

Symposium on Sustainability: Why does it pay to be green?



Andrew King

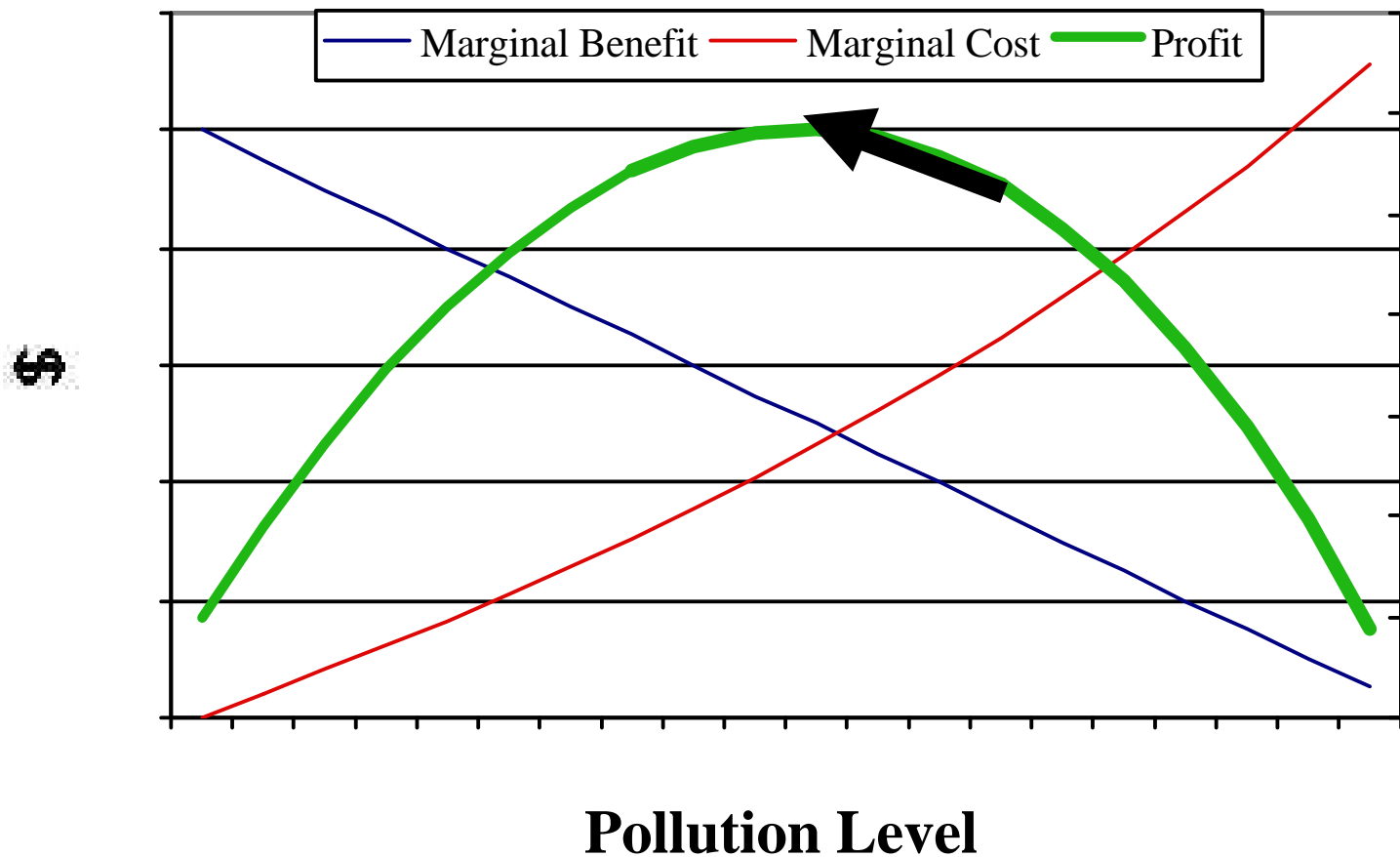
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Why does it pay to be green?

- Firms tend to under invest in environmental improvement.
 - ◆ efficiency and innovation gains
 - ◆ improved reputation
 - ◆ signal of good management
- Green firms have better managed stakeholder relations
 - ◆ customer willingness to pay
 - ◆ rewards for performance



Theory: Firms tend to under invest in environmental improvement.

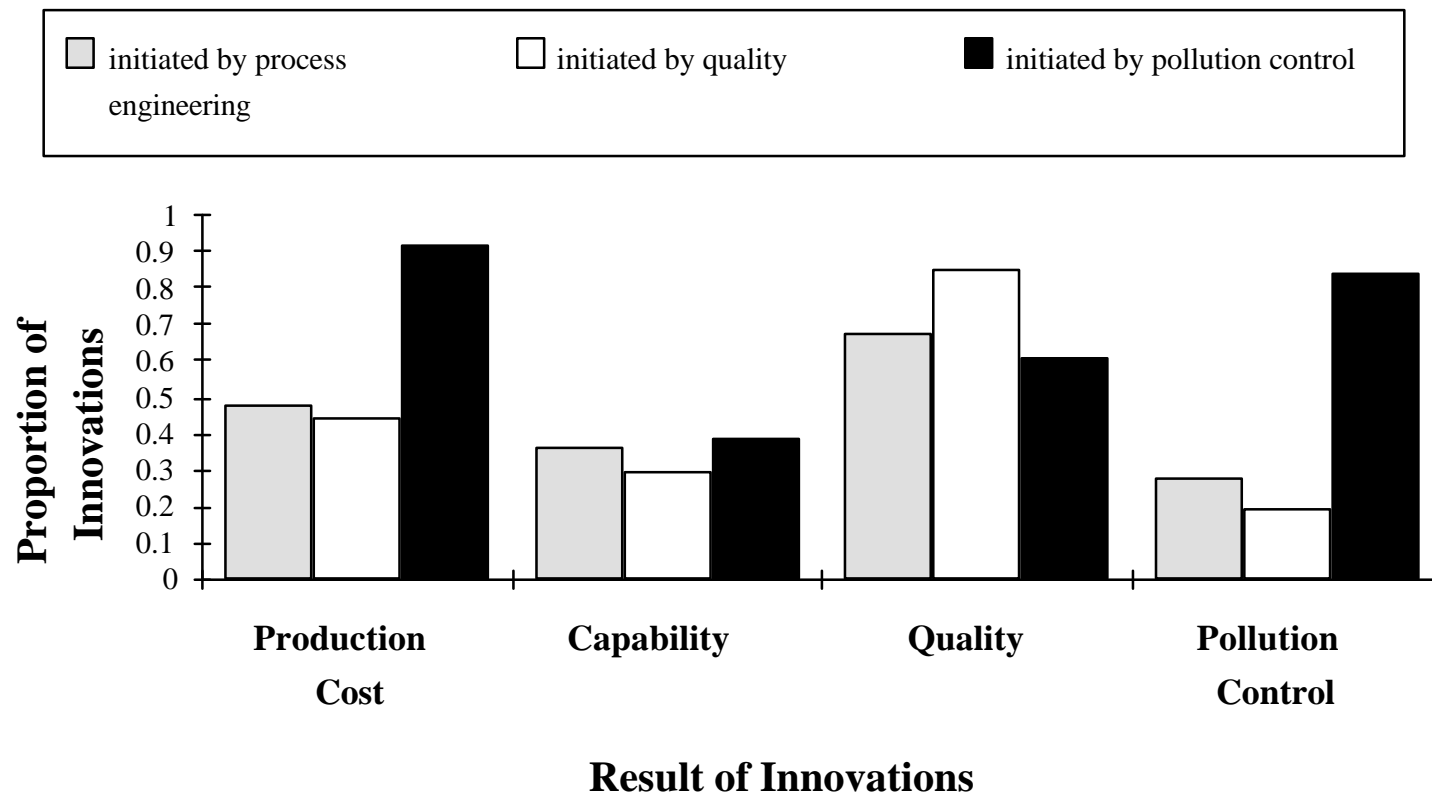


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Perhaps firms under estimate the potential for innovation.



Does it really pay to be green?

Predicting Market to Book Ratio				
<i>Method:</i>	Fixed Effects	Fixed Effects	Random Effects	Causality Test
Total Emissions	-0.021 *			
Relative Emissions		-0.036 *	-0.029 +	-0.032
Industry Emissions		-0.027	-0.076 *	-0.083
n	4483	4483	4483	3130 ^a
Number of Firms	652	652	652	544

Data covers 1987 to 1996



Where does it pay?

Predicting Market to Book Ratio

<i>Method:</i>	Fixed Effects	Causality Test
Waste Prevention	0.244 **	0.219 **
Waste Treatment	-0.022	0.021
Waste Transfer	-0.043	-0.050
N	2326	2326
Firms	592	592

Data covers 1990 to 1996



Summary

- Lower pollution levels are associated with financial performance.
- More pollution prevention tends to increase financial performance.
- New Question: “When does it pay to be green?”



Why does it pay? Stakeholder Relations

- Firms tend to under invest in environmental improvement.
 - ◆ efficiency and innovation gains
 - ◆ improved reputation
 - ◆ signal of good management
- Green firms have better managed stakeholder relations
 - ◆ customer willingness to pay
 - ◆ rewards for performance



Improved Stakeholder Relations

- Good interactions require that stakeholders can:
 - ◆ distinguish good performers.
 - ◆ reward good performers.
- Better stakeholder relations may improve both environmental and financial performance.



Mapping Stakeholder Conditions

Ability to Distinguish Environmental Performance	High	Frustrated Stakeholders	Efficient Interaction
	Low	Withdrawn Stakeholder	Unpredictable Stakeholders
		Low	High

Ability to Reward High Performance

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Helping Stakeholders Distinguish Good From Bad

- Investment Signals
 - ◆ ISO 14000
- Certified Labels
 - ◆ Dolphin Free Tuna
- Reporting Standards
 - ◆ GRI
- Third party analysis
 - ◆ CEP, Innovest, SAM

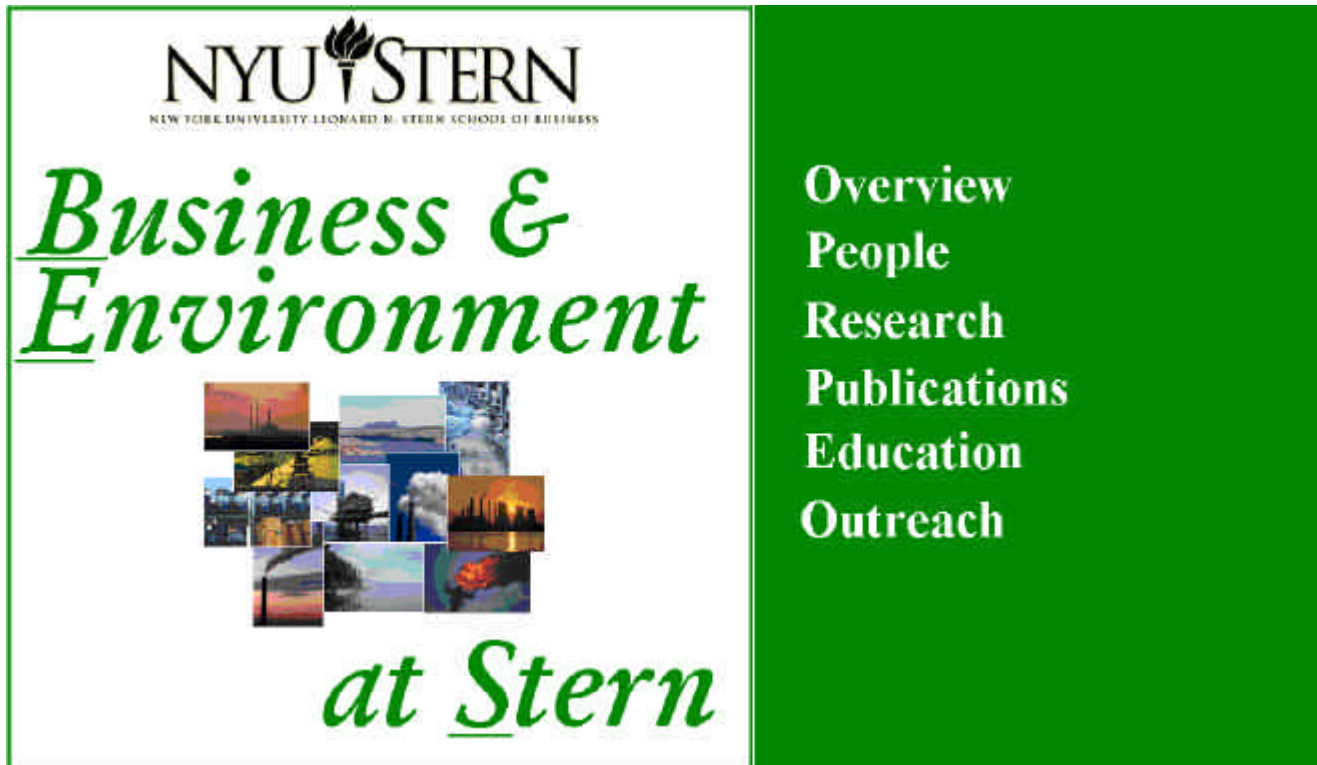


Conclusion

- It pays to be green in some ways. A better question is “when does it pay to be green?”
- Relations to stakeholders determine when it pays.
- Firm can strategically change their relationships to stakeholders.



For more information



The image shows a promotional graphic for the Business & Environment program at NYU Stern. It is divided into two main sections. The left section has a white background with a green border. At the top is the NYU Stern logo, which includes the text 'NYU STERN' and 'NEW YORK UNIVERSITY LEONARD N. STEIN SCHOOL OF BUSINESS' with a torch icon. Below the logo, the words 'Business & Environment' are written in a large, green, serif font. Underneath this is a collage of small, square images depicting various environmental and business scenes, such as a sunset over water, a factory, a forest, and a city. At the bottom of the collage, the words 'at Stern' are written in a green, italicized serif font. The right section is a solid green rectangle containing a list of navigation links in white, sans-serif text: 'Overview', 'People', 'Research', 'Publications', 'Education', and 'Outreach'.

- <http://www.stern.nyu.edu/bes>

