

# Socially Responsible Investment and Market Performance: The Case of Energy and Resource Companies

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## Executive summary

Energy and resource companies have been actively responding to the social and political changes in their operating environment and they now tend to view combining the pursuit of profit for shareholders with social and environmental responsibility as part of their long-term corporate strategies. However, there is very little empirical evidence available in the existing literature, which demonstrates whether the market rewards or penalizes such attitudes in business activity in case of the firms from the energy and resource industries. This is the main motivation for our research.

We investigate the performance of major international Socially Responsible Investment (SRI) energy and resource firms on the stock market over an 11-year period (February 2005 - January 2016) by simulating the investment in the portfolios of SRI energy and resource companies stocks. Our findings demonstrate that the returns of the energy and resource SRI portfolio as a whole were neither consistently superior nor inferior to the returns of the benchmark indices, however there exist substantial differences in financial performance of the stocks across the individual sub-sectors.

We also provide new empirical evidence showing that the price of crude oil consistently had a statistically significant influence on the returns of the stocks of SRI energy and resource companies. This is an important and novel result in the present study.

Overall, we conclude that the market does not penalize energy and resource companies for adopting the SRI practices, however at the same time their performance on the stock market relies heavily on the changes in the levels of the oil price.

The findings of this study have also broad policy implications for the financial market regulators as well as environmental agencies in addition to the investors who allocate their funds to energy and resource company stocks and portfolios (including alternative energy firms). They also should raise awareness among stock market investors to mobilise capital in more sustainable ways and, possibly, to channel it towards more sustainable methods of energy production.

**Keywords:** Crude Oil Price; Energy and Resource Companies Stocks; Socially Responsible Investment (SRI); SRI Stocks; Stock Market Performance; Stock Market Returns.

**JEL Codes:** G10, Q40, Q56

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