Lobbying or green innovation? Which protects firms from climate change risk?

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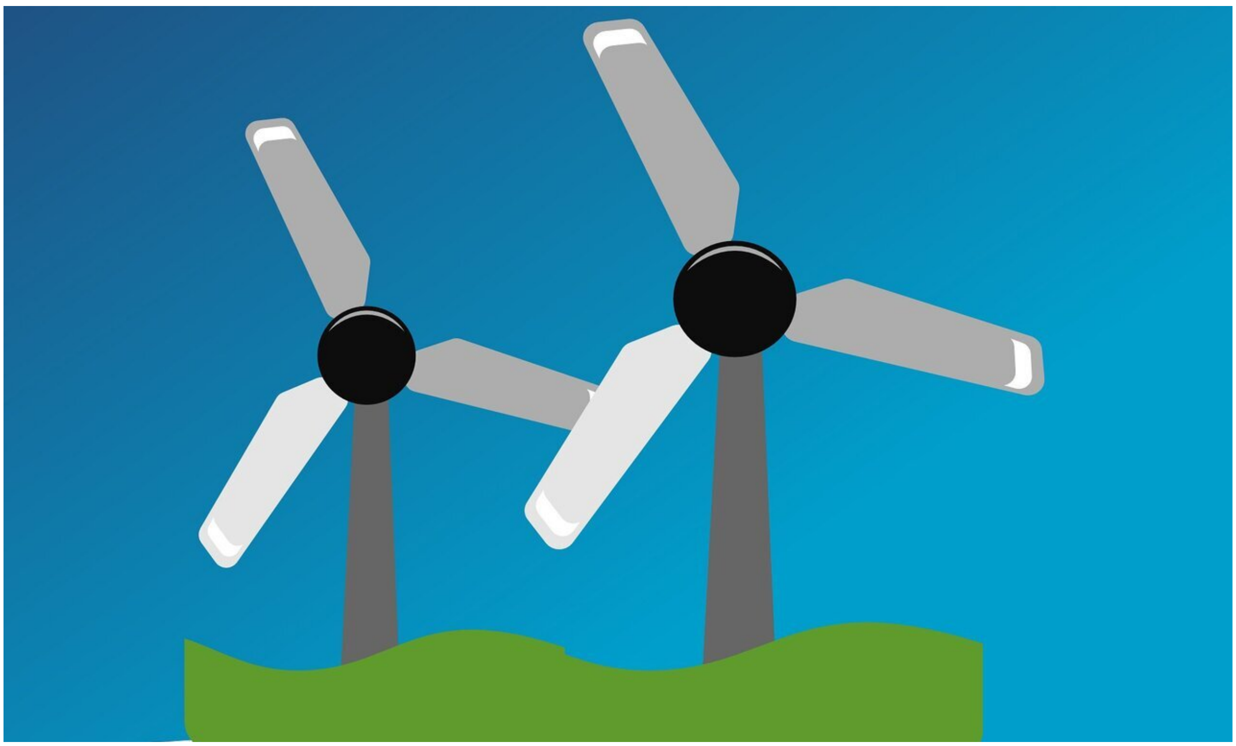

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Innovation of green technology to meet climate challenges mitigates companies' environmental political risk in the long-term as compared with intensive government lobbying designed to dilute or stymie emission reduction policies, a QUT study has found.

Ph.D. researcher Sohanur Rahman, Dr. Elisabeth Sinnewe, Professor Ellie Chapple, Dr. Sarah Osborne, all from the School of Accountancy, compared the annual political lobbying spend with green technology innovation as strategies for mitigating environmental political risk of 30,105 yearly observations from 3,255 US firms between 2002 to 2020.

"Environmental political risk is defined as the political uncertainty associated with environmental issues, such as a carbon tax on fossil fuel-based energy consumption, mandated emissions caps or tightening existing environmental regulations," Dr. Sinnewe said.

"We used corporate lobbying spending as an indicator of political activism to influence favorable policy outcomes and the number of approved green patents as defined by the US Patent and Trademark Office as a proxy for green innovation.

"Firms in environmentally sensitive industries tend to be particularly politically active to decrease unfavorable government laws or delay the policymaking process.

"Green innovation is a new technology that materially enhances environmental quality. It includes green products or processes in energy conservation, renewable energy development, pollution prevention, waste recycling, green product designs or corporate environmental management.

"It's costly but green innovation is considered value-enhancing for shareholders as it offers competitive advantages and strengthens reputation by creating a green image among key stakeholders."

Ph.D. researcher and first author Sohanur Rahman said that, after statistical analysis, the results suggested that lobbying had the marginal potential to enhance firm value for the current year.

"However, such an effect does not last for future years," Mr. Rahman said.

"Our findings are consistent with previous research which found lobbying is characterized as a short-term opportunity-seeking instrument, not as a long-term political capital whose value is compounded into the market value of companies.

"Furthermore, our results confirm the view that green innovation can be a valuable competitive advantage as it is not easy to imitate by rivals, also green innovative companies gain competence in saving energy, lowering emissions and waste.

"Green innovation offers a benefits such as lower cost of capital and production costs and because they are less likely to violate fewer environmental regulations and thus pay lower levels of litigation costs and penalties."

The study "Environment-specific political risk mitigation: Political lobbying versus green innovation," was published in the *Journal of Business Finance & Accounting*.

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