



**10th Annual Conference of the
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**Global and national business theories and practice:
bridging the past with the future**

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THE VALUE RELEVANCE OF CORPORATE SOCIAL RESPONSIBILITY IN THE EUROPEAN STOCK MARKETS: THE INFLUENCE OF STANDARD ETHICS RATING

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ABSTRACT

Over the last years, the theme of corporate social responsibility (CSR) has continued to grow in importance and significance. This interest arises from the idea that firms engaging in socially responsible behaviour may gain competitive advantages, increasing their value. Although social reporting is not mandatory, investors are recognizing a great importance to environmental performance by choosing sustainable and responsible investments (Middleton, 2015). As a consequence, a great number of companies pays greater attention at sustainability themes, promoting a better relationship with stakeholders and ethical investments. To measure the level of social and environmental responsibility stakeholders often use ethical rating. Unlike the traditional credit rating, it is based on non-financial ratios.

The aim of this study is to investigate whether investors take into consideration the social and environmental performance, as proxied by Standard Ethics Rating, in making investment decisions. More specifically, we test whether the reputation for good sustainability is reflected in the market value. To test the hypothesis we follow the accounting based valuation model developed by Ohlson (1995). To define the level of sustainability performance we use the Standard Ethic Rating, which is published by the European sustainability agency "Standard Ethics". This rating "measures the level of adoption of international voluntary indications on corporate social responsibility and corporate governance, as well as the risk of corporate reputation". The empirical analysis is based on a sample of European companies listed on German, Italian, French, UK, Swiss and Belgian markets.

This study contributes to the extant literature in several ways. Firstly, we provide more evidence on the value relevance of reputation for sustainability, that is non-financial information. Secondly, we analyse the European context, differently from other works which examine the Dow Jones Sustainability Index in USA (Lourenco *et al.*, 2014; Lourenco *et al.* 2012). Thirdly, we assess the influence of Standard Ethics Rating, not yet investigated.

Keywords: Value relevance, Corporate Social Responsibility, Rating, Standard Ethics, European context, Corporate Social Performance, Ohlson model, stock price.

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