Thesis Evaluation Report

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Title:	Is ESG a resiliency factor for company stock returns during a crisis? Evidence from Europe during the covid-19 pandemic

Summary

The author studies whether high Environmental, Social, and Governance (ESG) performance makes firms more resilient to withstand negative economic shocks, e.g., the COVID-19 pandemic. The author concludes that companies with high ESG ratings indeed showed less negative stock returns during the short window around the onset of the pandemic in the given region.

Contribution

I believe this thesis examines a highly relevant research topic. ESG performance has become increasingly important for investment choices by many large institution investors. Companies commit more and more resources towards these activities, including setting up specific managerial roles specifically dedicated to ESG activities. Yet, we still have somewhat limited understanding of the impact the ESG activities have on firm value. I believe that this thesis makes a nice contribution to this literature by investigating ESG's impact on one of the risk dimensions, namely a firm's resilience to negative economic shocks.

Most of prior research on ESG is plagued by the endogenous nature of the relationship between the ESG activities and a firm's profitability or stock market performance. I thus see another facet of the author's contribution in making a reasonable attempt to address the endogeneity issue. Specifically, the author exploits the COVID-19 pandemic as an exogenous shock and investigates whether the shock impacted high-ESG and low-ESG companies differently. Even though it is perhaps impossible to completely rule out additional omitted correlated variables, exploiting this exogenous shock and performing the difference in differences analysis (DiD) goes further than what is common in this research stream.

I find the author's proposition that better ESG performance may make companies more resilient to negative shocks reasonable. The author provides a convincing argument in support of this view and supports this argument with the use of references to the prior literature that illustrate the individual points. He uses arguments pertaining to the price elasticity of demand and to the broader investor base of high ESG firms, which have been documented in prior research literature. It can be argued that high ESG ratings are likely associated with greater employee and customer loyalty and more

robust corporate governance mechanism that should average lead to more competent management being employed by these companies. All of these can make high ESG firms more resilient to negative economic shocks. Therefore, I find the logic underlying the main empirical tests rather sound.

Furthermore, I appreciate that the author exploits the differences between geographic regions and he examines both the short-term and the long-term effects. Nevertheless, I believe that these tests could have been better motivated.

Literature

I believe the literature review in the thesis demonstrates that the author is able to identify publications relevant for analyzing his research question, to understand the conclusions of these research papers, to identify interconnections between the papers, and to relate his own work to prior finding in this field of research. I would appreciate if the author provided and even more in-depth discussion of how his finding help us understand the effect the ESG activities have on the company's performance and how they help us discriminate between alternative mechanisms and explanations that are commonly discussed in the literature.

The author uses the comprehensive ESG literature review by Gillan et al. (2021) as a point of departure for his own review of prior research literature. I find this approach reasonable. The review is rather recent in quite comprehensive. Therefore, it provides a reliable point of departure.

Methodology

I find the choice of research methods appropriate for analyzing this specific research question. Si already discussed above, I appreciate that the author are exploits the COVID-19 pandemic as an exogenous economic shock. I also appreciate that the author exploits the staggered nature of the development of the COVID-19 pandemic in different geographic regions. Providing data for the various regions reduces the likelihood by unobserved confounding events because these events would have to co-occur with the pandemic at different times in different regions which one can consider unlikely.

The author provides a comprehensive discussion and motivation of his choices of data sources. In principle, I do not have objections about data sources. I also believe the author provides a solid discussion of potential ESG data limitations. Nevertheless, sometimes the authors could have discussed in more detail the advantages and disadvantages of data sources of his choice relative to the alternatives.

I appreciate that the author uses risk factors to adjust for the possibility that differences in esg ratings may be systematically related to a company's risk dimensions. However, I am not convinced about the benefits of using daily rather than monthly returns for the main test.

I believe that the battery of empirical tests presented in this thesis is more extensive than common in Bachelor's Theses. I find the individual empirical tests while connected and therefore I consider their inclusion in the thesis beneficial.

Form

In general, I find the thesis well-presented, well-structured into individual chapters and sections, and written in good English. The individual propositions are well-motivated and the arguments underlying the motivation are well-developed and explained to the reader. Nevertheless, at parts, I find some of the formulations fairly informal for an academic piece of writing, e. g., *"However, should you want to see these tables, feel free to contact me at the e-mail address written in the frontmatter of this thesis."*

I find the tables well labeled. I would appreciate a greater level of detail in notes accompanying some of the figures.

Conclusion

Overall, I believe that this thesis represents a quality outcome of student work. In my opinion, it scores well on all the quality criteria used for evaluating Bachelor's Theses. It provides a large battery of interconnected empirical tests, that are examined using solid methodology, and reasonably well-discussed in the text of the thesis. Some of the parts of the thesis could have been better motivated and more polished to further highlight the main message and its contribution to prior research literature. However, in my opinion, this limitation does not substantially erode the overall good impression this thesis makes.

The results of the Urkund analysis do not indicate significant text similarity with other sources.

I believe that the Thesis fulfills and exceeds the requirements stipulated by the Faculty of Social Sciences, Charles University. I recommend the Thesis for defense. I suggest a grade "A" and I recommend the evaluation committee to consider nominating the Thesis for the Deloitte Outstanding Thesis (DOT) Award.

Questions

I suggest the evaluation committee invites the author to explain and motivate in greater detail the choice of using daily stock returns (as opposed to monthly or bi-weekly stock returns) for his main test: *"In the main regression of this thesis, I will regress daily excess returns of stocks during a thirty-day window (15 days pre-crisis, 15 days post-crisis) sometime in Q1 2020 on firm ESG performance as well as a variety of company, country, industry, and day-specific controls."*

Furthermore, I recommend the evaluation committee to ask the author to motivate the benefits of reporting the results for the three geographic regions.

Finally, I recommend the evaluation committee to ask the author to explain how he believes his findings help us better understand the effect the ESG activities have on the company's performance and how they help us discriminate between alternative mechanisms and explanations that are commonly discussed in the literature.

Awarded Points and Grade

Contribution (max 30)	28
Methods (max 30)	28
Literature (max 20)	20
Form (max 20)	19
Total (max 100)	**95**
Grade (A – B – C – D – E – F)	**A**

Referee's Signature

30 August, 2023

Evaluation Date

Jiří Novák

Referee's Name

Grading Scale

LITERATURE REVIEW: The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.

Strong	Average	Weak
20	10	0

METHODS: The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.

Strong	Average	Weak
30	15	0

CONTRIBUTION: The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.

Strong	Average	Weak
30	15	0

MANUSCRIPT FORM: The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.

Strong	Average	Weak
20	10	0

OVERALL GRADING:

Total Points	Grade
91 – 100	A
81 – 90	B
71 – 80	C
61 – 70	D
51 – 60	E
0 – 50	F