Discussion of
A Theory of Socially Responsible Investment
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Motivation

- Many investors appear to care about socially responsible goals when they invest – Environmental, Social, and Governance (ESG) factors

- How can these investors best affect firms' production decisions to improve ESG?

- This paper develops an interesting framework for considering this

Model Key Assumptions

- Two types of investor:
  - Financial investors who only care about returns
  - Socially responsible investors who care about returns and whether all firms use a clean or dirty technology irrespective of whether they own them or not (Broad mandate) and who coordinate their capital allocation (Coordination) – interpretation of coordination: Sovereign Wealth Fund

- Firms:
  - Clean and dirty production technologies are constant returns to scale and are subject to moral hazard as in Holmstrom and Tirole (1997)
  - Entrepreneurs bargain with investors

Comments

- What is the evidence on the scarcity of socially responsible capital relative to financial capital? To what extent is it scarce?

- Is the Sovereign Wealth Fund the best characterisation of the coordination mechanism? For the Norwegian one, it seems alright but for many others this is not the case. Could, for example, taxes implement coordination?

- Explain more clearly why scale matters so much in the mechanism given there are constant returns to scale everywhere.

Comments (cont.)

- An example with the Social Profitability Index would be helpful to understand in more detail how it would work and the practicality of using it

- I may have missed it but I didn't see an explicit assumption ruling out short sales. How would the model work with short sales? Which group would short and what would be the welfare implications?

Concluding Remarks

- Very interesting model that can be viewed as a benchmark for thinking about socially responsible investment

- Important contribution to the literature and well worth reading!