J Bus Econ (2016) 86:867–904
DOI 10.1007/s11573-016-0819-3

ORIGINAL PAPER

Impact of ESG factors on firm risk in Europe

Remmer Sassen[1] · Anne-Kathrin Hinze[1] · Inga Hardeck[2]

Published online: 23 April 2016

Abstract A huge body of research has addressed the impact of corporate social performance (CSP) on corporate financial performance. However, prior literature provides only limited evidence of the impact of CSP on firm risk. The aim of this paper is to investigate the impact of CSP operationalized by environmental, social, and governance factors on market-based firm risk in Europe. Three risk measures are analyzed: systematic, idiosyncratic, and total risk. On the basis of a large European panel dataset of 8752 firm-year observations covering the period 2002–2014, we find that a higher CSP decreases total and idiosyncratic risk. Looking at the three dimensions of CSP, we show that social performance has a significantly negative effect on all three risk measures. Environmental performance generally decreases idiosyncratic risk, whereas total risk and systematic risk are only affected in environmentally sensitive industries. In contrast, we cannot detect a significant effect of corporate governance performance on firm risk. Our findings suggest that a higher CSP and a higher performance regarding the social dimension in particular have the potential to increase firm value through lower firm risk. Overall, our evidence fosters the assumption that there is a business case to be made for corporate social responsibility.

✉ Remmer Sassen
remmer.sassen@wiso.uni-hamburg.de

Anne-Kathrin Hinze
anne-kathrin.hinze@wiso.uni-hamburg.de

Inga Hardeck
hardeck@europa-uni.de

[1] HBS Hamburg Business School, University of Hamburg, Max-Brauer-Allee 60, 22765 Hamburg, Germany

[2] Ernst & Young Endowed Assistant Professorship for Accounting and Taxation, Große Scharrnstr. 59, 15230 Frankfurt (Oder), Germany