

QUASI Seminar Series

March 11, 2022

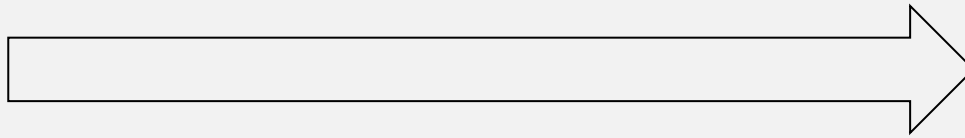
Jody Grewal, Assistant Professor



Rotman School of Management
UNIVERSITY OF TORONTO

Does corporate sustainability reporting matter?

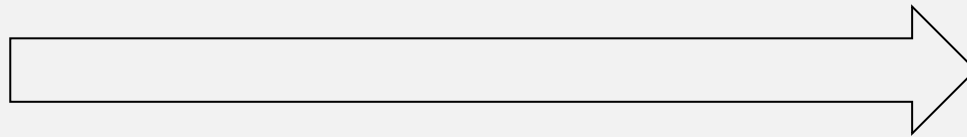
Corporate
Sustainability



Access to
Capital

Does corporate sustainability reporting matter?

Corporate
Sustainability



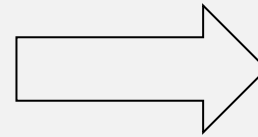
Access to
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Does corporate sustainability reporting matter?

Corporate
Sustainability

Investors

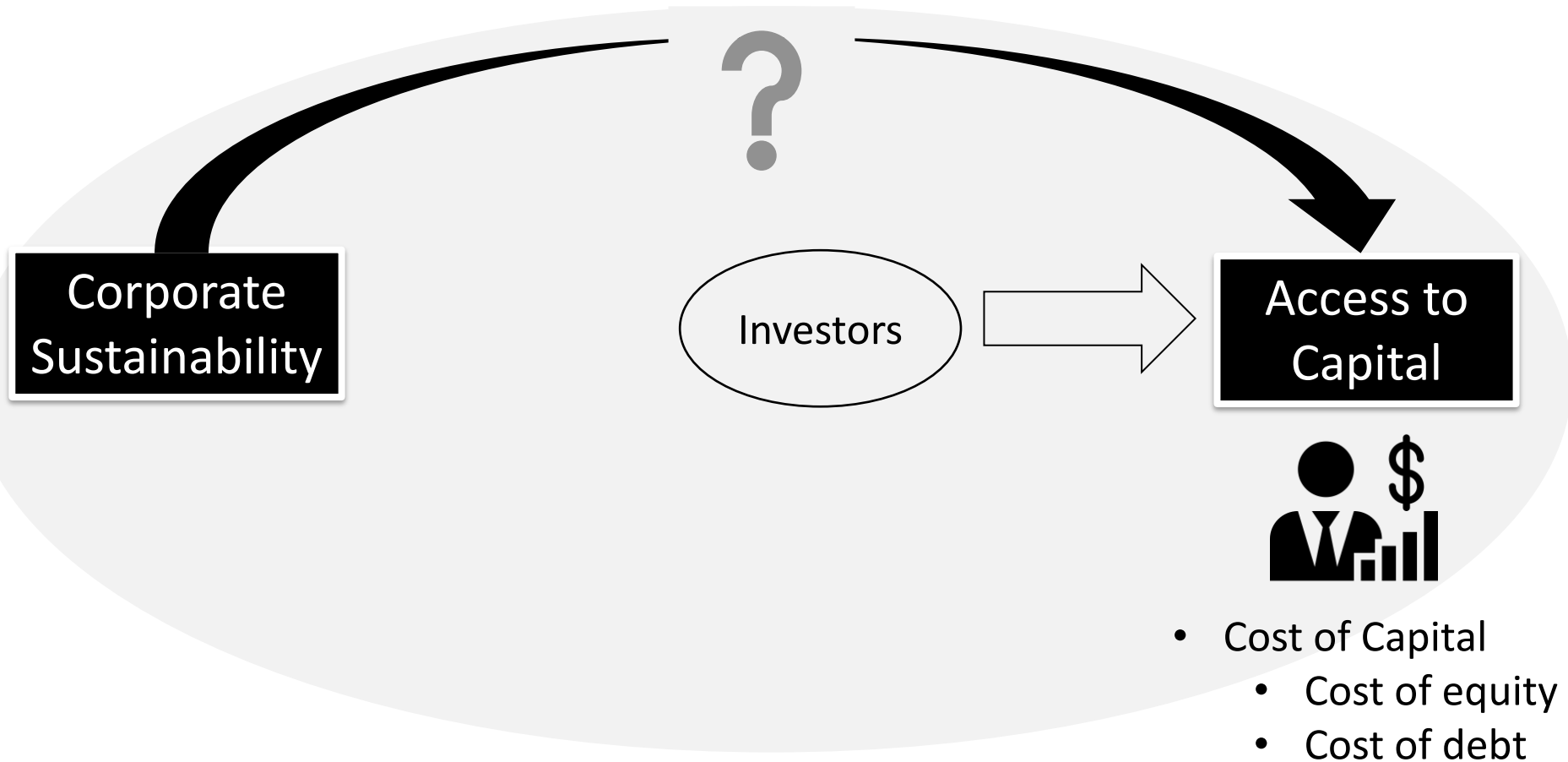


Access to
Capital

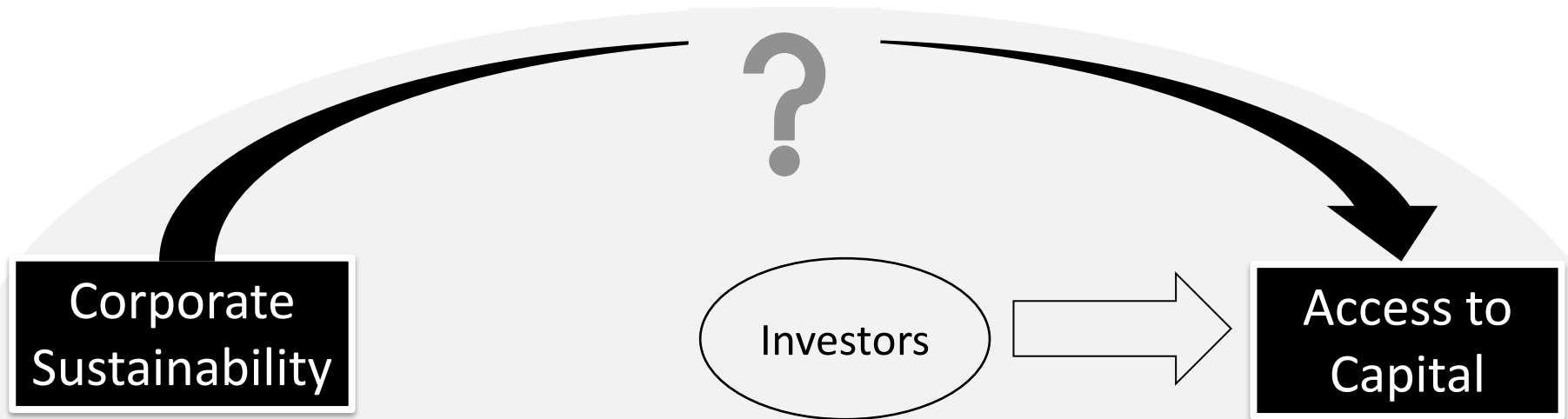


- Cost of Capital
 - Cost of equity
 - Cost of debt

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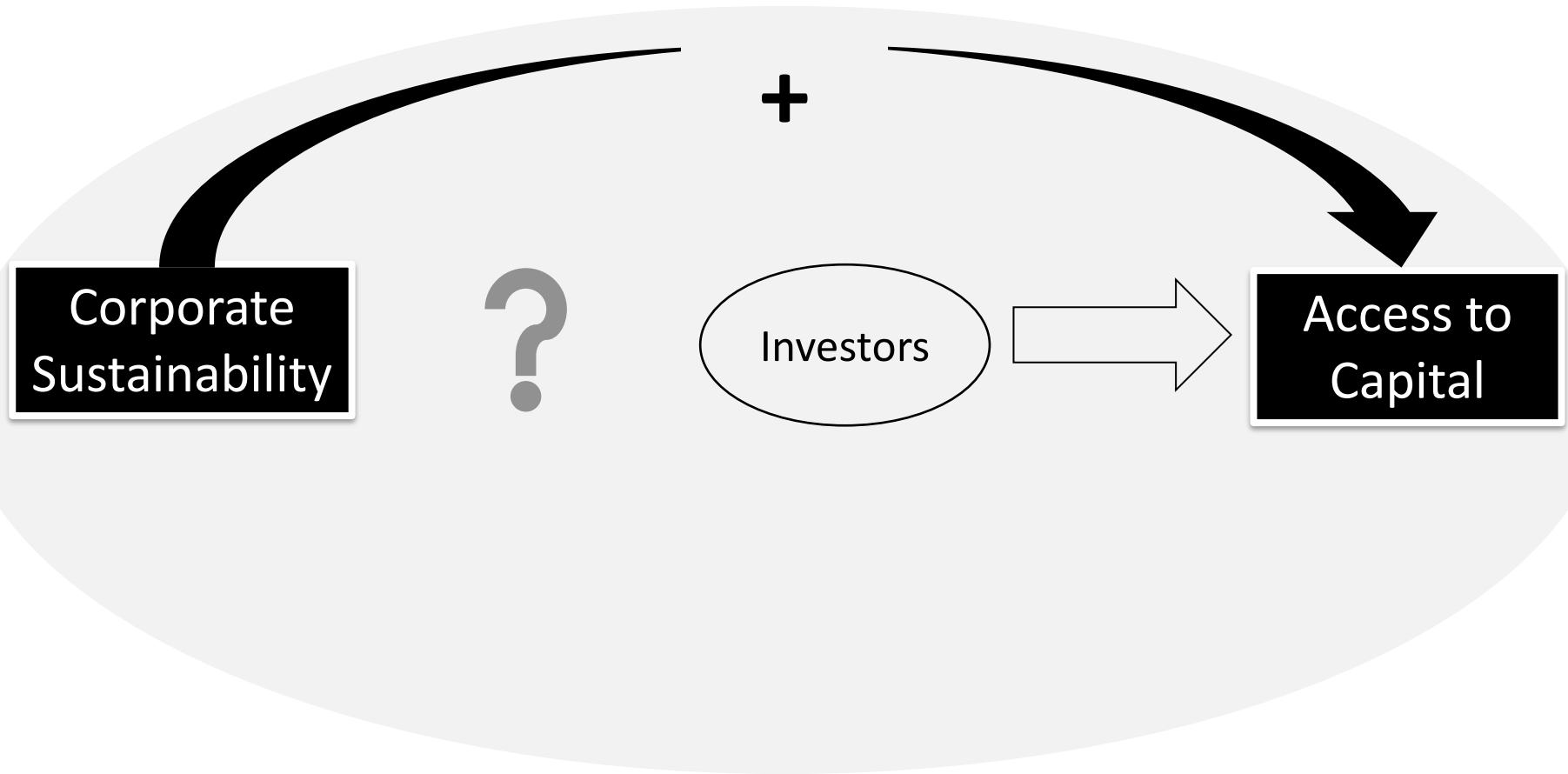


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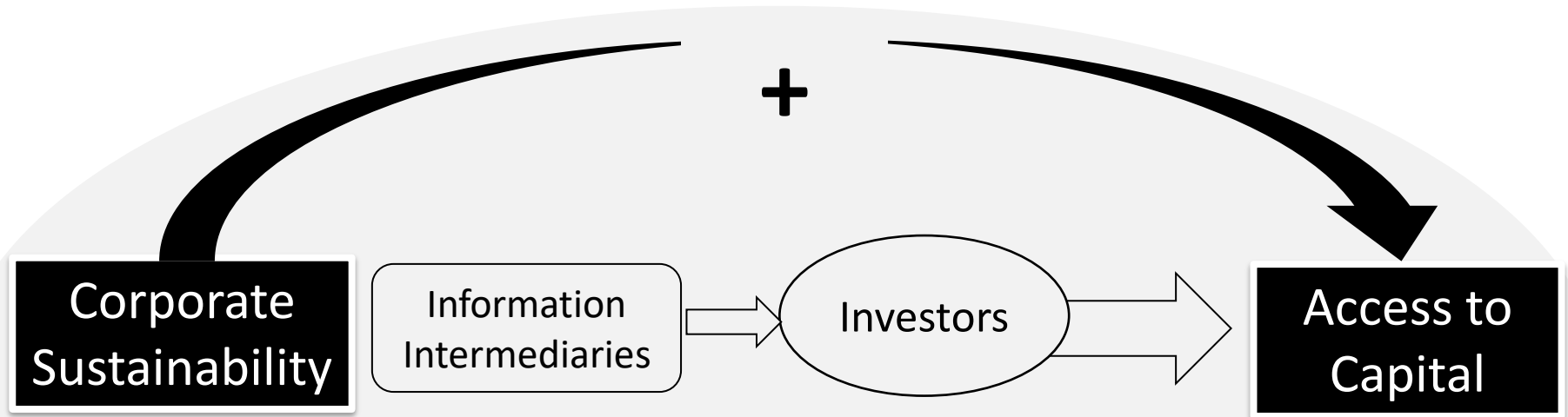


- Issuing CSR report → Lower cost of capital
 - *Reduced information asymmetry*
- CSR rating → Lower capital constraints
 - *Reduced info. asymmetry + enhanced stakeholder engagement*
- Carbon emissions → Reduced firm value
 - *Firm value decreases by \$212K/thousand metric tons CO₂e*
 - *A further penalty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

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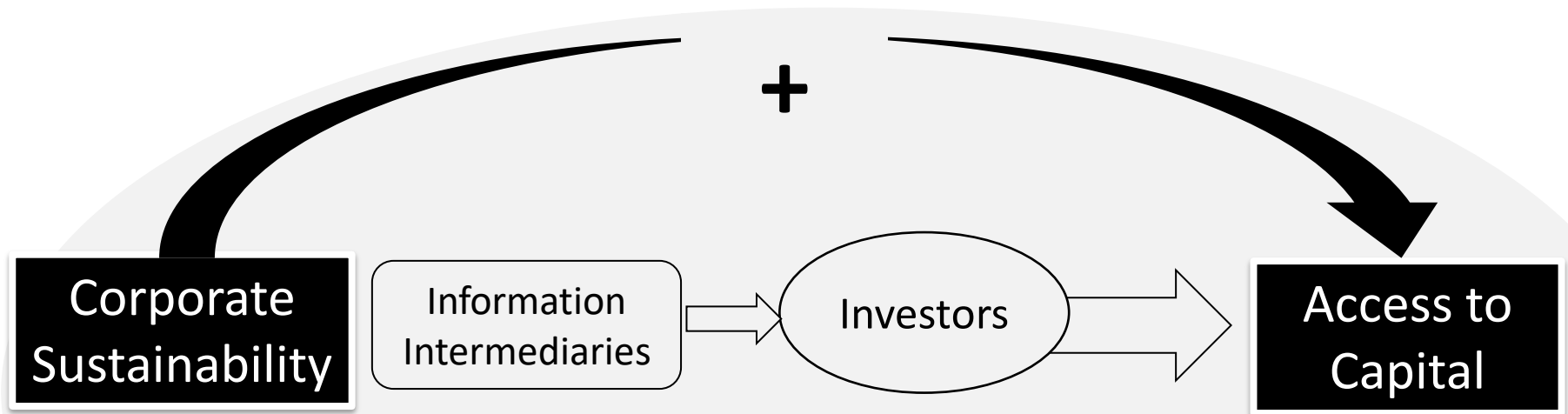


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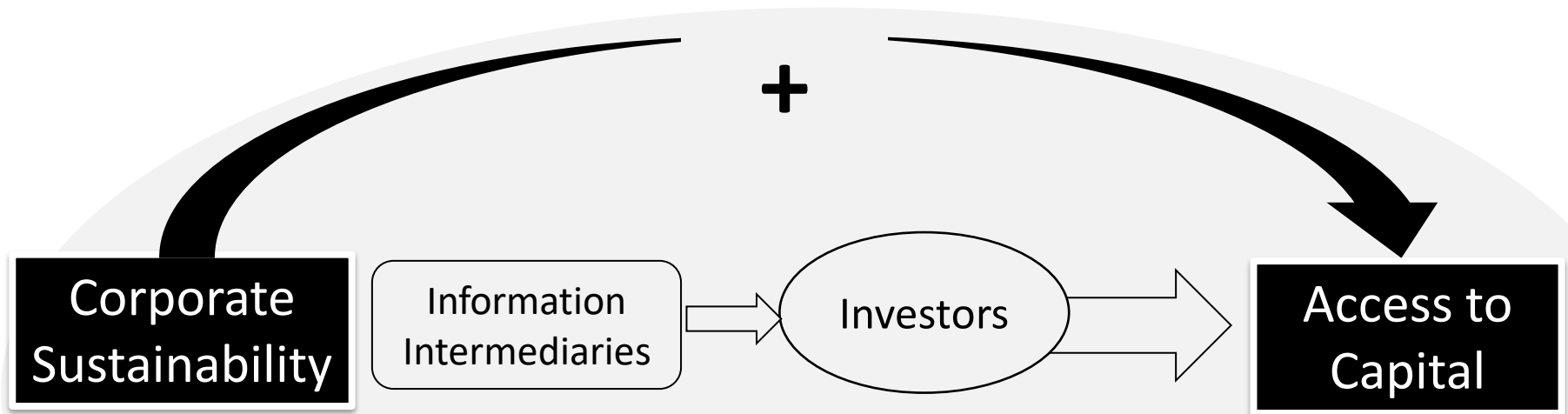
- Financial analysts and credit rating agencies incorporate sustainability into analyses → reflected in recommendations and projections, relied upon by investors.

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?



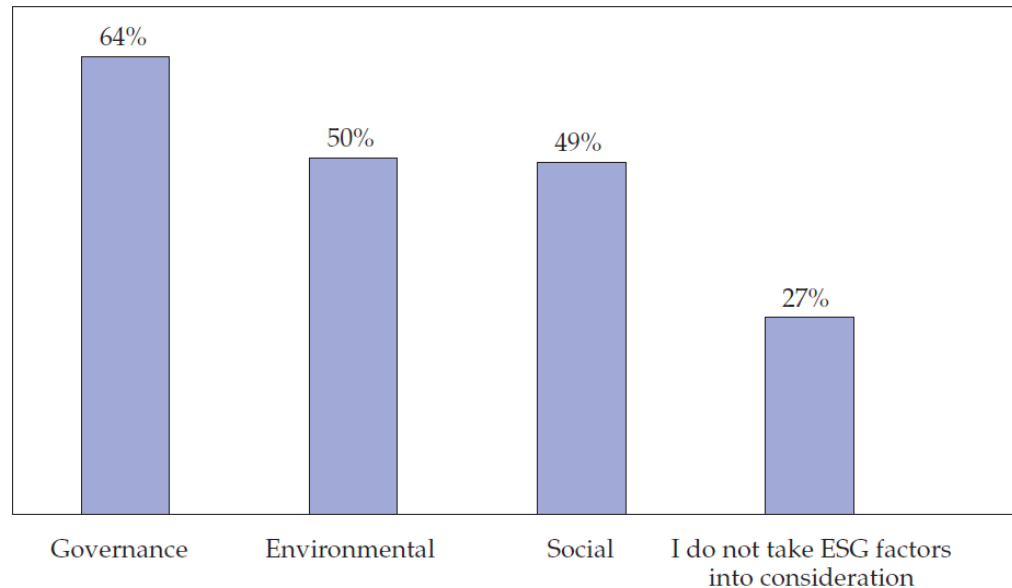
- Large-sample empirical study of the mechanisms that link ESG to credit risk, found that ESG scores are highly correlated with credit risk and the likelihood of default.

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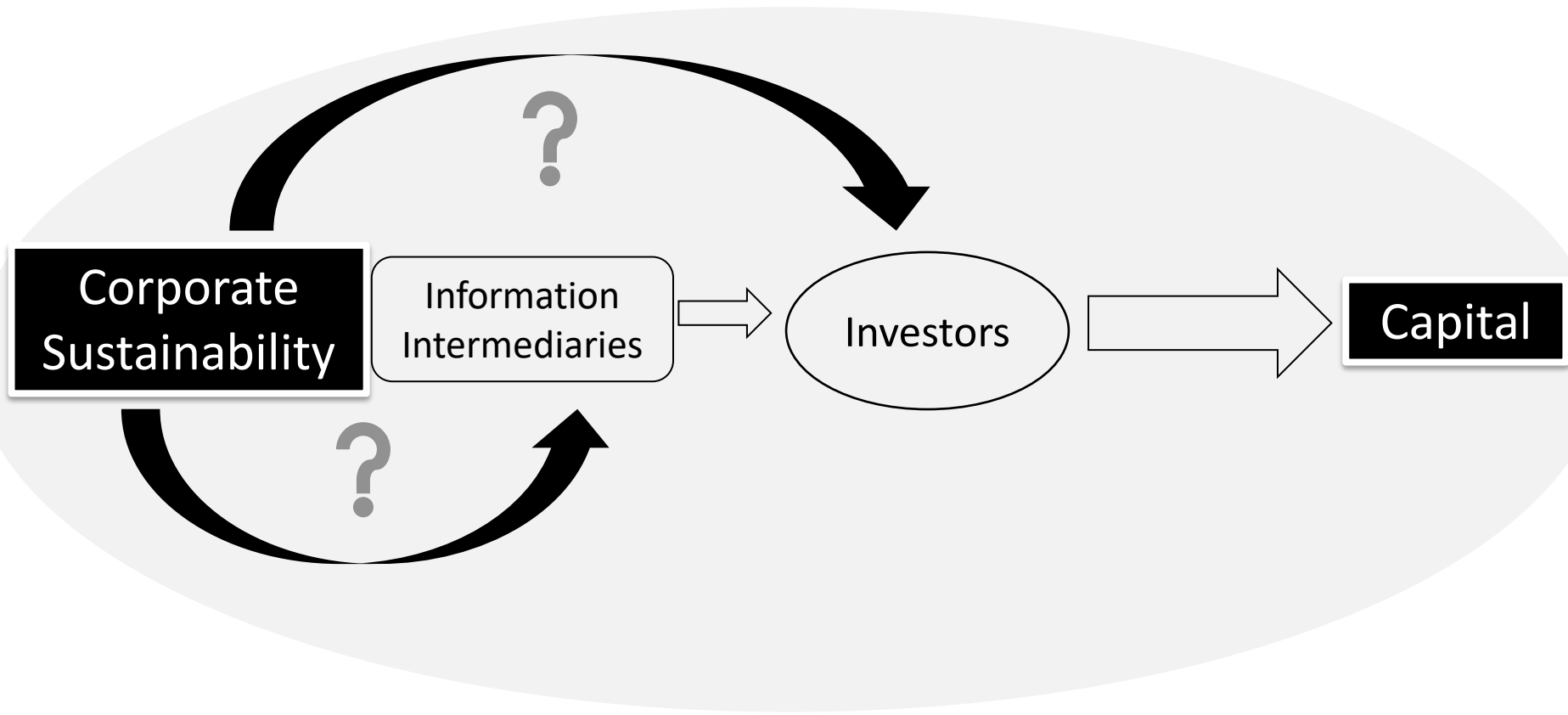
2019 survey of 1,100 CFA Charter holders: 73% consider at least one of E, S or G issues in investment decisions.

Figure 1. ESG Issues Considered

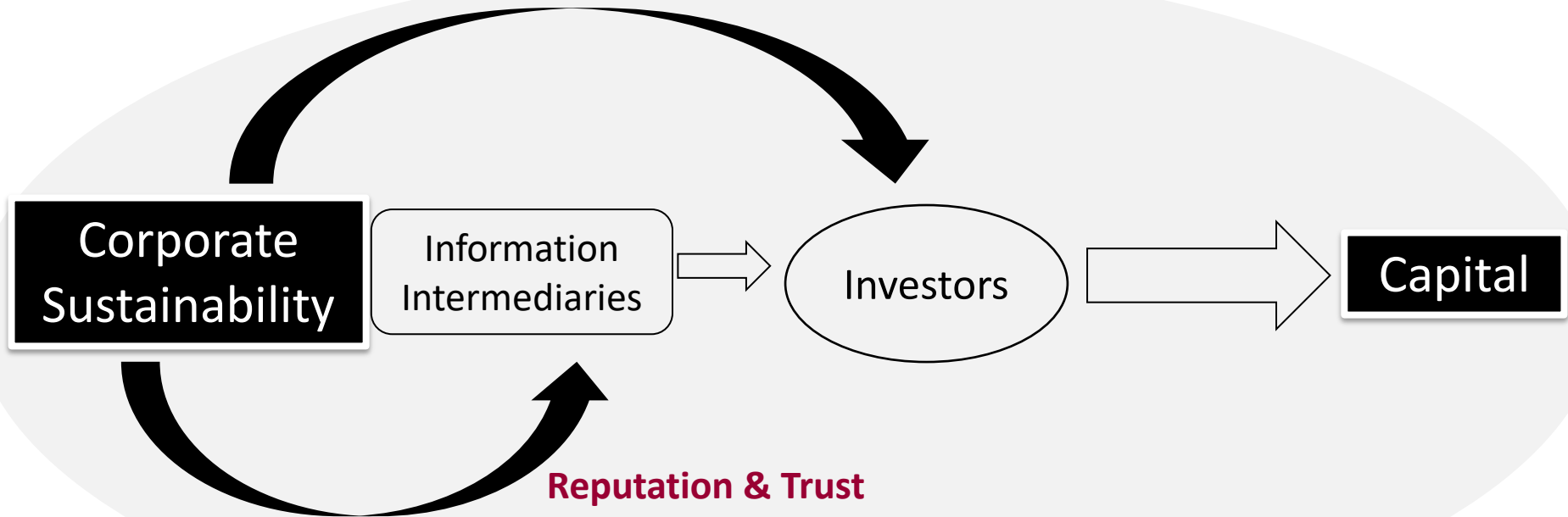
Which, if any, of the following ESG issues do you take into account in your investment analysis or decisions?



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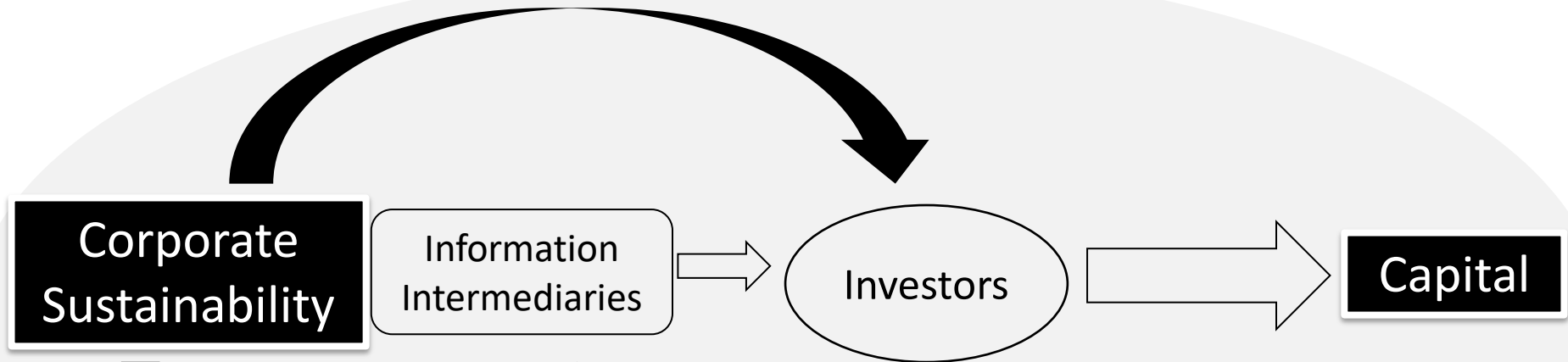
Does corporate sustainability reporting matter?



Reputation & Trust

- 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?



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?

Berg, F., Kobel, J.F., Pavlova, A. & R. Rigobon. 2022. ESG Confusion and Stock Returns: Tackling the Problem of Noise. *Workingpaper*.

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Jody Grewal
Jody.Grewal@Rotman.utoronto.ca