The impact of corporate social responsibility on stock price volatility of the US banks: a moderating role of tax

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Abstract

Purpose Corporate social responsibility (CSR) is considered one of the crucial branding and promotional tools for banks to legitimise their role in society to become socially and environmentally responsible corporate citizen. The purpose of this study is to investigate the effect of CSR on stock price volatility of the US banks. This study further examined the moderating role of tax on the relationship between CSR and stock price volatility.

Design/methodology/approach This study uses the random-effects panel regression estimation technique to test the hypotheses. The authors include a sample of 37 US banks from 2013 to 2017 with 144 bank-years observation. The authors consider the environmental, social and governance (ESG) scores from Refinitiv as a proxy for CSR. The financial data are also collected from the Refinitiv Datastream database. Findings This study finds a significant and positive relationship between CSR and stock price volatility, which indicates that shareholders of the US banks may not prefer excess concentration on CSR because of the additional costs associated with it. However, the moderating role of tax on this relationship is not statistically significant.

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cost of investment associated with implementing CSR. Also, tax payments and stock price volatility show a significant positive association, which implies that there is a higher possibility of an increase in stock price volatility if the tax rate increases. Generally, shareholders are not interested in paying more taxes, so they may swap the market instead of paying more tax. On the other hand, the authors find a non-significant moderating effect of tax payment on CSR-volatility nexus. Originality/value Previous studies mainly focussed on CSR and financial performance of banks. Conversely, studies focussing on CSR and stock volatility are limited. This study will fill the gap in the literature by considering the effect of CSR on the stock price volatility of the US banks.

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