How Does the Stock Market React to Announcements of Environmental Initiatives?

Authors
Brian W. Jacobs, Michigan State University, jacobsb@broad.msu.edu
Vinod R. Singhal, Georgia Institute of Technology, vinod.singhal@scheller.gatech.edu
Ravi Subramanian, Georgia Institute of Technology, ravi.subramanian@scheller.gatech.edu

Research Question Addressed
How do announcements of environmentally friendly initiatives affect the shareholder value of publicly traded companies?

Primary Findings
Although overall market reaction is not significant for announcements of environmental initiatives, the research finds statistically significant market reactions for certain categories of initiatives. Specifically, the research finds significant positive market reactions after announcements of the internationally recognized ISO 14001 certification as well as philanthropic gifts for environmental causes. However, announcements of voluntary emissions reductions cause a significantly negative market reaction. Thus, the market is selective in its reactions to announcements of environmental initiatives.

Keywords
Awards
Certifications
Environmental initiatives
Environmental performance
Market value
Shareholder value
Stock market reaction

Relevant Sectors
Chemicals
Manufacturing
Metals
Mining
Retail
Services
Transportation

SUSTAINABILITY INNOVATION & ESG LEADERSHIP SERIES
SUSTAINABLE BUSINESS INSIGHTS
RESEARCH BRIEFS FOR PRACTITIONERS
**Topic Overview**

Proponents of corporate environmental initiatives point to energy, raw material, and pollution abatement cost savings, as well as improved consumer perception, community relations, employee morale, and access to new markets. Skeptics, on the other hand, note the non-trivial costs of the initiatives themselves and uncertain payoffs over time. By examining the market reaction to announcements of environmental initiatives, the paper provides resolution to part of the debate.

**Implications for Sustainable Business**

Managers will benefit from an understanding of how the communication of different environmental strategies can cause shareholder value to rise or fall. To impact shareholder value positively, companies should communicate achievements as opposed to intents and incorporate well-established standards (such as ISO 14001) in developing environmental management systems. In addition, communications should include sound economic rationale based on cost reductions, revenue gains, or reputational benefits.

**Highlights**

With the exception of announcements of voluntary emissions reductions, announcements of all other categories of environmental initiatives are either value-positive or value-neutral. For instance, the research finds Leadership in Energy and Environmental Design (LEED) certifications to be value-neutral. These findings are encouraging because: (a) the vast majority of environmental initiatives—at worst—do not significantly hurt shareholder value, and (b) beyond the value captured in the stock market reaction, environmental initiatives may create value in other ways including increased brand loyalty, higher customer and employee satisfaction, and longer-term survival.

**Link to Article**


**Related Links**


Marriott International unveils global sustainability and social impact commitments to deliver positive change. (2017, October 31). *PR Newswire.*