Corporate environmentalism can both help, hurt stock performance

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While pleasing to green activists, some corporate efforts to be environmentally friendly play better on Wall Street than others, according to a new study by Georgia Tech College of Management researchers.

They found that announcements of major philanthropic gifts to benefit environmental causes tend to improve companies' stock price performance. But that the reverse is true when it comes to announcing voluntary emission reductions.

"Philanthropy can generate positive publicity and goodwill among various stakeholders and can create value through more loyal customers and highly motivated employees….," write the researchers in the study, published in the September 2010 issue of the *Journal of Operations Management*. "But the market reacts negatively to voluntary emission reductions….Therefore, announcements of voluntary emission reduction efforts should be accompanied by formal justifications as to why these efforts are being conducted (for instance, preparing for future legislation, competitive lobbying, or anticipated carbon trading) and what the expected value from these efforts is likely to be."

Titled "An empirical investigation of environmental performance and the market value of a firm," the study was conducted by Vinod Singhal and Ravi Subramanian, a professor and assistant professor (respectively) of operations management at Georgia Tech in collaboration with Brian Jacobs of Michigan State University – a recent graduate of Georgia Tech

College of Management's PhD program.

The researchers studied the effects on stock prices of two types of environment-related announcements: corporate environmental initiatives (such as environmental business strategies, philanthropy, emission reductions, eco-friendly products, renewable energy, and recycling) and environmental awards and certifications (LEED, ISO 14001, governmental and non-governmental). Their results are based on an analysis of 780 announcements that appeared in the daily business press from 2004 to 2006. They estimated the impact on stock prices over two days – the day of and the day before the announcement.

On the whole, they found that most announcements have little effect on stock prices. "Most of the time the effect is neutral," explains Singhal. "A lot of people think environmental initiatives are win-win situations, but that doesn't necessarily seem to be the case financially. The good news is that it's not hurting companies in most instances. So from a social perspective, they might still want to pursue opportunities to be environmentally friendly."

The types of announcements that do significantly affect stock prices are the aforementioned philanthropic gifts (an increase of 0.46%) and voluntary emission reductions (a dip of 0.95%) as well as ISO 14001 certification, an international standard in the design and implementation of effective environmental management systems (an increase of 0.77%). The broad stock market typically moves about 1 percent a month.

"Our results also indicate that the market reacts more positively to corporate environmental initiatives that are achievements as opposed to intents," Singhal says. "Since achievements provide a clearer signal of realized or future cost reductions and revenue gains, companies might want to place greater emphasis on those types of announcements in their external communications."

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