Acquiring green firms can be healthy for a firm's bottom line, says new research

October 26 2023, by Patrick Lejtenyi

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There is some good news for companies looking to add to their green credentials. According to a new Concordia-led study, when firms acquire businesses specializing in green technologies or green brands, the buyer usually sees positive stock market reactions.

Yuyan Wei is an assistant professor in the Department of Marketing at the John Molson School of Business. She and her colleague Devashish Pujari (McMaster University) looked at almost 200 green firm acquisitions by publicly traded US companies between 2000 and 2018. The researchers published their paper, "Does buying green pay off?

Stock market reactions to green acquisitions," in the journal *Industrial Marketing Management*.

"We wanted to link green strategy efforts to firms' financial performance, such as stock value and return on investment," Wei says.

While many studies have looked at consumers' perceptions of firms' green efforts, Wei and Pujari's study is the first of its kind.

"We are interested in looking at how shareholders perceive a particular green practice—green acquisition."

Green can be gold

The researchers investigated the performance of 182 firms that announced acquisitions of green entities. Wei and Pujari considered the stock price performances over a three-day window: the day before, the day of, and the day after an acquisition announcement. Based on this data, the researchers reported three principal findings.

First, shareholders generally welcomed news of green acquisitions. The initial outlay is usually substantial. However, by acquiring valuable resources, expertise, technologies and powerful brands, these companies will likely ensure long-term profitability.

Second, the news is especially welcomed if the buyer has highly developed marketing expertise and is not considered an industry innovator.

"This means buyers can effectively communicate their green efforts and have a great capability in being able to sense which trends will be perceived positively by the general public," Wei explains.

"Investor and public reaction will be better for firms with lower innovation capabilities. It could be that shareholders might expect firms with higher innovation capability levels to be putting their innovation/research and development budgets and human capital into developing their own green products."

The third finding applies to buyers with greater marketing expertise. The research showed that benefits will be buffered if the buyers belong to industries sensitive to environmental regulations, i.e., those companies operating in so-called "dirty" industries. Wei says she believes that this might be due in part to an increasing awareness of corporate greenwashing and the associated risk it entails.

"We sense a belief among shareholders: if firms from dirty industries genuinely want to improve people's well-being and mitigate their negative effects on the environment, they may need to do something that is beyond buying green brands or technologies," Wei notes.

"Investors are learning which firms are genuine in their commitments to a cleaner environment and whether their efforts are genuine or mere greenwashing. With these expectations in mind, they have different reactions to a firm's green efforts. That will be played out in the stock market."

"Companies should be more cautious if they think they can convince the public of their green credentials simply by buying these kinds of green firms."

More information: Yuyan Wei et al, Does buying green pay off? Stock market reactions to green acquisitions, *Industrial Marketing Management* (2023). DOI: 10.1016/j.indmarman.2023.08.001

Provided by Concordia University

Citation: Acquiring green firms can be healthy for a firm's bottom line, says new research (2023, October 26) retrieved 29 April 2024 from https://phys.org/news/2023-10-green-firms-healthy-firm-bottom.html