Does corporate sustainability reporting matter?

Corporate Sustainability

Access to Capital
Does corporate sustainability reporting matter?

Corporate Sustainability → Access to Capital

[Diagram showing a flow from Corporate Sustainability to Access to Capital]
Does corporate sustainability reporting matter?

- Corporate Sustainability
- Investors
- Access to Capital
  - Cost of Capital
  - Cost of equity
  - Cost of debt
Does corporate sustainability reporting matter?

- Corporate Sustainability
- Investors
- Access to Capital
  - Cost of Capital
  - Cost of equity
  - Cost of debt
Does corporate sustainability reporting matter?

- Issuing CSR report $\rightarrow$ Lower cost of capital
  - *Reduced information asymmetry*
- CSR rating $\rightarrow$ Lower capital constraints
  - *Reduced info. asymmetry + enhanced stakeholder engagement*
- Carbon emissions $\rightarrow$ Reduced firm value
  - *Firm value decreases by $212K/thousand metric tons CO2e*
  - *A further penalty is imposed on firms that do not disclose emissions*
Does corporate sustainability reporting matter?

Corporate Sustainability + Investors → Access to Capital
Does corporate sustainability reporting matter?

- Financial analysts and credit rating agencies incorporate sustainability into analyses → reflected in recommendations and projections, relied upon by investors.
Does corporate sustainability reporting matter?

- Using large sample of publicly-traded US firms over 15 years, researchers found that in early 1990s, analysts issue more pessimistic recommendations for firms with high CSR ratings → Analysts perceive CSR as an agency cost.
- However, in the 2000s, analysts progressively assess these firms less pessimistically, and eventually assess them optimistically → Analysts perceive CSR is value-enhancing.
Does corporate sustainability reporting matter?

- Large-sample empirical study of the mechanisms that link ESG to credit risk, found that ESG scores are highly correlated with credit risk and the likelihood of default.
Does corporate sustainability reporting matter?

2019 survey of 1,100 CFA Charter holders: 73% consider at least one of E, S or G issues in investment decisions.
Does corporate sustainability reporting matter?
Does corporate sustainability reporting matter?

- During the 2008-2009 financial crisis, firms with high social capital, as measured by CSR, had stock returns that were 4-7 ppts higher, higher profitability and growth, and raised more debt relative to low-CSR firms.
- Trust b/w firm & stakeholders, built through CSR, pays-off when overall level of trust in markets suffers a negative shock.
Does corporate sustainability reporting matter?

- Corporate Sustainability
- Information Intermediaries
- Investors
- Capital

**Employees & CSR**
- Randomized field experiments in online labor marketplaces found that learning about employer’s social responsibility significantly reduced wage requirements of highest-performing workers.
- Revealed preference for CSR especially among top performers
- Companies invest in employee-related CSR to motivate employees, and reduce adverse behavior at work (shirking, absenteeism).
Does corporate sustainability reporting matter?

Revised Research Questions/Topics

• Recent workingpaper that uses a noise-correction approach to address bias introduced by noisy ESG ratings. Corrected estimates find that effect of ESG on stock returns is stronger than previously estimated – impact of ESG ratings (from 8 data providers) on stock returns are biased downwards by 60%.

• How can we tackle the problem of noisy esg disclosures provided by firms? Can we detect (and correct for) corporate greenwashing?

References
