Discussion of
"Do Employees Have Useful Information About Firms' ESG Practices?" by Hoa Briscoe-Tran

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Summary

- Very important paper, and I learned a lot!
- RQ: whether employees have information beyond the existing ESG ratings?
  - Does their information predict the future?
  - Does their information reveal the past?
  - Does their information outperform the public ratings?

Valuable Data Work

- Glassdoor reviews
  - Train a machine learning model to learn the meaning of all words on E,S,G separately
- Combine with a bunch of other interesting datasets
  - CSRP, Compustat
  - BRT, UNGC
  - E: Refinitiv
  - S: Alex Edman's website, Fortune Magazine
  - G: Audit Analytics, Bertomeu et al. (2021)

Main Findings

Insider reviews have strong predictive power in firm performance

- E: Employees have low attention on E issues, but the predictive power of the inside view on the E category is remarkable.
- S&G: Insider view's predictive power remains significant after controlling a bunch of firm characteristics
- S&G review also has significant power beyond the MSCI ratings in predicting a firm's future financial (non-ESG) outcomes

Insider review is not affected by greenwashing

- It is more likely to improve after a costly commitment like the UNGC setting, relative to a costless commitment like the BRT setting

Punchline

The first attempt to investigate the employee's private information about firms' ESG

- There has been debates in the literature on whether (or to what extent) public ESG ratings affect investors' investing strategies
- One possible reason for the mixed findings in the literature is the lack of predictive power of the public index
- This paper provides a new and important perspective of measuring firm ESG

Insider Information or Public Opinion?

- Is it possible that insider review simply reveal some public opinion?
- How to measure the information "informativeness" that can be really attribute to the "insiders"
  - Control for public evaluation/news reports
  - Control for current price, which should already incorporated all public information

Common Underlying Shock

- Does the inside review reflect "insider information" or driven by some common underlying shocks that are perceived by the public but not captured by MSCI?
- For example, the author shows that joining UNGC significantly affect the inside review— this is perceived by the insiders as well as outsiders
- May be helpful to find out the major events (through some textual analysis) that can drive the review and test the robustness of the results by excluding the reviews driven by the events
- A minor point: how do MSCI respond to these shocks?

To Test for Insider Information

In order to really distinguish the role of "insider" information, it will be helpful to exploit the individual level heterogeneities in the Glassdoor data

- Seniors may have better access to information
- HR may have better information on S
- Managers have better information on G
- Experienced employees may have less biased view as compared to new employees
- Former employee may be less prone to "greenwashing" incentive

Insider Information Value vs. Dispersion

- The paper use the yearly average employee review as the measure for insider information
- Dispersion of the review distribution may also be useful— the larger the dispersion, the less informative the information is

How is MCSI Constructed?

- MSCI is based on an index system with many underlying characteristics
- Thus, it will perform better on the variables that are included in the metric, and worse on the ones that are not included
- It would be beneficial to clarify whether the measures used in the paper are included in the metric

Do Firms/Investors Respond to Insider Reviews?

The channel through which insider review predict firms' future performance?

- This paper: insider review carry more accurate information
- Alternative: firms respond to reviews and adjust their performance
    - If good performing firms are encouraged by good reviews, then upward bias
- Alternative: investors respond to reviews and invest more in firms with good review

Low Correlation and Low Prediction Power

The paper document very low correlation between employee reviews and the existing
public index. Why?

- Public ESG index is based a set of fact-based measures, and so is employees review
- This is especially true for E— The author also argue that employees have little
  additional information about the firms' E performance
- How to reconcile with the low correlation?
- Maybe low prediction power is because of low preciseness of the employee-review
  measure

What Does Good Information Do?

- Reveal the past
  - Yes, but not for greenwashing cases
- Explain the present
  - Are "Insider Information" Incorporated?
- Predict the future
  - To isolate this effect, should condition on the current price

A Broader Question: ESG Inversting or Performance Investing

Why ESG information also predict firm financial performance?

Can we re-evaluate the question: are investors investing on financial outcomes or ESG outcomes?

What is the value of information?

Summing up

- Very important and fascinating paper!

- Insider reviews have strong predictive power in firm performance
- Insider review is not affected by greenwashing
- Key question is what is underlying the employee reviews— private information, public sentiment, or common shocks?