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Essays on Corporate Social Responsibility

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The Effects of Institutional Investors on Firm Outcomes: Empirical Pitfalls of Quasi-Experiments Using Russell 1000/2000 Index Reconstitutions

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Abstract

This essay analyzes a popular quasi-experiment that uses the Russell 1000/2000 index reconstitutions to identify the effects of institutional investors on firm outcomes. I discuss five empirical approaches of the quasi-experiment and develop three criteria to evaluate them. By using unbiased empirical approaches, I find that between 1998 and 2006, firms ranked at the top of the Russell 2000 have at most a 2 percentage points higher ownership of *passive investors* than firms ranked at the bottom of the Russell 1000. However, there is no significant difference in *total institutional ownership*. These results support the use of the quasi-experiment to identify the effect of passive investors, but not the overall effect of institutional investors. Studying corporate social responsibility (CSR) as an example of a firm outcome, I do not find that passive investors significantly affect CSR scores.

JEL-Classification: G23; G30; M14

Keywords: Institutional investors; Institutional ownership; Quasi-index investors; Passive mutual funds; Regression discontinuity; Russell indexes; Corporate social responsibility

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Investor Horizons, Long-Term Blockholders, and Corporate Social Responsibility

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Abstract

This essay investigates whether or not shareholders benefit from corporate social responsibility (CSR) by studying the effect of institutional investors on CSR. After all, arguing against CSR is hard when investors push for it. I find that longer investor horizons lead to significantly more CSR. This positive effect, however, is moderated by long-term investors who hold large ownership blocks. Long-term blockholders ensure, through monitoring, that managers do not blindly increase CSR, but rather that managers pursue a CSR strategy that reduces the risk of costly incidents. A battery of robustness tests indicates causality. Overall, these findings indicate that CSR is in the interests of long-term investors if CSR prevents incidents.

JEL-Classification: G23; G30; M14

Keywords: Corporate social responsibility; Institutional investors; Institutional ownership; Investor horizon; Blockholders; Long-term corporate investment

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The Price of Ignoring ESG Risks

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Abstract

This essay finds that environmental, social, and governance (ESG) risks generate negative long-run stock returns. A value-weighted U.S. portfolio of controversial firms with a known history of ESG-related incidents exhibits a four-factor alpha of -3.5% per year, even when controlling for other risk factors, industries, or firm characteristics. The negative alpha stems from recurrent ESG-related incidents and from negative earnings surprises. The findings in this essay have three implications. First, stock markets fail to fully incorporate value-relevant ESG information into investment decisions. Second, weak corporate social responsibility destroys shareholder value. Third, excluding controversial firms is a socially responsible investment screen that may improve investment performance.

JEL-Classification: G11; G14; M14

Keywords: Environmental, social, and governance risks; Corporate social responsibility; Controversial firms; Market efficiency; Socially responsible investment

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