

Doing Safe by Doing Good: ESG Investing and Corporate Social Responsibility in the U.S. and Europe

CHRISTINA E. BANNIER* YANNIK BOFINGER† BJÖRN ROCK‡

Abstract

This paper examines the profitability of investing according to environmental, social and governance (ESG) criteria in the U.S. and Europe. Based on data from 2003 to 2017, we show that a portfolio long in stocks with the highest ESG scores and short in those with the lowest scores yields a significantly negative abnormal return. Interestingly, this is caused by the strong positive return of firms with the lowest ESG activity. As we find that increasing ESG scores reduce firm risk (particularly downside risk), this hints at an insurance-like character of corporate social responsibility: Firms with low ESG activity need to offer a corresponding risk premium. The perception of ESG as an insurance can be shown to be stronger in more volatile capital markets for U.S. firms, but not for European firms. Socially responsible investment may therefore be of varying attractiveness in different market phases.

JEL Classification: G11; G32; G34; O16; Q56

Keywords: ESG; corporate social responsibility; sustainability; downside risk; insurance; Fama-French model; dynamic panel GMM estimation

*Chair of Banking & Finance, University of Giessen, Licher Str. 62, 35394 Giessen, Germany. E-mail: CHRISTINA.BANNIER@WIRTSCHAFT.UNI-GIESSEN.DE.

†Research Network Behavioral and Social Finance and Accounting, University of Giessen, Licher Str. 62, 35394 Giessen, Germany. E-mail: YANNIK.BOFINGER@WIRTSCHAFT.UNI-GIESSEN.DE.

‡Chair of Banking & Finance, University of Giessen, Licher Str. 62, 35394 Giessen, Germany. E-mail: BJOERN.ROCK@WIRTSCHAFT.UNI-GIESSEN.DE.

Are U.S. Firms More Social Responsible than Foreign Firms?

Evidence from ADRs

Reza Chowdhury

Chengbo Fu

Qiping Huang

Nanying Lin

Abstract:

Using ESG score as a measure of Corporate Social Responsibility (CSR) performance, we find that ADR firms are more socially responsible. The results are robust using different measures of CSR, and it is not captured by other firm-specific characteristics.

Keywords: Corporate Social Responsibility, ADR, U.S. Equities, ESG Scores;