

On the Inverse Relationship between Corporate Social Responsibility and Firm Default Risk: The Moderating Role of the Legal Origins

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Corporate Social Responsibility

CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders

Commission of the European Communities (2003)

Introduction

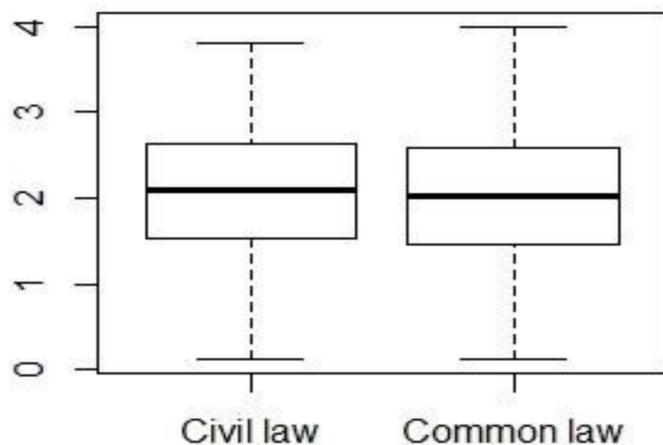
Ever since the evolution of corporate social responsibility (CSR), an issue in the academic field is why, if CSR can provide a competitive advantage for firms, do firms not engage in CSR more intensively? The imperative need for firms to survive requires that they respond to internal and external pressures. How do corporations respond to corporate social responsibility (CSR)? Does legal origin matters? And does regulation influence the impact of CSR on firm default risk? According to the traditional view in the law and finance, firms tend to comply with the regulations in order to avoid lawsuits; and the legal environment where firms operate is a key determinant in firm's policy. Firms in different legal origins may differ in their value maximization of CSR, and the legal regimes may shape this maximization process as well as to constrain it, either due to regulations or by framing firm's attitude towards maximizing shareholders' wealth.

Hypotheses

H1: A negative relationship exists between corporate social responsibility and the default risk level of firms.

H2: The impact of the environment component of CSR on firm default risk is higher than that of other components.

H3: The negative impact of corporate social responsibility on firms' default risk level is stronger in civil law countries than in common law countries.



H4: The impact of the environment component on default risk in civil law countries is higher than in common law countries.

H5: The negative link between CSR and default risk is lower in English law countries than in French, German and Scandinavian law countries.

H6: The inverse relationship between CSR commitment and firm default risk is stronger in high stakeholder-oriented countries than in low stakeholder-oriented countries.

Firm Default Risk

The uncertainty surrounding a firm's ability to service its debts and obligations.

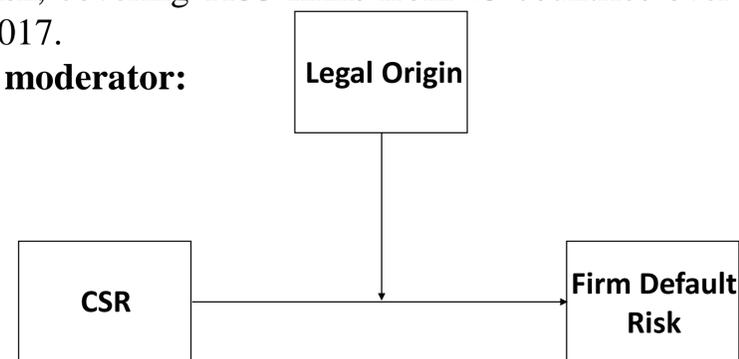
Crosbie & Bohn (2003)

Empirical Methodology

Measuring CSR and firm default risk:

CSR scores that comes from Vigeo and credit ratings as a proxy for firm default risk, covering 1153 firms from 45 countries over the period 2004-2017.

Legal origin as a moderator:



1st: Common vs civil law origin.

2nd: English, French, German, Scandinavian, Socialist.

3rd: High stakeholder vs low stakeholder protection.

Methodology:

The credit ratings are considered as the dependent variable, whilst the CSR score, and the control variables, are the independent variables. Our multivariate approach is based on annual data, and all the regressions are run with a **time fixed effect**, in addition to **country fixed effect** where indicated. Moreover, for models that differentiate between legal origins, we examine these models with and without socialist countries.

Main Results

- ✓ H1, H2, H3, H4
- ✓ H5 ✗ H6

Conclusion

The legal origin moderates the CSR-firm default risk relationship, and this relationship is stronger in civil law countries than in common law countries.

Contribution

Academic Corporations Risk managers

Acknowledgments

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