



# Corporate Resilience and Response During COVID-19

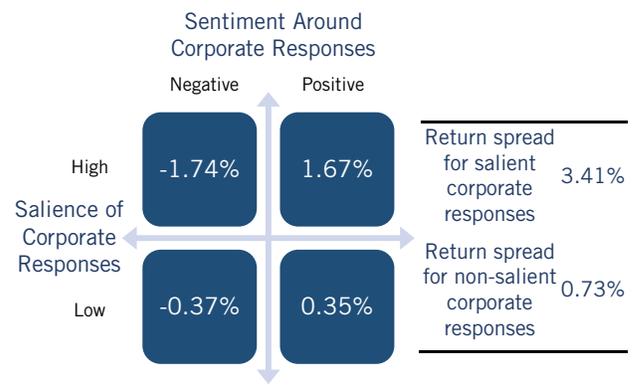
First findings on the relationship between corporate responses to human capital, supply chain, and operational crisis management, investor behavior, and company returns during the 2020 market collapse.

As global markets faced the 2020 COVID-19 pandemic, companies across industries struggled to respond to rapidly evolving supply, demand, and labor issues, particularly between February 20 and March 23, when the S&P500 experienced a devastating 27% drawdown. Many wonder, did investors differentiate across companies based on a company’s ability to reposition and respond to key ESG issues during the volatile period? And, did this impact company returns?

We study the association between corporate responses that are plausibly important during this crisis. Specifically, responses related to labor practices (layoffs, working from home, sick leave, etc.), supply chain (production issues), and operational response to the crisis (pivots to produce in-demand products or services) and scale those responses by the amount of prominent COVID-19 news coverage. A company’s response to one of these issues could receive a significant amount of coverage and have high salience or, receive very little coverage and have low salience. We account for other factors as well, such as firm size, profitability, valuation ratios, and industry effects.

Our results indicate that during the market collapse, firms experiencing more positive sentiment on their human capital, supply chain, and operational response to COVID-19 experienced higher institutional money flows and less negative returns. As seen in the graph, this effect on returns was stronger for firms that received more coverage from news outlets (with “high salience” responses). We observed significant negative correlations between these ESG characteristics and news salience, suggesting that articles

Industry-Adjusted Returns to Human Capital Response:



Note: The table presents the average industry-demeaned returns for a sample of US listed equities between February 20<sup>th</sup> and March 23<sup>rd</sup>, 2020. The returns tabulated are sorted by a measure of public sentiment for a company’s response to human capital issues during COVID-19. Equal-weighted portfolios are created based on how high (low) salience a company’s response is and the positive (negative) sentiment on their response to human capital crisis issues. “Salience” is a log transformed measure of one plus the amount of attention garnered for each company around its responses to COVID-19 divided by a company’s market capitalization. Source paper noted in the page footer. Source Data: State Street Global Markets, MSCI market data and Truvalue Labs.

covering COVID-19 and these themes had a negative tone and garnered more attention during this period.

During a market correction, it is critical that a company is evaluated as resilient to maintain investors’ trust. This evidence challenges the notion that shareholder and employee interests are in conflict. Our findings suggest that firm disclosure practices and news outlets have a significant role in how corporate responses could influence investor behavior and prices. Moreover, the application of machine learning to big data of unstructured text represents a promising technology to measure corporate responses and associated crisis management efforts.

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