Towards Green Companies: A Panel Data Study of The Environmental and Financial Performance Nexus

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Abstract

Providing evidence that companies with better Corporate Environmental Performance (i.e. CEP) have also better Corporate Financial Performance (i.e. CFP) have been a lively debate in the literature. Two major opposite trends emerged. Some scholars provided evidence of a positive link between CEP and CFP while others demonstrated a negative relationship. Using a panel data of 393 US publicly traded companies for the period 2012-2014, this study first investigates the impact of process-based CEP on outcome-based CEP. Then, it explores whether the combined effect of process-based and outcome-based CEP influences CFP. Finally, it observes the time influence (i.e. short-term vs long-term) on the relationship.

This study provides evidence that process-based CEP positively influences outcome-based CEP and supports the idea that it does pay to be green. More precisely, it demonstrates that both process and outcome-based CEP have a positive impact on CFP, no matter the time horizon, and is stronger with a long-term perspective than a short-term perspective. This study emphasizes strong incentives for companies to invest in environmental strategies.

Keywords— Corporate Environmental Performance, Corporate Financial Performance, Panel Data, Global Warming