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PUBLIC RESPONSE TO POOR CSR: AN EVENT STUDY LOOKING AT THE EFFECTS OF ANNOUNCEMENTS ON BOTH FIRM PERFORMANCE AND CUSTOMER RESPONSES.

by

David Rodriguez

B.S., University of Illinois, 2003

MBA, DePaul University, 2004

A Dissertation
Submitted in Partial Fulfillment of the Requirements for the
Doctor of Philosophy in Business Administration.

Department of Business Administration
in the Graduate School
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DISSERTATION APPROVAL

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A Dissertation Submitted in Partial

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for the Degree of

Doctor of Philosophy

in the field of Business Administration

Approved by:

Wallace Davidson, Chair

Xiaoxin Wang Beardsley

Mark Peterson

David Rakowski

Subhash Sharma

Graduate School
Southern Illinois University Carbondale
May 27, 2009

AN ABSTRACT OF THE DISSERTATION OF

David Rodriguez, for the Doctor of Philosophy degree in Business Administration, presented on May 27, 2009, at Southern Illinois University Carbondale.

TITLE: PUBLIC RESPONSE TO POOR CSR: AN EVENT STUDY LOOKING AT THE EFFECTS OF ANNOUNCEMENTS ON BOTH FIRM PERFORMANCE AND CUSTOMER RESPONSES.

MAJOR PROFESSOR: Dr. Davidson

Corporate social responsibility (CSR) has moved to the forefront of many firms' concerns and is defined as a firm taking into consideration the interests of society by taking responsibility for the impact of the firm's actions on all stakeholders: customers, employees, shareholders, communities at large, and the environment. This dissertation will look at several public announcements and examine not only the level of corporate social responsibility a firm has but also the effects these announcements have on not only firm value but also customers' reactions to them. The three samples examined in the paper are boycotts announcements, recall announcements, and negative social responsibility announcements. The announcements were separated into the three groups to allow me to better analyze the effects of individual announcements and distinguish between types of announcements.

The first part of the study focused on market response, measured by stock reactions and shows that the three samples of event announcements produced inconsistent results. Each of the three events produced the negative short term effects expected, either for Day 0 or for the post event period (+1, +30). However, the significance varied and the control sample for both recalls and boycotts produced positive post announcement

results, implying that competitors are positively affected by these announcements. With regards to the control samples, only the general announcements control sample produced negative post announcement implying market wide affects. These test also showed that recalls may be subject more often to leakage. The general findings of this test are as expected though the significance was not.

The second part of the study focused on customer's reactions, measured by change in market shares, to the three announcements. I found that no significant effect existed due to any of the three types of announcements, negative CSR announcements, boycotts, and recalls. This can be interpreted as the lack of public response to the announcements studied. These results were then followed up with a regression analysis that put the market share as the dependent variable and 'Sample" as one of the independent variables. The purpose was to see if the firms that were subject to an announcement affected market share significantly. With regards to the tests establishing the effects of variables on market share, it was found that the results in all three samples were similar. The Size variable was always among the most significant followed by whether the firm is in its growth stages or mature stages. The Sample variable is the most important variable in the regression and shows that the subject firms did not have the expected effect on market share. For all three samples the Sample variable was not consistently significant but was, in fact, positive. This implies that a negative announcement positively contributes to market share. The implication of these regressions is not necessarily contrary to the event study first completed since the stock market study is observing owners' responses while the market share analysis is studying the customers' response to the same announcements.

The final portion of the study shows that KLD is relatively effective at ranking firms, both at the product and firm level. Effective ranking is determined as the firm's lack of need to reassess a firm after an announcement. I find that there is no significant or economic difference in the ranking provided by KLD in the years surrounding the event. However, the regression results in all samples tested did produce the negative reaction in the KLD ranking that was as expected. However, it was only significant in the boycott sample. I conclude that the market reacts minimally to poor CSR and that customer's barks' are worse than their bite.

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CHAPTER 1

INTRODUCTION

Corporate social responsibility (CSR) encourages organizations to consider the interests of society by taking responsibility for the impact of the firm's actions on all stakeholders: customers, employees, shareholders, communities at large, and the environment. This responsibility is meant to extend beyond the legal obligations and seeks to make corporations conscious, responsible, and accountable citizens. Farmer and Hogue (1985) make a more realistic, though slightly pessimistic, conclusion in regards to CSR; "If something that people want done does not cost a corporation anything by hurting its profits and if a lot of people want it done, then a corporation is probably already doing it ... Companies are happy to take these socially responsible actions if they feel that the majority of the public approves and if the cost is negligible". This understanding is held by many leading economist, such as Milton Friedman, who stated in a New York Times magazine article in 1970 that the only "social responsibility of business' is to increase its profits". However, the theories on this topic have swayed somewhat in recent times as corporate social responsibility has become more important to companies. Conflicting reports on corporate social responsibility value with regards to both the public and corporations exemplify that this issue has not been fully explored and that further research on these topics is necessary.

There have been numerous boycotts and recalls that have been well publicized as of late which have directed the interest of this dissertation. One of the most recent and well publicized is the recall of peanut butter due to a salmonella outbreak. More than

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3,200 peanut-based products from crackers to ice cream were recalled in the largest food recall in the U.S. history. Peanut butter sales plunged 25 percent in the wake of this outbreak. More recently we have seen recalls of spices due to an outbreak of salmonella that sickened 60 people and a call to boycott Kellogg for relieving Michael Phelps of his endorsement after his well publicized pictures of his alleged drug use. These events along with others show that the media values these stories as newsworthy. However, the firms level of corporate social responsibility and the effect these events have on a firms' market share and profitability are not as readily visible and are the subject of this dissertation.

CSR is often considered to be at odds with value maximization of a firm and at first glance it seems that CSR is in-line with only stakeholder theory. However, Jensen (2001) theorizes that a balance exists between satisfying all stakeholders, referred to as Enlightened Value Maximization. In fact Jensen believes that with Enlightened Value Maximization all stakeholders' needs are best met. Specifically, the theory is based on maximizing shareholder wealth while not mistreating any one stakeholder. Benson and Davidson (2008) tested Enlightened Value Maximization in a working paper and found that firms cannot mismanage relations with their stakeholders if they want to maximize firm value since firm value is reduced in the presence of social responsibility concerns. This finding seems to have revealed a common ground between value maximization and stakeholder theory. Therefore it is necessary for firm management to address stakeholder concerns when maximizing shareholder wealth. This finding, and seemingly important link, leads to the understanding of why CSR has been in and out of the spotlight over the past few decades. This study will look to further examine the effects that CSR has on a firm. It will seek to examine the effects poor CSR has on a firm with respect to

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customers' responses and shareholders/investors responses. Specifically, this study has examined three separate events. The three announcements that are examined are poor perception announcements, recalls, and boycotts. This study will conclude examining the effectiveness of KLD to correctly assess firms' corporate social responsibility.

When researching corporate social responsibility, I found an abundance of literature relating CSR to shareholder returns of the firm that showed positive effects, negative effects and no effects depending on the researcher and the data chosen (Aupperle, Carroll, & Hatfield, 1985). However, I believe that this focus on shareholder returns leads to biased literature that only focused on owners' (shareholders) response and did not examine another important factor, customers' reactions. Owners' response is based on expectations of the market about the company's future performance. It is clear to see from this definition that the owners' response is very specific and not directly related to end users' perceptions and ultimate actions. It is not uncommon for those that affect stock performance, professional investors and market makers, to not even be end-users. Thus, they may not be the ideal individuals to examine when looking at responses to specific events. In addition to examining how owners believe that an event will possibly hurt revenues, it would be best to simply evaluate the true reaction that the customers have. This will alleviate looking at how owners feel an event may affect their profits and instead look at how consumers alter their purchase patterns in response to these different announcements. Essentially, previous studies only focused on one stakeholder, owners', who were not even necessarily end users but rather just investors. Understandably, this constant drive to examine owner's profitability is likely because of the availability of stock market data and Americans' deep-rooted dependence on the

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stock market to model just about every phenomenon. However, this study focuses on the customer's reactions to these announcements and how the reactions can influence

I am most interested in customers' reactions to the announcements. If customers view the announcements as significant information then the value of the firm should be reduced, at least in the short run. The value of a firm is the present value of expected future cash flows. Therefore, if customers have a reaction and alter their purchase patterns then the value of the firm should be negatively affected and peer firms should have a positive reaction. Similarly, since the stock price is also the present value of future cash flows the stock market should also display a negative reaction. However, if these announcements are viewed as insignificant then the stock market and the value of the firm will have no change.

I began testing my first set of hypotheses with an event study. The purpose was to examine the market's reaction to the announcements. The second part of this study tests my second set of hypothesis which examines the change in market share in periods surrounding the event. The purpose is to examine if peers were benefiting from the negative announcements due to customers reactions. The final part of this dissertation, and third set of hypothesis, examines KLD rankings and examines any changes that these negative announcements may have on those rankings.

I organize the remainder of the dissertation as follows. Chapter 2 will review past literature and expose shortcomings in this literature that my dissertation will hope to address. Chapter 3 will explain the data sample used and methodology that was utilized to test my hypothesis. Chapter 4 will provide the results from my tests and the final

chapter, Chapter 5, will conclude stating how my results fill the gap in literature and express potential future avenues of research.

CHAPTER 2

LITERATURE REVIEW

Ethical Announcements

CSR seems to have taken the forefront in many consumers' lives at first glance. The Council on Economic Priorities, a public research organization, has sold over 600,000 copies of its 1989 'Shopping for a Better World', a book that rates 168 companies and 1,800 household and food products in nine categories of social responsibility. Seventy-eight percent of buyers of the book switched brands as a result of the ratings (Davids, 1990). A growing number of marketplace polls attests to the positive effects of CSR on consumer behaviors (Business in the Community 1997, Cone Inc. 1999, Davids 1990). However, when the empirical work was examined, and I look to see if CSR has any positive effects on firm profitability or market share, the results are at best inconclusive.

Margolis and Walsch (2003) surveyed the literature between 1972 and 2002 and found that there were 127 published studies that empirically examined the relations between social responsibility and firm performance. They found that social responsibility has been treated as both an independent variable and dependent variable. Additionally, they find that the results are not consistent with just under half actually showing positive relations and the others split between mixed findings and non-significant relations.

Arora and Cason (1996) conducted a study that examined firms that were most likely to participate in socially responsible actions. They found that firms closer to final consumers are more likely to participate in voluntary environmental programs. The proxy

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for this relationship to customers is advertising expenditures. They find that advertising expenditures are positively related to the likelihood of participation in a voluntary program. This study leads to the implied assumption that firms viewed by customers directly are more likely to act in a conscious way. This finding is what Farmer and Hogue (1985) concluded when they examined a firm's willingness to actively participate in socially responsible acts.

Prior research suggests that negative CSR can have a detrimental effect on overall product evaluations, whereas positive CSR can enhance product evaluations (Brown and Dacin, 1997). Brown and Dacin found that in the consumption context we can expect CSR-induced C-C (consumer and producer) congruence to have a similarly positive effect on consumers' evaluations of a company. Contrary to the finding of Arora & Cason (1996), and Brown and Dacin (1997), a comparative case study completed by Landrum (2001) examined the effects of CSR on Reebok, compared to that of Nike. Since both of these companies are close to the consumer it would be assumed that voluntary socially responsible actions would be positive for both. Landrum examined the effects on Nike after years of negative CSR publicity and Reebok who was making positive CSR investments. Even after Nike received poor publicity for years, in regards to working conditions overseas, they performed exceedingly well with respect to annual sales. Nike's ability to maintain their level of sales while under scrutiny for their poor corporate social responsibility leads to the conclusion that negative CSR does not have a detrimental effect on firm sales. Conversely, Reebok, which has focused on social responsibility investments, hoping to differentiate them from the competition, had declining sales during this same period. This finding, though limited in scope,

exemplifies the issue I am seeking to study. Though firms are now more likely to participate in CSR investments (Arora and Cason 1996), a clear and direct relation is not evident between the level of CSR investments and success of a firm as measured by stock performances, market share, or profitability. This leads to interesting questions with regards to customers' true beliefs of CSR and whether negative publicity is truly worth a firm's attention. This literature review will conclude, with identifying previous research shortcomings, with regards to the three announcements examined and explain briefly how this study seeks to address these issues in regards to the samples. The closing portion of this review will address final shortfalls that this dissertation will not be addressing.

Owen and Scherer (1993) surveyed 950 managers and received 163 responses. The study showed that 59% of the respondents felt that social responsibility in general was of no or minor effect on market share while 21% felt it had a strong or very strong effect. This negative perception worsened when applied to the individual issues. Of nine issues considered, corporate actions related to environmental pollution, corporate philanthropy, and disclosure of social information were perceived by managers to have the greatest effect on market share. However, it must be noted that the mean response for these questions were minimal. For instance, social responsibility had only a 2.63 mean response. With such a low response rate it is near useless to utilize these solicited responses to make general conclusions. The fact that only so few responded also leaves room for extreme bias. Furthermore, the survey was based on perceived effects of CSR. These perceived views of management are only their beliefs on what may affect market share prices and were not empirically studied. Bharttyara and Sen (2001) conducted a survey of students and found that slight evidence exists that implies CSR can influence

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consumers purchase intentions. Though Bharttyara and Sen (2001) examined users, their study, similar to Owen and Sherer's (1993) still only addressed the perceived effects and not true consumer actions.

Beyond the sample issue in the previous study, based on hypothetical perceptions, there are three main shortfalls within current research that this dissertation will try to address. The first major shortfall of much current research is the way in which CSR is divided. Current studies split CSR into legal, ethical, and economic dimensions with the majority of studies focused primarily on illegal actions, through event study analysis (Davidson & Worrell, 88'). Davidson, Worrell, & Lee (1994) found that the market does not react significantly to announcements of corporate crime. However, the market reacts negatively and significantly to announcements of corporate crime when the company had been previously accused of other illegal activities. The market also reacts significantly to particular types of crimes, bribery, tax evasion, and violations of government contracts. Essentially, this piece investigated incidences that had identifiable consequences and examined stock market reactions. Surprisingly, ethical shortfalls, that are not necessarily illegal, have not been investigated near as often, though CSR is often looked upon as those firms that go above and beyond what is required by legislation. I want to look at the moral and ethical mishaps not the legal issues, which are enforceable by government. The first sample consists of announcements that relate to corporate issues that do not consists of illegalities but that may still be viewed negatively by the public at large such as animal testing, sweatshops, and environmental issues. Additionally, both boycotts and recalls will constitute the second and third data sets, respectively. The shortcoming of research previously mentioned and my personal selection of data lead to a

testable hypothesis, which is to examine if the CSR is valuable when it is not enforceable. The first effect that I am testing is whether negative CSR actions are punished even when they are not legally enforceable. I am looking to see if a stock reaction exists as a result of these non-enforceable mishaps that are viewed as unethical. Therefore my first hypothesis is:

H_1: The stock market will react negatively in the short run as a response to the negative CSR announcements.

Recall Announcements

A recall is a voluntary or involuntary action taken by a firm in order to rectify a flaw in either the design or functionality of a particular product.

There has been a substantial amount of research completed on automobile recalls, likely because of the regularity of them. However, this regularity also acts as a deterrent of studying auto recalls since customers may become desensitized to these announcements. Jarrell and Peltzman (1985) studied the automotive industry and found that shareholders bear a significant loss, often greater than the cost directly emanating from the recall, such as the repair. This implies that the public regards the recall as more detrimental to the firms' performance than what could be remediated by the quick fix of the recall. They also found that there were negative spillover effects to peer firms. However, this study was quickly attacked by Hoffer, Pruitt, & Reilly (1988) whom found that the effect is minimal, if even present. Essentially, the automobile industry did not get punished by the market for the recalls initiated by DOT, though this is likely due to the

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common nature of automobile recalls. Hoffer et al.(1988) cite that the automobile industry has been known for frequent recalls, many that may even overlap, which was not addressed in Jarrell and Peltzman's study (1985) and led to a potential for poor results. Therefore, I found it necessary to distinguish between different types of recalls and eliminate the ones that appear to be an everyday event, such as those that may occur in the auto industry.

Even with the cited problems and event overlaps of Jarrell and Peltzman's study (1985) they found significant shareholder losses due to automobile and drug recalls. Capital Markets penalize manufacturers far more that the direct costs of the recall campaign. In both cases shareholders of competitor firms also suffered wealth losses while the target firms' losses spilled over to firms' goodwill. The negative externality may even be larger in aggregate than losses to producers of recalled product. Hoffer, Pruitt, and Reilly (1988) address Jarrell and Peltzman's (1985) significant results in their 1985 paper. Hoffer et.al (1988) reexamine the issue looking only at the automobile industry and find that after several revisions to their approach and data, little significant evidence exists, indicating markets penalize shareholders of recall and for the most part neither shareholders of firm recalling or competitor firms are significantly affected. Peterson and Pruitt (1986) conducted a study that omitted the automobile industry from their recall data sample and found that product recalls convey relevant information to the market at the time the announcement is reported in the Wall Street Journal. Security prices react significantly to product recalls for several months after the announcement. Since recalls may be viewed as a firm's inability to provide a reliable product, and thus provide a signal, the second hypothesis will be based on publicized recalls. I am

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examining the stock markets' reaction to recalls, and the specific hypothesis for this data set is:

H₂: The stock market will react negatively in the short run as a response to the recall announcements

Boycott Announcements

Boycotts are a tool that is used by customers to initiate change or reflect disapproval in a corporation, government body, or even an entire state.

There has been a wealth of research on boycotts and their effects on firms from different perspectives. For example, some have studied historical consumer boycotts (Friedman 1985, Smith 1990), others have conducted field studies or polls (Miller and Sturdivant 1977, Pruitt and Friedman 1986, Garrett 1987), and still others have used survey methods and hypothetical consumer response experiments (Klein, John and Smith 2001, Sen, Gürhan-Canli and Morwitz 2001). Additional research has examined the willingness of consumers to benefit from questionable firms' actions (Al-Khatib, Vitell and Rawwas 1997; Vitell 2003), consumers' hypothetical reaction to ethical offenses by sellers (Whalen, Pitts and Wong 1991; Pitts, Wong and Whalen 1991), the perception of company ethics and possible implications on product purchasing (Sen and Bhattacharya 2001, Manrai, Manrai, Lascu, & Ryans 1997), the suspected willingness of consumers to pay for socially acceptable products (Auger, Burke, Devinney, and Louvier 2003, 2004a,b; Elliott and Freeman 2001), and the emergence of and reasons for consumer boycotts of business organizations (John and Klein 2003; Klein, Smith and John 2002).

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However, relatively little attention has been given to how ethical considerations in consumption are judged by consumers. Indeed, what work that has been done has revealed little linkage between underlying theory and actual behavior (Srnka 2004). What is clear is the amount of disconnect between the issues consumers claim to care about when surveyed and their true purchasing behavior (Auger and Devinney 2005). Osterhus(1997) found that normative influences do not automatically translate into behavior (consistent with Roberts 1996) and people are strongly influenced by personal costs and rewards. These findings are reinforced by Tan (2002) who investigated the purchase of pirated software and found nearly identical results. It appears that people do not follow their words when it comes to purchasing (Roberts 1996). A perfect example is the Green Movement in England where consumers stated preference to spend more for green products. However, supermarkets were later overstocked with products that those same consumers later claimed were too expensive (Roberts 1996). These pieces exemplify the need for further and more precise research. Several consumers may bring ethical concerns into their product choices, but most would rather have a good product at a good price, regardless of who makes it, the conditions of the workers, the uses made of animals, or issues of copyright versus counterfeit.

Weinberger (1986) conducted an experiment that showed that negative information about a product negatively affected the perceptions of not only that product but also by any other sold by the accused firm. Pruitt and Friedman (1986) studied 21 consumer boycott announcements and found that the announcements were followed by statistically significant decreases in stock prices. They also found that the overall market value of the firm dropped by an average of $120 million over the two-month post-

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announcement period. However, Epstein and Schientz (2004) cite examples such as Johnson and Johnson who remained relatively unharmed by the Tylenol tampering cases in the 1980's, presumably because of the goodwill that they had built up in the market. Conversely, Nike, who did not rate as high with regards to goodwill, appeared to suffer as a result of the publicity in the late 1990s over its use of foreign sweatshops, though the long term affect of this was negligible (Landrom 2001). Garrett (1987) found evidence that boycotts are most effective with publicity and have minimal relationship to the initial issue that prompted the boycott. Garrett also addressed four common weaknesses of past literature. He finds that the majority of authors rely on the assumption that economic pressure equals success of a boycott, failure to examine targets' perspectives, lack of theoretical framework, and scarcity of empirical support. Though several of these issues have been addressed since this publication, at least two are still present. These are a lack of perspective from all parties and a shortcoming of empirical support with regards to these other perspectives, both of which will be addressed in this piece. Finally, Garret lists three factors that should be studied when examining the effectiveness of boycotts. The primary is that a boycott should be measured as the achieved change in the target's dispute policies. Three determinants of boycott effectiveness are economic pressure, image pressure (or negative publicity), and policy commitment (or the level of resistance that a target chooses to adopt) (Garret 1987). Milton Friedman (1996) came to a similar conclusion and found that not only are boycott targets more diverse in nature but that boycott strategies have shifted from a marketplace orientation to a media orientation. Susser (1989) believes that unions exhibit more power as boycott instigators than as strike instigators. This fact would allow members to affect a company's bottom line

without the loss to themselves and the initiation may in fact involve consumer groups as well, increasing the effect. These past studies have led me to an additional hypothesis with regards to shareholder response. The null hypothesis tested here is that with the increase in consumer social responsibility expectations the boycott announcements will produce negative abnormal returns to the firm.

H3: The stock market will react negatively in the short run as a response to the boycott announcements.

Ethical Announcements

The second shortfall in past literature is a lack of focus on how end users, or customers, alter their purchasing patterns in response to events. In fact only one study investigated customer's responses directly with regards to CSR. A 2004 study done by Insight, a research group of APCO, surveyed "opinion elites", those that are in the top 10% of society in regards to interest in public policy, civic engagement, and media consumption in ten countries. This limited study found that positive CSR information led to 72% of respondent's "intent to purchase" the product and 61% to recommend the product. Negative CSR led 60% of individuals to boycott a company's product. This study concluded that communicating about CSR does have a positive effect for corporations; though this study found that 91 percent of respondents found the significance of CSR reporting more credible when verified by a third party. This study was unique in that it focused on customers' responses and not just on shareholders. The shortfall of this study was that it was a survey of a very narrowly defined group of

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individuals. These opinion elites surveyed are not likely a true sample of the population at large. Furthermore, since this study was conducted as a survey, it simply asked theoretical questions on actions. The actual actions of these surveyed elites may differ substantially when faced with life scenarios. This shortfall leads to a testable hypothesis, which is to establish if customers exhibit any significant reaction to the announcements that may have an effect on a firm. I will test this effect by examining the consequences the announcements have on the market share of the firm. Market share will be measured by examining the sample firms' proportion of total sales to that of industry peers. My hypothesis for this analysis is:

H_4: The negative CSR announcements will have a negative effect on the targeted firms' market share and a positive effect on peers.

Recall Announcements

Rupp and Taylor (2002) find that government initiates larger, less hazardous recalls involving older models and financially weak firms, while manufacturers initiate inexpensive recalls. The largest owner responses are associated with newsworthy events in the inaugural year. The case of companies deciding the value of recalls on their bottom line is exemplified in a Chevy Malibu court case. GM decided not to recall a vehicle and redesign the fuel system because the additional cost of $8.59 a car was greater than paying [estimated] claims for fuel-system related deaths' (Wall Street Journal, 12 July 1999). An internal memo written by a GM engineer in 1973 estimated that each fuel-related death would cost the company $200,000 or $2.40 per vehicle currently on U.S.

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roads. This example is a sad confirmation of Fama's conclusion in the introduction that a firm's responsibility is solely to the shareholders and also displays a firm's immunity to customer's.

Similar to other event studies completed several papers exist that persist to have similar issues. Hoffer, Pruitt, & Reilly (1988) completed a study of the automobile industry looking at both foreign and domestic competitors during a recall event since previous research claimed both sales increases and decreases for competitors following recalls. The authors found that the equity responses support the semi-strong market since the equity responses were taken as informational events that positively affected competitors. The weakness of this string of literature is that they do not examine long-term profitability effects or market share effects. Though this study will not address the long-term effects it will test customers' responses to recall announcements, as measured by market share.

Crafton, Hoffer, and Reilly (1981) found that more severe recalls in the automobile industry, Type 3, did reduce sales of the targeted firm, and this effect was immediate in the month the announcement of the recall was made. They also found that the sales of competitors' cars were also reduced, though this was later disproved by the authors' next paper. They found that the equity results were neither completely supportive nor did they refute an efficient market model. However, equity effects of type 3 recalls upon competitive firms over the post 1978 examination interval provide significant support of efficient markets hypothesis. These past studies have led to the second test of this study, which examines the consumers' response to the announcements. The hypothesis for this test is:

H5: The recall announcements will have a negative effect on the targeted firms market share and a positive effect on peers.

Boycott Announcements

Gelb (1996) develops a laundry list of recent boycotts that occurred in the last decade and spoke of minor victories. However, though the study addressed several cases of ethical boycotts it did not address the effects they had on long-term profitability of the firm, loss of business to competitors, or even the effects they had on total firm sales. Miller (1992) concluded in his study that 18 percent of Americans participated in boycotts, though this study did not address the effect on firms. More recently Dolliver (2000) conducted a survey and found that 50 percent of Americans claim to have taken part in a product boycott. Friedman (1985) found that nonsurrogate boycotts were successful more often than surrogate boycotts. Boycott initiators should be careful when considering whether their actions against one party will induce it to successfully apply pressure on a second party. Additionally, national boycotts tend to be more successful than local boycotts. Finally he finds that only at the extreme ends of the militancy were boycotts most successful. Therefore after stage one an initiator may want to ensure that they can go all the way to the third stage (picket lines etc.) in order to increase probability of success.

Social movements have seemed to borrow the boycott weapon from the arsenal of labor and consumer activist and are beginning to use it to further their own social, moral, and ecological objectives (Friedman 1985). Smith (1990) reviewed several cases and

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found that the use of consumer boycott does have an effect on initiating change over business on social issues. Vitell (2003) provided a synthesis of most major research studies in the consumer ethics arena since 1990. The piece shows an overwhelming amount of work conducted using surveys and theoretical foundation. However, it is evident that little empirical work completed with regards to this area, especially with regards to consumers' ability to truly affect firm's actions has been completed.

Innes (2006) examined over 200 firms between 1988 and 1995 and found over 1,000 products were subject to organized boycotts in the United States. Both causal evidence and formal evidence suggests boycotts and boycott threats have been effective in prompting large corporations to enact costly measure considered to be socially responsible. The authors also find that boycott targets tend to be much larger and have more market power than the average publicly traded firm. Delacote (2007) created a model to examine the successes and weaknesses of consumer boycotts generated by environmental preferences. Though the study was very narrowly focused in topic and did not do more than present a model the author found that the consumers most able to hurt targeted firms also have the highest opportunity cost of boycotting. Additionally, it appears that consumers most involved in the boycott have high environmental preferences and small amounts of consumption, preventing their abilities to hurt the firm. Miller and Sturdivant (1977) completed a study most closely associated with my intent. Their study looked at only one multi-unit company and sought to examine the direct effect a call to boycott had from consumers. These authors examined the sales volume and found that the questionable behavior had a negative effect on the firm. However, the boycott had the greatest effect at the picketed units, a smaller negative effect at local units

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and no apparent affect at the out-of-town units. The shortcomings of this study consist of the small sample size and limited geographic area. This dissertation looks to expand the data set to include boycotts beyond those affected by environmental preferences and also include boycotts of which the aim is to signal disapproval to its target, since the effect should be similar on the test statistics.

Since a boycott is a voluntary action by a group of common activists, and the issues are not of legal interest, they are often based on what particular interest groups deems unethical, unfair, or considered against the wishes of the group. This broad definition of purposes, and the ease at which they can be started and maintained with current technology, lends itself to a potentially very active consumer boycott market. As recently as 2006 Clark found that many universities in Great Britain have voted to prohibit the sale of Coca-Cola products on their campuses. Most recently the University of Sussex in Brighton has banned Coca-Cola's products on its campus. This outcry was due to allegations against Coca-Cola with regards to human rights abuses. An article completed by Gelb (1995) touts the positive effects that ethical boycotting has had on Nestlé's policy, which had a marketing strategy seeking to hook mothers on using formula rather than breast milk, ultimately leaving children undernourished. Gelb (1995) looks at this success as an increase in the likelihood of more U.S. boycotts, with regards to marketing, in the coming years. Kahneman, Knetsch, and Thaler (1986) found that individuals were willing to incur additional costs, such as traveling a greater distance, to punish a retailer who acted unfairly by trying to take advantage of scarcity. However, this study did not present anything that was not already expected. Most individuals have a convenience store located with-in walking distance that they go to purchase staple goods.

However, these same individuals are more likely to take the added expense of travel when it comes time to doing a significant amount of shopping.

Sen, Gurhan-Canli, and Morwitz (2001) studied boycott behavior and its dependence on participation, expectation of success, and substitutability. The authors find that consumers' likelihood of participating is determined by the likelihood of success, their susceptibility to influence, and the cost that they incur in boycotting. Their success perceptions are based on expectations of overall participation and communications about the boycott. Conversely, John and Klein (2003) find a free rider effect; greater participation by others discourages individual participation. The shortcoming of Sen et.al. (2001) was that it was a survey that targeted student participants, which may lead to biased results since they have a greater inclination toward activism during this stage of their lives. Not surprising was the fact that the two main determinants of costs are preference for the boycotted product and access to its substitutes. This coupled with the fact that students may be more likely to participate in boycotts, lead to lasting doubt on the true effectiveness of such boycotts.

This dissertation will look more closely at boycotts and differs from previous work in that it looks at interest groups' ability to have any immediate effect to draw negative publicity, diminish firm profitability, and ultimately attempt to alter firm processes or decisions. This is contrary to firms that have been negligent and are forced by regulators to alter their practices to adhere to legislation. In effect this study looks to examine if the consumers, those that are truly keeping a company in business, have the power to demand change. One would assume that with the current focus on CSR and firms' actions that consumers are more likely to desire change that would hold to social

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responsibility. However, the research question here is whether or not individuals are truly willing to alter their purchase patterns to adhere to their beliefs or not? And since it is difficult to gauge if a given boycott was "successful" in meeting its objectives, I will examine if a true effect exists on the firm with respect to their market performance and market share. The null hypothesis here is that:

H_6: The boycott announcements will have a negative effect on the targeted firms' market share and a positive effect on competitor firms.

KLD Ranking Analysis for Three Announcement Samples

The final test is a comparative analysis based on a limited sample of the original announcement events. I look to see if the professional, independent ranking firm, KLD, ranks the firms appropriately. If rankings are handled appropriately then the likelihood of high ranked firms falling victim to poor announcements, recalls and boycotts should be minimal. Essentially, when these events do become public those firms that were ranked higher by KLD should exhibit greater consumer backlash since the event was less likely to occur. If this is not the case then the rankings produced by KLD may not be of substantial value. The testable hypotheses are:

H_7: The negative CSR announcement announcements will cause a downward shift in KLD rankings the following year.

H8: The recall announcements will cause a downward shift in KLD rankings the following year.

and

H9: The boycott announcement announcements will cause a downward shift in KLD rankings the following year.

Unaddressed Shortfall of Previous Literature

Though not examined in this study, the final potential shortfall evident in past research is that studies rely on the fact that firm performance will be affected and that stock price is the best measure, since the events will lead to poor reputation and an implied lasting effect on firm value. However, this lasting effect, examined by analyzing stock reactions, may not be as detrimental at first thought. If this is the case then studies examining stock price reactions may be futile. A working paper by Cowley (2002) found that consumers rely on their memory of past consumption when next purchasing or recommending products. Though this is often assumed to be a lasting characteristic of individual consumers she found that consumer memory is not lasting and is found to change with exposure to post-consumption advertising. Results found that post-experience advertising and word-of-mouth comments altered the memory for evaluation. Though this study is not directly related to CSR it may prove as grounds for understanding why firm performance after events does not seem to be consistent and why firms such as Nike, Wal-Mart, and Gap continue to strive in light of their negative CSR publicity. Heerde, Helsen, and Dekimpe (2006) conducted a study that coincides with Cowley's (2002) theory which examined how firms can weather crisis and found that

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both pre-crisis loyalty and familiarity are found to form an important buffer against the product-harm crisis, supporting the idea that a brand's equity prior to the crisis offers resilience in the face of misfortune. Furthermore, to counter negative effects, brands can capitalize on their equity and often use advertising as a communication device to regain customers' lost trust. They also found that heavy users tend to purchase the affected brands sooner, unless their usage rate decreased significantly during the crisis. Brand advertising was found to be effective for the stronger brand, but not for the weaker brand, while competitive advertising delayed the first-purchase decision for both brands affected by the crisis. The conclusion of this study seems to fit well with Cowley's (2002) theory on the lack of any serious and lasting effect and finds instances that can sway consumers' perceptions. This shortfall is not directly addressed in this study, since it would require a long-term analysis, but it is related to the previous hypotheses since I am examining the effects the customer has on the firm in the short run. The next step in linking performance related studies with that of Cowley (2002) and Heerde et.al. (2006) is to examine the long-term effects of these announcements, if any. As previously stated this dissertation will seek to examine short-term stock and market share performance, which is hypothesized to have a negative effect. Unfortunately, this piece will not examine the long-term effects on either market performance or market share changes. Based on the previously mentioned studies, it is theorized that the customers' ability to affect a firm's long-term performance or actions is not significant and can be minimized with a firm's actions after the announcement. This theory is contrary to market efficiency theory since an efficient market would penalize irresponsible acts of a firm.

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This final shortfall was loosely examined by Haunschild and Rhee (2006). They studied the automobile industry and found that while all firms experience reduced market share after a recall, better-reputation firms suffer greater reductions than poorer-reputation firms. Since these good reputation firms receive a bigger market penalty they need to be even more active in preventing recalls than relatively poor-reputation firms do. However, good reputation firms do appear to have an advantage since they appear to learn from a given recall and turn it into less future recalls. They also find that the reputational effects are moderated by two important factors: substitutability and specialism. The results show that having few substitutes with an equivalent level of reputation, or a focused product identity stemming from specialism, buffers the negative market reactions to product recalls. This study, and those previous, led to the understanding that perceptions and reactions may be altered and not as clear-cut as expected and leads to my final test.

After a thorough examination of the current research the final study was developed to examine the relationship of the rankings of KLD and boycotts. Currently, minimal research exists that seeks to develop the relation between boycotts and a firm's ranking in response to the call to boycott.

CHAPTER 3

DATA, SAMPLE, AND METHODOLOGY

DATA and SAMPLE

Previous research has often used questionable sources when gauging a firm's corporate social responsibility, CSR. The questionable sources only consider CSR as a component of the ranking (McGuire, Sundgren & Schneeweis 1988). Since this study focuses on CSR events, it is necessary to utilize a general and nonbiased data source as well as an unbiased ranking system.

The first data set is ethical event announcements and consists of issues that the general public may feel strongly against (e.g. sweatshops, animal testing, corporate contributions to special interest groups, and environmental issues). Since ethics are in the eye of the beholder, I have taken care and broadly defined unethical actions when searching for events. The broad definition will allow me to capture all events of which masses of consumers may disagree. Additionally, my CSR ranking of firms will utilize KLD, an independent company that ranks firms based on multiple attributes considered relevant to corporate social performance, so that my personal bias will not become a factor.

The second data set examines recalls while the final set examines boycotts. A recall is the return of a product to its manufacturer for repair or replacement, usually due to defects or safety concerns. A recall differs from a boycott in that a recall is usually mandated due to quality concerns where as a boycott is " a concerted refusal to do business with a particular person or business . . . to obtain concessions or to express

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displeasure" (Garret 1987). Boycotts may act as a means to reach political goals by targeting corporations rather than government entities, likely because corporations may be more sensitive to consumer actions than government (Gelb 1995). One example offered is the boycott of Saran Wrap. The manufacturer of Saran Wrap also produced napalm during the Vietnam War. Since consumers felt powerless to stop the war, they chose to boycott Saran Wrap as a statement of their displeasure with the firm supporting the war (Gelb 1995). Customers may not have the influence they desire over major policies and may seek to go directly to the corporations involved in hopes to sway their actions and ultimately affect the larger policy issues. Furthermore, with the increase in consumer concern, coupled with the ability for individuals to use cheap print and the internet as resources, the use of boycotts has increased. Currently, over 800 products, not to mention whole states and even countries, are targeted for boycotts worldwide (Ferguson 1997).

Ethical Announcement Sample

I obtained the initial data for the ethical announcement, boycott and recall sample by examining major U.S. newspapers, available through LexisNexis, from 1991 thru 2002. LexisNexis defines "Major US Newspapers" as English newspapers published in the United States that are listed in the top 50 in circulation in *Editor & Publisher Year Book*. This focus is to ensure that the negative CSR announcement selected is of substantial worth to the public at large, since regional papers may find smaller instances newsworthy, which may skew my results. The search terms for the announcements data

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set consisted of various common phrases such as human rights, pollution, animal testing, sweat shops, factory farming, and alterations of common phrases used in the media. To confirm the initial sample dates found through LexisNexis I compared the dates to those found on crsnewswire.com and prnewswire.com. At this time I also looked for other events that could have been announced at a similar time that would affect my result and adjusted my sample accordingly. Though these latter sources are not as complete, they ensure that I have not left out any significant events while confirming the dates of those that I already obtained.

Recall Announcement Sample

The search terms utilized to obtain the recall sample were the term "recall" and various alterations such as safety, product, and hazardous. These recalls were then cross-referenced with the Consumer Product Safety Commission to ensure the event date. Finally, to ensure that I collected all recalls and not just those initiated by government and to ensure that there were no events that tainted my sample I examined event announcements from prnewswire.com. However, since some industries, specifically the automobile industry, are more prone to recalls the examination of this industry was completed with more scrutiny, ensuring that "everyday" recalls were omitted from the sample. As previously referenced, I utilized Crafton, Hoffer, and Reilly's (1981) classifications of automobile recalls and only included Type 3 automobile recalls in the sample. The Type 3 group included more serious problems such as engine compartment and fuel tank loss, loss of steering or brake control, and severe and repeated stalling.

Boycott Announcement Sample

Finally, the search terms used to obtain the boycott sample consisted of various phrases such as boycott, call to boycott, concerted refusal, and other alterations of these terms. Since my sources did not endorse or monitor the status or claims of the boycotts the assumption of my paper is that the press will only publish confirmed boycotts. It should also be noted that a boycott usually takes several steps. The first is an announcement that a boycott was under consideration, second, that a boycott was called, and the third step consisted of announcements indicating that a boycott was being organized and that preparations were underway for implementation. Finally, if the response from the threats is still not great enough, the sponsor's initiate demonstrations and/or picket lines to publicize the boycott activity (Friedman & Monroe 1985). With these defined stages I will be assuming that the date of the event, day 0, is the announcement of the call to boycott, step two from Friedman's findings. This distinction has been made in order to omit the effect of blanket threats by customers and social organizations. At this time I also looked for other events that could have been announced at a similar time that would affect my result and adjusted my sample accordingly.

Descriptive Statistics

The descriptive statistics are displayed below. The "Industry Breakdown" is based upon the four digit SIC codes. We can see form these columns that the announcements are most common in the manufacturing sector. The "Data by Periods" columns show that

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the majority of the announcements in all three samples were in the late 1990's. The "KLD Ranked" column shows the number of firms that were ranked by KLD. The two columns, "Subsidiary" and "Parent Company", were included so that I could analyze whether the firms affiliation would have an effect on the results. The "Bear" and "Bull Market" variables were included to take into account general economic conditions of the market. The data utilized in this dissertation are predominantly found to exist in the economic boom of the 1980's and 1990's. Therefore, the bull market was defined as 1983 thru 2000 while the bear market was defined as 2001. The final variables included are "Growth Stage" and "Mature Stage". The logic behind incorporating these variables in the study is that a firm's position in their corporate life cycle process may affect not only the likelihood of an announcement but it may also have an effect on customers' responses. A mature firm may be less likely to have certain announcements, such as recalls. Additionally, a mature firm may have had ample time to build a solid reputation in the market and will thus be less affected by negative announcements.

Table I

Descriptive Statistics for Negative CSR, Recall, and Boycott Announcements.

(Displayed on Next Page)

Table I

Descriptive Statistics for Negative CSR, Recall, and Boycott Announcements.

General Announcement Sample

	Sample Size	Avg. Sales (Size)	Avg. Shareholder Eq	Avg. Net Income	Avg. Long Term Debt	Average Assets	Industry Breakdown by SIC codes					
							Agriculture,Forest	Mining	Manufacturing	Transpor & Utils	Wholesale Trade	Retail Trade
Sample Firms	47	$6,429,401,128	$10,946,630,588	$338,952,596	$4,508,930,660	$6,366,803,405	1	2	15	4	2	21
Peer Firms	89	2,465,485,169	2,548,850,223	145,072,374	1,656,912,491	8,271,018,116	2	4	31	8	4	42
Combined	136	3,835,367,890	5,451,024,320	212,075,098	2,699,816,069	14,922,371,549	3	6	46	12	6	63

Data by Periods

	Sample Size	1992-1996	1997-2002	KLD Ranked	Bear Market	Bull Market	Subsidiary	Parent Company	Growth Stage	Mature Stage
Sample Firms	47	18	29	31	47	0	6	41	11	34
Peer Firms	89	34	55	30	89	0	4	85	32	40
Combined	136	52	84	61	136	0	10	126	43	74

Recall Announcement Sample

	Sample Size	Avg. Sales (Size)	Avg. Shareholder Eq	Avg. Net Income	Avg. Long Term Debt	Average Assets	Industry Breakdown by SIC codes				
							Manufacturing	Transpor & Utils	WholeSale Trade	Retail Trade	Finance,Insurance,Real Estate
Sample Firms	57	$ 8,009,775,702	$ 6,685,398,544	$ 204,880,123	$ 3,996,298,123	$ 41,835,562,930	40	1	1	12	2
Peer Firms	110	7560263131	6823934022	456041424.7	3029634552	34470470697	79	2	2	24	4
Combined	167	7,713,689,577	6,776,649,458	370,315,711	3,358,914,933	36,984,304,573	119	3	3	36	6

Data by Periods

	Sample Size	1992-1996	1997-2002	KLD Ranked	Bear Market	Bull Market	Subsidiary	Parent Company	Growth Stage	Mature Stage
Sample Firms	57	9	96	45	25	32	3	54	13	29
Peer Firms	110	17	45	50	48	62	1	109	41	21
Combined	167	26	141	95	73	94	4	163	54	50

Boycott Announcement Sample

	Sample Size	Avg. Sales (Size)	Avg. Shareholder Eq	Avg. Net Income	Avg. Long Term Debt	Average Assets	Industry Breakdown by SIC codes			
							Manufacturing	Transpor & Utils	Retail Trade	Services
Sample Firms	15	$32,554,777,867	$16,041,686,600	$967,020,400	$3,752,720,267	$32,563,248,133	7	5	2	1
Peer Firms	30	15973398633	5537940933	370748366.7	1701961433	12906627432	14	10	4	2
Combined	45	21500525044	9039180489	569505711.1	2385547711	21201833978	21	15	6	3

Data by Periods

	Sample Size	1992-1996	1997-2001	KLD Ranked	Bear Market	Bull Market	Subsidiary	Parent Company	Growth Stage	Mature Stage
Sample Firms	15	3	12	13	3	12	3	12	1	12
Peer Firms	30	6	24	16	6	24	3	26	6	19
Combined	45	9	36	29	9	36	6	40	7	31

The initial ethical announcement sample search resulted in 63 firms. Several firms were omitted, because they were either a private firm or were not publicly traded for a substantial enough time. These omissions resulted in a final sample of 47 ethical announcements. For each of these sample firms two control firms were selected. The method for this selection of control firms is described in detail below. The number of the matched control sample for the ethical announcement sample is 89. Several of the sample firms did not have two control firms with available information which resulted in the reduced control sample size.

The initial product recall sample search resulted in 273 firms. Many firms were omitted, because they were either a private firm or were not publicly traded for a substantial enough time. These omissions resulted in a final sample of 57 events. For each of these sample firms two control firms were selected. The number of the matched control sample for the recall announcement sample is 110. Four of the sample firms only had one adequate control firm with available information which resulted in the reduced control sample.

The initial boycott sample search resulted in 27 firms. After making the necessary omissions due to lack of information the final sample consists of 15 boycotts. For each of these sample firms two control firms were selected. The number of the matched control sample for this final sample is 30.

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Control Firm

To test for any significant difference in the market share of sample firms I have chosen two peer firms for each sample firm already obtained. The peer firms were found by first choosing firms that were classified in similar SIC groups (those within 4 digit SIC codes). Additionally, control firms were required to have accounting figures (sales, assets, and long-term debt) that were similar, in size, to that of the sample firm. In several instances comparable firms were not close in size to the sample firm. In these instances I chose those peer firms that had financial characteristics as close as possible to my sample firm. Beyond ensuring that the control firms were selected from firms in similar industries I was most interested in matching the size of the firms as measured by sales and assets. As previously mentioned several of the sample firms did not have two control firms which were similar enough which is why there are not exactly two control firms for each sample firm.

Financial and KLD Data Collection

The stock and market share data were gathered from CRSP and Compustat respectively. One of the main drivers of this study is to examine if consumers react on an individual basis to a lack of CSR or if there is only a flock mentality coupled with mandated effects, such as recall. The benefit of this study at this point of time is the improved sources of CSR rankings. Similar to Benson & Davidson (2007) and Waddock & Graves (1997) I will use KLD to establish CSR rankings. KLD is an independent

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rating service that focuses exclusively on assessment of corporate social performance across a range of dimensions related to stakeholder concerns. With regards to KLD, I am interested to know whether a lower ranked firm is more likely to have negative announcements, issue a recall, or fall victim to a boycott and if a higher ranked firm is likely to have a more significant negative effect since the event more be more of a surprise. With-in this study I examined effects on both total KLD rankings, omitting exclusionary screens, as well as the reduced KLD "Product" rankings.

KLD ranks all companies in the S&P 500 along multiple attributes considered relevant to corporate social performance (CSP). KLD has a single group of researchers that independently rate companies using data gathered from several sources, both internal and external. KLD rated companies on eight attributes of CSP. Five of which were considered important emerging influences on corporate strategy (Prahalad and Hamel, 1994), specifically community relations, employee relations, performance with respect to the environment, product characteristics and treatment of women and minorities. Three of the attributed are less directly related to stakeholder groups but include areas in which companies have received significant external pressures. KLD also has several exclusionary screens: nuclear power, alcohol, gambling, tobacco, and military contracting. These screens only produce negative ratings and cannot be altered by firm's positive or negative actions. Therefore, I adjusted the rankings of firms that fall in these categories so that only firm characteristics that can be altered be there direct actions are factors affecting rankings.

METHODOLOGY

This study looks more closely at negatively perceived announcements, recalls, and boycotts. It differs from previous work in that it looks at consumer's ability to have any immediate or lasting effect, to draw negative publicity, diminish profitability, and ultimately attempt to alter the poor processes of the targeted firms. Recall announcements differ from firms that have been targeted by activist groups, boycotts, seeking to negatively affect the firm. In effect this study is looking to see if the consumers, those that are truly keeping a company in business, have the power to demand change. More importantly, do they care enough to do so without the pressure of peer groups, boycott? Additionally, are negative announcements that are non-recall and boycott announcements valued as highly or at all? One would assume that with the current focus on CSR and firms' actions that consumers are more likely to desire change that would adhere to social responsibility, including quality and safety requirements. However, the research question here is whether or not individuals are truly willing to alter their purchase patterns to adhere to their beliefs or not? Essentially, I am examining if consumers are only mildly interested in CSR or if they truly attempt to initiate change.

A major purpose of this study is to look at both investors' and owners' responses to announcements that would affect a firms CSR rankings through examining the relation to the stock market and then examining the consumer's response by looking at sales of the firm and the change in market share over the sample period. The market share test and examination of accounting based returns may not reflect the significance of events since much can be altered between accounting reports and other factors affect market

share, such as product line changes or competitor influences. However, if the events are significant then the effects should be carried through, even if to a lesser extent, to the next accounting report period. The final portion of this study is to look at KLD rankings and see if what was assessed by this independent agency was reflected in the consumers' response.

Event Study – Testing of Hypotheses 1-3

The first test examines the abnormality of returns to the shareholder, which are the owners' and professional managers' responses, around the event window. The event study (described in detail in the Appendix) is based on those firms that make the headlines in regards to their poor ethical, not necessarily illegal, choices. To ensure against leakage of information, and poor data, the event window consists of -1, 0, and $+1$, with 0 being the date of the first announcement. The only exception is within the boycott sample. In the boycott sample 0 is the date of the fourth stage announcement, as previously described. To ensure that I was using the correct stage for the boycott sample I ran an event study with the first mention of any boycott, stage 1. I found that these types of announcements were too numerous in number to have a significant effect. The identification of abnormalities requires me to first identify normal returns. A market model is used to predict normal returns. The market model is found by regressing the daily returns on each security against a market index. The market index utilized is the equally weighted CRSP index. The computed normal return was for the period of 200 days prior to the announcement through 30 days prior to the announcement, -200 to -30. At this point I was able to compare these normal returns with true returns, both average

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and cumulative, to identify any abnormalities. I tested for the statistical significance of abnormalities using a t-test. The expected result is that the abnormalities discovered will be significant since the professional perception may likely exaggerate the negative effects of poor CSR.

Market Share Analysis- Testing of Hypotheses 4- 6

The second test examines the consumers' response to the announcements. The first test in this analysis is based on a regression that incorporates variables that have been shown to have an effect on market share. I have incorporated a dummy variable, "Sample", into the regression in order to account for the subject firms affect on market share changes. The second part of this analysis will focus on utilizing the announcement date, as previously defined, and examining any changes in market share (as measured by the proportion of total sales a firm holds with respect to peers) for the quarter previous and post the announcement date quarter. I will begin with examining the sample firm's market share for the three quarters and then testing for a significant difference between the three periods previously mentioned. The ratio of sales the sample firm holds, with respect to peers, both before and after the announcement date constitute the market share variable. Since these figures are only reported quarterly, I have compared the quarter containing the announcement date to the one prior and the one following. This expanded search allows me to compare the periods leading to the incident, looking for consistency, and then observe the effects the announcement had on the following period. Though this works as a crude measurement of market share it does allow for an analysis on the effects of a particular announcement. The question I am looking to examine here is if the peer

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firms have a significant positive reaction at the expense of the sample firm. The research hypothesis, as previously stated, is that the announcement will have a negative effect on the market share of the sample firm and competitor firms will have an increase in their market share over the particular period.

KLD Analysis – Testing of Hypotheses 7-9

The final analysis is a comparative analysis of KLD rankings based on a limited sample of the original announcement events. The first test in this analysis is based on a regression that incorporates variables that have been shown to have an effect on KLD rankings. I have incorporated a dummy variable, "Sample", into the regression in order to account for the sample firms in my study and to investigate the significance of those firms in the rankings. The second portion of this analysis is a test of statistical significance that compares the KLD rankings from one period to the next, surrounding the event year. I am not justifying KLD rankings nor trying to establish the factors that affect the rankings. Instead, I accept the rankings at face value and am testing whether the independent ranking firm has correctly assessed the firm and if these announcements will have an impact on the rankings. As previously stated, since KLD utilizes exclusionary screens that work to automatically reduce a particular firms rating, these firms' ratings were altered to only incorporate those factors that a firm has control over. An example of these exclusionary screens is if a firm is involved in nuclear power, tobacco sales, or alcohol sales. Since a firm cannot earn positive rankings in these categories, without altering their entire business plan, or even modify them in any way to improve their status, they have been omitted. I only want to include factors that a firm has the ability to

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alter. As previously stated I have tested the effects on both total ranks, and more specifically product rankings. Since the initial data sample has already been gathered using LexisNexis, I separated this data into two groups, those that KLD has ranked and those not ranked. The purpose would be to use this reduced sample of KLD ranked firms to compare the rankings just prior to the event and then immediately following the announcement to see if not only any significant differences exist but also to examine the significance of KLD rankings. Since KLD rankings are only published annually, I have used lag indicators. If the announcement took place in 2000 then I will compare the rankings in 2000 to those of 2001, since KLD will have to re-assess their rankings, which only come out once a year. By default I will also be utilizing one year less of my original sample data (up to 2000) to accommodate the KLD database, which goes to 2001. I will also examine the rankings the year prior to the event to establish KLD's ability to forecast their rankings. When the announcements are made public those firms that were ranked higher by KLD should exhibit greater consumer backlash since the event was less likely to occur. The specific hypothesis here is that each of the firms that were subject to a negative announcement (e.g. a recall, boycott or general negative announcement) will receive a lower KLD rank the following year.

These tests would allow me to not only look at different stakeholders' (both shareholders and customers) responses but also to examine how KLD has ranked these firms in regards to their criteria. This test will show which type of event (recall, boycott, and negative announcement) will have the most significant effect on the firm's rankings.

Summary of Hypotheses

H1: The stock market will react negatively in the short run as a response to the negative CSR announcements.

H2: The stock market will react negatively in the short run as a response to the recall announcements.

H3: The stock market will react negatively in the short run as a response to the boycott announcements.

H4: The negative CSR announcements will have a negative effect on the targeted firms market share.

H5: The recall announcements will have a negative effect on the targeted firms market share.

H6: The boycott announcements will have a negative effect on the targeted firms market share.

H7: The negative CSR announcement announcements will cause a downward shift in KLD rankings the following year.

H8: The recall announcements will cause a downward shift in KLD rankings the following year.

H9: The boycott announcement announcements will cause a downward shift in KLD rankings the following year.

CHAPTER 4

RESULTS

General Announcements Sample

I tested the first hypothesis, the stock market reaction to negative CSR
announcements, using Eventus. The purpose was to observe the short run stock market
effects on the first sample, the negative announcements.

H₁: The stock market will react negatively in the short run as a response to the negative CSR
announcements.

This initial study was completed using only the 89 control firms. The purpose of this test
was to examine any industry related trends in the stock market surrounding the event
dates. Table II shows that there was no significant effect from the control firms on the
dates surrounding the announcement. This is important because it indicates that there are
no industry events that drive the results. The second table shows the result for all three
periods (-30,-2), (-1,0), (-1, +1) and (1,30) , shown below, reveals that the general
announcements had minimal significance with Z-scores of   -.03, -.66, -.88, and -1.516
respectively with only the post period showing significance at the 10% level.

Table II

Event Study results for the general announcement control sample of matched firms.

Day	N	Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
-1	89	0.20%	43:46	0.285	0.183
0	89	-0.22%	39:50	-1.158	-0.666
+1	89	0.07%	41:48	0.026	-0.242

Market Model, Equally Weighted Index

Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
(-30,-2)	89	0.62%	0.04%	42:47	0.036	-0.030
(-1,0)	89	-0.02%	-0.20%	39:50	-0.617	-0.666
(-1,+1)	89	-0.05%	-0.19%	38:55	-0.489	-0.879
(+1,+30)	89	-3.52%	-2.15%	35:54(	-1.735*	-1.516$

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.

After concluding that the control firms had minimal response surrounding the announcements I analyzed only the sample firms to examine any significant changes in the stock market, this event study consisted of the complete sample of 47 observations. The results for this analysis are shown below. One firm was omitted due to lack of data for the entire period. The results in the Table III, below, shows that the windows of dates were generally not significant, with the highest z-score of 1.499, which was for the post event date range. However, the sign is not as expected for this event window. The post day (+1), shown in the first table below, has the correct sign and is significant at the 5% level. This is important because it suggests a downward price movement as a result of the announcement. We also see that this affect may have been exaggerated since the reaction reversed in the post period, (+1, +30). When days -1,0 are combined the significance of these events decreases. The complete results are in Table III below.

Day	N	Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
-1	46	-0.11%	18:28	-0.150	-1.158
0	46	-0.21%	22:24	-0.502	0.023
+1	46	-0.81%	15:31<	-2.548**	-2.043*

Market Model, Equally Weighted Index

Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
(-30,-2)	46	1.84%	1.78%	25:21	1.211	0.909
(-1,0)	46	-0.32%	-0.18%	20:26	-0.461	-0.567
(-1,+1)	46	-1.12%	-0.07%	18:28	-1.840	-1.158
(+1,+30)	46	1.62%	-0.06%	27:19)	-0.039	1.499$

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.

With regard to H1 we can see from the previous table that these announcements did have a significant effect on firm value, as measured by stock price though this was an apparent short or exaggerated effect.

The second hypothesis being tested with this sample of subject firms is:

H4: The negative CSR announcements will have a negative effect on the targeted firms market share.

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The first step in testing this hypothesis is based on analyzing the changes in the market share for subject firms, not the control group, across periods. I found the market share variable for the event quarter and then the quarter both previous and post and tested for the statistical significance of the differences. Table IV shows the results of the sample

firms that were subject to the announcements, the sample firms. The three periods

compared are the pre-event quarter with the event quarter, the event quarter with the post,

and the pre-event quarter with the post. The table below, Table IV, shows that the

changes noticed in market share are insignificant across periods. These findings imply

that the fourth hypothesis is not supported and that there is no significant change in

market share of the subject firm as a result of the announcement.

Table IV

Test of statistical significance of 'Market Share' difference for the designated periods for the General Announcement sample.

Matching firms are selected based on both SIC codes (4-digit) and size of the firm. Though the table relies on the peer firms to determine proportion in market share only the sample firms are being tested for statistical differences. From this table we can see that there is minimal observed difference between the designated periods surrounding the event.

Periods being Compared	T-Stat(Sample)
Pre-Event Period Compared to Event Period	0.9548
Event Period compared to Post Period	0.8094
Pre-Even Period compared to Post Period	0.7637
N	47

Sample Announcement Market Share Descriptive Statistics

	Pre-Event	Event	Post-Event
Average	.527	.531	.551
St.Dev.	.40	.40	.36

Since the difference of the market share is not significant from one period to the

next I want to test for the potential that any other variable or factor affects the difference

in market share.   I have completed a regression, with market share as the dependent

variable, against several variables that have been suspected of having an influence on market share. These variables were selected since they have been shown in previous literature to have an influence on market share. I broke the analysis into three regressions looking at pre-quarter of event, event quarter, and post quarter of event. The goal with these regressions was to investigate these alternative factors effect on the change in market share. In order to make this a direct test of the hypothesis I included both the sample firms and the control firms in these regressions with the dummy variable, "Sample", taking on the value of 1 if the firm is a sample firm. The results for this regression are shown below in Table V.

Table V

Multiple Regression for the general announcement sample firms and their matched control firms with market share being the dependent variable for the Pre-Event sample.

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Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and profitability (measured by ROE). From this table we can see that the explanatory power of the regression is minimal and that only two of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	0.1883	-0.0591	-0.155	-0.0242	0.0424	2.1E-5	-0.231	0.214	0.323
T-Stat	2.60	-0.56	-0.49	-0.27	0.51	5.17	-1.35	3.50	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 is subject firm)
_____

The results displayed above are for both the control and sample firms for the pre-event period, which consisted of 136 firms. The results for the other 2 regressions (event quarter and post event quarter) were similar and thus not re-produced here but are provided in the appendix. We can see from the table above that the two significant factors are size (measured by sales) and if the firm is was part of the Sample. However,

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the table above also shows that the economic effect of Size is minimal. However, Sample is not only a significant variable but also economically significant. This means that the announcements' do in fact have an effect on market share. Unfortunately, this effect is positive which is not as expected.

The final hypothesis using the general announcements sample is:

H₇: The negative CSR announcement announcements will cause a downward shift in KLD rankings the following year.

Since I am ultimately looking for KLD ranking differences as a result of announcement I must first assess the value of the rankings. This requires me to first test the ability of KLD to rank firms effectively based on several categories of which a general lists is provided in the Appendix. I test both total KLD ranks and the product category of KLD rankings. There were no significant differences from the total KLD score analysis so I have only produced the Product results below. I follow up the test on KLD's ability to rank effectively with a test of statistical significance (t-test) to see if the KLD rankings for my sample firms, and control firms (separately), are significantly different in the periods surrounding the announcement. I will proceed with the product KLD ranking for the regressions and the product totals for the test. The analysis begins with a study on the factors that may affect KLD's rankings. They are Size, Risk, ROE, and Sample. The table below shows the output from the pre-event year regression. The dependent variable is the KLD ranking. This regression is being completed in order to

test which factors are significant in determining a firms KLD ranking. "Sample" is a

dummy variable that takes on the value of 1 if the firm was subject to an announcement.

This variable was included to determine if there is any difference between the

effectiveness in rankings between sample and control firms.

Table VI

Multiple Regression for the General Announcement sample firms and their matched peers with KLD Product rankings being the dependent variable for the Pre-Event sample

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 Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent variables are size   (measured by sales), risk (measured by long term debt divided by total assets), profitability (measured by ROE) and Sample. The independent variables were chosen based on previous literature that suggested that they influenced rankings by KLD. The results in this table show that only size is significant and that the explanatory power of the regression in minimal.

Variable	Intercept	Size	Risk	ROE	Sample	R-SQ
Parameter Est.	0.123	-2.28E-6	-0.921	-0.232	-0.152	.025
T-Stat	0.34	-0.63	-0.82	-0.47	-0.58	

*Size – Measured by firm sales
*Risk- Long Term Debt/Total Assets
*ROE – Measuring Profitability
*Sample – Dummy Variable (1 if subject firm)
_____

The table above shows that the most significant factor is the Risk variable,

though the economic significance is minimal. The results displayed here are consistent

with the other two regressions that I ran but that were not re-produced in this paper.

These other regressions were a current year analysis and post year analysis, both of which

had similar results as those displayed in Table VI. The previous regressions, and the lack

of economic significance, allowed me to move forward with testing for the statistical

significance of the differences of rankings between periods as a result of the rankings. In

order to test this last hypothesis I gathered KLD's product rankings for the event period

as well as the period both prior and post. I then tested, separately, for statistical

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significance of the changes in the rankings for both subject firms as well as those control firms that were also ranked. The results for this test are shown in Table VII.

Table VII

Test of statistical significance of the difference of Product KLD rankings for the periods designated for the General Announcement sample

The table shows the statistical difference of KLD ranking changes between the specified periods. The first calculated column shows the statistical difference between periods for the control sample. The second column shows the statistical difference between the periods for the sample.

Periods being compared	T-Stat(Control Firms)	T-Test(Sample)
Pre-Event compared to Event Period	0.7804	0.7563
Event Period compared to Post Period	0.8371	1.0
Pre-Event Period compared to Post Period	0.6125	0.6908
N	34	28

The table above shows no significant difference between periods for both the control firm sample and the reduced sample of firms that were subject to an announcement. It is worth noting that the most drastic change in ranking, though not significant, is when comparing the pre-event year to the event year. This result is even more pronounced when observing only the announcement sample. However, this finding is contrary to my seventh hypothesis since the result should have produced a negative relationship.

Recall Sample

I tested the first hypothesis of this data set, the stock market reaction to recall announcements, using Eventus. The purpose was to observe the short run stock market effects on the recall announcements.

H₂: The stock market will react negatively in the short run as a response to the recall announcements.

I tested this hypothesis using Eventus. The purpose was to observe the short run effects of the recall announcements on market share. The initial test uses 108 observations, which contain only the control sample. Two firms were omitted due to lack of information for the entire period being observed. I follow up this control sample examination with an event study that examines only the sample firms. The result for the control sample for all three periods (-30,-2), (-1,0), (-1,+1) and (1,30), are shown below and reveal that the control sample has produced significant results in the pre-event period (-30,-2). The z-scores were 2.555, -0.912, -0.051 and 0.629. The pre-event date range (-30,-2) is significant at the 1% level while the remaining two periods showed a negative relationship which may be attributed to the announcement positively affecting competitors. The complete results are in the Table VIII.

Table VIII

Event Study results for the control sample surrounding the recall announcement

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Day	N	Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
-1	108	-0.34%	45:63(	-1.301$	-1.297$
0	108	-0.12%	45:63(	-1.209	-1.297$
+1	108	0.11%	56:52	1.183	0.822

Market Model, Equally Weighted Index

Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
(-30,-2)	108	2.09%	2.00%	65:43>>	1.637$	2.555**
(-1,0)	108	-0.45%	-0.57%	47:61	-1.775*	-0.912
(-1,+1)	108	-0.34%	-0.30%	52:56	-0.766	-0.051
(+1,+30)	108	-1.26%	0.06%	55:53	0.048	0.629

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.
_____

For the second part of this test I only included the sample firms and thus had a total of 57 observations. Three firms were omitted due to lack of data for the entire period required. The results show that the firms with reported recalls reacted negatively to the recalls while the control firms had a significant positive reaction in the pre-event window. The z-scores for the pre-event, event, and post-event windows produced z-scores of -0.322, -1.684, -1.139, and 0.223. Only the event window, (-1, 0), showed a significant negative reaction. This result demonstrates that the recall may have attributed to an immediate downward movement in the stock price. The complete results are shown in the Table IX.

Table IX

Event Study results for the sample firms subject to a recall announcement.

_____

Day	N	Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
-1	54	-0.63%	22:32	-1.520$	-1.139
0	54	-0.22%	31:23)	0.969	1.312$
+1	54	-0.93%	28:26	-1.284$	0.495

Market Model, Equally Weighted Index

Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
(-30,-2)	54	-1.32%	2.62%	25:29	1.829*	-0.322
(-1,0)	54	-0.85%	-0.16%	20:34<	-0.390	-1.684*
(-1,+1)	54	-1.78%	-0.53%	22:32	-1.060	-1.139
(+1,+30)	54	-1.67%	1.49%	27:27	1.134	0.223

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.
_____

We can see from these results that both the pre and event periods have a negative mean abnormal return but that only the event window is significant at the 5% level. These findings support my hypothesis that the recall may have attributed to a downward stock reaction. The reaction may have been minimized due to leakage of information, as seen with the pre-event window having a negative reaction. Additionally, the lack of significance in the post event window shows that these results were likely not significantly exaggerated.

The second hypothesis to be analyzed with the recall sample is:

H5: The recall announcements will have a negative effect on the targeted firms market share.

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The first test of this hypothesis is to examine the differences in market share surrounding the event. I will test for the statistical significance of the difference in market share for my sample firms. Table X, below compares the quarters previous to the announcement with that of the event quarter and the post event quarter. We see that the recall announcement sample had a minimal reaction on the market share of subject firms. The reaction in this test is contrary to my fifth hypothesis since I would expect the market share of those firms that issued the recall to have a negative and significant reaction.

Table X

Test of statistical significance of market share difference for the designated periods for the Recall Announcement sample.

Matching firms are selected based on both SIC codes (4-digit) and size of the firm. Though the table relies on the peer firms to determine proportion of market share, only the sample firms are being tested for statistical differences. From this table we can see that there is minimal observed difference between the designated periods surrounding the event.

Periods being compared	T-Stat(Sample)
Pre-Event Period compared to Event Period	0.9626
Event Period compared to Post Period	0.7156
Pre-Event Period compared to Post Period	0.7500
N	57

Sample Recall Announcement Market Share Descriptive Statistics

	Pre-Event	Event	Post-Event
Average	.404	.407	.386
St.Dev.	.30	.30	.29

Knowing that the market share difference between periods is insignificant I moved forward in testing the potential that any other variable or factor is affecting the difference in market share. In order to effectively analyze if the announcements had an

effect on market share I ran a regression with market share as the dependent variable and size, ROE, maturity of firm, subsidiary, and sample as the independent variables. These variables were selected since they have been shown in previous literature to have an influence on market share. I broke the analysis into three regressions looking at pre-quarter of event, event quarter, and post quarter of event. The goal with these regressions was to show that other factors may explain the change in market share and reduce the significance of the announcements. To make this regression a direct test of my hypothesis I included both the sample firms and the control firms in these regressions with the dummy variable "Sample" taking on the value of 1 if the firm is a sample firm. The table below shows the results of the regression.

Table XI

Multiple Regression for the Recall Announcement sample firms and their matched control firm with market share being the dependent variable for the Pre-Event sample.
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Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and profitability (measured by ROE). From this table we can see that the explanatory power of the regression is negligible and that only three of the variables are significant, though not the one we are investigating, Sample.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	0.1851	0.2079	0.0357	0.1219	0.1277	6.5E-6	0.057	0.0369	0.187
T-Stat	4.40	1.50	0.83	2.39	2.03	3.36	0.41	0.77	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)
_____

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The results displayed above are for the entire sample for the pre-event period, which consisted of 167 firms. The results for the other 2 regressions (event quarter and post event quarter) were similar and are presented in the appendix.

We can see from the table above that the three significant factors are size (measured by sales) and if the firm is still in its growth or maturity stages. However, we also see that the explanatory power of this regression is minimal and that the only statistically significant variable that is also economically significant is whether the firm is in a growth stage of the life cycle.

The final hypothesis for this sample group, hypothesis eight, tested the ability for KLD to rank firms appropriately.

H8: The recall announcements will cause a downward shift in KLD rankings the following year.

This final analysis requires me to first test the capability of KLD to rank firms effectively based on several categories of which a general lists is provided in the appendix. I also tested the product category of KLD rankings and noticed no significant differences from the total KLD score analysis. I follow up this test on KLD's ability to rank effectively with a t-test to see if the KLD rankings for my sample firms, and control firms (separately), are significantly different in the periods surrounding the announcement. Similar to the test on general announcements I will use Product KLD rankings for the regressions. The regression analysis begins with a study on the factors that may affect KLD's rankings; Size, Risk, ROE, and Sample. The table below shows

the output from the pre-event year regression. The dependent variable is the Product KLD

ranking. This regression is being completed in order to test the factors that may affect

KLD rankings. I am testing which factors affect the rankings and whether the firm

subject to an announcement produced any significantly different effects on ranking. Table

XII shows the results from this regression.

Table XII

Multiple Regression for the Recall Announcement sample firms and their matched peers with Product KLD Product rankings being the dependent variable for the Pre-Event sample
_____

Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent variables are size (measured by sales), risk (measured by long term debt divided by total assets), profitability (measured by ROE), and Sample. The independent variables were chosen based on previous literature that suggested that they influenced rankings by KLD. The results in this table show that only size is significant and that the explanatory power of the regression in minimal.

Variable	Intercept	Size	Risk	ROE	Sample	R-SQ
Parameter Est.	-0.111	-7.89E-6	0.651	-0.003	-0.047	.21
T-Stat	-0.55	-4.42	0.91	-0.03	-0.24	

*Size – Measured by firm sales
*Risk- Long Term Debt/Total Assets
*ROE – Measuring Profitability
*Sample – Dummy Variable (1 if subject firm)
_____

Table XII shows that the most significant factor is the Size variable. However,

it is also evident that the economic significance of this variable is minimal. In general it

was found that size plays a significant role in KLD ranking. Interestingly, the results also

showed that risk, though not significant but economically large, does not have the correct

sign. It would be assumed that if a firm were more risky the ranking of KLD should

address this in their rankings by reducing the ranking. The results shown above are

consistent with the other 2 regressions. These other regressions consisted of a current

year analysis and post year analysis of the entire sample, completed in the same fashion

as the regression previous. After realizing that the variables had no statistical significance

on the rankings I tested for statistical significance of the differences in market share from

one period to the next. I tested both the control firms and the sample firms separately in

my analysis in order to investigate any statistical differences among KLD rankings from

one year to the next. The table below shows the ability of KLD to effectively rank firms

for both the control firms and sample firms (those subject to the announcement). The

table shows that contrary to my hypothesis the change in rankings in both instances were

insignificant. However, those of the recall sample have slightly higher t-statistics, though

still insignificant.

Table XIII

Test of statistical significance of the difference of Product KLD rankings for the periods designated for the Recall Sample

The table shows the statistical difference of KLD ranking changes between the specified periods. The first calculated column shows the statistical difference between periods for the control sample. The second column shows the statistical difference between the periods for the sample.

Periods being compared	T-Stat (Control)	T-Stat(Sample)
Pre-Event compared to Event Period	0.8139	0.5163
Event Period compared to Post Period	0.7934	0.1699
Pre-Event Period compared to Post Period	0.9488	0.3828
N	46	31

The third hypothesis, the stock market reaction to boycott announcements, was completed using Eventus. The purpose is to observe the short run stock market effects of the boycott announcements.

H3: The stock market will react negatively in the short run as a response to the boycott announcements.

The initial study was completed using the control firm sample. The results for all three periods   (-30,-2), (-1,0), and (1,30) showed that the boycott announcements were only minimally significant in the pre-event period. The z-scores were 1.391, 0.294, 1.756 and 1.025. The pre-event date range (-30, -2) is significant at the 10% level while the event window (-1,+1) is statistically significant at the 5% level. Event day 0 is also statistically significant at the 5% level. These findings are important because they imply that industry competitors may have benefitted from the boycott announcement. This effect is also minimally realized during event day +1. Table XIV shows the complete results.

Table XIV

Event Study results for the control sample surrounding the boycott announcement.

_____

		Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
Day	N				
-1	30	-0.40%	13:17	-0.841	-0.438
0	30	0.27%	20:10>	1.122	2.122*
+1	30	0.56%	17:13	1.559$	1.025

Market Model, Equally Weighted Index

		Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
Days	N					
(-30,-2)	30	3.16%	3.85%	18:12)	1.743*	1.391$
(-1,0)	30	-0.13%	0.11%	15:15	0.198	0.294
(-1,+1)	30	-0.43%	0.75%	19:11	1.062	1.756*
(+1,+30)	30	-0.04%	1.40%	17:13	0.625	1.025

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.
_____

The second part of this test analyzed only the sample firms and thus had a total of 15 observations. The results, displayed below, show that the firms with reported boycotts reacted less than the analysis previous that consisted of just the control firms. The z-scores for the pre-event, event, and post-event windows produced z-scores of 0.863, 0.863, 0.346 and -0.687. Table XV shows the results from Eventus for the sample firm, none of which are significant.

Table XV

Event Study results for the boycott announcement sample firms.

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Market Model, Equally Weighted Index

Day	N	Mean Abnormal Return	Positive: Negative	Patell Z	Generalized Sign Z
-1	15	0.64%	10:)	1.082	1.379$
0	15	0.46%	9:6	1.598$	0.863
+1	15	0.23%	6:9	0.182	-0.687

Market Model, Equally Weighted Index

Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive: Negative	Patell Z	Generalized Sign Z
(-30,-2)	15	7.35%	5.83%	9:6	2.105*	0.863
(-1,0)	15	1.10%	1.37%	9:6	1.895*	0.863
(-1,+1)	15	1.33%	1.47%	8:7	1.652*	0.346
(+1,+30)	15	-4.39%	-3.50%	6:9	-1.244	-0.687

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a 1-tail test. The symbols (,< or),> etc. correspond to $,* and show the significance and direction of the generalized sign test.
_____

The results above show a positive sign in both the pre-event and event window with a slight negative reaction during the post event day and post event window. However, none of these results were significant. It would seem that the sample firms are not significantly or negatively affected by the boycott announcements as my hypothesis specified.

The second hypothesis being tested with this sample is:

H6: The boycott announcements will have a negative effect on the targeted firm's market share.

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The first test of this hypothesis is to test for the statistical significance of the change in market share from one period to the next surrounding the event. The table below shows the market share analysis when comparing the three quarters to one another. It is evident that the changes in market share are not significant amongst any of the periods. This finding is contrary to my expectations since I would expect the announcement of a boycott to have a negative effect on market share. However, similar to the previous samples examined the sign is not correct and the finding is insignificant. Therefore in regards to the sixth hypothesis it is evident that the results of this test did not follow my expectations.

Table XVI

Test of statistical significance of market share difference for the designated periods using the Boycott Announcement sample.

Matching firms are selected based on both SIC codes (4-digit) and size of the firm. Though the table relies on the peer firms to determine proportion in market share only the sample firms are being tested for statistical differences. From this table we can see that there is minimal observed difference between the designated periods surrounding the event.

Periods being compared	T-Test(Sample)
Pre-Event Period compared to Event Period	0.9001
Event Period compared to Post Period	0.9815
Pre-Event Period compared to Post Period	0.9595
N	15

Sample Boycott Announcement Market Share Descriptive Statistics

	Pre-Event	Event	Post-Event
Average	.537	.551	.534
St.Dev.	.29	.30	.31

Table XVI shows that the difference in market share is not significant. Therefore, my next step is to omit the potential that any other variable or factor may affect the difference in market share while directly testing my hypothesis. To effectively analyze if the boycotts have an effect on market share I ran a regression with market share as the dependent variable and size, ROE, maturity of firm, subsidiary, and sample as the independent variables. The purpose of this regression is to first examine the announcements affect on market share and also to examine any external factors that may be affecting the changes noticed in market share. I broke the analysis into three regressions looking at pre-quarter of event, event quarter, and post quarter of the event. I included both the sample firms and the control firms in these regressions with the dummy variable "Sample" taking on the value of 1 if the firm is a sample firm. Table XVII shows the results of the regression for the pre-quarter regression.

Table XVII

Multiple Regression for the Boycott Announcement sample firms and their matched control firms with market share being the dependent variable for the Pre-Event sample.

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Sample firms are matched with 2 peer firms in order to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and profitability (measured by ROE). From this table we can see that the explanatory power of the regression is minimal and that only two of the variables are significant. The variable of interest, Sample, is both economically and statistically significant, though carries the wrong sign.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	.1382	.032	-0.0886	0.0955	0.1214	1.02E-5	-0.14	.229	0.374
T-Stat	1.22	0.26	-0.92	0.63	1.02	2.33	-0.92	2.62	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)
_____

The results displayed above are for the entire sample for the pre-event period, which consisted of 45 firms. The results for the other 2 regressions (event quarter and post event quarter) were similar and have been reproduced in the appendix.

We can see from Table XVII above that the only significant factor is size (measured by sales) and sample. Though these two factors are statistically significant only Sample is economically significant. This shows that even though the difference between periods was not found to be significant the firms subject to an announcement did in fact contribute significantly to market share changes. However, this effect was positive which is contrary to my hypothesis.

The final hypothesis, hypothesis nine, tests the ability of KLD to rank firms appropriately.

H9: The boycott announcement announcements will cause a downward shift in KLD rankings the following year.

This particular analysis requires me to first test the ability of KLD to rank firms effectively based on several categories of which a general lists is provided in the appendix. I also tested the product category of KLD rankings independently and noticed no significant differences from the total KLD score analysis. I follow up the test on KLD's ability to rank effectively with a t-test to see if the KLD rankings for my sample firms, and control firms (separately), are significantly different in the periods surrounding the announcement. I will proceed using the Product KLD ranking for both the regressions and the test of differences. The analysis begins with a study on the factors that may

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affect KLD's rankings. The variables that I am analyzing have been shown to affect corporate social responsibility rankings; Size, Risk, ROE, and Sample. Sample has been incorporated to see if the sample firms are subject to any differences in ranking. Table XVIII shows the output from the pre-event year regression. The dependent variable is the KLD ranking. This regression is being completed in order to ensure that any differences found in KLD product rankings from one period to the next are not affected by any of these external factors and are instead a result of the observed event.

Table XVIII

Multiple Regression for the Boycott Announcement sample firms and their matched peers with KLD Product rankings being the dependent variable for the Pre-Event sample

Sample firms are matched with 2 peer firms in order to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent variables are size (measured by sales), risk (measured by long term debt divided by total assets), and profitability (measured by ROE). The independent variables were chosen based on previous literature that suggested that they influenced rankings by KLD. The results in this table show that only Sample is significant and carries the correct sign and that the explanatory power of the regression in minimal.

Variable	Intercept	Size	Risk	ROE	Sample	R-SQ
Parameter Est.	0.108	-3.58E-5	1.232	0.172	-5.899	.194
T-Stat	0.21	-0.92	0.69	0.86	-1.58	

*Size – Measured by firm sales
*Risk- Long Term Debt/Total Assets
*ROE – Measuring Profitability

Table XVIII shows that the most significant factor is the Sample variable. This is consistent with both of the other two regressions. In general it was found that Sample plays a role in KLD rankings, though not statistically significant. The finding here support my hypothesis that firms subject to an announcement receive a downgrade in

ranking, however, the effect is not significant. The other two regressions were a current year analysis and post year analysis. Though the sign is as expected there is no statistical significance. The lack of explanatory power of these regressions and more specifically the Sample variable led me to test for statistical differences between market share surrounding the announcement period. I analyzed both the control sample as well as just the sample firms to compare and examine the samples for any statistical difference in rankings surrounding the event. The table below shows that the KLD rankings of subject firms over the specified periods are not significant and do not have the correct sign. It would be expected that the boycott announcements would have produced negative rankings of a significant nature, as hypothesis 9 stated, though this is not the case. Table XIX shows the results for both the control sample analysis and the sample firm analysis. We can see that neither difference is statistically significant meaning that KLD does not alter their rankings as a result of these announcements.

Table XIX

Test of statistical significance of the difference of KLD rankings for the periods designated for the Boycott Announcement sample.

The table shows the statistical difference of KLD ranking changes between the specified periods. The first calculated column shows the statistical difference between periods for the control sample. The second column shows the statistical difference between the periods for the sample.

Periods being compared	T-Stat (Control)	T-Stat (Sample)
Pre-Event Period compared to Event Period	0.6608	0.6280
Event Period compared to Post Period	0.9050	0.5805
Pre-Event Period compared to Post Period	0.7687	0.2890
N	16	12

CHAPTER 5

CONCLUSION

The previous results show that the event study analyses completed for all three samples (negative announcements, boycotts, and recalls) were not consistent. Specifically, I found that general announcements produced negative post event stock reactions (day +1), significant at the 5% level. However, these downward trends must have been exaggerated since they rebounded in the post period of (+1, +30), with a significance of 10%. Conversely, the control sample for these announcements shows a negative and significant reaction in the post event period. This result confirms polls on consumer behaviors that found lack of CSR to negatively affect firms (Business in the Communit 1997, Cone Inc. 1999, Davids, 1990). Prior research also suggests that negative CSR can have a detrimental effect on overall product evaluations (Brown and Dacin, 1997) and thus on their performance. The contribution to literature on this front is that the control group also has a negative and significant reaction. The effect on peers has been studied only minimally.

The event study results for the recall sample showed a negative and significant reaction at the 5% level for the (-1, 0) period. However, when looked at on a daily basis, day 0, was positive and significant at the 10% level. This implies that the leakage of information may have exaggerated the effects. The control sample also showed negative and significant results for the period (-30, -2) (significant at 1%) as well as day -1, and 0 (significant at the 10% level). This may interpret to a general industry trend that affected the sample firms also. This implies that the announcements may have had a significant effect on the share price. A similar result was found by Jarrell and Peltzman (1985) which

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found that there is significant shareholder loss due to firm recalls. However, the contribution to research on this topic is that the control sample also seems to play a role in the announcement. There are apparent spillover effects on peers stock that have not been addressed in prior literature.

The final event study analysis was completed with the boycott sample. The results for this sample show that day -1 is positive and significant while day +1 and the period of (+1, +30) are negative but insignificant. Though these signs are as expected the insignificance implies the lack of importance to the market. This result is supported by previous surveys that examined consumers and their purchasing patterns. Specifically, Auger and Devinney (2005) found a disconnect between the issues consumers claim to care about when surveyed and their true purchasing pattern. Osterhus (1997) found that normative influences do not automatically translate into behavior (consistent with Roberts 1996) and people are strongly influenced by personal costs and rewards. These previous findings help to understand consumers intended behavior through surveys but do not translate the purchase patterns into stock price reactions, which is the bridge this piece is trying to build. More interestingly and not studied often are competitors' reactions. The control sample had a positive and significant (5%) change for day 0 and a positive and significant effect for the period of (-30, -2). This may imply that the control sample benefits from the subject firms' poor news. These findings show managers that, generally, negative announcements of all types are important. Managers need to realize that even though the announcements may not affect their firm in a significant and negative way that they also need to acknowledge the potential positive effects on their

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peers. This shows that even those announcements that are not illegal need to be addressed by management.

The next tests of hypotheses were based on examining the differences among market share surrounding the announcement for the sample firms. The purpose was to analyze any significant change in market share form one period to the next. It was found that no significant effect existed in any of the three types of announcements, negative CSR announcements, boycotts, and recalls. This lack of significance would lead to the conclusion that the public does not value these announcements or that they do not value them enough to make a change in their purchasing patterns. These results were contrary to a study by APCO (2004) that surveyed "opinion elites" and found that negative CSR led to 60% of individuals to boycott a company's product. However, my study did not find that the surveyed results were carried through to final market share reactions and that the public does not act in the same way they respond. Additionally, past research on boycotts shows the frequency of boycotts and likelihood of participation but does not address the market effects in depth. Smith (1990) reviewed several cases and found that the use of consumer boycott does have an effect on initiating change over business on social issues. My study parallels this study by helping managers to justify their lack of response by showing that the effect on their market share is minimal at best and may not warrant a response. These results were then followed up with a regression analysis that put the market share as the dependent variable and 'Sample' as one of the independent variables. The purpose was to see if the firms that were subject to an announcement affected market share significantly. With regards to the tests establishing the effects of variables on market share, it was found that the results in all three samples were similar.

The Size variable was always among the most significant followed by whether the firm is in its growth stages or mature stages. The size variable has been found in past literature to be significant and carries through to this study. However, the stage of the firm has not been tested as a contributing variable to market share. A mature firm was defined as a firm that had incorporated more than 30 years previous the announcement. The Sample variable is the most important variable in the regression and shows that the subject firms did not have the expected effect on market share. For all three samples the Sample variable was not consistently significant but was in fact positive, implying that a negative announcement positively contributes to market share. The implication of these regressions is not necessarily contrary to the event study first completed since the stock market study is observing owners' responses while the market share analysis is studying the customers response to the same announcements. The results lead managers to the conclusion that even if the owners' (or shareholders) allow the events to affect the stock price the general public does not change their purchasing patterns in a significant way. If anything the results imply that the negative publicity is better than no publicity at all and that market share may in fact increase. This is not entirely surprising since customers develop loyalties to particular products or companies and if they were not directly or significantly affected by the announcements they obviously found no reason to alter their purchase patterns. However, this does not readily explain the increased market share of the firms subject to these announcements. This conclusion allows us to better understand particular firm analysis in literature that often find firms deciding not to alter their actions and rather just accepting the penalties that customers feel they can impose, which are evidently minimal.

The final regressions tested the variables that have been proposed to have an effect on KLD rankings. To my knowledge, though this database is regularly used as a basis for CSR studies the validity of it has not been examined with respect to their ability to rank effectively. In general it was found that only size, as measured by sales, has a significant effect on KLD rankings. The Sample variable was only significant in the boycott sample. However, in all cases it did have the correct negative sign. The purpose of this initial regression was to show that KLD rankings are not fully reliant on any particular set of observable variables and that more importantly the Sample variable would produce negative results. These negative effects were as expected though the Sample variable had minimal effect, with the exception of boycott announcements. This implies that only boycotts will affect the product ranking in any significant manner. These negative relationships led me to the final test of this piece which was to examine if there were any significant differences in KLD rankings from one year to the next, surrounding the event year, for each of the three samples. The results showed us that not only were the differences between periods insignificant but they also did not have the correct sign. If the announcements were truly expected to create a negative valuation then the rankings would have been negatively affected. However, this was not the case and the results were positive, though insignificant. This shows us that the professional ranking service, like customers, do not truly value the three style of announcements tested. This is yet another example of how firms are free to act poorly without being truly penalized.

It can be concluded from the findings that the three types of announcements produce generally negative reactions in the stock market amongst owners of the firms. However, the public response to these announcements, as measured by market share, is

minimal at best, and often seems to positively contribute to the market share of a sample firm which is contrary to expectations.

The questions, or gaps, in this piece can be addressed in the future by examining why both the market share differences and KLD ranking differences were not affected for these particular announcements? Additionally, it would be beneficial to test what negative factors are significant enough to affect KLDs ranking since it is evident from this study that those items publicized, but not illegal, have minimal effect. Since KLD is the most widely used resource for corporate social responsibility studies I think it is necessary to know all significant or relevant data that alters these rankings. However, from this study we see that shareholders and end-users affect the market minimally, at best.   I find it evident that the market reacts minimally to poor CSR and that customer' barks are definitely worse than their bite.

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APPENDICES

The purpose of the event study was to determine the securities' market's reaction to several announcements. These announcements ranged from boycotts, recalls, and general negative announcements. Since the study of abnormal returns requires the identification of normal returns I used the following market model:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

Where R_{it} is the return on security $_i$ at time $_t$, α_i is a regression intercept, β_i is the beta coefficient of the regression, R_{mt} is the return on the market index at time $_t$, and ε_{it} is the disturbance term.

Day 0 is defined as the day the announcement made it to a top printed newspaper, as described previously. For each of the three samples a first pass regression of each security's returns against returns on the market us run over days -291 to -91 to obtain estimates for the parameters of the market model, α_i and β_i.

The market model parameters for each of the $_i$ company's securities are applied to the actual market returns observed for days -90 to +30, which provide the predicted returns for company $_i$. These predicted returns are compared to the actual returns for each of the $_i$ companies from -90 to +30. The difference between the actual returns and the predicted returns (found using the market model) for security $_i$ at time $_t$ is called the abnormal return, AR_{it}:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}),$$

Where R_{it} represents the actual return on security $_i$ at time $_t$, and the term in parentheses is the normal return. The other variables are as previously defined.

The average abnormal return is computed by summing the abnormal returns across all N firms for each relative event time, j, as follows:

$$AR_{it} = \sum_{j=1}^{N} \frac{AR_{it}}{N}$$

The cumulative abnormal return (CAR) is also computed over various intervals, T_1 to T_2 :

$$CAR_{T1,T2} = \sum_{t=T1}^{T2} AR_t$$

In an efficient market, the return on a security will react immediately to an event that affects its intrinsic value. Under these conditions, the AR_t and CAR will be random except upon the receipt of the news of an event. When information that affects the value of firms reached the market for each firm as the same time relative to day 0, then the AR_t should not be 0. If the information flow is not uniform with respect to event times, the

CAR will not be 0. I used test statistics to determine when an AR_t or CAR was significantly different from 0.

The test statistic can be computed as follows:

$$T_i = \frac{AR_t}{SD_{at}}$$

Where SD_{at} is the standard deviation of the AR_t across time from -90 to +30. Using this method assumes that the AR_t's are independent and identically, normally distributed across time. Since the event dates are not uniform with respect to calendar time, the assumption of independence should not be violated. If the assumption is violated, and the AR_t's are not independent, the statistic will be overstated.

A test statistic is computed for the cumulative abnormal returns over various intervals T_1 to T_2. This statistic is originally reported in Brenner (1979) and is computed as follows:

$$T = \frac{CAR_{T1,T2}}{CSD_{T1,T2}}$$

The $CAR_{T1,T2}$ is the change in CAR over the interval. CSD is the cumulative standard deviation. It is found by summing the cross-sectional variances of the AR_t at each time $_t$ during the specified interval and dividing by N. The square root is taken to provide the standard deviation.

Appendix B
Complete KLD Ranking Factors (Product Ranking Factors Highlighted)

CGOV-con-B	OTH-con-B	High Compensation
CGOV-con-E	OTH-con-E	Tax Disputes
CGOV-con-F	OTH-con-F	Ownership Concern
CGOV-con-X	OTH-con-X	Other Concern
CGOV-str-#		Total Number of Corporate Governance Strengths
CGOV-str-A	OTH-str-A	Limited Compensation
CGOV-str-C	OTH-str-C	Ownership Strength
CGOV-str-X	OTH-str-X	Other Strength
COM-con-#		Total Number of Community Concerns
COM-con-A	COM-con-A	Investment Controversies
COM-con-B	COM-con-B	Negative Economic Impact
COM-con-C	COM-con-C	Indigenous Peoples Relations Concern (2000 - 2002)
COM-con-X	COM-con-X	Other Concern
COM-str-#		Total Number of Community Strengths
COM-str-A	COM-str-A	Generous Giving
COM-str-B	COM-str-B	Innovative Giving
COM-str-C	COM-str-C	Support for Housing
COM-str-D	COM-str-D	Support for Education (added in 1994)
COM-str-E	COM-str-E	Indigenous Peoples Relations Strength (2000 - 2002)
COM-str-F	NON-str-C	Non-U.S. Community Involvement
COM-str-X	COM-str-X	Other Strength
DIV-con-#		Total Number of Diversity Concerns
DIV-con-A	DIV-con-A	Controversies
DIV-con-B	DIV-con-B	Non-Representation
DIV-con-X	DIV-con-X	Other Concern
DIV-str-#		Total Number of Diversity Strengths

DIV-str-A	DIV-str-A	CEO
DIV-str-B	DIV-str-B	Promotion
DIV-str-C	DIV-str-C	Board of Directors
DIV-str-D	DIV-str-D	Family Benefits
DIV-str-E	DIV-str-E	Women/Minority Contracting
DIV-str-F	DIV-str-F	Employment of the Disabled
DIV-str-G	DIV-str-G	Progressive Gay/Lesbian Policies (added in 1995)
DIV-str-X	DIV-str-X	Other Strength
EMP-con-#		Total Number of Employee Relations Concerns
EMP-con-A	EMP-con-A	Union Relations Concern
EMP-con-B	EMP-con-B	Safety Controversies
EMP-con-C	EMP-con-C	Workforce Reductions
EMP-con-D	EMP-con-D	Pension/Benefits Concern (added in 1992)
EMP-con-X	EMP-con-X	Other Concern
EMP-str-#		Total Number of Employee Relations Strengths
EMP-str-A	EMP-str-A	Union Relations Strength
EMP-str-B	EMP-str-B	No Layoff Policy (though 1994)
EMP-str-C	EMP-str-C	Cash Profit Sharing
EMP-str-D	EMP-str-D	Involvement
EMP-str-F	EMP-str-F	Strong Retirement Benefits
EMP-str-X	EMP-str-X	Other Strength
ENV-con-#		Total Number of Environment Concerns
ENV-con-A	ENV-con-A	Hazardous Waste
ENV-con-B	ENV-con-B	Regulatory Problems
ENV-con-C	ENV-con-C	Ozone Depleting Chemicals
ENV-con-D	ENV-con-D	Substantial Emissions

Code	Code	Description
ENV-con-E	ENV-con-E	Agricultural Chemicals
ENV-con-F	ENV-con-F	Climate Change (added in 1999)
ENV-con-X	ENV-con-X	Other Concern
ENV-str-#		Total Number of Environment Strengths
ENV-str-A	str-A	Beneficial Products & Services
ENV-str-B	str-B	Pollution Prevention
ENV-str-C	str-C	Recycling
ENV-str-D	str-D	Alternative Fuels
ENV-str-E	str-E	Communications (added in 1996)
ENV-str-F	str-F	Property, Plant, and Equipment (through 1995)
ENV-str-X	str-X	Other Strength
HUM-con-#		Total Number of Human Rights Concerns
HUM-con-A	NON-con-A	South Africa Concern (though 1994)
HUM-con-B	NON-con-B	Northern Ireland Concern (through 1994)
HUM-con-C	NON-con-C	Burma (added in 1995)
HUM-con-D	NON-con-D	Mexico (1995 - 2002)
HUM-con-F	NON-con-F	International Labor Concern (added in 1998)
HUM-con-G	NON-con-G	Indigenous Peoples Relations (added in 2000)
HUM-con-X	NON-con-X	Other Concern
HUM-str-#		Total Number of Human Rights Strengths
HUM-str-A	NON-str-A	Positive Operations in South Africa (1994 - 1995)
HUM-str-D	NON-str-D	Indigenous Peoples Relations (added in 2000)
HUM-str-G	HUM-str-G	Labor Rights Strength (added in 2002)
HUM-str-X	NON-str-X	Other Strength
PRO-con-#		Total Number of Product Concerns
PRO-con-A	PRO-con-A	Product Safety
PRO-con-D	PRO-con-D	Marketing/Contracting Controversy
PRO-con-E	PRO-con-E	Antitrust
PRO-con-X	PRO-con-X	Other Concern
PRO-str-#		Total Number of Product Strengths
PRO-str-A	PRO-str-A	Quality
PRO-str-B	PRO-str-B	R&D/Innovation
PRO-str-C	PRO-str-C	Benefits to Economically Disadvantaged
PRO-str-X	PRO-str-X	Other Strength
ALC-con-#		Total Number of Alcohol Concerns
ALC-con-A	ALC-con-A	Involvement
ALC-con-X	ALC-con-X	Other Concern (through 2002)
FIR-con-#		Total Number of Firearms Concerns
FIR-con-A	FIR-con-A	Involvement (added 1999)
GAM-con-#		Total Number of Gambling Concerns
GAM-con-A	GAM-con-A	Involvement
GAM-con-X	GAM-con-X	Other Concern (through 2002)
MIL-con-#		Total Number of Military Concerns
MIL-con-A	MIL-con-A	Major Involvement
MIL-con-B	MIL-con-B	Minor Involvement (through 2002)
MIL-con-C	MIL-con-C	Major Supplies (through 2002)
MIL-con-X	MIL-con-X	Other Concern (through 2002)
NUC-con-#		Total Number of Nuclear Concerns
NUC-con-A	NUC-con-A	Ownership Concern
NUC-con-C	NUC-con-C	Design (through 2002)
NUC-con-D	NUC-con-D	Fuel Cycle/Key Parts (through 2002)
NUC-con-X	NUC-con-X	Other Concern (through 2002)
TOB-con-#		Total Number of Tobacco Concerns
TOB-con-A	TOB-con-A	Involvement
TOB-con-X	TOB-con-X	Other Concern (through 2002)

Multiple Regression for the general announcement sample firms and their matched control firms with market share being the dependent variable for the Event sample.

Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size, (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only three of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	0.1652	-0.0083	0.0119	0.0524	0.0453	1.8E-5	-0.501	0.2417	0.324
T-Stat	2.30	-0.08	0.20	0.59	0.55	5.02	-1.92	3.95	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 is subject firm)

Multiple Regression for the general announcement sample firms and their matched control firms with market share being the dependent variable for the Post-Event sample.

Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size, (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only three of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	0.1671	-0.0229	0.0116	0.0087	0.0504	1.6E-5	-0.315	0.2547	0.361
T-Stat	2.44	-0.24	0.21	0.11	0.65	5.27	-0.93	4.61	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 is subject firm)

Multiple Regression for the Recall Announcement sample firms and their matched control firm with market share being the dependent variable for the Event sample.

Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only three of the variables are significant.

	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Variable									
Parameter Est.	0.1871	0.2118	0.0365	0.1309	0.1410	6.7E-6	-0.059	0.0228	0.189

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T-Stat	4.23	1.52	0.84	2.56	2.20	3.41	-0.58	0.48

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)

Multiple Regression for the Recall Announcement sample firms and their matched control firm with market share being the dependent variable for the Post-Event sample.

Sample firms are matched with 2 peer firms to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only three of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	0.1911	0.1935	0.0388	0.1225	0.095	7.2E-6	0.0448	0.0257	0.174
T-Stat	4.39	1.39	0.90	2.43	1.49	3.68	0.38	0.54	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)

Multiple Regression for the Boycott Announcement sample firms and their matched control firms with market share being the dependent variable for the Event sample.

Sample firms are matched with 2 peer firms in order to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only two of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	.1487	.0622	-0.0547	0.0491	0.0865	5E-6	-0.0212	.2582	0.346
T-Stat	1.24	0.47	-0.51	0.31	0.69	2.01	-0.65	2.78	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)

Multiple Regression for the Boycott Announcement sample firms and their matched control firms with market share being the dependent variable for the Post-Event sample.

Sample firms are matched with 2 peer firms in order to determine market share. Matching firms are determined by both SIC codes (4-digit) and size of the firm. The independent dummy variables are subsidiary, bear/bull market, growth, maturity, and sample. The remaining independent variables are size (as determined by revenues), and return-on-equity. The t-stats are beneath their respective parameter estimates. From this table we can see that the explanatory power of the regression is minimal and that only two of the variables are significant.

Variable	Intercept	Subsidiary	Bear/Bull	Growth	Maturity	Size	ROE	Sample	R-SQ
Parameter Est.	.149	.096	-0.0721	0.114	0.0973	3.9E-6	-0.094	.232	0.329
T-Stat	1.26	0.72	-0.68	0.71	.81	2.18	-.57	2.42	

*Subsidiary – Dummy Variable (1 if subsidiary)
*Bear/Bull – 1 if event happened in a Bear Market
*Growth and Mature – If the firm is 15 years old it receives a 1 in growth. If more than 30 years old it receives a 1 in Mature
*Sample – Dummy Variable (1 if subject firm)

VITA

Graduate School
Southern Illinois University

David J. Rodriguez   Date of Birth: June 9, 1982

3046 W. Lyndale, Chicago, Illinois 60647

drodriguez@illinoisalumni.org

University of Illinois Champaign-Urbana
Bachelor of Science, Finance and Real Estate Concentration, May 2000

DePaul University Chicago
Master of Business Administration, Real Estate Concentration, May 2003

Dissertation Title:

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