

The valuation benefits of inclusion in the Dow Jones Sustainability Index

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Abstract.

Firms aspiring to be included in the Dow Jones Sustainability Index (DJSI), the pre-eminent sustainability index, subject themselves to increased scrutiny during the yearly evaluation process and the on-going monitoring afterwards. They also incur substantial costs in order to distinguish themselves from their peers for their sustainability performance and get included in the Index. To test whether it pays for the effort and the costs involved, we build a dataset of 2500 observations per year, for the period 2004 – 2010, comprising of all the firms invited to participate in the evaluation process. From these, only the top 10% performers in each industrial sector are included in the index. The results from this hand-collected dataset, which is one of the most comprehensive ever-used in the literature so far, indicate that the firms included in the DJSI enjoy a higher market-to-book ratio than the remaining ones. Observing that this positive effect on valuation is bigger for firms listed in countries with stronger market mechanisms and, presumably, stronger market discipline, we conjecture that the evaluation process provides credible signals regarding the difficult-to-evaluate sustainability performance of firms.

Keywords: DJSI, Sustainability, Corporate Financial Performance

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