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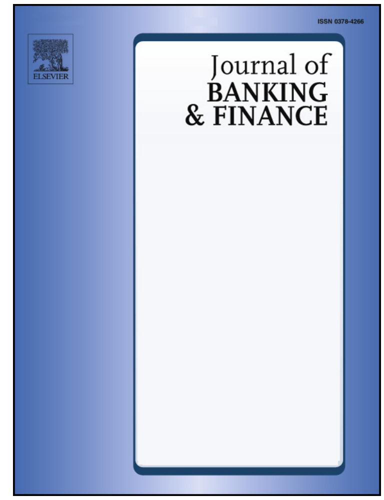

Corporate social responsibility and Eurozone corporate bonds: The moderating role of country sustainability

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Corporate social responsibility and Eurozone corporate bonds: The moderating role of country sustainability

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Abstract: In this paper, I empirically examine whether superior performance in corporate social responsibility (CSR) results in lower credit risk, measured by credit ratings and zero-volatility spreads (z-spreads). I am especially interested in how the environmental, social, and governance (ESG) related performance of the corresponding countries moderates this relationship. I find only weak evidence that superior corporate social performance (CSP) results in systematically reduced credit risk. However, I do find strong support for my hypothesis that a country's ESG performance moderates the CSP–credit risk relationship. Superior CSP is regarded as risk-reducing and rewarded with better ratings and lower z-spreads only if it is recognized by the environment. In addition, I find a reduction of corporate bonds' z-spreads by approx. 9.64 basis points if the CSP of a company mirrors the ESG performance of the country it is located in.

Keywords: European corporate bond markets, corporate social responsibility (CSR); rating; z-spread

JEL: G12; G24; M14

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