The Impact of Climate Engagement: A Field Experiment

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Background

- Some investors prefer green stocks/assets due to pecuniary or non-pecuniary reasons
- The ones with non-pecuniary reasons may want to change how firms operate
  $\rightarrow$ They have two options
  1. Invest only in green stocks and influence firms indirectly
  2. Pursue active engagement with the firms
- **Fundamental Q:** To what extent do these two options work as intended?

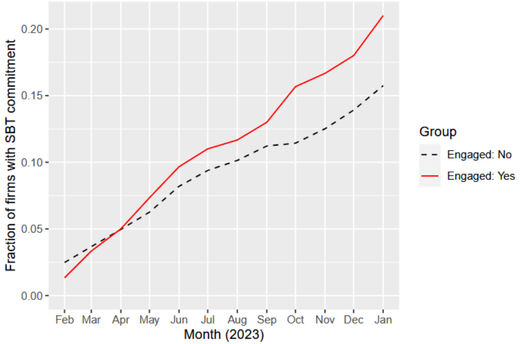
This paper

- Runs a randomized experiment with an index provider, where the treatment is done via communication
- Finds that the treatment increases climate target adaptation by 5.3 pp (or by 33%)

Experiment

- Index that tracks firms on a decarbonization trajectory
- In this index, there are 1227 firms that do not have SBT commitments.
- 300 of 1227 are randomly selected to be treated
- Treatment: The index provider sends a formal letter to the treated, reminding them that commitment to SBT is a requirement to be included in the index.

  $\rightarrow$ The letter details the benefits of such commitment



Disclaimer

This is a **preregistered study**

$\rightarrow$ limits the additional analysis in addition to the registered ones ex-post

$\rightarrow$ Thus, I will focus on the interpretation of the current findings

Understanding the treatment

- Does the letter introduce the SBT requirement for the first time?
  → No! The SBT requirement was established at the initiation of the index.
- Therefore, the letter is a communication nudge!
  → It emphasizes the threat but does not change the rules.
- What are the main ways that shareholders use to engage?
  → Make proposals
  → Actively vote for existing proposals
  → Ask for information/explanation
  → Exit
- Communication is tricky
  → It is a part of engagement but probably not the most salient one
  → The ideal case: an exogenous variation in proposals or votes
- My framing: **More intense communication** can **speed up** firm actions

Permanent or temporary?

- If a firm wants to be a part of an index, it has to set zero emissions from March 2030
- This means that firms eventually have to adopt SBTs
  $\rightarrow$ Mild assumption: Firms want to stay in the index
- Is this effect permanent or temporary?
  $\rightarrow$ The strong take-up rate of the control group
  $\rightarrow$ The size of the effect decreases to 13% from 33% in one year
  $\rightarrow$ Thus, the nature of the setting suggests that the effect may be temporary
- Due to these reasons, I believe that **speed up** fits better into this setting

Selection bias

- Selection problem: Asset managers strategically choose their **engagements that are more likely to be accepted**, leading to an overestimation
- The paper says that being clean from the selection bias is its main contribution
- Is this setting free from the selection problem?
  $\rightarrow$ I'm not so sure
- Randomization is done within a **non-random sample** from the population
  $\rightarrow$ Within the sample, there is no selection
- Due to the non-random sample, a selection bias can still occur
  $\rightarrow$ There is a reason why these firms are selected for this index: they tend to be greener!
  $\rightarrow$ Therefore, these firms are more likely to react to **the treatment as it is already in line with their policies**.
  $\rightarrow$ I think this is the reason why the initial treatment effect is 33 percent
- **More precise interpretation**: Firms that are already leaning towards a type of action will speed up their actions when they are communicated in a more serious way.

Minor comments

- Do firms know that they are included in the indices?
- Do firms apply to be included in the index or does the provider construct the index by itself?
- The time between the initiation of the indices and treatment is important. The initiation itself can convince firms to adopt SBTs.
- How did the index provider communicate its requirements for the whole sample at the initiation? Was there explicit communication regarding the SBTs?
- Are there any firms that committed to SBT and then removed?
- Why don't you report the average marginal effects when you use probit? It is easier to interpret.
- Do you have any intuition for the heterogeneity (larger firms, etc.)?