

We investigate whether superior performance on corporate social responsibility (CSR) strategies leads to better access to finance. We hypothesize that better access to finance can be attributed to (1) reduced agency costs due to enhanced stakeholder engagement and (2) reduced informational asymmetry due to increased transparency. Using a large cross-section of firms, we find that firms with better CSR performance face significantly lower capital constraints. We provide evidence that both better stakeholder engagement and transparency around CSR performance are important in reducing capital constraints. The results are further confirmed using several alternative measures of capital constraints, a paired analysis based on a ratings shock to CSR performance, an instrumental variables approach, and a simultaneous equations approach. Finally, we show that the relation is driven by both the social and environmental dimension of CSR.

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