

Accepted Manuscript

Title: Do creditors price firms' environmental, social and governance risks?

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PII: S0275-5319(17)30455-5

DOI: <http://dx.doi.org/doi:10.1016/j.ribaf.2017.07.151>

Reference: RIBAF 841

To appear in: *Research in International Business and Finance*

Received date: 26-9-2015

Revised date: 30-10-2016

Accepted date: 6-7-2017

Please cite this article as: {<http://dx.doi.org/>

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Do creditors price firms' Environmental, Social and Governance risks?

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Graphical abstract



Abstract:

The relationship between Corporate Social Performance (CSP) and firm value has received a growing attention in recent academic literature. Despite the rich contributions it has led to, few studies attempted to investigate the link between CSP and firms' credit risk. This research fills this gap and empirically examines the relationship through which CSP impacts firms' cost of debt. Using KLD social ratings, the study isolate specific constituents of firms' CSP found to have operational implications in creditors' risk perception. Observing a panel of 214 U.S firms from December 2000 to December 2011, the results show that only few constituents of CSP actually matters in creditor's perception of firms' risks. Our prime results show that environmental concerns increase firms' cost of debt while governance concerns have no impact on it. Secondly, the results also confirm that environmental and governance strengths reduce firms' cost of debt as demonstrated in prior works. Our findings thus reveal

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