


# Chapter 7

## Is Sustainability a Golden Thread in the Eyes of Investors? New Evidence on Investor Reaction to the Dow Jones Sustainability Index (DJSI)

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### ABSTRACT

*A company's reputation is improved, and investor trust is increased when it is listed on the Dow Jones Sustainability Index (DJSI). DJSI issues annual announcements that disclose the addition of new companies and the removal of existing ones, based on their adherence to sustainability practices. This study aims to investigate whether such inclusions have any discernible effects on the stock returns of these companies and whether they result in abnormal gains or losses. Employing the method of event study, this analysis incorporates an event window spanning 61 days and an estimation window of 90 days. The study highlights how, in the context of India, the connection that exists between sustainability and the economic well-being of businesses appears to be insignificant.*

### INTRODUCTION

In the modern corporate era, where an organization is expected to perform not only financially but also socially and environmentally, corporate social responsibility (CSR) has established and emphasised a company's responsibilities towards society and environment. A framework known as Environmental, Social, and Governance (ESG) helps stakeholders assess how a corporation behaves or contributes to

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sustainable development. Through corporate social responsibility (CSR), businesses create ethical standards for themselves and accept accountability for the effects of their actions on society.

A firm's contribution towards society positively enhances the firm's reputation (Pham and Tran, 2020; Shad et al., 2020). Researchers have been studying links between company's reputation and the financial performance and has concluded positive relationship between the same (Wang et al., 2016, Roberts and Dowling, 2002; Subramaniam et al., 2019). Companies with fairly positive reputations are more capable of maintaining consistently higher profits in the long run (Roberts and Dowling, 2002; Ali et al., 2020).

In the contemporary landscape, companies are constantly under the pressure to increase shareholder value while integrating ESG practices in their overall management. Financial industry has started acknowledging these issues in its core business operations. Thus, it has become imperative for businesses today to perform well on financial as well as sustainability front. A number of rankings, awards and indices have emerged which highlight the sustainability leaders and enable investors to include sustainability criteria in investment portfolios. Global sustainability benchmarks related to financial markets, like the FTSE4Good Index, the MSCI ESG (Environmental, Social, and Governance) Index, and the Dow Jones Sustainability Index (DJSI), are particularly noteworthy.

One of the most trustworthy ESG indicators in the world is the Dow Jones Sustainability Index (DJSI). Forcadell and Aracil (2017) state that a company's entry into the DJSI index is considered a remarkable occasion that attests to its commitment to building a sustainable future. S&P Dow Jones Indices along with Sustainable Asset Management (SAM) collaborated to create the DJSI family, which consists of national, regional, and global benchmarks across 61 industries. Every year, the DJSI's composition across all industries is reevaluated using the ESG scores obtained through the S&P Global Corporate Sustainability Assessment (CSA).

The DJSI Index is a global standard that is made up of well-known sustainability leaders who have been recognized for their exceptional CSA ESG scores. It comprises the top 10% of the top 2,500 S&P Global BMI firms determined by long-term environmental, social, and economic standards (DJSI Index Family | S&P Global, n.d.).

This study tries to investigate the perception of investors towards sustainability in the emerging markets by studying the market response to inclusion of companies in DJSI World Index taking India as its base. On November 17, 2021 DJSI announced inclusion of 19 Indian companies in their sustainability index. The study examines the daily abnormal stock price returns of these 19 companies seeking to understand how investors react to their inclusion in this prestigious sustainability benchmark

## **LITERATURE REVIEW**

Growing emphasis is being placed on global business investment and sustainability in the context of achievement of sustainable goals i.e., ESG goals. This, in turn, confronts businesses with a dual mandate: augmenting shareholder value while adhering to sustainable practices that span the entire ESG spectrum.

Many research investigations (Duque-Grisales & Aguilera-Caracuel, 2021; Brammer et al. 2006; Waddock and Graves, 1998; Lo and Sheu, 2007; Surroca et al. 2020; Friede et al. 2015; Nollet et al. 2016) have been conducted to investigate the relationship between a company's ESG performance alongside financial performance. The findings have been inconsistent.

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