

Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows

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1. What are the research questions?

- Do investors collectively view sustainability as a positive, negative, or neutral attribute of a company?

2. Why are the research questions interesting?

- Firms invest more resources in sustainable and socially responsible endeavors,
 - Whether such investments reflect investors' preferences marketwide is unknown
- Addressing this question directly is difficult in most settings
 - It is not clear how to identify the preferences of the average investor
- These challenges can be solved by examining a novel natural experiment: Morningstar websites

3. What is the paper's contribution?

- Literature that examines how investors value nonfinancial aspects of stocks.
 - Prior: whether it is a “sin”, local or whether it offers a certain dividend yield
 - Ext: Evaluate how all mutual fund investors collectively value the characteristic of interest, rather than the subset of investors
- Literature on why firms invest in sustainability
 - Prior: Break sustainability into the part due to agency versus the part due to appealing shareholders
 - Ext: A significant part of the observed investment in sustainability is not due purely to agency issues.
- Highlights the potential role of emotion in guiding investment decisions

4. What hypotheses are tested in the paper? list them explicitly

- H1: Mutual fund investors in the US puts a positive value on sustainability

(a) Do these hypotheses follow from and answer the research questions?

Yes

(b) Do these hypotheses follow from theory or are they otherwise adequately developed?

- Globe ratings impact expectations of future performance and lead investors to make choices based on nonpecuniary motivations.

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

- Morningstar's ratings is a great setting

6. Dependent and independent variables: the appropriateness of variable definition and measurement

- Consider other fund performance indicators

7. Regression/prediction model specification: the appropriateness of the regression/prediction model specification

- Concise and reasonable.

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

- The empirical work is rigorous

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

- Disclosure as an event, but no new info: unemployment rate