Discussion of Altruism or Self-interest? ESG participation in Employee Share Plans

Maxime Bonelli   Marie Brière   François Derrien

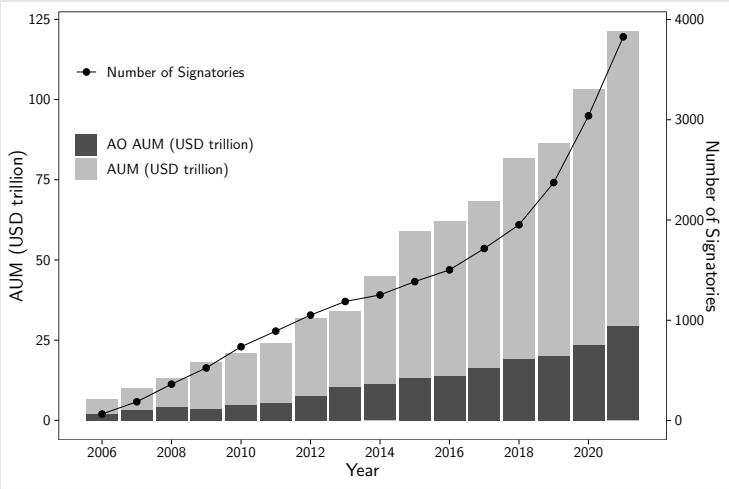Discussion by Andreas Brøgger

Università di Bologna, Forlì Campus

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Motivation - Growth in ESG assets

Figure: ESG assets and UN PRI signatories

Motivation 2

- Large growth in firms signing ESG agreements
- But, ESG is very broad and we don't currently know what parts of it employees care about
- This is a very interesting paper that has a unique setting to test this

Theory

To understand the papers argument let us set up a la Lubos Stambaugh Taylor (2021) and let an investor i invest into employee j with n number of stocks. Further let n be the solution to the following maximisation problem

$$\max_{n_i} E[-\exp(-(a_i W_i^1 + b_i X_{i,j}))], \tag{1}$$

where

$$W^1 = W^0 + n_i r_j + n_i d_j \tag{2}$$

and

$$b_i X_{i,j} = s_i n_i \text{ESG}_j \tag{3}$$

Which means

$$n_i^* = \frac{\mu_j + d_j + \frac{s_i}{a_i} ESG_j}{a\sigma_j^2} \tag{4}$$

or equivalently,

$$n_i^* = \frac{\mu_j + d_j + \frac{s_i W^0}{\gamma} ESG_j}{\gamma \sigma_j^2} W^0. \tag{5}$$

What paper does

- Authors have unique dataset where can see whether employees less likely to buy firm stocks after ESG incidents.
- Paper shows this is the case.
- Driven by S incidents, particularly working conditions.

Main concern 1/2

Validity of paper's empirical strategy relies on

$$corr(b_i, ESG_j) \neq 0, corr(x, ESG_j) = 0, \qquad (6)$$

for all x where $corr(n^*, x) \neq 0$.
However, potentially

$$corr(d_j, ESG_j) \neq 0, corr(n_i^*, d_j) \neq 0 \qquad (7)$$

Paper says d_j is constant through time but would be nice to see evidence of this.

Potential solution: Firm-time fixed effect and high s_i minus low s_i (holdings of SRI funds) (within firm and date).

Main concern 2/2

Alternatively it may be the case that,

$$corr(\mu_j, ESG_j) \neq 0, corr(n_i^*, mu_j) \neq 0 \qquad (8)$$

Or

$$corr(\sigma_j, ESG_j) \neq 0, corr(n_i^*, \sigma_j) \neq 0 \qquad (9)$$

Potential solution: Test whether fraction of own stock to other stocks decreases.
Rest are smaller comments.