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Bold climate action benefits more than just the environment—it's also great for business

September 3 2024, by Syed Shams and Sudipta Bose

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As the world grapples with the intensifying challenges of climate change, businesses are under increasing pressure to take action.

To avert catastrophe, this will have to go beyond merely complying with

new regulations and minimum standards. Business must lead the charge in good faith.

Yet still too often, taking bold action on climate is painted as a kind of tradeoff—that because it costs money to act, doing right by the environment comes at the cost of doing good business.

Our recent research calls this myth into question. We found improving carbon performance can go beyond addressing environmental concerns and provide tangible financial benefits.

Our study, spanning almost two decades of data from firms across the Asia-Pacific region, found that superior carbon management is linked to significantly lower financial risk.

That offers evidence taking action is no longer just an environmental imperative—it's also an essential financial strategy.

Lower risk in every category

The Asia-Pacific region is home to some of the world's largest carbon emitters, including China, Japan and South Korea.

Businesses operating there face mounting pressure from regulators, investors and consumers to improve their environmental footprint.

Our research examined more than 9,000 firm-year observations (such as annual reports) from 13 countries in the Asia-Pacific between 2002 and 2021. It sought to explore the relationship between carbon performance and three common types of business risk: idiosyncratic, systematic and total risk.

Idiosyncratic risks are those faced by a particular business, while

systematic risks are those that affect the whole market, such as economic downturns. As you might expect, total risk combines these.

We found better corporate carbon performance was associated with lower levels of risk in all three categories.

Companies that took active steps to manage and reduce their carbon emissions enjoyed less volatility in their stock prices, diminished firm-specific risks, and weren't as sensitive to market-wide economic shocks.

The reduction in total risk varied, ranging from 1.22% in Taiwan to as much as 4% in Australia.

These lower levels of risk reflect more than just that these firms are better at following the rules. There has been a seismic shift in how business' behavior is seen by the market and what we've come to expect.

It's a kind of halo effect. Firms with better carbon credentials are seen as better positioned for market success more broadly—whether in dealing with regulatory changes, business disruptions or risks to their reputation. That can all make them more attractive to investors.

Stronger governance, stronger effect

Our study also found that in countries with higher quality corporate governance standards—which encompasses factors such as environmental regulations, effective law enforcement and anti-corruption measures—there was a stronger relationship between carbon performance and lower levels of risk.

What's driving this effect? It's most likely that in countries with strong governance frameworks, companies with solid environmental credentials are being rewarded with lower borrowing costs and greater market

valuation.

That offers an important takeaway for policymakers.

It suggests that implementing measures like emissions trading schemes, standardized climate change performance metrics, and national commitments to international climate agreements can all enhance the financial benefits of carbon performance.

Creating such a business environment creates strong financial incentives for firms to take action and allows them to align their own carbon reduction efforts with national and global goals.

Unique challenges offer unique opportunities

Despite the clear benefits of improving carbon performance, there are some unique challenges for companies in the Asia-Pacific.

Emerging economies within this region, such as Indonesia, Thailand, and the Philippines, often have lower baseline levels of carbon performance compared to their more developed counterparts.

This is largely due to differences in how strict regulations are, what key government institutions are capable of, and lower levels of economic development. But these challenges are also opportunities.

For firms in these emerging markets, there's an opportunity to proactively adopt global best practice, and position themselves as leaders in the transition to a low-carbon economy.

What can we learn?

Our research offers some important takeaways for investors, companies and the rest of us.

For investors, our research emphasizes just how important companies' environmental performance can be. Firms with poor carbon performance may face higher risks in general. That can mean higher returns are required to compensate investors for these risks.

On the other hand, firms taking meaningful steps to manage their carbon emissions are more likely to enjoy stable cash flows and lower volatility, which can boost investor confidence.

For companies, the message is clear. Investing in carbon management is not just an ethical or regulatory obligation—it is a sound financial decision.

By enhancing their performance on carbon, firms can lower their total risk levels, attract sustainability-focused investors, improve their access to capital markets, and lower their borrowing costs.

Strong action on climate doesn't have to be a tradeoff. As the world rises to the challenge of living with climate change, the link between environmental accountability and financial performance will only grow stronger.

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Citation: Bold climate action benefits more than just the environment—it's also great for business (2024, September 3) retrieved 5 September 2024 from

https://phys.org/news/2024-09-bold-climate-action-benefits-environment.html

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