Controversial ESG Events and Share Price Movement: A Short-Term Event Study for the Composite Materials Sector

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Background:

- Controversial events , specifically related to corporate scandals, such as environmental degradation, human rights violations, and accounting frauds are all examples, whereby society has been sensitized to corporate ethics over time (1)
- As investor interest continues to grow in the field of sustainability, it has become evident that research demonstrating the connection between investor behavior, and controversial sustainability events is needed (2)

Context of Study:

- The present study hopes to understand the relationship between ESG and share price movement by investigating investor behavior concerning controversial ESG incidents becoming public knowledge.
- Research highlights the current sustainable transition driven by the concern of preserving stakeholder confidence occurring within the metals & mining industry (3)

Research Question:

How do controversial Environmental, Social, and Governance (E/S/G) events play a role in short-term share price movement for companies listed within the S&P/TSX Composite Materials Sector GICS Level 1 Index?

Event and Sampling Criteria:

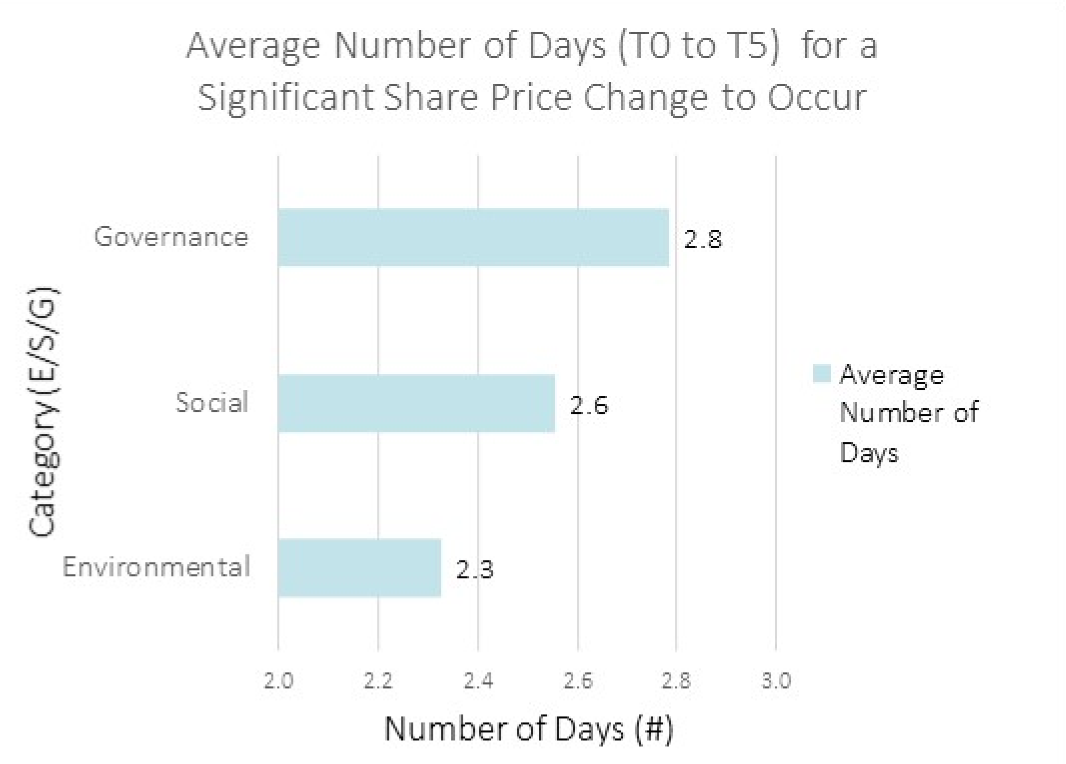
- Companies must:
  - be listed on the S&P/TSX Composite Materials Sector GICS Level 1 Index
  - Have a Sustainalytics Controversy Report including an E/S/G categorized event falling within the years of 2015 to 2020
- Events will be chosen for each company based on highest controversy and highest impact/risk scoring (scored by Sustainalytics)

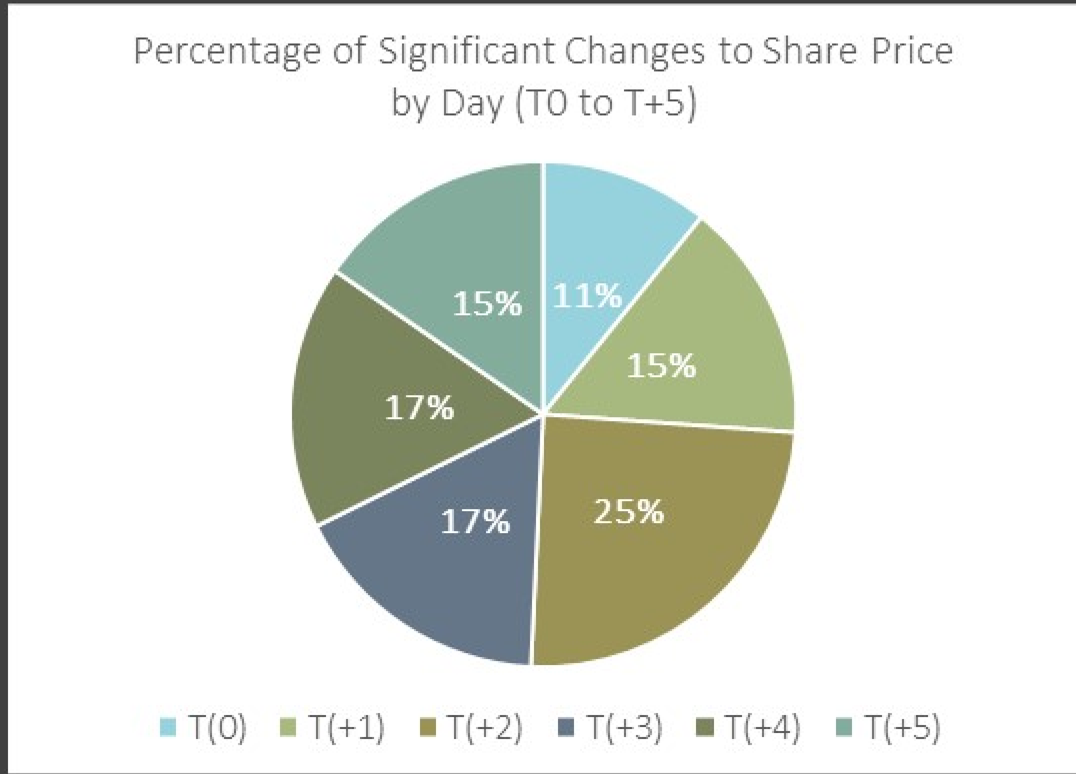
Methodology – A *Three-Step Approach:*

1. ***Event and Sampling Criteria:*** n = 38
2. ***Short-term Event Study Methodology :*** comparing company, the S&P/TSX Composite Index and the S&P/TSX Capped Materials Index AR and CAR over an 11-day time period (5 days prior to, day of, and 5 days after the event)
3. ***Statistical Analysis for Significance:*** parametric t-test, assuming a normal distribution (under the null hypothesis, cumulative abnormal returns are assumed to have a mean of "0") and independence of events within this study.

Results:

- 15/38 events demonstrated significant CAR results → category specifics: E – 4/11, S – 7 /20, G – 4 /7
  - 5 significantly negative shifts, 10 significantly positive shifts





Key Takeaways and Conclusions:

- No average significant change was found when examining mean CARs within an 11-day event window, for 38 companies and their 38 events → a common finding within sustainability specific event study research
- A lack of governance events leads to the question: do governance-related incidences lack in comparison to social and environmental because of the nature of metals & mining activities and stakeholder interest? (4)
- What seems to be unapparent is whether news source coupled with the type and severity of news (categorical or bad/good) causes greater impacts to share price movement.
  - Media may not be considered a conventional and traditional form of public event announcement
  - The validity that investors put into this announcement source and its impact may be questioned (5)
- Considering market efficiency - what constitutes an appropriate mode of information transfer if the stock market functions under strong efficiency? Would this lead to perfect information transfer? (6)

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