DISCUSSION OF:

“THE REAL EFFECTS OF ENVIRONMENTAL ACTIVIST INVESTING”

By Naaraayanan, Sachdeva, and Sharma

Discussant: Mara Faccio
SETTING AND MAIN FINDINGS

• Activist Campaign by the Boardroom Accountability Project (BAP) - focus is the activism related to environmental issues.
  • 62 target firms, mostly in the “energy” and “utilities” sectors, that contribute to approximately 25% of the releases.
• Difference-in-differences setting. Control firms are matched using propensity score. The authors know the factors that enter the selection choice.
• Target firms reduce emissions more/increase emissions less than control firms (Tables 2-6).
• Reduction (lower increase) in emissions happens, at least in part, through higher (less reduction in) investment in abatement activities (Tables 7-8).
• There appears to be a sizeable negative impact on accounting performance (Table 10), although not on stock price.
LIKE # 1: MATCHING CRITERIA IS BASED ON ACTUAL CRITERIA USED BY BAP

- Engagement with the NYC Comptroller's office, and FOIA requests enabled the authors to learn (at least some of) the selection criteria used (e.g., potential for carbon emissions) by BAP.

- Having verified that the selection model predicts targets (Figure 1), and that the relevant variables load correctly (and significantly), the model is used to select counterfactuals.

- Identification relies on the assumption that there are no other correlated shocks to firms that would lead target firms to change their emissions.

  - One possibly important factor that is ignored is emission related reforms (at the state-level), e.g. “cap and trade” reforms, and “subsidies”. Match plants within the state-industry-year group, or at least have state-year fixed effects.
LIKE # 2: THE RESULTS SEEM TO BE VERY ROBUST

• Lots of robustness tests:
  • Results by sets of chemicals;
  • Results by method of release (e.g., air, ground, etc.);
  • Results by toxicity of chemicals;
  • Both self-reported emissions of (hundreds of) chemicals to the EPA, as well as air quality measurements by an external entity.
  • Both number of abatement activities as well as abatement-related expenses, etc.
  • Different scaling of the outcome variables, including no scaling.

• Although the paper is mostly a case-study of BAP, the authors provide evidence that the results (for emissions) extend beyond BAP (Table 12).
LIKE # 3: NOTICEABLE IMPACT ON AIR QUALITY

• Authors provide evidence of an improvement in air quality within a one-mile radius from the plants.

• Important result, because (1) this is not self-reported by the firms and (2) indicates relevance to the local community.

• Potential to do more here, e.g., show how extended (geographically) the impact is. At what distance from the plants does the impact on air quality disappear? That is, are a lot of people or just a handful of people affected?
CONCERN # 1: IS IT JUST TIMING?

• Figure 3 shows that the reduction in emissions is “long lasting.”

• But, is the reduction truly incremental, or is it just happening sooner than it would have occurred without BAP intervention?
CONCERN # 2: WHAT CAUSES SUCH A LARGE IMPACT ON PERFORMANCE?

<table>
<thead>
<tr>
<th></th>
<th>Table 2, R1</th>
<th>Table 8, R1 &amp; R2</th>
<th>Table 10, R2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Y</strong></td>
<td>Log (1+Release/COGS)</td>
<td>Log (1+ Abat. Exp./Sales)</td>
<td>Profitability = EBITDA/Sales</td>
</tr>
<tr>
<td>Post (b1)</td>
<td>0.003</td>
<td>-0.004***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.043)</td>
<td>(0.002)</td>
<td></td>
</tr>
<tr>
<td>Post x Environment (b2)</td>
<td>-0.050***</td>
<td>0.005**</td>
<td>-0.057*</td>
</tr>
<tr>
<td></td>
<td>(0.019)</td>
<td>(0.002)</td>
<td>(0.033)</td>
</tr>
<tr>
<td>b1+b2</td>
<td>-0.047</td>
<td>0.001</td>
<td>-0.057</td>
</tr>
<tr>
<td>Unit of observation</td>
<td>Plant-chemical-year</td>
<td>Plant-year</td>
<td>OUTLIERS?</td>
</tr>
<tr>
<td>Fixed effects</td>
<td>Plant-chemical; chemical-year</td>
<td>Plant, EPA region-Year</td>
<td>Year, firm</td>
</tr>
<tr>
<td>N</td>
<td>59,983</td>
<td>1,166</td>
<td>499</td>
</tr>
</tbody>
</table>
CONCERN # 3: HOW LIKELY IS IT THAT NYC RETIREES/WORKERS/TAX PAYERS BENEFIT FROM THIS?

• BAP is sponsored by the New York City Comptroller Scott Stringer and the New York City (public) pension funds; supported by two of the largest California public pension funds.

• In terms of air quality, NYC and many large cities in California are among the 10 most polluted metropolitan areas.

• Wouldn’t the direct constituencies (who bear the cost of these initiatives) be better served if pollution was to be reduced in New York city, or in proximity of NYC, (or California), or in the North Eastern region of the US? Why is BAP targeting firms with plants in Minnesota, Wyoming, Montana, or Indiana, etc.? 
  • Is BAP pursuing political objectives?
CONCERN # 3: CONT’D

Figure 5 (b)
Changes in Risk-Screening Environmental Indicators
CONCLUSION

• Interesting paper!