

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

## » Authors

Brian W. Jacobs, Michigan State University, [jacobsb@broad.msu.edu](mailto:jacobsb@broad.msu.edu)

Vinod R. Singhal, Georgia Institute of Technology, [vinod.singhal@scheller.gatech.edu](mailto:vinod.singhal@scheller.gatech.edu)

Ravi Subramanian, Georgia Institute of Technology, [ravi.subramanian@scheller.gatech.edu](mailto:ravi.subramanian@scheller.gatech.edu)

## » Research Question Addressed

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

## » Relevant Sectors

Chemicals  
Manufacturing  
Metals  
Mining  
Retail  
Services  
Transportation

## » 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





## » 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.

## » 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.

## » Link to Article

Jacobs, B. W., Singhal, V. R., & Subramanian, R. (2010). [An empirical investigation of environmental performance and the market value of the firm](#). *Journal of Operations Management*, 28(5), 430-441. DOI: 10.1016/j.jom.2010.01.001

## » Related Links

Kramer, M. R. (2018, April 2). [The right way for companies to publicize their social responsibility efforts](#). *Harvard Business Review*.

[Update: McDonald's becomes the first restaurant company to set approved science based target to reduce greenhouse gas emissions](#). (2018, March 20). *Nasdaq GlobeNewswire*.

[Subaru launches partnership with TerraCycle® for "Subaru Loves the Earth."](#) (2018, April 2). *PR Newswire*.

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