

Summary of Research Proposal:

Returns to Socially Responsible Investing: A Clinical Study

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Summary:

This study will examine the linkages between responsible investment strategies and stock market performance. While there is a substantial body of previous research in this area, empirical findings have often been confusing.

One might expect that “ethical” investment could generate superior returns. But if so, all investors—not just responsible ones—would initiate ethical programmes, and superior returns could not be expected to persist. On the other hand, if some assets are abhorred by a subset of investors, their prices will fall. Abhorrent strategies would then be expected to achieve superior long-run returns. Responsible strategies would, in turn, be expected to underperform.

Comparison of the long-term performance from responsible and “sinful” strategies is a blunt instrument, however, and cannot indicate whether adoption of a responsible strategy is rewarded with superior or inferior performance. Moreover, existing studies that examine interventionist strategies are often uninformative because it is not clear when the engagement took place, what form it took, and how it was delivered – through written documents, conversations, and so on.

In this research, we examine a manager who engages with investee companies, to persuade them to pursue more responsible approaches to investment. By exploiting a complete dataset of extensive engagements with target companies, the study aims to address the relationship between the Corporate Social Responsibility (CSR) practices of a firm and the firm’s value/performance.

Within this broad research interest we would like to give answers to the following questions:

- Is there a correlation between CSR and value/performance, and which way does the causality run?
- Are there certain CSR activities that influence value and performance more than others?
- What are the returns to Socially Responsible Investing (SRI)?
- How do the CSR engagements compare to the engagements of activist funds; for example, in terms of style, intensity and performance?

We expect our findings will enhance understanding of the returns to socially responsible investment strategies.