PALUMBO ■ DONAHUE School of Business DUQUESNE UNIVERSITY | MBA SUSTAINABILITY

Corporate Social Responsibility and Shareholder Wealth: A Longitudinal Mixed-Model Analysis

Philip L. Baird, Pinar C. Geylani, Jeffrey A. Roberts

- **Examine the effect of CSP on stock price by using 1,115 companies from 1999-2008 with an improved panel data methodology.**
  - Use an empirical model of stock price that incorporates a measure of expectations about future earnings and stock price.
    - Relate stock price to its intrinsic value using the Residual Income Valuation Model (e.g. Penman and Sougiannis (1998)).
- **Use a Linear Mixed Model (LMM)**
  - Both fixed and random effects are accommodated.
  - Allows the intercept and returns to CSP to vary randomly by industry for stock price
  - Controls for firm's intrinsic value, and factors such as profitability, size, financial leverage and business cycle effects.
- **Take a closer look at the dimensions of social performance and their effect on stock price across different industries.**

Results

- **Data**
  - Compute intrinsic value using Value Line, Inc. data
  - Use KLD ratings for CSP variables
  - Use Compustat data for control variables.

- **Empirical results from a broad definition of CSP shows a negative and significant relationship between CSP and shareholder wealth.**
  - Indicates that the stock prices of firms in the DS400 are on average 3.3% lower than the prices of firms not in the DS400.
  - Support the private benefit seeking behavior where managers may undertake SR investment for private benefit at shareholders' expense.

- **Industry specific analysis shows that the effect of CSP on stock price varies between industries in terms of the KLD dimensions of social performance.**