Summary of *The Irrelevance of Environmental, Social, and Governance Disclosure to Retail Investors*

Management Science, 2021

Zhenting Hu

May 7, 2024

1. What are the research questions?

• Whether ESG disclosures and the specific components influence the trading decisions of retail investors.

• Why retail investors appear unresponsive/responsive to ESG press releases.

2. Why are the research questions interesting?

• Investor preferences are important because of their influence on firms' cost of capital and future operation decisions

• The research aims to fill the gap in empirical evidence of previous studies.

– Prior research show that ESG disclosures attract investors who have a "taste" for these types of activities.(see Friedman and Heinle 2016, Pastor et al. 2021)

– Prior research is limited to experimental studies.(see Cheng et al. 2015, Martin and Moser 2016)

3. What is the paper's contribution?

• Contribution to literature investigating how ESG disclosures affect the composition of firms' shareholder base.

– Previous studies generally focus on how institutional investors respond to firms' ESG disclosures. (see Friedman and Heinle, 2016)

– This research narrows down the focus to retail investors.

• Contribution to research methods adopted investigating whether retail investors adjust their portfolio holdings in response to ESG disclosures.

– Previous studies are based on experimental research design.

– This paper does so using an empirical archival.

• Contribution to the progress of regulation on the ESG disclosures by regulatory entities.

– This study reveals that retail investors might have varying information requirements compared with institutional investors.

4. What hypotheses are tested in the paper?

• H1: Retail investors adjust their portfolio holdings in response to firms' ESG disclosures.

• H2: Economic content, visibility and integration difficulty have an impact on the information acquisition process of retail investors.

The hypotheses follow the main question that whether ESG disclosures have an influence on portfolio choice of individual investors.

• H1 focuses directly on main research question.

• H2 digs deeper in potential mechanism that motivates the results.

5. Sample: Comment on the appropriateness of the sample selection procedures.

• Data from Robinhood provide a basis for the paper, and articles on ESG from different platforms may be representative of the ESG news release source.

6. Dependent and Independent Variables.

• **Dependent variables:**

Investor reaction variables: Number of Robinhood investors who own the firm's stock on specific day, the change of the number over three-day windows centered on event days, Absolute changes and volatility in these numbers.

• **Independent variables:**

The main independent variables are ESG Press Release Days, Non-ESG Press Release Days and other (non)event days

The choice of the dependent variables is comprehensive to represent the retail investor portfolio adjustments.

7. Regression/prediction model specification.

$$RI\_RESPONSE_{k,t} = \alpha + \beta_1 ESG\_PR\_Day_{i,t} + \beta_2 Non + \beta_3 EA\_Day_{i,t} + \\ \sum \gamma_j Controls_{i,t} + FixedEffects + e_{i,t}$$

• The paper exploits OLS model with fixed effects to assess the effect of ESG releases, which makes it furthest to isolate the impact only of the disclosures.

8. What difficulties arise in drawing inferences from the empirical work?

• **Isolation of Effects:** Differentiating the impact of ESG disclosures from other concurrent news or market events can be challenging.

• **Event Study Constraints:** The methodological approach, primarily based on event studies around disclosure dates, assumes that market reactions are immediate and capture all relevant information.

9. Describe at least one publishable and feasible extension of this research.

Explore the long-term behavioral and performance consequences of ESG investment decisions, which focuses on understanding whether initial indifference or attention to ESG factors influences the sustainability and profitability of retail investors' portfolios over time.