

INVESTOR REACTIONS TO CORPORATE SUSTAINABILITY EFFORTS

In recent years, companies have undertaken more sustainability initiatives; however, research suggests the financial benefits of such initiatives are unclear. Forthcoming research in the Strategic Management Journal expands upon research to examine whether investors positively value signals of sustainability. The authors focus on investor reaction to the announcement of the Dow Jones Sustainability Index (DJSI), including the addition, continuation, and deletion of firms on the list.

Key Takeaways:

- On average historically, investors negatively respond to indicators companies have engaged in sustainability efforts.
- Investor reactions to sustainability have changed over time, with efforts more positively received in recent years.
- US firms saw seen a greater investor response than non-US firms; however, this response has lessened over time.

As a baseline over the period 1999-2015, the researchers found a decline in stock price for companies who were added to (-0.17%) or continued on (-0.23%) the DJSI list. Companies removed from the list did not see an effect on their stock price; however, similar firms not on the DJSI received a gain of 0.18% in their stock

price. The authors suggest these results indicate a penalty for companies associated with the DJSI. Interestingly, however, results changed over time, such that in earlier years (1999-2004) the market's response to list additions or continuations was considerably more negative, while in more recent years investor response has become less negative and even positive in some cases. Similarly, over time, firms deleted from the list have received a more negative response. In short, the authors found a more positive market response to sustainability over time. Finally, US firms receive a stronger reaction to DJSI inclusion than non-US firms; however, this response was less in more recent years.

In summary, companies face significant pressures to act in socially responsible manners; however, prior research is unclear regarding the benefits of such actions. The authors of this research suggest that their findings indicate that, historically, investors penalize sustainable companies. This reaction, however, has changed over time to become more positive as investors have become more nuanced in their valuation of sustainability initiatives.

Source: Hawn, O., Chatterji, A.K., & Mitchell, M. Forthcoming. Do investors actually value sustainability? New evidence from investor reactions to the Dow Jones Sustainability Index (DJSI). Strategic Management Journal, DOI: 10.1002/smj.2752.

