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Coffee Companies: DoesPress Reporting of Socially Conscious Initiatives ImpactStock Valuations?

Glenn Thomas Smith, PhD[1] , Steven Tippins, PhD[2]
Corresponding Author: Glenn Thomas Smith

ABSTRACT: *Shareholders invest billions of dollars in the purchase of corporate coffee stock. By contrast the harvesters of coffee beans, in the developing world, often live in poverty. Yet corporate managers may have an opportunity to raise their companies' share price and profile though the publicizing of social change initiatives. Little research on the influence of such initiatives exists in the coffee sector and possibly none concentrating on newspaper publicity. If a relationship does exist between newspaper articles publicizing socially conscious initiatives and stock investments, then managers could justify to shareholders the funding of these initiatives. This quantitative study used a five day pre- and post-event study involving t-tests and ANOVAs.In total, it tracked 76articles,published between 2011 and 2015. The dependent variable was the stock price changes of individual coffee companies. The main independent variable was timeframe, with two levels: the periods five days before publication, and five days after publication.The study found limited support for its hypothesis, that newspaper articles relating to coffee companies' socially conscious initiatives have an impact on share price. It was only the case with Starbucks, and the impact on its share price was negative. Further research could use different time periods or media outlets. Similar findings would reinforce the point that companies must be careful how they communicate new initiatives to the press. In particular, they must make sure that their publicity departments emphasize shareholder value.*

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I. INTRODUCTION

The coffee industry operates on a large, multinational scale. Supplies often originate from multiple developing nations, and end-users of the product live all over the world. In the United States, 91.5% of all residents drink coffee, and in 2014 consumers spent over $1.21 trillion on the drink(The Statistics Portal, 2015). In 2013, Starbucks had over 19,000 stores worldwide (The Statistics Portal, 2015). Many corporations within the coffee industry finance their operations through equity capital sold to the general public (Perez-Aleman, 2013). Stockholders are the owners of these corporations and, as such, have the right to decide collectively on the actions taken by the companies they own(Bøhren and Krosvik, 2013). Corporations compete for stockholders, or other investors, through a range of endeavors, including eco-friendly and socially conscious initiatives.

The researchers organized this paper in the following fashion. Section 1 introduces the issue to the reader and explains the importance of announcements and press articles regarding socially conscious initiatives. The researchers in section 2 focus on the literature review, while in Section 3 they introduce the methodology used to determine if press articles have an influence on stock values within coffee corporations. Section 4 contains the results of the study and Section 5 explains the importance of the findings as well as suggesting future research opportunities.

Social consciousness is centered on giving back to the community, which consists of the stakeholders that keep a business afloat. Having a socially conscious business allows these stakeholders, including suppliers, employees, and consumers, to know that they are working with socially conscious patterns of decision making. It is essential for firms within the industry to engage investors as well as both current and future shareholders. This is because the decisions these investors make result in greater equity opportunities for the corporations involved. Hörisch et al. (2014) postulated numerous possibilities for stakeholder management.These included

[1]Dr. Glenn Thomas Smith Cochise College: Department of Accounting: 901 Colombo Ave, Sierra Vista, AZ 85635
Email: smithg@cochise.edu
2 Dr. Steven Tippins Walden Univesity Department of Management 100 S Washington Ave #900, Minneapolis, MN 55401
Email: seven.tippins@waldenu.edu

the enhancement of sustainability, using stakeholders as intermediaries for education, and the proper regulation of interests that are important to both stakeholders and investors.

Management teams must select initiatives that do the best for the community while also benefiting the business.Kotler et al. (2012) theorized that having good intentions is insufficient in a business environment. When corporate management decides upon the most profitable initiatives to support, they often announce their intentions through media outlets such as *TheWall Street Journal* or *The New York Times* (Perez-Aleman, 2013). If no one knows about a socially conscious initiative the potential benefits to the company are reduced. DeHaan et al. (2015) recognized the importance of media announcements in ensuring the optimal strategic influence on the market. In this study, the researchers examined newspaper articles that reported socially conscious initiatives and investigated their impact on short-term shareholder value.

The strategic management of announcements may grant corporate leaders the opportunity to gain for their companies competitive advantages, which in turn could influence the industry supply chain, from farmers through to end consumers. Firms may also gain opportunities due to greater equity value. In the past, leadership within corporations had attempted to use socially conscious initiatives to attract both consumers and investors. Some of these initiatives have been successful, while others have failed. Corporate leaders could make a greater effort to understand the reasons for these successes and failures, perhaps guided by empirical research.

Announcing initiatives is critical when working in an industry that is dependent on shareholder and stakeholder perceptions of the stock market (Chen, Chen, Huang, and Schatzberg, 2014). Dam and Petkova (2014) examined firms associated with the Carbon Disclosure Project (CDP), a nonprofit organization of dedicated multinational investors with over 78 trillion dollars of investment capital under management. Dam and Petkova found that out of 66 multinational firms active within the CPD, only 21 announced their involvement with the organization. Kajander et al. (2012) posited that announcements of socially conscious initiatives often create reactions in the stock market, evidenced by changes in the weighted average cost of capital (WACC) of multiple corporations. Such reactions include purchases or sales of stock, with resultant changes in stock prices. While coffee company managers are aware that their socially conscious initiatives are important to the value of their stock, they are largely unaware of the value of publicizing these initiatives (Michaely et al., 2014). The aim of the current study is to examine the influence of press reports of socially conscious initiatives on coffee company stock valuations.

Social consciousness is essential to coffee companies (Elder et al., 2014). Multiple studies have investigated the influence of socially conscious initiatives, and their announcement, on organizational performance (Feigenbaum, 2011, Kajander et al., 2012, Clacher and Hagendorff, 2012). However, few studies have examined the influence of these announcements on stock prices. In addition, no studies known to the researchers have specifically examined the coffee industry. This study fills that gap by exploring the event window immediately prior to and following press coverage of the initiatives. The study differs from others by examining both *The Wall Street Journal* and *The New York Times*. This new study offers senior managers of listed coffee companies guidance, in terms of whether it is advantageous to draw public attention to their socially conscious initiatives. The problem the researchers seek to solve is that coffee managers do not know if press reports regarding intentions toward socially conscious initiatives cause stock price changes, either in a positive or negative direction. If press reports do affect stock prices, this reflects an opportunity for increasing organizational value. Deák and Karali (2014) determined that changes in stock market volatility can change organizations' competitive advantage. Furthermore, they found that volatility within stock pricing affects actors along the supply chain, including the farmers who grow the crops.

The researchers in this quantitative event study examined the influence of relevant newspaper articles on short-term stock returns. The main independent variable was time.It was a paired variable, with two levels: five days prior to a newspaper article being published, and five days after publication.The dependent variable was the change in share price. Cassidy et al. (1990) examined investor value and risk management initiatives through the medium of abnormal stock returns. Kajander et al. (2012) investigated the impact of announcements relating to business innovation, within the construction sector. The present study extends and synthesizes these two previous pieces of research.

Regardless of industry, corporations compete to earn the confidence of both current and potential investors. Numerous researchers have questioned how goodwill among investors can be built (Ortiz-de-Urbina-Criado et al., 2014, Melo and Galan, 2011). The problem addressed in this study is that it is unknown if newspaper articles relating to socially conscious initiatives build a desire for stock purchases, and whether they lead to increased stock prices.

Socially conscious initiatives are important for the social good. In the multinational coffee industry, where companies obtain their products from developing nations, the need for social fairness and societal development is paramount. In an era where the spoken and written word influences the purchasing habits of socially conscious investors, it is essential to understand how, and when, to publicize organizational intent. Publicizing a company's intentions in the wrong way and at the wrong time could result in organizational setbacks.In a competitive environment it is essential for management to have complete and accurate information when making decisions. The availability of accurate and current information in decision-making can affect opportunities for corporate growth and social development. Additional knowledge leads to better decision-making and to a greater chance of worldwide success. The present study addressed these issues, but with specific reference to newspaper articles. The results differ from those produced by previous researchers in the sense that they provide evidence that for certain companies (in this case Starbucks) positive news flow about socially conscious initiatives can actually damage shareholder value, at least in the short-term.

II. LITERATURE REVIEW

The efficient market hypothesis states that market prices reflect all information, and therefore, it is impossible to beat the market (Pollitte et al., 2015). Pollitte et al. examined the differences between the United States and China using an event study. In the present study the researchers examined multinational areas larger than just two countries, as the coffee industry operates in multiple territories. Using an event study we add credibility to our findings. Zhao and Wang (2017)showed how events subsequent to announcements make a difference and their approach adds credibility to the event study methodology. The researchers believed that Zhao and Wang's event study required further investigation. Zheng (2016) sought to demonstrate how disseminated information influenced employment markets, citing the Grazzini (2013) assertion that signals disseminated into the market result from individuals seeking to maximize utility. This may be true, especially if we consider the desire of corporate management to influence company valuation through the timing of information releases, something which neither Grazini nor Zheng gave sufficient consideration to. DeHaan et al. (2015) recognized the importance of media announcements in terms of influencing the market.

III. METHODOLOGY

This study involved a quantitative approach, examining a five-year period from the beginning of 2011 through to the end of 2015. Stock price data from five companies was used. The companies examined had all or part of their operations within the coffee industry, whether in terms of import, distribution, and packaging or direct service to take-out or sit down customers. These companies were Starbucks (SBUX), Coffee Holding (JVA), Farm Brothers (FARM), McDonalds (MCD), and Panera Bread Company (PNRA.)

The study used a five day pre- and post-publication event window, where the change in share price in the five days pre-publication was compared with the change five days post-publication. The last closing price of the first period was the closing price the day before publication. The first closing price of the second period was the closing price on the day of publication. Two data frames were analyzed: one for *The Wall Street Journal* and one for *The Washington Post*. Four thousand and twenty-one articles were found in *The Wall Street Journal*, of which 77 had information regarding socially conscious initiatives taken by coffee companies. Twelve thousand and eighty-nine articles were found in *The Washington Post,* of which 61 were domain-relevant.

The researchers removed from the analysis any overlapping periods, which werecovered all or in part by both *The Wall Street Journal* and *The Washington Post*. This left 44 *Washington Post*articles and 32 *Wall Street Journal*articles. The data was organized in Excel spreadsheets, and analyzed with independent samples tests and ANOVAs, using SPSS software. The main independent variable was timing, which had two levels, before and after an article in *The Wall Street Journal* or *The Washington Post*.The dependent variables were the changes in the coffee companies' share prices.Changes in the Standard and Poor 500 Index (S&P 500) post-publication were the between subjects independent variables.It was operationalized as a three-level factor (high, medium, and low), which allowed the researchers to conduct two sets of mixed 2 X 3 ANOVAs, one for *The Wall Street Journal*and one for *The Washington Post.*

In terms of statistical significance, an alpha level of $p< .05$ was used.This was adjusted for multiple comparison, using the Bonferroni method.As 10 independent samples tests were used, the critical unadjusted significance level became $p< .005$.Additionally, 10 ANOVAs were conducted, and again the critical level was $p< .005$.

IV. RESULTS

During the five-year period from January 1, 2011 through to December 31, 2015 there was only limited evidence to support the study's hypothesis.In the case of Starbucks, the relevant ANOVAs indicated a tendency for the share price to fall after published announcements.The *Washington Post*ANOVA showed an interaction between the timing of publication (pre- or post-publication) and the S&P 500. This broad pattern was not seen in the share prices of the other four coffee companies.

Following the deletion of windows with articles from both *The Wall Street Journal* and *The Washington Post*, the researchers conducted tests to evaluate differences in stock price movements in the periods pre- and post-publication. These were paired *t*-tests, or Wilcoxon signed ranks tests, depending on the distribution of the difference scores. Where distributions showed high levels of skewness or kurtosis the researchers chose the Wilcoxon test.

The first group of independent samples tests related to*The Wall Street Journal* (see Table 1 for the difference scores and their related statistics). Regarding JVA and PNRA, the difference scores showed high levels of skewness. For JVA skewness was 1.55 (*SE* = .36) and kurtosis 5.78 (*SE*=.70); for PNRA skewness was 1.27 (*SE* = -.36) and kurtosis 7.94 (*SE*=.70). JVA and PNRA were therefore analyzed with a sign ranked Wilcoxon test. Of all the companies examined, the only company with significant differences pre- and post-publication was Starbucks. The mean change pre-publication was +.88% (SD = 2.84), post-publication -.89% (SD = 2.59),$t(43)$ = -3.25, p=.002. The significance level was p=.023 after a Bonferroni adjustment. For McDonalds $t(43)$=.56, p=.572, for FARM $t(43)$=.07, p=.945, for JVA z=1.18, p=.239, and for Panera Bread z=.14, p=.889.

Table 1

Descriptive statistics for the difference scores of percent changes in SBUX, MCD, FARM, JVA, and PNRA, five days pre- and post-Wall Street Journal articles. Difference scores were calculated as post-publication minus pre-publication.

Company	Minimum Statistic	Maximum Statistic	Mean Statistic	SD Statistic	Skewness Statistic	SE	Kurtosis Statistic	SE
SBUX	-13.87	12.74	-1.77	3.62	-.67	.36	.41	.70
MCD	-5.38	2.98	-.24	2.73	.31	.36	1.48	.70
FARM	-17.59	23.58	-.11	10.25	.55	.36	1.54	.70
JVA	-20.03	45.47	2.20	12.31	1.55	.36	5.78	.70
PNRA	-9.24	14.01	.37	7.39	1.27	.36	7.94	.70

Table 2 illustrates the main statistics for the difference scores of the pre- and post-publication share price changes for *The Washington Post* articles. Starbucks had a kurtosis of 3.02 (*SE*=.81); JVA a skewness of 1.66 (*SE*=.44) and a kurtosis of 7.52(SE = .81). Given these figures, Wilcoxon sign ranked test were used for these two companies. The three paired *t*-tests were not statistically significant. For McDonalds $t(31)$=57, p=.572, for FARM $t(31)$=.41, p=.685, for Panera $t(31)$=.03, p=.978. Neither Wilcoxon tests revealed significance. For Starbucks z=-1.03,p=.304, for JVA z=.243, p=.808.

Table 2

Descriptive statistics for the difference scores of percent changes in SBUX, MCD, FARM, JVA, and PNRA, five days pre- and post-Washington Post articles. Difference scores were calculated as post-publication minus pre-publication.

Company	Minimum Statistic	Maximum Statistic	Mean Statistic	SD Statistic	Skewness Statistic	SE	Kurtosis Statistic	SE
SBUX	-13.87	12.74	12.74	-.47	.21	.41	3.02	.81
MCD	-5.38	2.98	2.98	-.20	-.61	.41	.43	.81
FARM	-17.59	23.58	23.58	.74	.32	.41	-.42	.81
JVA	-20.03	45.47	45.47	.27	1.66	.41	7.52	.81
PNRA	-9.24	14.01	14.01	.02	.62	.41	.88	.81

Following the independent samples test, ten ANOVAs were performed, five for *TheWall Street Journal*, five for *The Washington Post*.The researchers selected cut-off points to create three levels for the S&P 500 between subjects variables.The cut off values of these levels were those which gave the closest approximation to equal group sizes.*The Wall Street Journal* had low S&P500 changes ranging from -5.48% through to -1.03% (n=15), the medium group from -1.01% though to +.57% (n=14), and the high group from +.6% through to +2.6% (n=15).*The Washington Post's* low group ranges from -6.07% to -.65% (n=11), the medium group from -.53% to +.82% (n=11), and the high group from +.91% to +3.86% (n=10).

In the case of *TheWall Street Journal*, only Starbucks had a significant ANOVA. The main within subjects effect had $F(1,41)$=11.67, p=.001, η^2=.19. The interaction between the within and between subjects independent variables was not significant, $F(2,41)$=3.82, p=.03, η^2=.13. For*The Washington Post*, Starbucks was also the only significant ANOVA. The within subjects main effect was not significant, $F(1.29)$=.32, p=.572, the interaction was significant, $F(2,29)$=6.76, p=004, η^2 = .32.

Figure 1 shows the impact of the S&P 500 and *TheWall Street Journal* publication on the change in the Starbucks share price. For all levels of change in the S&P 500 (low, medium, and high) the growth in the Starbucks share price reduced, but the reduction was substantially steeper in the low S&P 500 condition.Figure 2 shows the plot of the interaction involving Starbucks' five-day percentage growth, pre- and post-*Washington Post* publication, and the S&P 500. It is important to note the opposing reactions in the high and low conditions.

On the basis of these results, there is limited support for the hypothesis that coffee companies' publicization of socially conscious initiatives, through the medium of newspapers, has an influence on company share prices.The hypothesis is supported in the case of Starbucks, but not in the case of the other four companies.

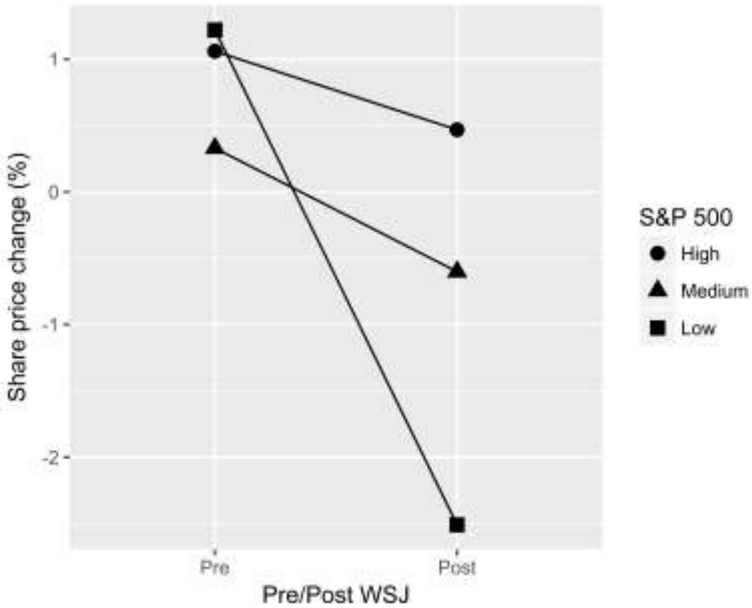

Figure 1. The mean change in the share price of Starbucks, pre- and post-publication of articles in *The Wall Street Journal*, and its interaction with changes in the S&P 500 (high, medium, low).

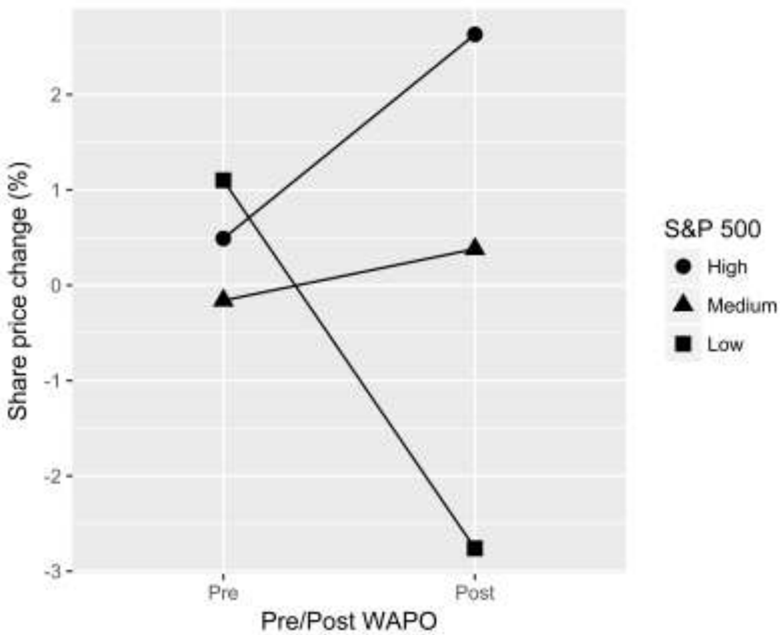

Figure 2. The mean change in the share price of Starbucks, pre and post-publication of articles in *The Washington Post*, and its interaction with changes in the S&P 500 (high, medium, low).

V. SUMMARY

The researchers made the assumption that newspaper articles relating to socially conscious initiatives within the coffee industry would have an impact on the share prices of companies within the whole sector.*The Wall Street Journal* and *The Washington Post* are important newspapers, often read by active investors.CNN (2017) reported that 70% of subscribers to *The Wall Street Journal* earn over $100,000 a year.This means that the subscribers are likely to have relatively high disposable income, which is available for investment in shares.An article in *The Wall Street Journal* about the coffee sector might then encourage them to buy or sell coffee stocks.

However, it may be the case that one cannot meaningfully talk about a coffee sector, at least in terms of the five companies selected.Although McDonalds and Panera Bread sell coffee, they are restaurants, offering a range of products and services.The same could be said for Starbucks, although its brand and business is much more aligned with coffee consumption than McDonalds and Panera Bread.Coffee Holdings (JVA) and Farmer Brothers (FARM) are much more focused on coffee supply and distribution, and they also have smaller market capitalizations than Starbucks and McDonalds.

According to Yahoo Finance (June 20 2018),McDonalds had a market capitalization of $127.92 billion on June 20 2018, Starbucks $71.82 billion, Farmer Brothers $511.85 million, and Coffee Holdings $31.76 million.Panera Bread was taken over in 2017 for $7.16 billion (The Wall Street Journal, 2017).The disparities in market capitalizations, and stock liquidity, might mean that some companies are affected more than others by press articles and speculation.Additionally, investors might perceive companies in different ways.While Starbucks has the perception of being a “coffee stock”, McDonalds, with its longer history of stable and profitable operations, may be seen by investors as a value play, above and beyond its actual business.

The results of the study suggest that it was all about Starbucks.Starbucks is a company which is strongly associated with the coffee industry, and one could then argue that articles about coffee are most likely to impact the price of Starbucks.McDonalds is seen as a value play and a restaurant, while Farmer Brothers, and particularly Coffee Holdings, may be too small to be on most investors’ radar.It therefore was not surprising that Starbucks was the only coffee company to show significant results in this study.

The *t*-test for *The Wall Street Journal*showed that the change in Starbuck’s share price post-publication (-.89%) was significantly lower than pre-publication (+.88%).The two ANOVAs, which took into account changes in the S&P 500, added to the picture.In the case of the *The Wall Street Journal* there was no interaction with the S&P 500 (see Figure 1).For all conditions of the S&P 500, high, medium, and low, the change in price was lower post-publication than pre-publication.In the cast of *The Washington Post* there was a significant interaction.When the S&P 500 was high Starbucks responded well to articles relating to socially conscious initiatives, when the S&P 500 was low it responded badly.

On the basis of these results, one might speculate that readers of *The Washington Post* areless financially sophisticated than readers of *The Wall Street Journal*.*The Washington Post*is a generalist newspaper, which does not focus on particular areas of news.By contrast,*The Wall Street Journal*specializes in financial news, and its readers, relatively speaking, are likely to have a high level of financial knowledge and experience.Readers of *The Washington Post*may evaluate an article about socially conscious initiatives based on how they are feeling about the overall market.In a good market socially conscious initiatives might be viewed favorably, in a poor market less favorably.This situation could be seen in terms of cognitive bias.

Gudmundsson&Lechner (2013) discussed cognitive bias in terms of entrepreneurial decision-making.They contrasted two biases, optimism and distrust, which can have an important role in determining the success or failure of a business.In terms of stock market investors, its is possible that the overall state of the market depends on whether investors have a bias towardsoptimism ordistrust.This might then mean that when the S&P 500 is strong, there is a greater tendency to be optimistic about companies that are publicizing socially conscious initiatives.On the other hand, when the S&P 500 is down, there may be feelings of negativity and distrust.

Looking at the overall results, it seems that articles publicizing socially responsible initiatives cause short-term damage to Starbucks’ share price.The reason for such damage is hinted at by Riedl&Smeets (2017).They considered the question of why investors put money into socially responsible mutual funds.They argued that investors are not motivated by financial gain, and that they actually expect their investment to underperform.The compensation for this underperformance will presumably be a feeling that they are doing something for the social good.Applied to Starbucks, a newspaper article mentioning socially conscious initiatives in the coffee industry may give current and potential investors the impression that they are invested, or investing, in a socially responsible business, which puts ethics before profit.Investors might then feel that the company they are invested in, or are considering being invested in, has corporate policies which are inconsistent with their personal financial goals.

The present study has given some insight into how newspaper announcements relating to socially conscious initiatives can affect share price.While its aim was to look at an entire sector, the results were focused on a single company, Starbucks.In the case of this company, there is evidence that investors are dissuaded from investing in the company, or even inclined to sell their shares, when humanitarian initiatives come into the public domain.This means that when corporations announce their humanitarian plans, either through the press or through company announcements, they need to be careful.Investors may not always give a premium to social consciousness, and instead they may be interested in steps that increase a company’s profitability.Therefore, companies like Starbucks need to make sure that any publicity relating to socially conscious initiatives is couched in terms that emphasize the benefits to shareholder value. Also, in light of the interaction effect seen with *The Washington Post* articles, management should avoid publicity relating to socially conscious initiatives when the overall market is falling.

As far as future research is concerned, the selection of both companies and news sources could be expanded.It would be useful to includea wider range of publications, and also to select companies that were more homogenous in terms of composition, business, and market capitalization.McDonalds, for example, is probably not a coffee company, at least in terms of investor perception.There might also be value in increasing the time-frame, as five days may be too short to capture significant changes in sentiment. On the other hand, the results of the study may have shown the advantages of concentrating on a single company, and future researchers may want to consider a case study approach, where investor decision-making regarding one company is looked at in detail.

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