

CORPORATE SOCIAL RESPONSIBILITY AND ACCESS TO FINANCE (2014)

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Brief Introduction

Motivation : Does CSR lead to value creation and, if so, in what ways?

Aims and objectives : investigate whether superior performance on corporate social responsibility (CSR) strategies leads to better access to finance.

Main results : firms with better CSR performance face significantly lower capital constraints.

Literature review: the link between CSR and capital constraints

Thesis : firms with better CSR performance face lower capital constraints.



- ✓ better stakeholder engagement
- ✓ limiting the likelihood of short-term opportunistic behavior
- ✓ reducing overall contracting costs .



- ✓ more likely to disclose their CSR activities to the market to signal their long-term focus
- ✓ differentiate themselves.

Literature review: Contribution of the paper

- Investigates the relation between capital markets and socially responsible firms by focusing on the critical impact that CSR has on idiosyncratic firm capital constraints.
- Based on a broad sample of firms originating from 49 countries.
- Considering other forms of capital constraints beyond the cost of equity or debt, including the inability to borrow, the inability to issue equity, the dependence on bank loans, or the illiquidity of assets.
- Highlights the important role that capital markets play in evaluating the potential for long-run value creation by firms that adopt CSR strategies.

Empirical analysis: Data and key methods

- **Dependent variable: the KZ index of capital constraints**
- **All firm-level data were collected from Worldscope**

The paper uses their regression coefficients to construct the KZ index for each firm year, consisting of a linear combination of five accounting ratios: (1) cash flow to total capital; (2) the market to book ratio; (3) debt to total capital; (4) dividends to total capital; and (5) cash holdings to capital.

Higher values of the KZ index imply that the firm is more capital constrained .

The KZ-Index (Kaplan-Zingales Index) is a relative measurement of reliance on external financing. Companies with a higher KZ-Index scores are more likely to experience difficulties when financial conditions tighten since they may have difficulty financing their ongoing operations.

$$\text{KZ Index} = -1.001909 \times \text{Cash Flows} / \text{K} + 0.2826389 \times \text{Q} + 3.139193 \times \text{Debt} / \text{Total Capital} + -39.3678 \times \text{Dividends} / \text{K} + -1.314759 \times \text{Cash} / \text{K}$$

Empirical analysis: Data and key methods

- **Independent variables: measuring CSR and the Thomson Reuters ASSET4 dataset**
 - ✓ a panel dataset from Thomson Reuters ASSET4 for 2,439 publicly listed firms during the period 2002 to 2009.
 - ✓ use the annual environmental, social, and corporate governance scores to construct a composite CSR index for every year and each focal firm.
 - ✓ In particular, the variable *CSR Index* is the equally weighted average of the social, the environmental, and the governance score for the focal firm for every year in their panel dataset.

Empirical analysis: Data and key methods

Table 2. Capital constraints and CSR performance: linear baseline specifications

Dependent variable	Panel A					Panel B				
	KZ index (1)	No repurchase indicator (2)	KZ index equal weighted (3)	SA index (4)	WW index (5)	KZ index (6)	No repurchase indicator (7)	KZ index equal weighted (8)	SA index (9)	WW index (10)
CSR index	-1.034*** (0.120)	-0.401*** (0.109)	-0.204*** (0.035)	-2.025*** (0.065)	-0.155*** (0.005)	-0.457** (0.204)	<u>-0.587</u> (0.368)	<u>-0.183***</u> (0.059)	<u>-0.084</u> (0.061)	<u>-0.017***</u> (0.006)
Size	0.222*** (0.027)	-0.079*** (0.021)	0.067*** (0.008)			0.124 (0.110)	0.247 (0.175)	-0.011 (0.034)		
Constant	-0.973*** (0.166)	0.445 (0.770)	-0.244 (0.187)	-0.354* (0.197)	-0.265 (0.000)	-0.921 (1.313)	-1.631 (1.562)	0.344 (0.409)	-2.658*** (0.066)	-0.296*** (0.002)
Country FE	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Industry FE	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Observations	10,078	10,017	10,078	9,952	9,819	2,616	1,928	2,616	2,576	2,560
Adjusted R-squared	0.213	(Pseudo) 0.142	0.175	0.5	0.467	0.612	(Pseudo) 0.290	0.609	0.966	0.93

*** p < 0.01; ** p < 0.05; * p < 0.10, based on two-tailed tests, robust standard errors, clustered at the firm level in parentheses. (1): OLS regression with full sample, (2): Probit regression with full sample, (3), (4), (5): OLS regression with full sample. (6): OLS regression with balanced sample, (7): Probit regression with balanced sample, (8), (9), (10): OLS regression with balanced sample.

Empirical analysis: Data and key methods

- Construct measures and test empirically for the two hypothesized mechanisms — stakeholder engagement and CSR disclosure: both variables are significantly related to capital constraints in the predicted direction.
- Importantly, the results remain unchanged when they use the introduction of ESG (environmental, social, governance) ratings as a shock to CSR performance and subsequently investigate changes in the CSR index and capital constraints for a paired sample of firms.

My plan

- **Research question:** The relationship between ESG Investing and Portfolio performance and diversification
- **Data: (narrowed down to cases from China)**
 - Thomson Reuters: ESG rating scores
 - Wind: accounting data, stock return data
 - Bloomberg: stock return data

Thanks for watching!