

Social issue investing does not increase shareholder value, study suggests

February 9 2016

Environmental, social, and governance investing is associated with lower shareholder value, according to a new study by Tracie Woidtke, head of the finance department at UT's Haslam College of Business.

While examining the role of state and municipal pension funds as activist investors, Woidtke found the S&P 500 index firms targeted with social-issue proposals by the New York state pension fund had a 21 percent lower firm value, and a 91 percent lower industry-adjusted firm value, than all other firm years in her sample.

"Shareholders see little benefit from focus on issues like political spending, employment rights, or environmental sustainability within a company," said Woidtke. "This has become a really hot topic with the current focus on ESG investing."

The Manhattan Institute and the Center for Competitive Capital Markets (part of the U.S. Chamber of Commerce) invited Woidtke to present her research at recent meetings. Both entities are monitoring the potential negative consequences of ESG shareholder activism to taxpayers, public pension fund beneficiaries, and firms.

Woidtke's research demonstrates an overall negative relationship between a firm's value and shareholder activism on social policy issues. The data also confirms a previous study of Woidtke's that demonstrates shareholder activism relating solely to corporate governance is not associated with decreased value. Firms that undergo shareholder

activism focusing on poor firm performance generally have higher value.

"Shareholder activists encouraging their fellow shareholders to withhold votes toward a director's election express dissatisfaction with management performance and help support the vitality of a [business](#)," said Woidtke.

However, when public pension funds lobby companies as government entities with political motivations instead of shareholders advocating corporate profitability, a firm's value is lower in the stock market.

Woidtke's paper was released during the Manhattan Institute's fifth annual Proxy Monitor conference, where she was one of two featured panelists.

Provided by University of Tennessee at Knoxville

Citation: Social issue investing does not increase shareholder value, study suggests (2016, February 9) retrieved 11 May 2024 from <https://phys.org/news/2016-02-social-issue-investing-shareholder.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.