2002, Freeman, 1999, Frooman, 1999, Grey, 1996, Jones, 1995, Jones and Wicks, 1999), (3) workplace and labor practices activities (Sum and Ngai, 2005), (4) accountability and transparency activities (Elkington, 1998), (5) marketplace activities (Schnietz and Epstein, 2005, Fan, 2005, Whetten et al., 2001).

reputable businesses from the full impact of tough economic times (Dowling, 2001). First, reputation can protect revenues (Fombrun, 1996) from economic downturns. Customers value relationships with high-reputation firms and may pay a premium for offerings of high-reputation firms especially in uncertain markets and economies (Shapiro, 1983). Second, good reputation can help create cost advantages (Podolny, 1993, pp. 838-841) and is associated with firm efficiencies (Stuebs and Sun, 2010, 2009). Good reputation can improve trust and relationships with a number of stakeholders which can lead to reduced costs and improved efficiencies. Podolny (1993, pp. 838-841) notes a number of cost reductions that can result from improved reputation. Since good reputation attracts customers, advertising costs for attracting business are lower. Good reputation improves stakeholder relationships and trust and lowers transaction costs. A good reputation can also lower financial costs. Finally, a good reputation can lower labor costs (Frank, 1985) and improve labor productivity and efficiency (Stuebs and Sun, 2010). Research (Herremans et al., 1993, Dierickx and Cool, 1989, Fombrun and Shanley, 1990, Landon and Smith, 1997) generally documents and supports this positive relationship between reputation and performance.

Reputation's performance benefits are an important driver used to sell CSR policies within organizations. Since reputation is currently an accepted and valued intangible asset (Schnietz and Epstein, 2005), managers seem to focus on reputation to force corporate change towards implementing CSR (Vilanova et al., 2009, p. 63). In other words, improved reputation and its resulting benefits act as fundamental drivers to initiate and implement CSR (Vilanova et al., 2009, p. 64). The underlying assumption is that CSR is positively associated with reputation. The purpose of this paper is to empirically examine that underlying assumption.

Given the importance of reputation's performance effects in driving CSR activity, this study investigates and validates the relationship between CSR and reputation. Based on Vilanova et

al.'s (2009) model, we posit and empirically test for a positive association between CSR and corporate reputation.

H: Corporate Social Responsibility (CSR) is positively related to corporate reputation.

## **RESEARCH DESIGN AND VARIABLE DESCRIPTION**

### **Measurement of the Dependent Variable – Corporate Reputation**

We use *Fortune's* 2006 list of America's Most Admired Companies to measure reputation in two ways.<sup>2</sup> The first way we measure reputation is by a simple, dichotomous presence/absence indicator measurement (*REPU*). We compare firms on *Fortune's* Most Admired Companies list to a similar set of matched firms not on the list. Firms on *Fortune's* list are referred to as "reputation sample" firms and are assigned a value of "1". The matched firms not on *Fortune's* list are assigned a value of "0" and referred to as "matched sample" firms. The complete sample combines reputation sample firms and matched sample firms. Our second measure of reputation uses the actual reputation scores for firms on the Most Admired list (*Rep-Score*) and is a more detailed measure of reputation. *Fortune's* reputation score can range from 0 to 10. Higher scores represent better reputation. The overall score is the mean score averaging ratings ranging from 0 to 10 from several key attributes of reputation including: 1) quality of management, 2) quality of products/service offered, 3) innovativeness, 4) value as a long term investment, 5) soundness of financial position, 6) ability to attract/develop/keep talented people, 7) responsibility to the community and environment, and 8) wise use of corporate assets.

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<sup>2</sup> Using the list of America's Most Admired Companies as a proxy for good corporate reputation is consistent with prior work (e.g., Anderson and Smith, 2006, Damodaran, 2003, McLaughlin et al., 1996, Wang and Smith, 2008).

Some of these reputation elements identify corporate responsibilities to various stakeholder groups, for example: 1) “quality of products/services offered and innovativeness” identifies customer responsibilities, and 2) “ability to attract/develop/keep talented people” identifies employee responsibilities. In addition, some reputation score elements contain items related to CSR (e.g., “7) responsibility to the community and environment”). Looking at several of these reputation score elements initially and plausibly points to a positive relationship between reputation and CSR.

### **Measurement of the Primary Independent Variable – Corporate Social Responsibility (CSR)**

KLD Research and Analytics, Inc. (KLD) has been actively providing rating data on corporate social responsibility since 1991. For each followed firm, KLD provides rating data for approximately eighty variables in seven qualitative areas. Positive ratings indicate strengths, and negative ratings indicate concerns in each of these qualitative areas. In addition to these seven qualitative areas, KLD also evaluates six controversial issues that include, for example, alcohol, gambling, and tobacco activities. A KLD index aggregates this CSR information.

We subtract total concerns from total strengths and assign equal importance/weight to each area in calculating the KLD index score. This approach is suggested by KLD<sup>3</sup> and used in prior CSR research (e.g., Nelling and Webb, 2009). In other words, our KLD index score is computed as follows:

$$\text{KLD} = (\text{Total strengths of Community} - \text{Total concerns of Community}) + (\text{Total strengths of Corporate Governance} - \text{Total concerns of Corporate Governance}) + (\text{Total strengths of Diversity} - \text{Total concerns of Diversity}) + (\text{Total strengths of Employee Relations} - \text{Total concerns of Employee Relations}) + (\text{Total strengths of Environment} - \text{Total concerns of Environment}) + (\text{Total strengths of Human Rights} - \text{Total concerns of Human Rights})$$


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<sup>3</sup> <http://www.kld.com/indexes/ssindex/faq.html#3>

Rights) + (Total strengths of Product – Total concerns of Product)  
- Any concerns of Alcohol – Any concerns of Gambling – Any  
concerns of Firearm – Any concerns of Military – Any concerns of  
Nuclear Power – Any concerns of Tobacco

In general, this CSR measure is a broad, comprehensive measure of corporate social responsibility. This KLD index provides a comprehensive measure of social responsibility since the KLD index compiles a broad spectrum of CSR information. In addition, the KLD database accumulates CSR information for a larger number of firms than other CSR data sources.

### **Sample Selection and Descriptive Statistics**

Our study's data sources for reputation, CSR and financial information drive our sample selection procedures. We begin with the full list of firms on the America's Most Admired Companies of 2006 List. The sample consists of 303 firms. Next, we obtain the full list of firms with rating data from the KLD database for 2005.<sup>4</sup> Data for the financial variables come from Compustat. Sixty observations with missing data are excluded. Our final sample consists of 243 firms with complete (reputation, KLD and financial) data. Panel A of Table 1 reports the sample selection of this study. Panel B of Table 1 presents the industry distribution of the sample. For instance, 132 firms are in the manufacturing industry, while only one is in the agriculture, forestry and fishing industry.

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<sup>4</sup> We select 2005 as the testing period, since America's Most Admired list of 2006 is published in March 2006.

Table 1  
Sample Selection and Firm Industry Distribution

## Panel A: Sample Selection

	Sample Size
America's Most Admired List of 2006	303
Firms missing Compustat Data or KLD Data	-60
	243
Final Sample	243

## Panel B: Industry Distribution

SIC Division (first 2 digits)	Division Description	Number of Firms
01-09	Agriculture, Forestry and Fishing	1
10-14	Mining	14
15-17	Construction	3
20-39	Manufacturing	132
40-49	Transportation	21
50-51	Wholesale	8
52-59	Retail	17
60-67	Finance, Insurance, and Real Estate	12
70-89	Services	32
91-99	Public Administration	3
	Final Sample	243
		243

For each sample firm, a matched firm with the closest firm size (measured by total assets) within the same industry<sup>5</sup> is selected. Table 2 presents selected descriptive statistics for sample and matched firms (Panel A) along with tests for mean differences between the two samples (Panel B).

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<sup>5</sup> In our study, 'same industry' includes firms with the same first two-digit SIC.

Table 2  
Descriptive Statistics

Panel A: Descriptive Statistics for Sample and Matched Firms

<u>Variable</u>	<u>Sample Firms (n=243)</u>			<u>Matched Firm (n=243)</u>		
	Mean	Std. Dev.	Median	Mean	Std. Dev.	Median
Rep-Score	6.92	0.65	6.96	N/A	N/A	N/A
KLD	-0.01	3.47	0.00	-0.89	1.79	-1.00
Sales	7293.01	26406.61	343.01	6741.16	27959.65	352.70
COGS	4882.29	20103.45	207.61	4648.31	21030.82	203.53
OCF	1015.35	4081.52	28.51	737.88	2913.66	24.50
Assets	8056.97	25633.70	386.59	6625.38	22704.46	353.16
Liabilities	4717.31	15658.42	167.92	3835.76	13760.14	147.40
AGE	0.49	0.21	0.47	0.51	0.20	0.50
LEV	0.49	0.21	0.50	0.46	0.24	0.47
MTB	13.68	147.11	2.34	11.71	109.31	2.36

Panel B: Paired Difference in Mean

<u>Variable</u>	T-test (p-value)	Wilcoxon Test (p-value)
KLD	0.0005	0.016
Sales	0.8231	0.6296
COGS	0.9003	0.6509
OCF	0.3888	0.883
Assets	0.5149	0.8606
Liabilities	0.5101	0.6294
AGE	0.4614	0.355
LEV	0.1699	0.2026
MTB	0.8676	0.9938

Variable definition:

Rep-Score = reputation score assigned to firms selected on the Most Admired Company of 2006 list;

KLD = firms' corporate social responsibility (CSR) scores in 2005;

Sales = net revenue (Compustat Item #12) in 2005;

COGS = cost of goods sold (Compustat Item #41) in 2005;

OCF = cash flows from operating activities (Compustat Item #308) in 2005;

Assets = total assets (Compustat Item #6) in 2005;

Liabilities = total liabilities (Compustat Item #9 + Compustat Item #34) in 2005;

AGE = net value of property, plant and equipment (Compustat Item #8) in 2005 / gross value of property, plant and equipment (Compustat Item #7) in 2005;

LEV = leverage ratio [total liabilities (Compustat Item #9 + #34) / total assets (Compustat Item #6)] in 2005;

MTB = market to book ratio {[common shares outstanding (Compustat Item #25) × stock price – fiscal year-end (Compustat Item #199)] / total common equity (Compustat Item #60)} in 2005.

The mean KLD score for the reputation sample firms in Table 2 (-0.01) is significantly ( $p_{t\text{-test}} = 0.0005$ ,  $p_{\text{Wilcoxon}} = 0.016$ ) higher than the mean KLD score for matched firms (-0.89). This finding suggests that reputation sample firms have higher corporate social responsibility scores than matched firms and provides initial support for our hypothesis of a positive relationship between CSR and corporate reputation. Table 2 reports that there are no significant differences between sample and matched firms on other variables: sales, cost of goods sold, operating cash flows, assets, liabilities, age of assets, leverage and market-to-book ratio. In addition, descriptive statistics on reputation scores (*Rep-Score*) are reported for reputation sample firms in Table 2. The mean score for sample firms is 6.92.

Results from the Pearson Correlation matrix in Table 3 also provide initial support for a positive association between CSR and corporate reputation. KLD is positively (0.2612) and significantly ( $p < 0.0001$ ) correlated with reputation score (*Rep-Score*). KLD is also positively correlated (0.1571) with the dichotomous reputation variable, *REPU*, at a significant level ( $p=0.0005$ ). Both correlations lend additional support to our hypothesis.

Table 3  
Pearson Correlations among the Variables

	Rep-Score	REPU	KLD	Sales	COGS	OCF	Assets
REPU	N/A						
	N/A						
KLD	0.2612	0.1571					
	<0.0001	0.0005					
Sales	0.1891	0.0102	-0.1276				
	0.0031	0.8231	0.0049				
COGS	0.1792	0.0057	-0.1360	0.9862			
	0.0051	0.9003	0.0027	<0.0001			
OCF	0.1703	0.0392	-0.1233	0.8685	0.7983		
	0.0078	0.3888	0.0065	<0.0001	<0.0001		
Assets	0.1501	0.0296	-0.0861	0.8272	0.7435	0.9170	
	0.0192	0.5149	0.0578	<0.0001	<0.0001	<0.0001	
Liabilities	0.1303	0.0300	-0.0676	0.7785	0.6924	0.8656	0.9819
	0.0425	0.5101	0.1365	<0.0001	<0.0001	<0.0001	<0.0001

**Variable definition:**

REPU = a reputation indicator variable. If a firm is selected on the 2006 America's Most Admired Company List, then the value of REPU is equal to "1". Otherwise, the value is "0".

Rep-Score = reputation score assigned to firms selected on the 2006 Most Admired Company List;

KLD = corporate social responsibility (CSR) score in 2005;;

Sales = net revenue (Compustat Item #12) of in 2005;

COGS = cost of goods sold (Compustat Item #41) in 2005;

OCF = cash flows from operating activities (Compustat Item #308) in 2005;

Assets = total assets (Compustat Item #6) in 2005;

Liabilities = total liabilities (Compustat Item #9 + Compustat Item #34) in 2005;

**Empirical Specification**

Our regression model regresses reputation on CSR and several control variables. We have two reputation measures: 1) *Rep-Score*: the reputation score assigned to firms on *Fortune's*

Most Admired Company List, 2) *REPU*: a reputation indicator variable equal to 1 for reputation firm's on *Fortune's* 2006 Most Admired Company list; otherwise 0. The independent variable of interest in our regressions is KLD's CSR score, *KLD*. Four control variables are included to control for firm size (assets), return on equity (ROE), leverage (LEV), and the market-to-book ratio (MTB). Our regression model is as follows:

$$\text{Reputation Variable}_i = \alpha_0 + \alpha_1 \text{KLD}_i + \alpha_2 \text{Assets}_i + \alpha_3 \text{AGE}_i + \alpha_4 \text{LEV}_i + \alpha_5 \text{MTB}_i + \varepsilon_i \quad (1)$$

where

Reputation Variables:

$\text{Rep-Score}_i$  = reputation score assigned to firm  $i$  on the 2006 Most Admired Company list.

$\text{REPU}_i$  = a reputation indicator variable for firm  $i$ . If firm  $i$  is on the 2006 America's Most Admired Company list then the value of  $\text{REPU}_i$  is equal to "1". Otherwise, the value is "0".

$\text{KLD}_i$  = corporate social responsibility (CSR) score of firm  $i$  in 2005.

$\text{AGE}_i$  = net value of property, plant and equipment (Compustat Item #8) of firm  $i$  in 2005 / gross value of property, plant and equipment (Compustat Item #7) of firm  $i$  in 2005.

$\text{LEV}_i$  = leverage ratio [total liabilities (Compustat Item #9 + #34) / total assets (Compustat Item #6)] of firm  $i$  in 2005.

$\text{MTB}_i$  = market to book ratio {[common shares outstanding (Compustat Item #25) × stock price (Compustat Item #199)] / total common equity (Compustat Item #60)} of firm  $i$  in 2005.

We first run our regression analysis using only our reputation sample firms. Because each of the firms in our reputation sample has a reputation score, we use that reputation score (i.e., *Rep-Score*) as our dependent reputation variable in our regression. Next, we use the total combined sample of both highly reputable and matched firms. In this regression, we use the dichotomous indicator variable *REPU* to differentiate between

reputation sample firms ( $REPU = 1$ ) and matched sample firms ( $REPU = 0$ ). This analysis supplements our initial regression model and should support the initial regression results. In this regression model, we still include control variables for size, return on equity, leverage and the market-to-book ratio. Since the dependent variable is the dichotomous indicator variable ( $REPU$ ), we use logistic regression.

## RESULTS

The regression model in Equation (1) is used to test the hypothesis. If the hypothesis is true, we expect a significant and positive relation between corporate social responsibility ( $KLD$ ) and the reputation measures ( $Rep-Score$  and  $REPU$ ). Table 4, Panel A, reports the results of regression analysis for reputation sample firms ( $n = 243$ ). As shown in Panel A,  $KLD$ 's regression coefficient,  $\alpha_1$ , is 0.0542, which is significant at  $p < 0.0001$ . Thus, the hypothesis is supported. Additional results in Panel A indicate that the reputation score ( $Rep-Score$ ) is positively associated with assets and the market-to-book ratio at significant levels for sample firms.

Panel B reports the regression analysis for the total combined sample ( $n = 486$ ) of both reputation and matched firms. Since the dependent variable ( $REPU$ ) is a dichotomous variable, we use a logistic regression model. As shown in Panel B,  $KLD$ 's regression coefficient,  $\alpha_1$ , is positive (0.1215) and significant ( $p = 0.0006$ ). These results indicate a positive association between CSR and reputation and support our hypothesis.

Table 4

## Regression Analysis

$$\text{Model: Reputation Variable}_i = \alpha_0 + \alpha_1\text{KLD}_i + \alpha_2\text{Assets}_i + \alpha_3\text{AGE}_i + \alpha_4\text{LEV}_i + \alpha_5\text{MTB}_i + \varepsilon_i$$

Panel A: Sample firms only (n=243) (*Rep-Score*);  
Ordinary Least Squares (OLS) Regression; (Adjusted  $R^2 = 0.0986$ )  
Results:

Variable	Parameter Estimate	Standard Error	t Value	Pr >  t
Intercept	6.9543	0.1409	49.36	<0.0001
KLD	0.0542	0.0117	4.66	<0.0001*
Assets	4.94E-06	1.58E-06	3.12	0.0021*
AGE	-0.0195	0.1927	-0.10	0.9195
LEV	-0.1274	0.1940	-0.66	0.5121
MTB	0.0005	0.0003	1.91	0.0570***

Panel B: sample firms and matched firms (n=486) (*REPU*);  
Logistic Regression  
Results:

Variable	Parameter Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	0.1150	0.3130	0.14	0.7132
KLD	0.1215	0.0352	11.92	0.0006*
Assets	2.91E-06	3.93E-06	0.55	0.4604
AGE	-0.3151	0.4534	0.48	0.4870
LEV	0.6451	0.4239	2.32	0.1280
MTB	7.54E-06	0.0007	0.00	0.9916

\* Significant at 0.01, two-tailed test; \*\*Significant at 0.05, two-tailed test; \*\*\*Significant at 0.1, two-tailed test;

Variables Definitions:

Reputation Variables:

Rep-Score<sub>*i*</sub> = reputation score assigned to firm *i* on the 2006 Most Admired Company list.

REPU<sub>*i*</sub> = a reputation indicator variable for firm *i*. If firm *I* is on the 2006 America's Most Admired Company list then the value of REPU<sub>*i*</sub> is equal to "1". Otherwise, the value is "0".

KLD<sub>*i*</sub> = corporate social responsibility (CSR) score of firm *i* in 2005.

AGE<sub>*i*</sub> = net value of property, plant and equipment (Compustat Item #8) of firm *i* in 2005 / gross value of property, plant and equipment (Compustat Item #7) of firm *i* in 2005.

LEV<sub>*i*</sub> = leverage ratio [total liabilities (Compustat Item #9 + #34) / total assets (Compustat Item #6)] of firm *i* in 2005.

MTB<sub>*i*</sub> = market to book ratio {[common shares outstanding (Compustat Item #25) × stock price (Compustat Item #199)] / total common equity (Compustat Item #60)} of firm *i* in 2005.

## CONCLUSION

The purpose of this study is to perform a direct examination of the relationship between corporate social responsibility and corporate reputation. CSR's assumed positive impact on reputation and reputation's assumed positive impact on performance are often used as motives to justify and drive CSR investment activities. Our analysis reveals a significant positive association between corporate social responsibility and corporate reputation. Our results suggest that more socially responsible firms possess better corporate reputations. Our results add to recent CSR research by validating posited relationship in Vilanova et al. (2009). This validation has important implications when combined with prior CSR research. Prior CSR research demonstrates, in general, a positive relationship between CSR and financial performance (Beurden and Gössling, 2008). Our study demonstrates that in addition to improving financial performance, CSR improves reputation. A firm can do well (improved financial performance) by doing good (improved CSR and reputation). In general, doing good (improved CSR) is recognized (improved reputation) and

rewarded (improved financial performance). Future extensions of this work can continue to investigate and validate other areas of Vilanova et al.'s (2009) model. Future work can continue to explore and develop the relationships of CSR activities on other dimensions of firm performance and competitiveness.

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