MICHIGAN STATE UNIVERSITY | Broad College of Business

Discussion of
Socially Responsible Investors and Stock Price Informativeness, by Yang, Zhan, Zhang and Zhang.

John X. Jiang
姜雪峰

Outline

- Briefly summarize the paper
- Three sets of questions
  - How to interpret the results
  - What did SRIs do to generate the results?
  - Could Lundholm and Myers (2002) be published today?

Summary I

- SRIs and stock price informativeness:
  - Higher SRI ownership is associated with lower association between current returns and future earnings.
  - This relationship is likely to be causal using an exogenous shock to SRI ownership (Morningstar rating change).

Summary II

- Mechanisms behind the reduced price informativeness:

  SRIs' preference for ESG information decreases the weight allocated to earnings-related information.

  – The effect is stronger when ESG information attracts more attention from SRIs (e.g., higher ESG rating disagreement, more ESG incidents, higher climate change news index).

  – Market reactions to earnings (ESG) news are weaker (stronger) in the presence of more SRIs.

Summary III

- The main results are not affected by firms' information complexity (proxied by Fog index, Bog index, Loughran and McDonald index)
- SRIs ownership is not associated with fewer management forecasts and additional supply of ESG news.
- SRIs enhance the relationship between current returns and future ESG performance.
- Fewer analysts follow firms held more by SRIs, potentially due to increased information processing costs.

Strength of the paper:

- Addressing an important and timely topic of how socially responsible investing affects firms' information environment.
- Findings are new and interesting.
- Employing multiple approaches including long term associations between earnings and returns and short-term event studies, also an exogenous shock to address endogeneity concerns.

Question 1: How to interpret the paper's results?

- Does less future earnings information in current returns of high-SRI firms imply worse information environment?
- How might discount rate changes affect the main findings (Cochrane 2011)?
- Could weaker reactions to earnings surprises and stronger reactions to ESG incidents of high-SRI firms reflect earnings persistence and cash flow concerns, rather than just SRI reactions?

Question 2: What did SRIs do to generate the results?

- Are SRIs passive (exit) or active (voice) investors, or both?
- How to gain more direct evidence of SRIs' actions and impact, given quarterly ownership data?
- Can the sample's SRI ownership levels (mean 11%, median 9%, 90th percentile 23%) be considered "dominant" enough to significantly influence stock prices?
- Are SRIs more likely to be marginal investors or have disproportionate influence on stock prices, as assumed in asset pricing models?
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Question 3: Could Lundholm and Myers (2002) be published today?

- Have the standards for assessing empirical research changed since 2002?
- Leuz, C., 2022. Towards a design-based approach to accounting research. *JAE*
- Bowen III, D.E., Frésard, L. and Taillard, J.P., 2017. What's your identification strategy? Innovation in corporate finance research. *Management Science*

Question 3: Could Lundholm and Myers (2002) be published today?

- Are results from natural experiments more convincing?
- Heath, D., Ringgenberg, M.C., Samadi, M. and Werner, I.M., 2023. Reusing natural experiments. *The Journal of Finance*, *78*(4), pp.2329-2364.
- Black, B.S., Desai, H., Litvak, K., Yoo, W. and Yu, J.J., 2023. The SEC's short-sale experiment: Evidence on causal channels and reassessment of indirect effects. *Management Science*.
- Armstrong, C., Kepler, J.D., Samuels, D. and Taylor, D., 2022. Causality redux: The evolution of empirical methods in accounting research and the growth of quasi-experiments. *JAE*

Did we change how to judge GOOD research?

- What kind of reception would Lundholm and Myers (2002) receive if submitted for review today?
- How could the paper be restructured to align with current research expectations?
- making the exogenous shock the main analysis
- Applying to all cross-sectional analyses