Stock values rise when companies disclose 'green' information, study finds

February 1 2012

(PhysOrg.com) -- A UC Davis study finds that it pays to be green, as companies that are open about their greenhouse gas emissions and carbon reduction strategies see stock values rise.

Graduate School of Management Professor Paul Griffin and his co-author, Yuan Sun of UC Berkeley, tracked stock prices of firms around the time these companies voluntarily issued press releases disclosing carbon emission information. In the days after the press releases were issued, the companies saw their stock prices increase significantly, Griffin and Sun found.

“When a company makes a voluntary disclosure of this kind, it signals to the investment community that this is a firm that is environmentally responsible,” Griffin said. “Investors are saying they would prefer to invest in an environmentally responsible firm.”

The study, “Going Green: Market Reaction to CSR Newswire Releases,” uses the archives of the Corporate Social Responsibility Newswire to identify climate change related press releases issued by companies between 2000 and 2010. The researchers tracked the stock changes of the companies from two days before a press release was issued to two days after.

For the 172 companies identified as making voluntary disclosures, average stock prices increased just under a half percent in the five-day span around the disclosures, according to the study.

“This is evidence that managers’ voluntary climate change disclosures generate positive returns for shareholders,” Griffin said.

The study looked at voluntary disclosures only, so the authors could not definitively determine if required disclosures by all such companies would have yielded similarly favorable stock value increases.

However, to test their findings, the researchers compared stock movements of these companies to stock shifts of similar firms that did not disclose carbon emission information during the same time periods. The companies that did not disclose climate change information did not see a statistically significant increase in values, the study found.

“The matched sample companies do not behave the same way as the companies that disclose,” Griffin said. “If anything, in the matched sample, the price runs in the opposite direction.”

While much of the concern about greenhouse gas emissions has focused on energy and utility companies, the study by Griffin and Sun examined carbon emission strategies across a broad range of industries, including information technology, health care, telecommunications, and financial services, as well as energy and utilities.

The researchers analyzed separately the stock changes for smaller firms that disclosed carbon emission information. These firms saw an even greater effect on their stock values, with prices increasing 2.32 percent.

Compared with large firms, small firms are not followed as closely by analysts, and investors know less about them, so it makes sense that the release of climate change information would have a more pronounced effect, according to Griffin and Sun.

In recent years, companies have faced increased pressure from

environmental activists and concerned shareholders to disclose their greenhouse gas emissions and to develop strategies to reduce them. Many firms have taken up the challenge, examining the environmental impacts of all aspects of their businesses, from supply chains to manufacturing processes to heating and air conditioning in office buildings.

But other companies have balked at disclosing carbon emissions and strategies because they fear the information will be misinterpreted or could lead to litigation and loss of shareholder value, Griffin said. His study demonstrates that those fears are misplaced, according to Griffin. “Companies should not be as reluctant as they have been to provide this information because we show that it can be shareholder-positive,” he said. “Our message is that it pays to be green.”

More information: To read the paper, go to: papers.ssrn.com/sol3/papers.cf … ?abstract_id=1995132

Provided by UC Davis