

Contagious Corporate Reputation Risk: Uncovering the Pandemic's Impact

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Abstract : By using the Reputation Risk Index (RRI) to measure company environmental, social, and governance (ESG) activities, this research studies firms' ESG comovement with their industry and local peers. This comovement is attenuated during the Covid-19 pandemic. Further analysis shows that corporate governance plays an important role in comovement decrease. We classify companies by region (city, state, region) and industry and calculate the average RRI of companies of the same type. We run separate regressions to test 1) industry comovement; 2) local comovement; 3) Covid-19 pandemic and reputation risk comovement; 4) corporate governance and reputation risk comovement. Our findings are consistent with previous literature that companies follow their industry and local counterparts in engaging in irresponsible activities and reducing ESG engagement. We speculate Covid shock led to a reduction in social activities and information sharing among enterprise managers, and comovement between enterprises, as a result, decreased during the pandemic.

Keywords : ESG, Covid, peer pressure, local comovement, corporate governance

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