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MEASURES FOR A SUSTAINABLE INVESTMENT DECISION MAKING

Maite Cubas Diaz Supervisor: Miguel Ángel Martínez Sedano

Facultad de Economía y Empresa (UPV/EHU)

Traditionally, when making investment decisions, investors take into consideration the classical measures of profitability and risk, that take into account the economical aspects of the investment. However, as Microeconomic Theory states, economical activities also generate externalities, that affect society, but which effect is not taken into account by those who carry out said activities, because they do not directly affect their private cost. In this paper we aim to propose new measures to help investors make their investment decisions in a way that, indirectly, can make companies take into account the externalities they generate, as they are being considered by investors when deciding whether to invest in a company or another. If, when making an investment decision, an investor takes into consideration not only economical factors, but also weights in environmental and/or social factors, the analysis will be much more complete. Thus, in this paper we propose two measures, one for the relative profitability of the company related to the environmental and/or the social aspects of the activity carried out, and a second one for the constancy or persistence of the company in improving their environmental and/or social performances. The Relative Sustainable Profitability Measure (RSPM) is a normalized version of the measure proposed by Hahn and Figge (2011), using the company's Total Assets to make the measures for different companies comparable. The variables considered are: 1. Environmental: (a) CO₂ equivalent emissions (b) NO_x emissions (c) SO_x emissions (d) Total Waste (e) Total Energy Use (f) Water Use 2. Social: (a) Injury Rate (b) Total Donations The Measure of Constancy aims to penalize the deterioration in the environmental and/or social performances of the companies and, therefore, takes into account the downward movements in said performances. We apply the proposed measures to data of the companies of the worldwide Chemical sector.