Corporate Social Responsibility, ESG Investing, and Climate Disclosures
Markets vs. Mandates:
Promoting Environmental Quality and Economic Prosperity

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What should be the objective of a corporation?

**Shareholder primacy** (Milton Friedman)
Maximize company’s *long-term value*,
while conforming with the laws of the land
(labor laws, environmental laws)

**Stakeholderism** Corporate leaders should give weight to
well-being of stakeholders as *independent objectives*
- customers
- employees
- suppliers
- communities in which the corporation operates in
- long-term shareholder value
Stakeholderism

Being promoted by

The Business Roundtable

The World Economic Forum (Davos)

BlackRock

American Law Institute
Shareholder primacy versus stakeholderism

Markets vs. Mandates

Competitive labor markets, Competitive product markets => No difference in corporate decisions
Quarterly Global Sustainable Fund Flows ($ billions)

- **Sustainable Funds: Mostly European phenomenon**
- **Peaked in Q1 2021**
- **2021-2022: Dramatic decline in investor interest**
Do Investors Value Sustainability?
Journal of Finance

March 2016: Morningstar initiated ratings for 20,000+ funds based on the ESG records of the portfolio companies

Funds with top ESG ratings received five globes

those with bottom ESG ratings received one globe

Five globe funds had lower returns and higher risk compared to one globe funds
ESG investing and investor returns

**Thousand+ studies**
positive relation, negative relation, no relation


After controlling for potentially mitigating variables, **Statistically significant negative relation**

Climate change theme: No significant impact on financial performance.
United Nations launched the Principles of Responsible Investment (PRI) in 2006

#1: We will incorporate ESG issues into investment analysis and decision-making processes.
#2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
#3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
#4: We will promote acceptance and implementation of the Principles within the investment industry.
#5: We will work together to enhance our effectiveness in implementing the Principles.
#6: We will each report on our activities and progress towards implementing the Principles
Spectacular Growth of PRI Signatories

c. US investors: AUM coverage

d. Non-US investors: AUM coverage
Do U.S. Institutional Investors’ invest in companies with better ESG scores after signing the PRI?

2013-2017, 684 PRI, 6481 non-PRI

NO


Do U.S. Institutional Investors’ Portfolio ESG Scores improve after signing the PRI?

NO
Why Do US Institutional Investors sign the PRI?

Perhaps to deflect attention from their poor investment performance

“Greenwashing”
Do U.S. ESG mutual funds invest in companies with better labor/environment records?


2010-2018
147 U.S. ESG mutual funds
2,428 U.S. non-ESG mutual funds

NO

Do U.S. ESG mutual funds improve the labor/environment records of companies they invest in?

NO

Investment returns of U.S. ESG mutual funds less than non-ESG funds.
Another problem with Stakeholderism

Convenient excuse for financial underperformance

Companies that issue GREEN BONDS are performing poorly (financially)

CEOs that talk a lot about ESG in their quarterly teleconferences with analysts are performing poorly (financially)
https://ssrn.com/abstract=3725828
Should the SEC enforce mandates to disclose compliance with climate goals?

Two surveys of individual investors

**NORC (University of Chicago) and FINRA Investor Education Foundation**
1228 retail investors

- Investment returns of potential investment: Most important factor
- Environmental aspects of potential investment: Least important factor

**Gallup poll of 953 US adult individual investors**
Most prioritized investment return and risk over environmental losses
Should the SEC enforce mandates to disclose compliance with climate goals?

Third survey of individual investors

Stanford University (Hoover/GSB/Rock Center)
2470 individual investors

Older (>58 years) workers: Unwilling to tradeoff investment returns for ESG

Younger (18-41 years) workers with <$50,000 savings: Unwilling to tradeoff investment returns for ESG

Younger (18-41 years) workers with >$250,000 savings: Willing to tradeoff investment returns for ESG
Should the SEC enforce mandates to disclose compliance with climate goals?

Columbia Business School paper
http://dx.doi.org/10.2139/ssrn.3800193

Carbon Emissions and Stock Returns:
No relationship

Carbon Emissions and Operating Performance:
No relationship
Questions?