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Are Firms Penalized for Their Involvement in Human Rights Violations?

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ABSTRACT

Increased transparency about harmful corporate human rights practices is often assumed to contribute to the prevention of such violations, as negative publicity may generate reputational damage for corporations. However, whether and when such reputational damage actually occurs, and in what shape, is unknown. We use an event study design to investigate stock market reactions to announcements of accusations of corporate human rights violations. We test whether differences in media coverage, a clear focus on blame, concurrent NGO involvement, and social media coverage explain variation in the stock market's reaction to the announcement of a corporate human rights violation. Our study finds no stock market effects for accusations of corporate human rights violations. This study concurs with previous findings questioning the reputational damage for corporate social irresponsibility.

“Amazon, Tesla and Meta among world's top companies undermining democracy” (*The Guardian*), “VW audit finds no forced labour at China plant” (*Financial Times*), “German firm BASF urged to quit Xinjiang over ‘gross abuses’ of Uyghurs” (*The Guardian*), or “Ikea to pay €6mn to compensate for forced labour by ex-prisoners in East Germany” (*Financial Times*) are just some of the recent headlines in press (Sainato 2024; Nilsson 2023; Hawkins 2024; Milne and Pitel 2024). As the business model of multinational corporations in the Global North often relies on production processes in host states in the Global South, there is a risk of violating human rights of workers and local inhabitants in these host states. In the past two decades, public expectations about the responsibilities of corporations regarding human rights has increased. While the precise scope of corporate responsibilities on human rights is contested, there is increased acknowledgement that the protection of human rights is not only a matter of states, but also of business (Ruggie 2008a; Wettstein 2009; Arnold 2010). The UN, civil society organization, and academics increasingly marked corporate involvement in human rights violations (such as involvement in genocide,

killings, modern slavery, forced displacement, and discrimination) as a global societal problem (Ruggie 2008b, 2013; Wettstein 2022; van Baar 2024). Public awareness was spurred by the 2011 UN Guiding Principles on Human Rights (UNGPs) which hold that parallel to the states duty to *protect* human rights, corporations have a responsibility to *respect* human rights (Ruggie 2008a).

Growing socio-political pressure on MNCs to behave responsibly, in combination with the increased possibility for disseminating information on misconduct via the internet, renders it increasingly likely that corporate human rights violations negatively impact corporate reputations. Reputational damage can include financial losses through reduced sales due to consumer reactions, difficulties in retaining and obtaining employees, demands for better contractual terms by supply chain partners, and the downgrading of a firm's stock market value (Alexander 1999). It is unclear, however, whether and under what conditions corporate human rights violations actually result in reputational damage, and in what shape. Empirical

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knowledge is underdeveloped, leaving expectations to a large degree unsubstantiated (Jackson et al. 2014).

This study therefore investigates reputational damage for MNCs following allegations of their involvement in human rights violations in host countries by analyzing to what extent firms incur a stock market loss when investors learn about the firm's transgression. This allows us to answer the question of whether regulators can rely on market-induced reputational penalties or on legal penalties. In the absence of any economically meaningful reputational penalties, regulators should rely more heavily on legal penalties. Moreover, it would strengthen the argument for recent regulatory initiatives such as the adoption of the EU Corporate Sustainability Due Diligence Directive (CSDDD) in 2024, which makes Human Rights Due Diligence obligatory for large corporations in all EU member states from 2027 onwards (Bueno et al. 2024; European Union 2024).

We adopt a well-known quantitative operationalization of reputation by measuring reputational penalties in terms of stock losses after news about corporate (mis)behavior (Engelen and van Essen 2012; Gatzert 2015; Karpoff 2012). We compile a unique dataset of corporate human rights violations, which allows us to make three contributions to the literature on reputational penalties for corporate misconduct. First, our study offers a very crisp measurement of the magnitude of the reputational penalty that allows us to overcome some of the measurement problems of conventional studies measuring reputational effects of misconduct. Contrary to forms of misconduct subject to legal sanctions, the stock market effects for corporate human rights violations can be fully attributed to reputational penalties as legal sanctions for these violations are virtually absent in our dataset.

As a second contribution to the reputational penalties literature, our dataset also allows testing the current assumption in economic reputational scholarship that firms involved in corporate misconduct will only suffer reputational penalties when the misconduct is directed against stakeholders (as in accounting fraud), but not when it affects *third parties* (as in those affected by human rights or environmental violations). The assumption is that shareholders experience fraud against customers, suppliers, employees, or capital providers as a breach of loyalty of the firm and experience the firm as less trustworthy, whereas offenses towards third parties do not affect their expectations of their own benefits of doing business with a firm (Karpoff 2012). Our dataset allows testing this theory as human rights violations only involve damage to third parties (victims) with no direct or indirect claim to the firm.

Third, our study adds to reputation penalties literature by including social media effects on reputation. Both in CSR research and in corporate reputation scholarship, reputation is increasingly understood as mediated (Breitinger and Bonardi 2017; Rindova et al. 2005). Following this, scholars have started to highlight the role of media exposure as a key factor in determining reputational damage after misconduct, arguing that investor reactions to misconduct will be shaped by the nature, intensity, and content of media reports (Atanasov et al. 2012; Carberry et al. 2018; Deephouse 2000). Media play an important role in reducing information asymmetry about misconduct,

particularly with regard to behavior that firms are not likely to disclose themselves, such as corporate misconduct (Aguilera et al. 2015). In particular, scholarship is emerging with regard to the role of online information and social media in affecting reputations (van den Broek et al. 2017). Our paper is the first to investigate how social media influences reputational damage after human rights violations.

The article is organized as follows. The next section sets out our theory and hypotheses. The second section of this article describes our methodology and data collection. The third section contains results, and the final section concludes and discusses the implications of our findings.

1 | Theory and Hypotheses

1.1 | Reputational Sanctions for Corporate Misconduct

Studies focusing on stock price as an indicator of a firm's reputation see reputation as the expectations that business partners have of the benefits of doing business with a firm compared to its competitors (Armour et al. 2017). Stock market reactions to corporate (irresponsible) behavior reflect changes in shareholders' views of the benefits of trading with a firm. Disclosure of misconduct informs shareholders of financial payments the firm is required to make, such as legal costs associated with paying fines and settling lawsuits, the introduction of compliance programs, or the withdrawal from conflict areas (Alexander 1999; Griffin et al. 2014). In addition to this predicted loss, shareholders may expect negative effects from reactions of other stakeholders, such as sales drops. Negative effects from stakeholder reactions to corporate irresponsible behavior can lead to additional, abnormal losses, which we refer to as reputational sanctions (Karpoff 2012). Importantly, reputational sanctions or penalties, as conceived of in event studies literature, have no direct moral or normative connotations as they may have in legal scholarship (Engelen and van Essen 2012). Instead, they reflect updates in shareholder beliefs about future firm performance, given expected stakeholder reactions following the disclosure of misconduct.

Studies that measure reputational sanctions for corporate misconduct find that the *nature of the misconduct* is an important determinant of the occurrence and extent of the reputational damage (Armour et al. 2017; Desai et al. 2006; Johnson et al. 2014). A systematic review of event studies by Gatzert (2015) shows that the impact of negative events on firms' financial performance is significant, with fraudulent or criminal events being identified as causing the most severe financial (reputational) losses. Other overviews of empirical findings by Karpoff (2012) and Engelen and van Essen (2012) also find financial misconduct and consumer fraud to have a large reputational impact, but show that reputational sanctions for environmental violations, by contrast, are negligible. Strikingly, reputational losses tend to be confined to misconduct that directly affects parties who trade with the firm (like customers and investors), such as accounting fraud or mismanagement. Disclosure of wrongdoing that harms third parties, such as environmental violations, has no significant

or even a weakly positive effect on stock price (Karpoff et al. 2005). Jackson and Brammer find that environmentally irresponsible firms have, overall, *better* reputations than other firms, and conclude that “a certain degree of stubbornness is found in holding to the conventional assumption that irresponsible conduct is associated with reputational penalties” (2014, 156). This literature argues that direct damage inflicted by the violation on shareholders is the main explanatory factor for financial reputational damage—shareholders “protect their own interests” by valuing firms that are less trustworthy than they previously expected at a lower rate (Karpoff 2012, 370). Based on these studies, one would predict that corporate human rights violations generate no reputational damage for firms when measured by the stock return, as corporate human rights violations do not directly affect shareholders.

However, the last decade, investors pay increasingly more attention to sustainable and responsible investment (SRI) strategies (PRI 2019). At the end of 2018, the worldwide SRI market is estimated to be over \$30 billion (GSIA 2018). As asset owners and managers are expressing increasingly strong CSR concerns, we might expect stock markets to react negatively to corporate human rights violations. Some indications can be found in Amer (2015) who finds that companies that fail to comply with their reporting obligations under the UN Global Compact face stock market losses. However, failure to report does not constitute a direct violation of human rights; it is a disclosure shortcoming. Our study adds by assessing stock market reactions to actual accusations of human rights violations by corporations.

The overall conclusion from extant research is that reputational sanctions are unevenly distributed between types of offenses and types of firms (Karpoff 2012). Our study posits that not only the nature of the violation and firm, but also the way in which information is made available about it, plays a role in explaining reputational damage. Following institutional theories, reputations form through the social exchange of information among actors in an organizational field (Rindova et al. 2005). Media as “infomediaries” (Zavyalova et al. 2012) and “watchdogs” (Dai et al. 2015; Miller 2006) are crucial in spreading and framing information about corporate behavior (Da et al. 2011; Tetlock 2007; Fombrun and Shanley 1990). Stakeholders use media-disseminated information to develop and adapt their expectations about a firm (Deephouse 2000), and thus, media has real effects on stakeholder decisions (Dyck et al. 2008), in particular with regard to CSR-related issues (Comyns and Franklin-Johnson 2018). Our theoretical model builds upon this by establishing the amount, nature, and salience of media attention for human rights violations as main causes of reputational sanctions. Our hypotheses explore this in more detail.

1.2 | Intensity and Source of Media Coverage of Corporate Human Rights Violations

Media are both seen as information brokers and as social institutions. The first perspective is most prominent in financial-economics literature, which gives an important role to media as “corporate watchdog”: monitoring firms, disseminating

information to stakeholders and thus reducing information asymmetry (Dai et al. 2015; Miller 2006). With regard to corporate misconduct, media influences stakeholder reactions by broadcasting information about corporate misconduct, drawing the attention of investors to the violations and making this information salient in the vast amount of information about internationally operating enterprises that investors face in the global economy. In the modern digital world, investors experience massive information overload (Barnett 2014), and only a small amount of the information about firms and their CSR impact as disclosed by corporations, non-governmental organizations (NGOs) or regulators captures the attention of investors (Da et al. 2011). Therefore, “not all sparks light a fire” (Dorobantu et al. 2017): isolated negative information sometimes goes unnoticed, but at other times escalates into a cascade of stakeholder reactions targeting the firm, which sometimes affect shareholders’ valuation of the firm (Ahmad et al. 2016).

Media filter, select and expose, and thus influence what investors regard as important (Barber and Odean 2007; Chan 2003; Fang and Peress 2009; Lillo et al. 2015). Certain media have higher status as infomediaries than others, and allegations in more authoritative newspapers are more salient to shareholders than allegations in other media (Flammer 2013; Griffin et al. 2014). In addition, the intensity of newspaper reporting can be of influence. King and Soule (2007) demonstrate that for each additional paragraph in *The New York Times* about a social movement protest against a particular corporation, that firm’s stock price returns decline 0.1% below expected returns.

To hypothesize the effects of information reported by newspaper media on investor reactions, we build upon previous research that finds that investors react more negatively to misconduct when the media report about it. We therefore predict that stock returns will decline as media attention for corporate human rights violations increases:

H1. *Investors react more negatively to corporate human rights violations that receive more intense media coverage.*

1.3 | Focus on Blame in Media Coverage

A more socially informed view on the role of the media looks beyond their role as monitoring “infomediaries” reducing information asymmetries (Aguilera et al. 2015; Bednar 2012), and sees them as social institutions participating in social construction processes (Deephouse 2000). Media are prime shapers of the discourses on what corporate activities are appropriate and on what is defined as misconduct (Bednar 2012; Deephouse 2000; Fombrun and Shanley 1990). They frame acts by attributing responsibility to firms or by labeling them as accidents or incidents (Almond 2009; Williams 2008).

Attribution of responsibility for a negative event is found to increase reputational damage and financial damage (Carberry et al. 2018; Comyns and Franklin-Johnson 2018). However, media do not always write negatively about corporate misconduct. Rather than condemning corporate crimes, some media display a positivity bias towards firms (Zavyalova et al. 2012;

van Erp 2011, 2018) and adopt the corporation's perspective, especially through lines of corporate ownership (Miller 2006). In particular with regard to complex behaviors such as corporate human rights violations, condemnation of harm does not necessarily coincide with the attribution of culpability to the firm (Jackson and Brammer 2014). The embeddedness of the violations in the local context can contribute to neutralizations and perceptions of a local culture in which human rights violations are accepted as a fact of life (Williams 2008) and the idea that firms are on their way towards improvement (Jackson and Brammer 2014). Lastly, as human rights violations occur in complex supply chains, blame may not be attributed to one specific firm but to multiple firms (Comyns and Franklin-Johnson 2018). All these more ambiguous messages may soften the reputational damage for individual firms.

Our study does not address the selection, amplification, and framing by media, or corporate publicity strategies reacting to media (Zavyalova et al. 2012) but takes the content of media messages as its point of departure. We predict that a focus on blame for the corporation in media messages expressed through attribution of responsibility to the firm, such as in broadcasting evidence that the firm is responsible and has structural problems with human rights (Carberry et al. 2018), will more negatively impact shareholder value:

H2. *Investors react more negatively to corporate human rights violation when media clearly attribute blame to the focal firm.*

1.4 | NGOs as a Credible Source of Information

Accusations of corporate human rights abuse are increasingly likely to come from a growing network of NGOs specializing in issues relating to corporate social responsibility, sustainable trade and development, and business and human rights (Daubanes and Rochet 2019; Dimson et al. 2015). The internet has increased the opportunities for global exposure of local transgressions. Social movements can cause large stock price declines through social movement protests (King and Soule 2007), although effects might not maintain in the long term (Vasi and King 2012). NGOs also act as information brokers by publishing “revelatory” reports on corporate human rights violations (Pruce and Cosima Budabin 2016).

Research suggests that the assessments by expert intermediaries, such as NGOs (van Huijstee and Glasbergen 2010), hedge funds (Dyck et al. 2008) or active institutional investors (Dimson et al. 2015; Dyck et al. 2019; Helwege et al. 2012) have a larger impact than assessments of average stakeholders because of their specialized expertise and superior information necessary to assess complex aspects of organizational performance (Rindova et al. 2005). Breitinger and Bonardi (2017) find that the exposure of a social norm violation by credible and influential “norm guards” creates more reputational damage than violations that are not reported by such credible actors. NGOs, due to their perceived independence, expertise, and legitimacy, are particularly credible sources (van den Broek et al. 2017). Breitinger and Bonardi (2017) also find that the power, legitimacy, and credibility of sources reporting on corporate violations matter more than the substance of the violation, such as issue severity or frequency:

H3. *Investors react more negatively to corporate human rights violations when an NGO report or statement concurs with the media coverage.*

1.5 | The Impact of Social Media

Extant research focuses largely on media coverage in traditional news media as it publishes information about misconduct widely for the first time and sets initial expectations (Carberry et al. 2018; Fang and Peress 2009; Ferguson et al. 2015). This scholarship does not always include social media in the analysis. However, there are good reasons for doing so, as shareholders make increasing use of online channels to gather information relevant to firms' expected performance (Elliott et al. 2018; Sprenger, Sandner, et al. 2014; Sprenger, Tumasjan, et al. 2014). Social media are not only relevant because of their impact and increasing volume, but also because they represent different assessments of firms than the more institutionalized traditional news media. Social media give voice to more spontaneous, pluralistic aggregations of actors including citizens expressing more affect-based sentiments about firms than more rational accounts of news media do (Castello et al. 2013). Social media allow for communication of news events by fringe stakeholders such as workers, local communities, or local journalists and NGOs in emerging economies even before they are covered by traditional mass media (Comyns and Franklin-Johnson 2018; Daudigeos et al. 2018). As such, social media provide a platform to actors in places that lack media transparency (Castello et al. 2013). Social media may thus be interpreted by investors as representing public sentiments both better and at an earlier stage than traditional media to predict stakeholder reactions to corporate human rights violations. Traditional media also use Twitter (now X), and there is evidence that tweets from traditional news outlets are more frequently retweeted than other tweets (Schultz et al. 2011; Smith et al. 2014).

In the financial investment literature more evidence emerges that investors use social media as a source of information for taking investment decisions. For instance, Antweiler and Frank (2004) find that discussions on online message boards have an effect on stock returns and on market volatility, while Gholampour and Van Wincoop (2017) find an impact of the social media platform Twitter in the foreign exchange market. Bartov et al. (2018) analyzes the role of social media surrounding earnings announcement, while Liew and Wang (2016) examine Twitter activity around initial public offerings. Rakowski et al. (2021) find that social media intensity on Twitter drives stock prices, especially when the tweets are connected to traditional news outlets. This is important as Erdemlioglu et al. (2017) find that in one out of four cases coverage on Twitter precedes news coverage through more traditional news channels. We expect therefore that the intensity of social media coverage of an event is positively related to the stock price reaction:

H4. *Investors react more negatively to corporate human rights violations that receive more social media coverage.*

2 | Data and Methods

We test our hypotheses using standard event study methodology, which allows us to test whether a firm's stock price reacts

to the announcement of its involvement in human rights violations. Next, we conduct a multivariate regression approach to explain variation in stock market reactions to different cases of MNC's involvement in human rights violations. We first discuss the data collection before explaining our methodology, the reputational penalty measurement, and the (in)dependent variables used in our study.

2.1 | Data Collection

To identify firms' involvement in human rights transgressions, we make use of data compiled by the *Business and Human Rights Resource Centre* (BHRRC), a major information intermediary that collects accusations of human rights violations made by NGOs, the media, or other sources. The BHRRC database contains information on the corporation that is accused (name, home state, industry) and the human rights-related accusation (country of alleged abuse, short description of the accusation). Our initial sample focuses on MNCs headquartered in the Global North that are accused of being involved in human rights violations in the Global South. For each case, we collect the company's name, its industry, the country of origin, the country of alleged abuses, the keywords describing the specific human rights violation as available in the BHRRC database (for instance, modern slavery) and, when applicable, the name of the NGO from which the accusations originated.

We also collect data on newspaper coverage by entering the collected keywords into the electronic newspaper archive *Lexis Nexis Academic*, searching for articles in the World's Major Newspapers in an eight-month window around the record date of the BHRRC website. For each case, we record the source and date of the first newspaper report and the number of newspaper articles on the first day. This led to an initial sample of 420 corporate human rights violations recorded in the BHRRC database and covered in the World's Major Newspapers.

We collect financial data from *Thomson Reuters' Datastream* to measure the stock market reaction for each announcement of a human rights violation. For 225 cases, we were able to obtain stock price data and data on the corresponding market index, having excluded events for which stock price data was unavailable, events for which the 251-day estimation window overlaps with the event date of another accusation of human rights violations by that same company, and other confounding events. Finally, we collect social media data from *Thomson Reuters' EIKON*.

2.2 | Methodology

We start our empirical analysis of stock market reactions to human rights violations by measuring the cumulative abnormal returns around the announcement of the transgression using a standard event study approach (Binder 1998; Brown and Warner 1985; Peterson 1989). The event study approach is one of the most commonly used methods in the finance literature (more than 500 published studies and still growing; see Kothari and Warner 2007) and increasingly popular in other disciplines as well (Amer 2015; Carberry et al. 2018). For each event i we

compare the actual return on day t ($R_{i,t}$) with the return that would be expected on that day if the announcement had not occurred ($E[R_{i,t}]$). This difference is the abnormal return ($AR_{i,t}$) upon the announcement of the transgression:

$$AR_{i,t} = R_{i,t} - E[R_{i,t}] \quad (1)$$

We examine the abnormal return pattern on the event day $t=0$ and from 5 days before ($t=-5$) until 5 days after ($t=+5$) the event. We use the market model to estimate the expected return in the absence of the event. In the market model, the expected return is estimated as:

$$E[R_{i,t}] = a_i + b_i R_{m,t} + e_{i,t} \quad (2)$$

with $R_{m,t}$ the market index return on day t , a_i the intercept, b_i the slope coefficient, and e_i the random disturbance term (for stock i on day t). The parameters of the market model are estimated over a 251-trading day pre-event window period from -260 to -6 days prior to the event day. This corresponds to approximately one calendar year. The abnormal return is therefore calculated as:

$$AR_{i,t} = R_{i,t} - (\hat{a}_i + \hat{b}_i R_{m,t}) \quad (3)$$

As a robustness check, we also calculate abnormal returns using the market-adjusted model:

$$AR_{i,t} = R_{i,t} - R_{m,t} \quad (4)$$

Individual abnormal returns are aligned in event time and averaged across the sample to obtain the average abnormal return on the event day t (AAR_t). An event study tests whether the AAR_t on the announcement day of the human rights violation is equal to zero or not (Engelen and Kabir 2006):

$$\begin{cases} H_0: AAR_t = 0 \\ H_0: AAR_t \neq 0 \end{cases} \quad (5)$$

Finally, we cumulate the AARs over various event window periods surrounding the event day (CAARs). We use a standard t-test assuming cross-sectional independence to test whether the non-zero AAR_t is statistically significant or not (Brown and Warner 1985). We examine the (C)AARs surrounding the announcement of the transgression for the full sample as well as for several meaningful subsamples.

In a second step, we also regress several independent and control variables on the (cumulative) abnormal stock returns accruing from the human rights violation to understand which variables together in a multivariate framework explain the variation in the stock price reaction (McWilliams and Siegel 1997). We use standard OLS regression models with robust standard errors to test our hypotheses. Our model is specified as follows, for event i at moment t :

$$(C)AR_{i,t} = a_{i,t} + Media_{i,t} + Focus_{i,t} + NGO_{i,t} + SocialMedia_{i,t} + Control_{i,t} + e_{i,t} \quad (6)$$

with $(C)AR_{i,t}$ the dependent variable measuring the (cumulative) abnormal stock returns accruing from the human rights violation, the independent variables $Media_{i,t}$ capturing media coverage, $Focus_{i,t}$ capturing the blame attribution on the focal firm, $NGO_{i,t}$ measuring the impact of a concurrent NGO report and $SocialMedia_{i,t}$ measuring the impact of social media coverage, $Control_{i,t}$ a vector of control variables, $a_{i,t}$ the intercept, and $e_{i,t}$ the disturbance term. In the next section, we explain how we operationalize each of those independent focal and control variables.

2.3 | Measurement of Reputational Penalty

Negative stock price reactions to the announcement of most forms of corporate misconduct can reflect both expected legal penalties and expected reputational penalties. The conventional method to assess the size of reputational penalties in the economics literature is therefore to apply the residual approach of Jarrell and Peltzman (1985) and Karpoff and Lott Jr. (1993). This method infers the reputational penalty from the difference between the actual stock market loss and the expected legal penalty (Karpoff et al. 2005). Empirical studies employing the residual approach, however, face several difficulties. They typically assume the ex post imposed legal penalty to be an unbiased estimate of the ex ante expected legal penalty at the moment of the announcement. Put differently, they assume investors to be able to correctly anticipate any future legal penalty at the announcement date. The existence (and the size) of the reputational penalty therefore depends heavily on the assumptions of the measurement of the expected legal penalty (Engelen 2018).

Moreover, the residual approach also requires the correction of other confounding effects. Depending on the type of misconduct additional assumptions have to be made on the true accounting value or on the true market size. For instance, the Karpoff et al. (2008) study on the discovery of financial misrepresentation had to estimate the true value of the company in the absence of the misinformation (see their appendix on estimating this readjustment effect), while van den Broek et al. (2012, 248) on antitrust investigations acknowledge that “the readjustment effect is more difficult to quantify. It is determined as the change in expected future profit streams due to the loss in conspiracy generated profits. It requires comparison of the actual market situation under the cartel to that which would exist in a hypothetical competitive market.”

Finally, data availability of legal penalties often drastically reduces the sample size, weakening the overall conclusions of the study. For instance, the seminal Karpoff and Lott (1993) study on fraud only had information on the level of legal penalties for 15 out of 132 cases, while Karpoff et al. (2005) had similar information for 148 out of 478 environmental violation cases.

Our dataset of corporate human rights violations does not incorporate any cases in which there exist any anticipated legal penalties paid by the firm. In our sample (period) there are therefore no expected legal sanctions for the focal firm. Any stock market reaction, by definition, will only reflect a reputational penalty, as

there is no expected legal penalty. In this way, our dataset allows us to avoid the above measurement problems of the reputational penalties literature and to measure the magnitude of the reputational penalty more precisely.

2.4 | Operationalization of Focal and Control Variables

2.4.1 | News Coverage

We construct four variables to measure the impact of the intensity of media coverage in traditional newspapers on the stock price reaction on the announcement date of human rights violations. First, we record the *number* of newspapers covering the corporate involvement in the human rights violation on the announcement date. Second, we measure the total number of *words* of all newspaper publications on the announcement day. Third, we distinguish between *major* and non-major newspapers. We classify *The Financial Times*, *The Wall Street Journal*, *The New York Times*, *The Washington Post*, and *The Guardian* as major newspapers, and all other news outlets as non-major newspapers. Finally, we distinguish between *financial* newspapers and non-financial newspapers, classifying *The Financial Times* and *The Wall Street Journal* as financial newspapers and all others as non-financial newspapers.

2.4.2 | Focus on Blame

To analyze the focus on blame attribution in the media coverage, we construct two dichotomous variables. First, we record whether the company name is present in the *headline* of the newspaper articles on the announcement date (present 1; not mentioned 0). Second, we record whether the accusation, as described by the BHRRC, is directed at one *specific* company (1) or whether it is a bulk accusation against a large(r) number of companies (0).

2.4.3 | NGO Involvement

For each event in our sample, we check whether the newspaper article was accompanied by an NGO report, an NGO campaign, or an NGO press release. We code a dichotomous variable *NGO* and assign a value of one if the event was accompanied by such an NGO activity and zero otherwise. We also code a dichotomous variable *NGO Report* and assign a value of one if the event was accompanied by an NGO report and zero otherwise.

2.4.4 | Social Media Coverage

We measure social media coverage by measuring the coverage of the focal corporate human rights violation on Twitter. We obtain social media data via *Thomson Reuters Eikon's* News Monitoring Application, which we access using a Python script. First, we record the number of *Tweets* containing cash tags (\$) on our focal firms surrounding the announcement date of the corporate

involvement in the human rights violation. As investors closely follow such cash tags, they are useful to analyze stock market impact of alleged corporate human rights violations (Giannini et al. 2019). We measure the number of Tweets on the event date (day 0), prior to the event date (day -1) and after the event date (day +1).

Second, we measure whether the focal firm received more than the average amount of social media coverage by dividing the number of Tweets of the 3-day event window [-1, +1] by the number of tweets during a 60-day window prior to the event date and construct the variable *AbnormalVolume_Tweets*. Third, we also measure the *Sentiment* of the Tweets using the overall daily sentiment scores reported in *Thomson Reuters Eikon's News Monitoring Application* on the event day [0]. The sentiment scores range from -1 (negative) to 1 (positive). In addition, we also measure the average sentiment score over the three-day event window [-1,+1] and construct the variable *ThreeDay_Sentiment*. For 51 cases, we were able to download the daily number of tweets and daily sentiment value.

We limit ourselves to Twitter data for three reasons. First, we only had access to Twitter data in our main database *Thomson Reuters Eikon's News Monitoring Application*. Second, such financial database is also widely used by institutional investors. Third, Twitter is the social media platform that is widely used to share news in contrast to other platforms.

Other studies such as Schuster et al. (2023) look at Google search volume capturing the weekly volume of web searches for a specific term or topic. While this indicator has its own merit, we also believe it is less relevant in our context. Google search volume data captures active searches of internet users, which will typically occur *after* the news about the misconduct of a certain firm is published. While it would be interesting to see whether Google searches increase after the news on a certain incident, we had no access to Google search volume data.

2.4.5 | Control Variables

In order to assess the impact of general firm, industry, regional, and year characteristics, we collect the following set of control variables. First, we include the number of employees in the year of the violation (obtained from Thomson Reuters Datastream) as a measure for *Firm Size*, and each firm's Social Pillar Score from the corporate Environment, Social, and Governance (ESG) Scores (Refinitiv data obtained from Thomson Reuters Eikon) in the year prior to the violation as a measure for *Firm Reputation* (Refinitiv 2022). We prefer this measurement of firm reputation over Global Compact membership as it is more precise. As a robustness check, we also employ Global Compact membership as a control variable.

We include those control variables as firms with better previous reputations are less likely to suffer reputational damage (Flammer 2013). Also, following economic logic, the bigger the company, the smaller the reputational sanction as a proportion of size, as there is more information in the market about larger firms and consequently the informational value to the market of an announcement is proportionately smaller (Griffin

et al. 2014). To control for *Year* effects, we include a dummy variable that indicates whether the event took place before 16 June 2011 (when the Human Rights Council endorsed the UNGPs in its resolution 17/4) or after (United Nations 2011). To control for *Regional* effects, we use four dummy categories (Africa, Asia, Middle East, South America) depending on where the violation occurred. For *Sector*, we distinguish nine sector dummies obtained from Thomson Reuters Datastream.

3 | Results

This section describes the outcomes of the event study followed by the results of the regression analyses to test our hypotheses.

3.1 | Event Study Results

3.1.1 | Average Stock Market Reaction

Our event study results show that MNCs that are alleged to be involved in human rights violations in host countries, on average, do not experience any stock market penalization upon the announcement of the allegation. Panel A of Table 1 shows the daily market model abnormal returns for various event windows. For instance, over a five-day event window [-2, +2] a firm experiences a negative 0.15% abnormal return, which is not significantly different from zero. We also employ daily market-adjusted abnormal returns, and they show a similar picture. We perform several robustness checks to see whether our results hold under various specifications. First, we use different data frequencies. In case the news about the human rights violation is not immediately disseminated and shareholders only become aware of it with delay, an event window using daily stock returns might not pick up the stock market's reaction. For instance, one study finds that investors appeared to react with a 2–5 days delay to the start of online protest (van den Broek et al. 2017). Therefore, we conduct the event study also with weekly and monthly stock returns. Panel B of Table 1 presents the market model abnormal returns for various event windows for weekly and monthly returns. For instance, in the month of the announcement of the human rights violation, we observe a non-significant abnormal return of 0.52%. The overall conclusion from Panel B is that changing the data frequency to weekly or monthly data does not alter our previous conclusion.

Second, we test for the impact of various alternative announcement dates. In our base case, we employ the first newspaper publication date as the announcement date of the human rights violation. However, it is possible that the news of the transgression already reached the market before the newspaper article and that stock prices already reflect this information (Miller 2006). We therefore use three alternative announcement days: (i) the record date on the BHRRC website, (ii) the publication date of the NGO report, if applicable, and (iii) the first date *any* disclosure was made through either a newspaper article, an NGO report, or the BHRRC website. Panel C of Table 1 reports the daily market model abnormal returns for the three alternative dates compared to the base case announcement date. For instance, using the publication date of the NGO report as the announcement date, we find

TABLE 1 | Event study results.

Panel A. Full sample results						
Event window	Daily mean CAAR		SD	t-statistic	p	
Daily market model abnormal results						
[-2,+2]	-0.0015		0.0423	-0.0006	0.9995	
[-1,+1]	-0.0004		0.0225	0.0327	0.9739	
[0]	0.0009		0.0164	0.8318	0.4064	
Daily market-adjusted abnormal returns						
[-2,+2]	0.0040		0.0422	0.7317	0.4651	
[-1,+1]	0.0012		0.0232	0.4281	0.6690	
[0]	-0.0008		0.0168	-0.4680	0.6402	
Panel B. Alternative data frequencies						
Event window	Daily MM CAAR	p	Weekly MM CAAR	p	Monthly MM CAAR	p
[-2,+2]	-0.0015	0.4651	0.0125	0.4111	0.0078	0.6360
[-1,+1]	-0.0004	0.6689	0.0089	0.3187	0.0066	0.6187
[0]	0.0009	0.6871	0.0025	0.1166	0.0052	0.8208
Panel C. Alternative event dates						
	Daily MM CAAR [-2,+2]		SD	t-statistic	p	
Newspaper	-0.0015		0.0423	-0.0006	0.9995	
NGO report	0.0002		0.0424	-0.1314	0.8956	
BHRC website	0.0057		0.0394	0.5420	0.5884	
First date	0.0002		0.0453	0.2359	0.8137	
Panel D. Subsample results						
	N	Daily MM CAAR [-2, +2]		SD	t-statistic	p
Major newspaper	84	0.0002		0.0134	0.4679	0.6403
Non-major newspaper	141	-0.003		0.0059	-0.5569	0.5784
Financial major newspaper	23	-0.0044		0.0128	-0.3244	0.7487
Non-financial major newspaper	61	0.0020		0.0156	0.7482	0.4572
More (than median) number of words	115	0.0006		0.0508	0.0475	0.9622
Less (than median) number of words	110	-0.0006		0.0132	0.1033	0.9179
Specific accusation	78	-0.0010		0.0552	0.0150	0.8067
Bulk accusation	147	0.0005		0.0124	0.3102	0.7568
Headline	50	-0.0034		0.0118	0.0008	0.9994
No headline	175	0.0009		0.0138	0.1199	0.9047
NGO report	101	-0.0006		0.0145	0.1540	0.8779
No NGO report	124	0.0477		0.0124	0.0005	0.9996
Social media message(s)	40	-0.0019		0.01336	-0.7676	0.4474
No social media message(s)	185	-0.0015		0.01335	-0.2702	0.7873

Note: * $p < 0.10$; * $p < 0.05$; ** $p < 0.01$.

an insignificant abnormal return of 0.02%. We also employ market-adjusted returns and use different data frequencies (weekly, monthly) and we find similar results. Our results

show that our original conclusion is again robust to alternative announcement date specifications. This strengthens our conclusion that for the full sample, we do not find any stock

market reaction for the announcement of the focal firm's involvement in human rights violations.

3.1.2 | Hypotheses Testing

Since the overall sample is an aggregation of different human rights violations, a uniform interpretation might be challenging because the cases differ by media coverage, NGO involvement, and focus of blame. Analyzing specific subsamples, therefore, allows us to examine how the hypothesized drivers influence shareholder reactions.

First, we test Hypothesis 1 whether investors react more negatively to human rights violations that receive more intense media coverage. We compare two subsamples of events with more or less than the median number of words. Neither subsample shows an abnormal return significantly different from zero (see Panel D in Table 1). We also test for the number of newspaper articles, but again do not find any difference. Next, we examine whether more important or more investor-oriented newspapers make any difference in investors' reactions by splitting the sample into Major versus Non-Major newspapers. Again, both subsamples render non-significant results. Finally, we also split the sample in Financial Major versus Non-Financial Major newspapers and do not find any significant effect. Overall, those subsample analyses reject Hypothesis 1. More media coverage does not result in more negative stock price reactions upon the announcement of human rights violations.

Second, we test our Hypothesis 2 whether investors react more negatively when the focal firm is clearly blamed. We split our sample into two subsamples depending on whether the focal firm features in the newspaper article's headline. Overall, in 50 cases the focal firm's name is explicitly mentioned in the headline. Although the daily average market model abnormal return is -0.34% (compared to 0.09% for the other group), it is not statistically significant, thus rejecting Hypothesis 2. The data also reject the hypothesis that the subsample on specific accusations versus bulk accusations reacts more negatively.

Third, we construct a subsample whether or not the media coverage is accompanied by an NGO report (see Panel D in Table 1). Our subsample of events with a concurring NGO report shows a non-significant abnormal return of -0.0006 , while the No-NGO-report subsample shows a non-significant 0.0477 abnormal return. Again, our data reject Hypothesis 3.

Finally, we test Hypothesis 4 by examining whether subsamples with or without social media coverage show any difference in the abnormal return behavior (see Panel D in Table 1). We do not find any significant return and thus have to reject Hypothesis 4 based on the event study results. We do not find that investors react more strongly to news about corporate involvement in human rights violations when the news is covered more prominently through Twitter. This does not automatically imply that social media intensity is not relevant to investors (Rakowski et al. 2021); it appears that news on human rights violations by itself is not salient enough for financial markets.

3.2 | Regression Results

Table 3 presents the multivariate, OLS regression results for abnormal returns and the focal independent variables. Table 2 contains the correlation coefficients between the variables of our regression model. Panel A presents the results for media coverage, Panel B for focus of blame, Panel C for intermediary NGOs, and Panel D for social media coverage. For each model, we include control variables such as firm size, firm reputation, year dummies, regional dummies, and sector dummies.

We first test the impact of news coverage upon the announcement of the human rights violation. Model 1 of Panel A in Table 3 tests whether the number of newspaper articles has any impact on the abnormal return, while Model 2 tests for the amount of words. Neither variable turns out to be significant. Models 3 and 4 test whether news coverage in major newspapers has any impact on the size of the stock market reaction, but we do not find any significant result. Only in Models 4 and 6 do we find a significant result for financial newspapers. Control variables are all insignificant. Overall, we find little support for Hypothesis 1.

Panel B of Table 3 analyzes whether the stock market reaction varies depending on the focus of blame. Model 7 examines whether the focal firm is facing a specific accusation versus a bulk accusation. Model 8 tests for the impact of the focal firm's name featuring in the newspaper's headline. Both variables are not significant and thus reject Hypothesis 2.

Next, Panel C examines whether concurrent NGO activities have any impact on the stock return upon the discovery of the human rights violation. While Model 9 focuses on any NGO involvement, Model 10 zooms in on the publication of an NGO report. Overall, none of the NGO variables show up significant in our regression results. Hypothesis 3 is therefore rejected.

Finally, we test whether social media coverage has any impact on the stock market penalization for human rights violations. Model 11 of Panel D examines whether more or fewer tweets about the violation on the announcement day impact the abnormal return, but we do not find a significant result. Also, we fail to find a significant result for the sentiment of the tweets on the announcement day (Model 12). When we measure social media coverage as the abnormal volume of tweets (Model 13) our findings do not alter. Finally, using the average sentiment over a three-day window surrounding the announcement day does not change our conclusion either. Overall, our results indicate that social media coverage has no impact on the size of the stock market reaction upon the announcement of corporate human rights violations.

4 | Conclusions

As socio-political pressure on transnational corporations to ensure responsible business conduct throughout their global value chains is growing, it is increasingly likely that failure to live up to these expectations will negatively impact corporate reputations. It is often assumed that misconduct can generate reputational damage in the shape of stock price devaluations. Such

TABLE 2 | Correlation table.

	CAR(-2, +2)	Words (LN)	Major Financial Specific	Headline	NGO	Report	Tweets (LN)	Sentiment	AbnormalVolume_Tweets	ThreeDay_Sentiment	Size	Reputation		
CAR(-2, +2)	1	0.025	-0.026	0.038	-0.137*	-0.070	-0.066	-0.050	-0.080	0.055	-0.132	-0.030	0.011	0.056
Number		1	0.233**	0.166*	-0.258**	-0.001	0.008	-0.088	-0.064	0.047	0.243	0.093	0.078	0.097
Words (LN)			1	0.106	0.070	-0.008	-0.175**	-0.023	-0.089	0.009	0.048	0.000	0.000	0.178**
Major				1	0.441**	0.062	0.114	-0.011	-0.023	0.371*	0.103	0.044	0.056	0.013
Financial					1	0.062	0.098	-0.094	-0.010	0.146	0.004	0.065	0.033	0.030
Specific						1	0.409**	-0.245**	-0.169*	-0.119	-0.043	-0.162	-0.112	-0.135
Headline							1	-0.031	0.002	0.136	0.075	-0.054	0.080	0.025
NGO								1	0.600**	0.278	0.166	0.208	0.096	0.031
Report									1	-0.114	0.217	0.203	0.035	0.000
Tweets (LN)										1	0.176	0.121	0.314	-0.036
Sentiment											1	0.758**	0.091	0.287
AbnormalVolume_Tweets												1	0.052	0.009
ThreeDay_Sentiment													1	0.135
Size														1
Reputation														

*** $d > 0.05$; ** $d > 0.01$; * $d > 0.10$.

TABLE 3 | Regression results.

Panel A: Hypothesis 1						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.038	0.007	-0.029	-0.038	0.160	0.012
Number	0.002					
Words (ln)		-0.001			-0.001	5.642E-6
Major			-0.001		0.003	
Financial				-0.025*		-0.022*
<i>Control variables</i>						
Size	0.002	-0.001	0.003	0.003	-0.001	-0.000
Reputation	6.797E-7		6.244E-7	7.889E-7		
Post2011	0.008		-0.009	0.010		
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
<i>Model summary</i>						
R^2	0.052	0.038	0.052	0.078	0.039	0.061
Adjusted R^2	-0.023	-0.023	-0.018	0.005	-0.027	-0.003
Panel B: Hypothesis 2						
	Model 7			Model 8		
Intercept	-0.040			-0.038		
Specific	-0.009					
Headline				-0.008		
<i>Control variables</i>						
Size	0.003			0.002		
Reputation	5.824E-7			1.432E-6		
Post2011	0.008					
Regional dummies	Yes			Yes		
Industry dummies	Yes			Yes		
<i>Model summary</i>						
R^2	0.057			0.051		
Adjusted R^2	-0.018			-0.019		
Panel C: Hypothesis 3						
	Model 9			Model 10		
Intercept	-0.034			-0.022		
NGO	-0.008					
Report				-0.009		
<i>Control variables</i>						
Size	0.002			0.002		
Reputation	1.391E-6			1.022E-6		
Post2011						

(Continues)

TABLE 3 | (Continued)

Panel C: Hypothesis 3						
	Model 9			Model 10		
Regional dummies	Yes			Yes		
Industry dummies	Yes			Yes		
Model summary						
R^2	0.051			0.057		
Adjusted R^2	-0.019			-0.013		
Panel D: Hypothesis 4						
	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Intercept	0.460	0.050	0.063	0.350	0.530	0.035
Tweets	0.007				0.008	
Sentiment		-0.023			-0.036	
AbnormalVolume_Tweets			-4.77E-5			-1.854E-5
ThreeDay_Sentiment				0.007		0.070
<i>Control variables</i>						
Size	-0.004	-0.003	-0.003	-0.003	-0.004	-0.003
Reputation	-1.747E-7	1.203E-6	-3.091E-7	3.284-7	1.239E-6	3.470E-7
Regional dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Model summary						
R^2	0.379	0.403	0.359	0.351	0.467	0.351
Adjusted R^2	0.116	0.186	0.138	0.128	0.211	0.100

Note: ⁺ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$.

stock market penalties are often considered a strong deterrent to secure compliance with CSR norms, even when these norms are not legally binding (Iacobucci 2014).

But do MNCs that are implicated in human rights violations actually suffer reputational consequences? To answer this question, we measured reputational damage following allegations in the media of corporate human rights violations as reported by a major information intermediary, the *Business and Human Rights Resource Center*. Our study finds no stock market effects for allegations of involvement by MNCs from the Global North in human rights violations in the Global South. Looking more specifically at various drivers that we would expect to have a potential influence on shareholder reactions in this respect, we find that these do not alter the main outcome of our study. Investors do not react more negatively to human rights violations that receive more intense media coverage; nor, when media explicitly blames the focal firm, is it accompanied by an NGO report. Moreover, social media messages containing news on corporate involvement in human rights violations do not influence shareholder reactions.

Our study's main finding confirms the conclusions from previous event studies measuring no reputational effect from the disclosure of wrongdoing that harms third parties but does not

directly affect shareholders, investors, or consumers (Carberry et al. 2018; Wesley and Ndofor 2015; Karpoff 2012). In particular, environmental studies show that complementary combinations of instruments ("smart mixes") are necessary to achieve corporate compliance and that relying on one mechanism, such as the market mechanism, or command and control regulation alone, is not sufficient to realize compliance (Stechemesser et al. 2024). A study by Steinebach (2022) analyzing air pollutant emissions of 14 OECD countries over a period of 25 years demonstrates that only legislation combined with well-functioning implementation and enforcement was the only instrument to achieve a reduction in pollution, whereas market-based instruments were ineffective. Our research thus supports existing calls for a "smart mix" approach to corporate human rights violations (Bernaz 2016).

In our study, we control for firm reputation by measuring each firm's ESG scores in the year prior to the violation, but do not find any differences in the outcomes. When we replicated the analysis with Global Compact membership as a control variable, the results were similar. Our results remain the same regardless of factors like firm size, sector, prior reputation, and location where the violation occurred. Similarly, we find no differences in stock price reactions to allegations of firms' involvement in corporate human rights violations before or after 2011, the publication year of the UN Guiding Principles (Ruggie 2008a).

Our study contributes to the ongoing debate in CSR scholarship on the financial benefits of CSR for firms and, related, the financial damage of CSR violations (Baker and Choi 2018; Cassimon et al. 2016; Flammer 2013; Jackson and Brammer 2014). Stock market penalties have immediate financial consequences for the firm: if they are substantial, human rights become an issue of financial risk management and make corporate respect for human rights not only a question of CSR, but also a business case. Although investors seem to regard firms' human rights performance as important (KPMG 2016), we find that they do not react to allegations of transnational corporate human rights violations, and apparently do not associate human rights violations with business costs in the way they do with other risks. We conclude that the stock market does not reflect changed societal expectations with regard to corporate social responsibility for human rights. Our study adds to previous studies finding limited financial reputational penalties for corporate misconduct beyond investor-related fraud (Margolis et al. 2009; Shapira 2023; Carberry et al. 2018; Wesley and Ndofor 2015; Karpoff 2012). These studies find that societal expectations do not adequately translate into market incentives, and that the availability of negative information is not sufficient for reputation sanctions to occur. Our findings similarly suggest that reputation penalties are much "noisier" than a simple translation model might assume (Shapira 2023). Our study confirms that while the idea that the market punishes irresponsible conduct has "intuitive appeal," it cannot be confirmed for human rights violations (Jackson et al. 2014, 155).

This study can inform the debate on whether prevention of corporate harmful or unethical behavior should be publicly regulated or can be left to the market. Non-binding guidelines like the UNGPs, OECD Guidelines for Multinational Enterprises, and the Sustainable Development Goals, along with industry codes of conduct and certification schemes, depend heavily on market regulation, based on the assumption that increased transparency will generate reputational pressure to operate in a socially responsible manner. Our findings suggest that such a "business case" for respecting human rights and corresponding compliance (Arnold 2010; Ruggie 2008a) is insufficient and more binding regulation, such as the CSDDD (European Union 2024), is necessary.

Certain limitations of this study may have influenced our findings. First, a possible limitation of our study is the fact that we refer to investors as one unified group. In reality, one can distinguish several types of investors along different dimensions: retail investors versus institutional investors, active versus passive investors, long-term oriented versus short-term oriented investors, among others. It is plausible that different types of investors react differently to news about corporate misconduct, or that certain types of investors react more heavily to social media versus traditional media coverage. For instance, the involvement of retail investors' discussions on [Reddit.com](https://www.reddit.com) in Gamestop's short squeeze in 2021 might suggest that retail investors are more prone to social media coverage than other types of investors (Anand and Pathak 2022; Long et al. 2023). Institutional investors are also increasingly using social media to fine-tune their portfolio decisions (Gholampour and Van Wincoop 2017). A market survey showed that 58% of institutional investors

now turn to social media platforms when evaluating stocks (Brunswick Group 2023).

However, such word-of-mouth discussions are different from social media sharing news items, such as our sample on news on corporate involvement in misconduct. Many social media platforms often share links to media articles and drive reader traffic to traditional media (Kwak et al. 2010; Carberry et al. 2018). There are indications that retail and institutional investors are more responsive when social media posts occur in conjunction with traditional news events (Rakowski et al. 2021). While retail investors might be the leading factor in influencing stock prices through online discussion forums, institutional investors seem to be leading in responding to major news events (Ben-Rephael et al. 2017). However, investor reaction is also not homogeneous across a certain investor type. For instance, Nguyen et al. (2020) find that long-term-oriented institutional investors increase their stock holdings in reaction to positive news on social media, while short-term-oriented institutional investors decrease their holdings following negative social media coverage. Institutional investors seem to differentiate their reaction based on their time horizon or investment strategy.

Our dataset, however, did not allow us to differentiate between investor groups and to test which group of investors would be more salient to certain types of news. Given our empirical results, one might cynically conjecture that none of the potential groups might respond to corporate involvement in human rights violations. This will be a fruitful question for future research.

Second, reputational damage may exist without manifesting itself in a firm's stock price, as this is but one indicator of reputational damage. In other words, reputational damage may still occur after (accusations of) corporate human rights violations, but we may not have observed it with the event study method. A study by McGuire et al. (2022) on BP's losses after the Deepwater Horizon Spill used both a reputation barometer and stock price responses and finds that BP suffered no significant stock market decline after the oil spill when compared to benchmark firms. However, using a reputation barometer, it did suffer significant and lasting reputational damage with consumers despite attempts to restore its reputation through issuing apologies (Ragas and Culp 2014).

Third, it is also possible that single published events are not the right unit of analysis as investors may base their assessments on more generalized information on firms' human rights reputation, as expressed by specialized CSR analysts or NGOs. Despite the saying that "trust is easy to lose," reputation judgments may take longer to form if they concern issues that are still ambiguous such as corporate human rights responsibilities. This could mean that negative events are interpreted in the context of the broader improvements firms intend to make, or, on a more negative note, that corporate policies and intentions can serve to manage impressions and obfuscate real problems. Similarly, despite reservations voiced above, the implementation of CSDDD may make human rights a more salient issue for consumers, suppliers and investors (van Baar 2023). Repeating this research with a similar dataset in 3, 10 or 15 years, could manifest how market incentives become more aligned with prevailing societal values.

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