

# THE STOCK MARKET VALUATION OF CORPORATE SOCIAL RESPONSIBILITY

*Northern Finance Association*

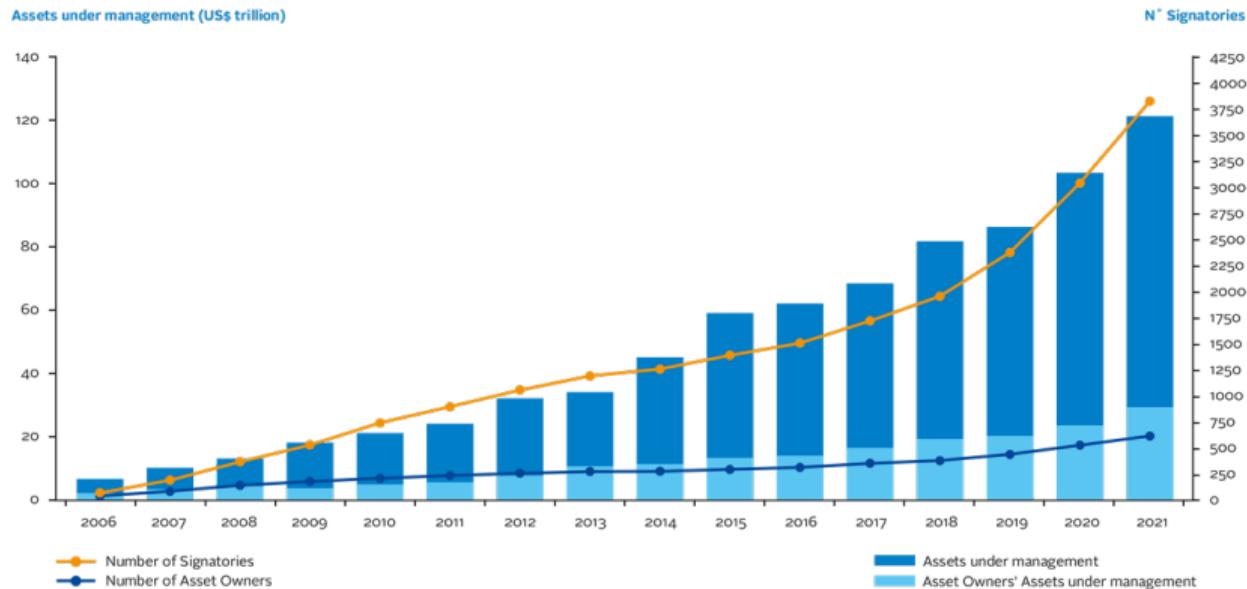
Kunal Sachdeva

September 9th, 2023

# Does CSR Matter?

PRI growth 2006-2021, Assets Under Management and Number of Signatories

Over \$121 Trillion in Assets Under Management and 3,826 signatories.



# Does CSR Matter?

*Firms spend tremendous time and effort on CSR efforts*

**≡ FINANCIAL TIMES myFT**

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## Fortune 500 companies spend more than \$15bn on corporate responsibility

Drugs and technology groups take the lead in CSR, donating free medicines and software

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Alison Smith, Chief Corporate Correspondent OCTOBER 12 2014

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Sustainable Business

### Companies pay up to \$500,000 for sustainability ratings - report

Reuters  
March 27, 2023 3:04 PM CDT · Updated 5 months ago



# Does CSR Matter?

## *Necessary Conditions for Firms to Spend on CSR*

\* **If any of these conditions exist, it is likely beneficial for CSR efforts to be carried out by a firm:**

1. A company has no comparative advantage in socially responsible actions
  - \$1 spent on a social initiative creates the same value as \$1 spent by anyone else
2. Governments are well-functioning
  - They set the rules of the game, but regulation can be imperfect
3. Uncertainty in Projects, Principle of Multiplication
  - Does worker satisfaction matter?

# Paper Questions

*What is the Stock Market Valuation of Corporate Social Responsibility?*

**The paper asks three related questions:**

1. What is the stock market's valuation of CSR activities of firms?
2. What are the determinants of the stock market returns?
3. Why does the stock market value CSR, and why is this seen as positive?

# Stock Market Valuation of CSR – What Does This Paper Do?

## *Big Picture of the Paper*

### **How does the paper attribute the corporate social responsibility of the firm to stock market valuation?**

1. Collects press releases and statements from companies and classifies them
  - Hand label
  - BERT model
  - Classify them into (1) Environmental, (2) Inclusion, (3) Education, or (4) Poverty, while also accounting for corporate giving.

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  - Uses the same indexes, and uses a moving window average over k periods
3. Uses market reaction to CSR News
  - Uses a Returns/CAR, with a -1/+1 window
  - Study the role of giving, folding in public CSR concerns

## Summary of Key Results

*CSR initiatives can positively influence stock prices*

1. Market reactions to CSR activities are markedly influenced by the public's heightened concern for pertinent social issues.
2. CSR initiatives that individuals find challenging to replicate garner amplified market responses, especially in areas such as environmental conservation and diversity promotion.
3. Companies enhance their CSR initiatives in response to emerging societal demands, strategically formulating their optimal approaches to address these challenges.
4. There is a tempered market response to unfavorable earnings reports from firms heavily engaged in CSR.

*>> Will focus on sharpening the results with the investment framework in mind*

# Comment 1 – Are All CSR Actions Valuable?

*Can the Paper Tighten how it Measures CSR?*

Chevron likely has a competitive advantage in energy. Inclusive employment is good business practice.

The screenshot shows the top navigation bar of Chevron's website with links for newsroom, careers, annual report, and corporate sustainability report. Below the navigation is a secondary menu with project portfolio, operations, technology, sustainability, investors, and about. A search icon is also present. The main content area is titled "emissions solutions" and features a large image of a solar field at sunset with a play button overlay. The headline reads "solar field powers up lower carbon operations". Below the headline is a timestamp "1 min read | august 25, 2023". At the bottom of the image, there is a caption: "This solar field will use the sun's energy to help power a natural gas compressor."

A new solar field is now producing lower carbon energy for our operations in Hayhurst, New Mexico. This is the first project in Chevron's renewable power agreement with Algonquin Power & Utilities Corp.

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This year, as Chevron commemorates the 30th anniversary of our PRIDE employee network, we celebrate the spectrum of identities and experiences across our workforce and the intersections that make each of us unique.

**>> But are all CSR press releases valuable?**

# Comment 1 – Are All CSR Actions Valuable?

*Can The Paper Tighten how it Measures CSR?*

Many CSR initiatives are financially immaterial, and should not add value

project portfolio operations technology  sustainability investors about

topics ▾ press releases events

people and community

## we tread lightly to give baby seals safe harbor

2 min read | June 30, 2023



Seals lounge on the rocks at the beach in Carpinteria, California.



### what we're doing

Kevin Duganne, site manager at the Carpinteria gas plant, noted that education is key in helping protect the seals. His team maintains an open line of communication with volunteers, addressing any concerns that may arise and coaching team members on how to safely work around the seals and pups.

Volunteers monitor the seals from a nearby bluff during the six-month pupping season. During that time, Chevron provides daytime access to the bluff. We also offer nearby parking to make it easier for volunteers to reach the overlook. While the volunteers are not adjacent to an active worksite, Chevron still provides them with awareness training about the facility.

>> *This is for what is reported, are there CSR activities that are not reported?*

# Comment 1 – Are All CSR Actions Valuable?

...

There looks to be important selection into what is reported



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## The Chevron Oil Spill Reminds Us Why We Need a Just Transition

March 1, 2021

By Jacob Klein

On February 10th, a leak in one of the pipelines operated by the [Chevron Richmond Refinery](#) spilled around 600 gallons of oil into the waters of the San Francisco Bay near Richmond and San Pablo. The pipeline leaked a petroleum and water mixture at a rate of five gallons per minute for about two hours, leaving an oily sheen four miles long. Emergency responders were dispatched to resolve the crisis, and a health advisory was issued calling for locals with "respiratory sensitivities" to stay indoors.



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 SIERRA CLUB  
SAN FRANCISCO BAY

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### february 2021

 chevron commits \$300 million toward low-carbon technology investments  
February 25, 2021

 chevron, brightmark expand partnership on dairy biomethane fuel projects  
February 17, 2021

 chevron announces offer to acquire noble midstream partners LP  
February 03, 2021

>> Does this type of selection affect the measurement used in the paper?

## Comment 1 – Are All CSR Actions Valuable?

***Can the paper sign and differentiate between easy vs. hard efforts?***

**Suggestion 1:** Classify the new reports into positive and negative news?

- To the extent that CSR news is negative, can the paper sign the news?
- This might reduce the noise in the estimates, and also

**Suggestion 2:** Can the paper classify easy versus hard-to-implement efforts?

- Donations is 'easy', however, 30 years of PRIDE is much harder

## Comment 2 – What is the Optimal Response of a Firm?

*What is the optimal response of the firm?*

**Let's put the results on their head, what does this suggest for a firm?**

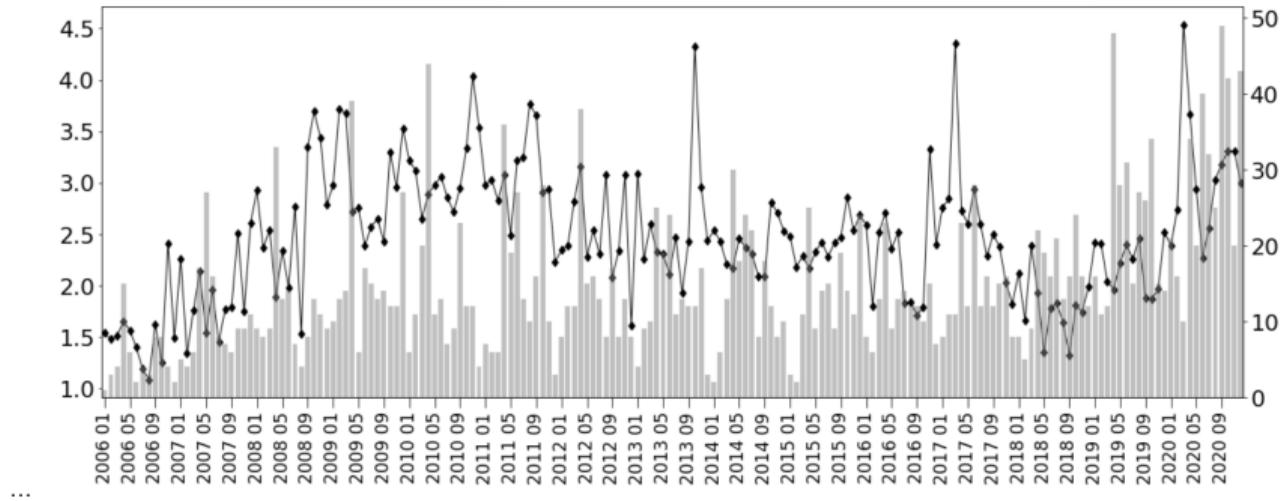
- Should the Chief Sustainability Officer be using public announcements to push up their stock price?
- Can this be used to game?
- How do we understand the timing of the reporting, can this tell us something about the firm's decision?

**>> *Is there any patterns that emerge from when they report?***

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Is the CSR reporting by firms random?

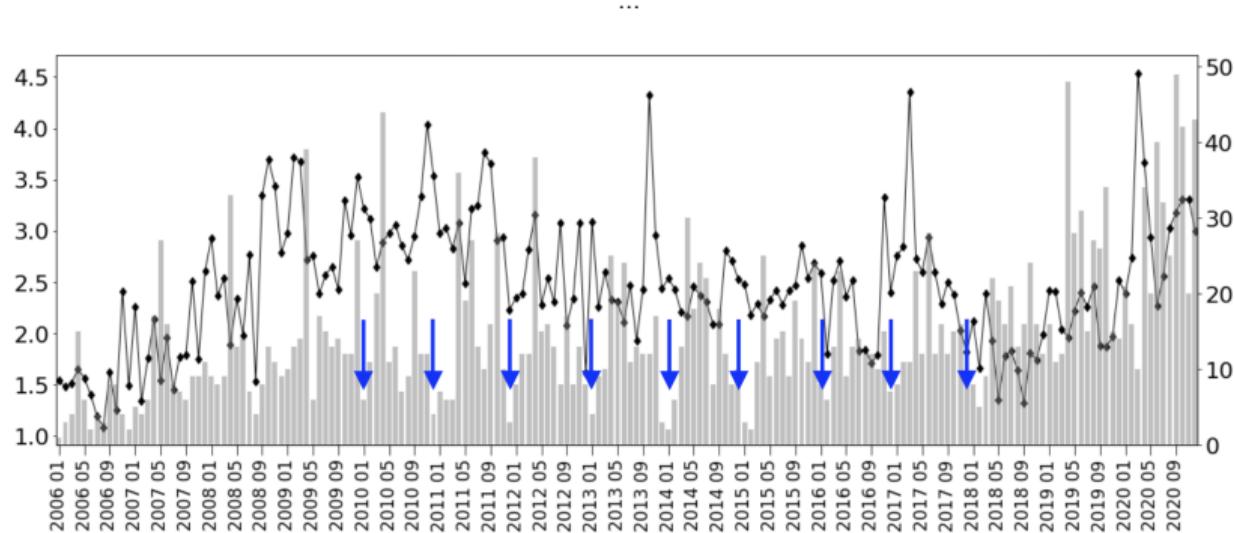


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***Is it possible to test if firms are using CSR reporting to strategically?***

**Suggestion 1:** Study more closely the choice of when and what to report

- Do firms repeat the news that helped them, see Tetlock (RFS 2011).
- Conditional on reporting, does the content of the reporting matter?

**Suggestion 2:** Can you measure the difficulty/time of some CSR activities

- This may help address issues of strategic reporting
- May also sharpen the results – currently using donation as st. vs. lt.

## Comment 3 – Is there a deeper story to be studied?

*What are the medium-term effects?*

The current analysis focuses on the -1 to +1 CAR

- This helps shut down a lot of other possible channels that could be affecting the paper
- However, this is assuming a highly rational investor base that will adjust immediately to information

	Return[-1, +1]			CAR[-1,+1]		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>CSR.Concern</i> (3)	0.009*** [4.53]	0.009*** [4.40]	0.009*** [4.00]	0.004*** [2.76]	0.004*** [2.67]	0.004** [2.25]
Issue FE	✓	✓	✓	✓	✓	✓
Industry FE		✓			✓	
Firm FE			✓			✓
Adjusted $R^2$	0.002	0.015	0.034	0	0.008	0.029
Observations	10100	10051	9935	10100	10051	9935
	Return[-1, +1]			CAR[-1,+1]		
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<i>CSR.Concern</i> (6)	0.010*** [4.73]	0.010*** [4.44]	0.009*** [4.02]	0.004*** [2.62]	0.004** [2.40]	0.003** [2.04]
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**Suggestion:** Study if there is a sorting of the investor base. How temporary is it? Why?

## Comments for the Author

- Interpretation of the result – corporate giving is just a transfer of wealth outside of the firm. Think of a dividend to a non-investor. Will not increase value. Doing something may reduce future litigation risk.
- Firms that are more profitable are likely to employ CSR. Negative ESP
- I don't follow – *"If strong profitability, which serves as an indicator of financial stability, mitigates potential negative effects of CSR on firm value, then recent profitability should positively correlate with the value of CSR initiatives."*
- The paper is too long, intro should be 5-6 pages.
- Should make the index of articles that are CSR, or even an index of interest, good way of getting citations.
- Equation 1 looks wrong
- Wonky design, why are we taking a moving average, re-read 3 times
- Table 5 – looks like table 4, but drop time fe, using index as a proxy. Get the same coefficients.
- Explain your subscripts
- Make your tables consistent with the language
- Is table 6 description correct for the event?

Excited for this paper!

### **Important contribution studying an old but unanswered question**

- Brings new machine learning approach to an interesting question
- Helps establish the value of different CSR initiatives of firms
- Shows the time variation in CSR sentiment – useful for other research
- Digging in more will help attribute CSR activity of firms to market value.

