

Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis

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- **Literature review**
- Main focus: study the impact of social capital on firm performance during a shock to trust.
- Contribution: Address this question of the extent to which social capital and trust impact firm performance which is relatively unexplored in the previous literature; investigate whether CSR is value-enhancing for shareholders.

Corporate Social Responsibility (CSR)

- Definition: the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life
- a good proxy for firm's social capital

- **Empirical analysis**

- **Data**

Firms' CSR ratings : MSCI ESG Stats Database

Stock return data : CRSP

Accounting data : Compustat

(remove financial firms and micro-cap stocks)

- Explanatory variable: a firm's total net CSR index
(Five categories: community, diversity, employee relations, environment and human rights)
- Explained variable: Raw Crisis-Period Return; Abnormal Crisis-Period Return
- Financial crisis period: August 2008 to March 2009

➤ **Methods**

The paper estimates various regression models of stock returns during the crisis period as a function of firms' pre-crisis CSR ratings and a number of control variables like cash holdings, short-term debt, long-term debt and profitability.

➤ Results

High-CSR firms had higher stock returns during the crisis.

Panel A: Net CSR Score: Raw and Abnormal Returns				
	Raw return (1)	Abnormal return (2)	Raw return (3)	Abnormal return (4)
<i>CSR</i>	0.059*** (0.018)	0.109*** (0.027)	0.048*** (0.017)	0.087*** (0.032)
<i>Ln(Market Cap)</i>			0.001 (0.005)	-0.015 (0.011)
<i>Long-Term Debt</i>			-0.112*** (0.046)	-0.102 (0.086)
<i>Short-Term Debt</i>			-0.323*** (0.115)	-0.384* (0.219)
<i>Cash Holdings</i>			0.175*** (0.047)	0.380*** (0.091)
<i>Profitability</i>			0.528** (0.261)	0.732 (0.509)
<i>Book-to-Market</i>			-0.116*** (0.030)	-0.045 (0.058)
<i>Negative B/M</i>			-0.015 (0.061)	0.049 (0.127)
<i>Momentum</i>			-0.030 (0.024)	-0.285 (0.044)
<i>Idiosyncratic Risk</i>			-3.155*** (0.876)	-8.870*** (1.719)
Constant	-0.588*** (0.260)	-0.781*** (0.035)	-0.528*** (0.059)	0.0867*** (0.032)
Four-factor loadings	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
<i>N</i>	1,673	1,673	1,673	1,673
Adj. <i>R</i> ²	0.17	0.33	0.20	0.37

Interpretation

- High-CSR firms build social capital through their CSR activities, which pays off when the overall level of trust in corporations suffered a severe shock.
- High-CSR firms have higher profitability and gross margins, and experience higher sales growth relative to low-CSR firms during the crisis. They also have higher sales per employee and are able to raise more debt.

- **My plan**
- My research topic: relation between firm's ESG performance and stock returns as well as the role of ESG in the stock markets.
- Research period: the Covid-19 global epidemic period

Thank you!