The External and Internal Drive for Going Green

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The External and Internal Drive for Going Green

This paper contributes to the green finance literature by examining the external and internal driving force for going green. It analyzes how retail and institutional investors react differently toward public and private green information. Employing public green rankings of SP 500 firms, this paper finds that retail investors respond to public rankings by paying a green premium and increasing their holdings. Employing private green scores, this paper finds no market reaction from institutional investors. Hence, small investors are the external driving force for firms going green in the U.S. A quasi-natural experiment provides additional supports for the finding. Further analysis employs firm resources, green cost, and analyst coverage to test agency hypothesis in a time-variant setting. It confirms agency issue as the internal drive for going green. Overall, this study provides evidence that firms do good because they do well internally and doing good leads to a delayed external doing well effect, which is generated by small investors.