

# **Economic Implications of Corporate Social Responsibility and Responsible Investments**

**av**

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**AKADEMISK AVHANDLING**

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## ABSTRACT

**Paper 1 (with Catalin Starica):** This study conducts an in-depth analysis of the association between a unique ten-dimensional set of Corporate Social Responsibility (CSR) scores and firm profitability, as measured by Return on Assets (ROA). We find that non-linear (semi or non-parametric) regression methods bring important improvements in explaining profitability relative to a classical linear approach. While a number of CSR variables like corporate governance, talent attraction and codes of conduct might have some explanatory power, the CSR scores do not improve over the standard variables known to be associated with ROA.

**Paper 2 (with Constantin Belu):** This paper proposes a novel Corporate Social Responsibility (CSR) index based on a Data Envelopment Analysis (DEA) model. Acknowledging the argument that companies might favor those CSR dimensions that provide strategic competitive advantages, we argue that the index can capture companies' strategic approach to CSR. Furthermore, our findings reveal a neutral relationship between this strategic CSR index and economic performance as measured by ROA and Tobin's Q, when controlling for firm unobserved heterogeneity and past economic performance. By contrast, an equally-weighted index of the same CSR indicators is found to be negatively related with ROA, which reinforces our claim that this specific DEA-based index is a measure of strategic CSR.

**Paper 3:** Using detailed data on seven environmental, social, and governance (ESG) attributes for a long panel of large publicly-traded U.S. firms during July 1992-June 2008, only community relations were found to have had a positive effect on risk-adjusted stock returns, which effect was not compensation for risk but could be due to mispricing. Additionally, a changing effect of employee relations was found from positive during July 1992-June 2003 to negative during July 2003-June 2008. The positive effect could be due to mispricing, whereas there is some evidence that the negative effect was compensation for low non-sustainability risk. A weak negative effect of human-rights and product safety indicators on risk-adjusted stock returns in the more recent period was also found to be likely due to mispricing. The implications are that certain ESG attributes might be value relevant but they are not efficiently incorporated into stock prices.

**Paper 4:** This paper investigates how annual abnormal returns react to current and past rating revisions in corporate responsible behavior in a panel data spanning 16 years. I find that increases in less responsible behavior led to persistent negative abnormal returns, which were particularly strong for the area of corporate governance, and weaker for product safety and the environment. These results are robust to concerns of endogeneity, i.e., that the negative stock price movements would lead to an update in the areas of social responsibility concerns. In contrast, increases in already strong responsible behavior did not generate a systematic reaction in stock returns.

*JEL: C14, C22, C23, C26, C52, C67, G12, G14, G30, M14*

*Keywords: Corporate Social Responsibility, Strategic CSR, Socially Responsible Investments, Sustainability, Firm Profitability, Stock Returns, Statistical Learning Techniques, Variable Selection, Smooth Splines, Regression Trees, Data Envelopment Analysis, Difference-GMM, Risk-Factor Test, Market Efficiency, Control Functions approach.*

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