

# SUSTAINABLE BUSINESS INSIGHTS

**RESEARCH BRIEFS FOR PRACTITIONERS** 

SUSTAINABILITY INNOVATION & ESG LEADERSHIP SERIES

# 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.

#### >> Relevant Sectors

Chemicals Manufacturing Metals Mining Retail Services Transportation

#### >> 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 valuepositive 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.

#### 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.

#### >>> 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*.



SUSTAINABLE BUSINESS INSIGHTS

Ray C. Anderson Center for Sustainable Business Scheller College of Business 800 West Peachtree Street NW, Suite 4426 Atlanta, GA 30308 acsb@scheller.gatech.edu 404.385.5221 **acsb.scheller.gatech.edu**