Summary of "*The irrelevance of environmental, social, and governance disclosure to retail investors*"

2024.05.07 Zhao Lvyujia

1. **What are the research questions?**
   - This study explores whether retail investors adjust their portfolios in response to ESG (Environmental, Social, Governance) disclosures and the impact of such disclosures on investment decisions.
2. **Why are the research questions interesting?**
   - These research questions are interesting as they challenge the prevailing assumptions about the impact of ESG information on investor behavior, with a specific focus on the unique responses of retail investors.
3. **What is the paper's contribution?**
   - **Response of Retail Investors to ESG Disclosures**: The study fills a gap in the existing literature, where previous research has primarily focused on institutional investors' reactions to ESG information (***Friedman and Heinle, 2016; Pastor et al., 2021; Naughton et al., 2019)***. Using direct data from retail investors on the Robinhood platform, this paper explores the specific responses of this group to ESG disclosures, finding significant differences from institutional investors.
   - **Economic Content of ESG Information and Investor Reaction**: Through empirical analysis, it is demonstrated that ESG information indeed contains economic content, yet the response from retail investors is negligible. This provides new insights into how retail investors process information and make decisions, challenging assumptions about their responsiveness to ESG issues.
   - **Differences in Information Needs of Retail Investors:** The findings of this study are significant for shaping ESG disclosure policies tailored to different investor groups. It indicates that retail investors may have different information needs and reaction mechanisms compared to institutional investors, offering crucial guidance for regulators and firms in formulating relevant policies.
4. **What hypotheses are tested in the paper?**
   - ESG disclosures do not affect retail investors' portfolio adjustments.
   - Non-ESG disclosures and earnings announcements significantly impact retail investors' investment decisions.

   a) Do these hypotheses follow from and answer the research questions?
   - Yes, these hypotheses directly address the research questions regarding the impact of ESG disclosures on retail investor behavior.

   b) Do these hypotheses follow from theory?
   - These hypotheses are based on existing theories of information disclosure and investor behavior, and theoretical deductions about possible different responses between retail and institutional investors.
5. **Sample: comment on the appropriateness of the sample selection procedures.**

- The sample includes transaction-level data and internet usage details across Norway, providing a comprehensive and relevant dataset to analyze the effects of broadband expansion on financial behaviors.

6. **Dependent and independent variables: comment on the appropriateness of variable definition and measurement.**
    - Independent Variables： ESG PR Day、Non-ESG PR Day、Earnings Announcement Day (EA Day).
    - Dependent Variables： Change in Retail Investor Holdings (ΔRI_t-1,t+1)、Absolute Change in Retail Investor Holdings (Abs.ΔRI_t-1,t+1)、Adjusted Change in Retail Investor Holdings (Adj.ΔRI_t-1,t+1)、Volatility of Retail Investor Holdings (ΔRI Volatility_t-1,t+1)
7. **Regression/prediction model specification: comment on the appropriateness of the regression/prediction model specification.**
    - The regression/prediction model specification is appropriate and capable of testing the hypotheses effectively, suitable for explaining retail investors’ reactions to ESG and non-ESG information.
8. **What difficulties arise in drawing inferences from the empirical work?**
    - Difficulties arise in drawing general conclusions from the empirical work due to the complexity and diversity of retail investor data.
9. **Describe at least one publishable and feasible extension of this research.**
    - Conduct a longitudinal study to track changes in retail investors’ responses to ESG disclosures over time, particularly as awareness and regulations evolve.
    - Examine how the adoption of standardized ESG reporting frameworks like GRI or SASB influences retail investor reactions compared to non-standardized disclosures.