

Can Green Investments Increase Your Green? Evidence from Social Hedge Fund Activists JBE (2023)

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Research Question

- Examine the association between hedge fund activism and firm's corporate social responsibility (CSR) activities.

Why interesting and important?

- Surge in hedge fund activism over the past two decades
 - Activist hedge funds(AHFs) influencing portfolio construction and trading.
 - Debate on wheather AHFs create or destroy shareholders' value?
- The association between hedge fund activism and CSR.
 - Hedge funds concerned about CSR due to both financial and non-financial (regulatory, reputation) incentives.
 - Activists attempt to eliminate "wasteful" activities.

Contributions

- **Literature on the drivers of activists' targeting decisions**
 - Prior: little is known whether and how CSR influences activists' targeting decisions.
 - This study: positive association between CSR and hedge fund activism.
- **Literature on examines the short- and long-term performance of target firms**
 - Prior: the effect of hedge fund activism on shareholder wealth
 - This study: hedge funds increase long-term stockholders' wealth, while benefiting the other stakeholders of the target firms.

Hypotheses

- **Higher pre-activism CSR increases the likelihood of a firm being targeted by activist hedge funds**
 - higher CSR standards → higher profits
 - or focusing on the short-term horizon and scaling back CSR spending.
- **Socially responsible hedge fund campaigns increase target's CSR.**
 - Social investors can induce credible investment in CSR while increasing a firm's stock returns.
 - Non-social investors focused exclusively on profit maximization, eliminate “wasteful” expenses.

Data

- Data Sources:
 - Hand-collected data and SEC Schedule 13D filings (2000-2017)
 - MSCI ESG Stats database for CSR data
- Final sample
 - 432 activism cases by 160 unique hedge funds

H1 Selection of Target Firms

- Positive association between a firm's CSR and its probability of being targeted by an activist hedge fund.

Panel B: Regression Analysis of Hedge Funds Targeting			
Variable	(1)	(2)	(3)
	<i>Target</i>	<i>Target</i>	<i>Target</i>
<i>CSR_Score</i>		0.004* (0.055)	
<i>CSR_Strengths</i>			0.027** (0.034)

H2 Hedge Funds and Change in CSR

- SocialFunds improve the targets' CSR, whereas non-socialFunds impair targets' CSR.

Variables	(1)	(2)	(3)	(4)
		Δ CSR_Strengths		
	Control firms are year-industry-size matched	Control firms are year-industry-size matched	Control firms are all TNIC peers	Control firms are all TNIC peers
<i>Target</i>	- 0.255*** (- 3.20)		- 0.299*** (- 4.37)	
<i>SocialFund</i>	0.325*** (2.97)	0.078* (1.79)	0.361*** (2.90)	0.062 (0.59)
<i>Non-Social-Fund</i>		- 0.330*** (- 3.52)		- 0.299*** (- 4.37)

Further Research: Target Firms' Performance

- Long-term abnormal returns of firms targeted by social Funds are larger than non-social Funds.

	(1)	(2)	(3)	(4)	(5)
	All target firms	Matched by industry-year control firms	Firms targeted by socially responsible funds	Firms targeted by non-socially responsible funds	t-statistics of difference between columns (3) and (4)
1-yr Annual Stock Returns	0.016	0.008	0.022	0.013	0.42
2-yr Annual Stock Returns	0.047	0.023	0.088	0.029	1.65*
3-yr Annual Stock Returns	0.156	0.107	0.205	0.135	1.90*