

The Stock Market Valuation of Corporate Social Responsibility Programs

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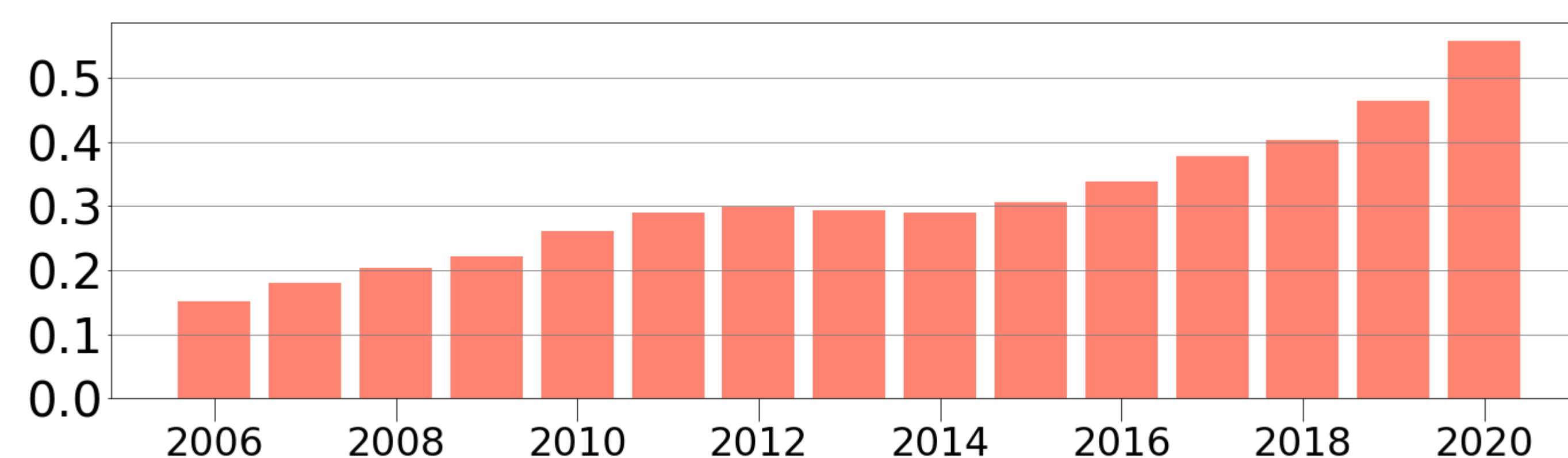
“The market value of CSR programs is a function of the level of public concern about a social issue the programs address.”

● What are CSR programs?

- Corporate activities companies undertake to engage in environmental, social problems.
- Examples:
 - Amazon announced \$10 million investment in Closed Loop Fund as an effort to divert 1 million tons of recyclable material from landfill into the recycling stream.
 - Boeing Company contributed \$5 million to the National Museum of African American History and Culture to protect the heritage of black community.
 - Northrop Grumman implemented many programs relating to STEM education such as ECO Classroom Ecology Field Experience and Engineering Scholars Competition.

● Why do I study the value of CSR programs?

- The share of companies reporting a CSR program has increased over time.



- However, the value of CSR is subject to debate.

The adoption of close call CSR proposals leads to positive announcement returns (Flammer, 2015).



Investors respond weakly negatively to 574 positive CSR events on average (Krüger, 2015).

● Primary data

1. News releases on CSR programs

- Companies voluntarily report their CSR activities to build a reputation as socially responsible corporate citizens.
- Press releases of **1430** companies in the years between **2006** and **2020**
- I built a **deep learning model** to find CSR news releases (model recall: **97%**).
- I manually mapped **21681** CSR news releases to social issues the programs are addressing.
- **54%** of CSR programs address environmental, diversity, education, and poverty issues. So, I focus on the **four** social issues.

2. Level of public concern about a social issue

- Columns, editorials, letters, opinions, and interviews in the NYT, WSJ, and USA Today
- I use a Natural Language Processing algorithm to create a monthly index of public concern about each of the four social issues.
- The values are assigned to CSR programs based on the month in which the programs are reported and the social issues the programs are designed to tackle.

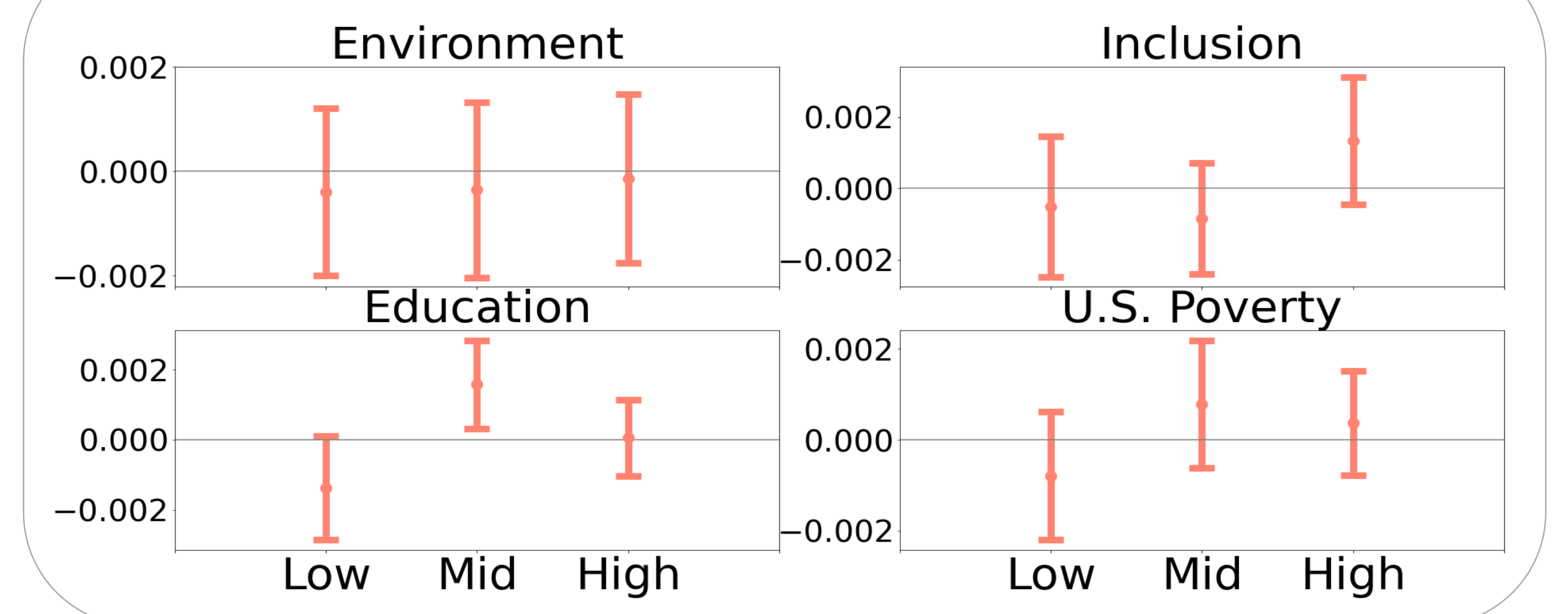
● Methodology: event study

- A short-run event study with many events alleviates endogeneity problems.
- I investigate Carhart (1997) four-factor adjusted CARs over a window of three days.

● Main findings

1. The effect of **the level of public concern** on the CARs of CSR programs is **positive** controlling for social issue fixed effects.
 - One standard deviation increase in the level of public concern leads to a **42 bp** increase in CARs.

CARs sorted by the level of public concern



2. I gleaned information from news releases on whether individuals can replicate CSR programs based on the size, mode, partnership of programs, etc. I find CARs are **higher** when it is **more difficult for individuals to replicate** CSR programs.
3. Past **profitability** is also **positively** related to the market valuation of CSR programs, but the effect becomes weaker for more serious social issues.
4. Companies consider public concern when choosing social issues, and larger companies are more likely to take CSR initiatives hard for individuals to replicate.

● Next steps

- A macroeconomic model that explains the findings.
 - The premium of securities prices that is a function of **disutility from social issues** and **companies' efficiency in solving social issues** relative to individuals.

● References

- Krüger, Philipp, 2015, Corporate goodness and shareholder wealth, Journal of Financial Economics 115, 304-329
- Flammer, Caroline, 2015, Does corporate social responsibility lead to superior financial performance? a regression discontinuity approach, Management Science 61, 2549-2568.