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Corporate social responsibility (CSR) is receiving a growing attention from both academic researchers and business managers. Prior research suggests that CSR, by its ability of building strong corporate image and reputation, effectively improves a firm’s performance. However, few studies have explored the relationship between CSR and firm risk factors. In particular, although the ongoing financial crisis spurs scholars to seek new drivers that help a firm regain its well being, an important financial indicator of a firm, default risk, has been largely neglected. This research bridges this gap and empirically examines the relationship through which CSR helps firms reduce the risk of falling into default. In addition, this paper formulates the moderating effects between CSR and firm capability, environmental dynamism/complexity, and describes a more complete pattern of CSR’s function under different internal and external conditions. The results confirm that CSR has a strong effect on default risk reduction, and this relationship is stronger on firms in high dynamism environments than in low dynamism environments.

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