Discussion of Gillan, Hartzell, Koch and Starks

Will Goetzmann

ESG

- Corporations serve society
- Corporations serve taxpayers
- Fantasy theory: Do well by doing good
  - Managers and shareholders do not know what is good for them.
  - Constraints are for their own benefit.
- Exception: governance measures focuses on institutional failure.

Theories About ES not G Emergence

- Dumb markets ↓
- Corp as collective conscience ↑
- Executive philanthropy ↑
- Lifestyle marketing to shareholders ↑
- HR benefits, like non-profits ↑

Alternative Theory: The BP Strategy

- Do bad while talking good
- Strategy of operating efficiencies
  - i.e. cut safety corners to improve earnings
- Big business/big regulatory target = risk
- Advertising campaign: “Green Energy”
- Look for past adverse news items
  - E.G. employee deaths, class action suits, fraud, executive convictions, environmental disasters.
- Look for other types of cover-ups
  - Accruals
  - Dividend management
- Look for advertising campaign to publicize ethics

Executive Philanthropy

- Shame Effects
  - Correlate CEO media exposure to E&S
- Salary tradeoff for higher rating
  - Costly enhancement of social reputation.
  - CEO values?

Common Value/Private Value Auction

- Institutional ownership results
  - Retail investors more costly
  - Retail investors less powerful
- Stocks as common value goods
  - CAPM world if no frictions
- Stocks as partial private-value goods
  - Identity definition by stock ownership
  - Lifestyle clienteles, like product market
- Implies ownership concentrations
  - UK, European, Scandinavian firms must go green
  - US Green party and share concentration
- Republican and Democrat stocks?

Curiosities

- Size/ Profitability effects
- Compensation neg. rel. ROA
- Good ESG scores as a fraction of population
- Size (Price) as determinant of scores
- Q and size