Henry Mynhardt , Inna Makarenko, Alex Plastun

Market efficiency of traditional stock market indices and social responsible indices: the role of sustainability reporting

Corporate social responsibility, disclosed in sustainability reporting, influences the financial performance of companies. As a result, traditional stock market indices (TI) are expanded with the social responsible stock market indices (SRI). The aim of this study was to establish whether there are any differences in the behavior of the TI and SRI. To do this, the authors analyzed their efficiency. They used R/S analysis to calculate the Hurst exponent as a measure of persistence (long-term memory property). The presence of persistence was evidence in favor of less efficiency. According to empirical results, SRI has lower efficiency, in particular the Dow Jones Sustainability Index. Lower efficiency was also observed in the emerging markets with a responsible investment segment, compared to the traditional stock market indices. Further standardization and a common methodological approach to corporate sustainability reporting disclosure are proposed.

Keywords: corporate social responsibility, efficient market hypotheses (EMH), long-term memory, social responsible indices, sustainability reporting