



# Study: Does Corporate Social Responsibility Performance Affect Reputational Risk?

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You're a Chief Executive. Why care about environmental impacts and employee wellbeing if the bottom line is improving? The business logic behind CSR contends that negligence of these issues increases reputational risks. Just as a positive image can endear a brand to consumers, a toxic spill or news of [poor labor conditions](#) may threaten its 'social license to operate' and worry investors about disruptions to business. History shows reputational damage can quickly translate into financial losses (case in point: the [Deepwater Horizon spill](#).)

If neglecting sustainability induces risks, we might expect strong sustainability performance and disclosure to mitigate them; a company's [proactive reporting](#) on social and environmental issues should lessen its risk exposure, right?

Not necessarily. A new study from **CSRHub** and **RepRisk** complicates these broad assumptions. First, it finds the number of data sources reporting on a company's sustainability correlates with increased risk exposure. In other words, the companies that are covered by the most rating programs and receive the most attention from socially responsible investors, NGOs and news outlets, are also exposed to greater risk. Companies that report through one of three major reporting systems (**GRI**, **CDP** or the **UN Global Compact**) also appear to have higher average reputational risk exposure than those that do not.

Okay, so more sources of company evaluation means more opportunity for scrutiny.

Second, the study suggests the nature of a company's CSR activity is important in determining risk exposure. Companies with strong records in certain sustainability categories (human rights and supply chain, leadership ethics and resource management) appear to have systematically low risk exposure. But companies with extensive programs in other areas (community development and philanthropy, environmental policy and reporting efforts or extensive compensation and benefits programs) appear to have higher risk exposure.

Why do these latter variables increase risk? They may be connected to a company's efforts to offset its past risk events or possible future risk activities, [says the study's lead author](#). For example, companies with extensive environmental policy and reporting programs may have higher environmental exposure and may also be accused of "[greenwashing](#)." Indeed, [past research indicates](#) that companies with worse environmental records may actually disclose more environmental information to avoid reputational damage.

If the study's findings are accurate, a company not yet followed by multiple sustainability sources seeking to lower its reputational risk might start to build a strong foundation of sustainability practices. As regulatory and societal pressures will likely force companies to disclose performance, most companies will eventually be "noticed."

If a company is already followed by multiple sustainability data sources, the study suggests it invest in human rights and supply chain, leadership ethics and resource-management programs to mitigate reputational risk. When a well-followed company has strong programs in community development and philanthropy, environmental policy and reporting, or compensation and benefits programs, the study predicts it will also have higher reputational risk, perhaps in reaction to past risk events – so corporate risk managers and sustainability managers need to collaborate on these programs to ensure that they meet both a company's sustainability and risk-reduction goals.

The study combined CSRHub data on perceived CSR performance and RepRisk data on the level of ESG-related reputational risk exposure for over 4,000 global companies across 18 industries. Details on CSRHub's ratings and RepRisk factors are available via the CSRHub's [Excel-based Dashboard](#).

Results explain 24 percent of the variation in risk exposure among 'high-disclosure' companies – the 2,000 that revealed the most sustainability information. No correlation was observed between risk exposure and sustainability performance for the companies that disclosed a small amount of information.

The authors [acknowledge](#) that their findings do not imply causation. It is possible the results are due to random variation, or that reputational risk and CSR performance are both influenced by other variables such as revenue or number of employees. However, the study does control for industry group, geographic region, and market capitalization.

The authors welcome the input of other researchers in developing "best practices" for the six sustainability areas that seem to affect reputational risk. They hope to further investigate how different areas of CSR activity may affect risk exposure over time.