

2020 MOSKOWITZ PRIZE RESEARCH BRIEF

The Real Effects of Environmental Activist Investing

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A climate-focused shareholder engagement campaign can influence a firm's real environmental impact.

ABOUT THE PRIZE

The [Moskowitz Prize](#) recognizes research that exhibits empirical excellence and the potential to inform responsible business and investing practices in the real world.

SUMMARY OF FINDINGS

Can shareholder voice change corporate environmental behavior?

Despite maturing literatures on 1) how shareholder voice can affect governance, financial, or operational performance, and 2) the effect of divestment on the basis of social responsibility, there is limited research on the real effects of shareholder engagement on pollution and the environment. This paper starts to fill that gap.

The authors examine plant-level environmental data for companies targeted by the New York City Pension System's Boardroom Accountability Project (BAP), and find that:

- On average, plants of targeted firms reduced toxic chemical release by 13%, including significant reduction in greenhouse gas emissions.
- Reductions lead to lower pollution in communities adjacent to plants, and lower intensity of pollution.

These results are not driven by shifting pollution off-site, but by on-site reduction. Additionally, the authors establish that these results hold outside of the BAP for other environmentally related campaigns. Further, these improvements are not merely driven by reporting biases.

The authors found a weak but negative relationship between targeting and short-term profitability. At the same time, they find firms increase their abatement related capital expenditures, while not reducing their productivity.

PRACTICAL IMPLICATIONS

For Investors

- When investors with environmental mandates consider the efficacy of divestment versus engagement, there is now evidence that engagement is a viable strategy.
- Engagement can create positive externalities for local populations. For investors like pension funds or universal owners, this illuminates a path to represent the interests of beneficiaries who might internalize firm externalities.

For Firm Managers

- Engaged shareholders can work with managers to address climate change risks at firms, potentially benefiting both shareholders and stakeholders.

For Policy Makers

- Proxy access rules may not be enough to affect firm behavior alone but do create an opportunity for engaged shareholders to drive real change.
- Engagement may be a complementary way to address climate change risks, alongside regulation.

METHODOLOGY AND DATA

- **Methodology:** A difference-in-differences specification compares plants of firms targeted by the BAP campaign against counterfactual plants identified using propensity score matching.
- **Primary Data:** BAP activity data merged with standard financial datasets and multiple micro-level datasets from the Environmental Protection Agency.

QUESTIONS FOR FUTURE RESEARCH

Would a broad-based climate campaign or a more focused campaign be effective in bringing about real changes?

How do we quantify long-term benefits of climate-focused campaigns, and the externalities they have on the firm and the economy?