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RESEARCH BRIEF

Voice Through Divestment

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Contrary to investment-industry belief, divestment announcements impact stock prices when they support narratives that change perceptions of risk.

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

Does divesting stock holdings meaningfully impact companies and industries?

To date, the consensus has been "no," with critics arguing that divested amounts are too small to matter and buyers always exist. Engagement is thus favored for promoting ESG-related changes, as it maintains investors' voting power.

However, the authors redefine divestment as a "statement of disapproval that aligns actions with words for effectiveness." They view divestment as a form of *voice*, with disinvestment pledges resonating with boards, customers, employees, and stakeholders, especially via social media.

Their paper examines the "go fossil free" movement, which advocated for divestment from companies with large coal, oil, and gas reserves. The authors suggest that viral divestment pledges lower share prices for all companies with high energy-transition risk, not just those divested. They spotlight Ireland's 2018-2019 divestment from fossil fuel companies. Though small numbers of shares were sold a month after the announcement, viral Twitter announcements of the divestment commitment coincided with significant losses for US companies during the announcement week.

The effect extended from fossil fuels to high-emission industries like cement and airlines, that were not directly divested. But it didn't impact companies praised for their transition plans, such as those on the Carbon Disclosure Project's "A-List." The findings showed the market reacted to news about transition-risk changes following Ireland's disapproval statement, rather than to the actual sale.

The authors go on to demonstrate Ireland's case isn't unique. The most viral divestment announcements significantly affect stock prices of all high-carbon emitters, extending beyond the mere reduction in shares held.

Does Divestment Work?

There has been skepticism about divestment as a business-influence tool because there are willing buyers for divested stock and selling investors lose their voting power. But the authors hypothesize that divestment and pledges of disinvestment serve as a powerful form of voice that can influence social preferences and, ultimately, financial outcomes for targeted businesses, especially when movements go viral.

Ireland is a case in point: the government, facing pressure from faith-based and educational organizations, disinvested from fossil fuels through the Fossil Fuel Disinvestment Act of 2018. The divested amounts were minimal percentages of target companies' market caps, but viral tweets of the planned divestment led to abnormal returns for the 40 US businesses with the most coal, oil, and gas reserves, with losses of tens of billions of dollars the week of the news. In 2020, Ireland passed legislation committing to net-zero emissions by 2050, based on perceived climate risk.

Ireland's was only one of the 1599 fossil-free divestment pledges that inspired the authors to investigate empirically the nature and impact of disinvestment movements on target companies and their broader industries.

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Impact of the Fossil Free Movement
The Fossil Free movement started in 2012 to push for divestment from fossil fuels, communicated through Go Fossil Free and other campaigns. In subsequent years the movement led to thousands of divestment campaigns, including high-profile ones.

To understand the movement's impact, the authors conceptualize associated Twitter handles as nodes of a network, finding they are well-connected and yield frequently-used hashtags such as #divest. They examine the change over time of the movement's tweet volumes, along with tracking the messages' virality, including those associated with pledges from divesting institutions, on social-media platforms.

Specifically, they test the impact of viral tweets on stock returns associated with three groups: (1) the Carbon Underground 200, the businesses targeted by the Fossil Free movement; (2) fossil-fuel companies not on the CU 200 list; (3) high-carbon emitters in other sectors including airlines and cement. They find the largest negative cumulative average abnormal returns (CAAR) for the CU 200, a 0.9% loss in the three-day window around the event, corresponding to $87 billion in market-value losses.

CAARs were also negative and significant for the non-CU fossil-fuel businesses and high-carbon emitters in other industries, suggesting a larger disinvestment-campaign effect. Disinvestment, and pledges of it, appear to shift social preferences, increasing risk for all high-carbon-emitting businesses.

The Case for Net-Zero Commitments
The authors also examine viral disinvestment pledges as lead indicators for net-zero commitments from countries, companies, cities, and regions. They match data on net-zero commitments worldwide to their divestment-pledges database to find a significant correlation between divesting entities' geographic location and net-zero commitments from governments and others in the same jurisdiction, with divestment preceding the commitments.

Together, the findings suggest the Fossil Free movement has served as a form of voice propelling social changes through mass-media coverage and targeting of organizations. Viral disinvestment pledges increased risk for all high-carbon emitters—beyond targeted companies—and preceded net-zero commitments from wide-ranging groups.

Divestment campaigns increase reputation-related and stranded-asset risks for target companies and their broader industries through widespread stigmatization of the same, likely through a combination of raising awareness and reinforcing markets for pricing regulatory risk into target sectors. The results suggest the large social and economic impact of these movements and reinforce their power in business and other domains.

KEY DATA

- Fossil Free Twitter handles, tweets, hashtags, followers
- Fossil Free Global Divestment Commitments Database
- Public data on divestment pledges (press releases, tweets, etc.)
- Lists of CU 200 companies; other oil, gas, and consumable fuel companies (GICS group 101020); other high-carbon-emitting businesses
- MSCI AC World US$ Price Index (stock-price data)
- Net Zero Tracker (net-zero commitments)

PRACTICAL IMPLICATIONS

- *Proponents of ESG-related causes beyond fossil fuels can use voice through divestment to drive meaningful change, but it will be most effective if linked to a broader movement related to a compelling economic narrative.*
- *Businesses and governments can see divestment campaigns as potentially powerful engines of change and take steps to align their offerings, messaging, and policies with expected social shifts.*
- *Investors can use leader indexes to reward companies with additional investment if they are meeting certain inclusion criteria, for example carbon emissions. The financial incentives from these indexes can be significantly reinforced by announcing inclusions and exclusions publicly.*

QUESTIONS FOR FUTURE RESEARCH

On divestment in other domains:
How does divestment work through the vehicle of voice in other domains targeted by activists and others, such as plastic use or fair trade?

On voice through investment:
Do public endorsements of company policies through investment have the same impact as voicing disapproval through divestment?