

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

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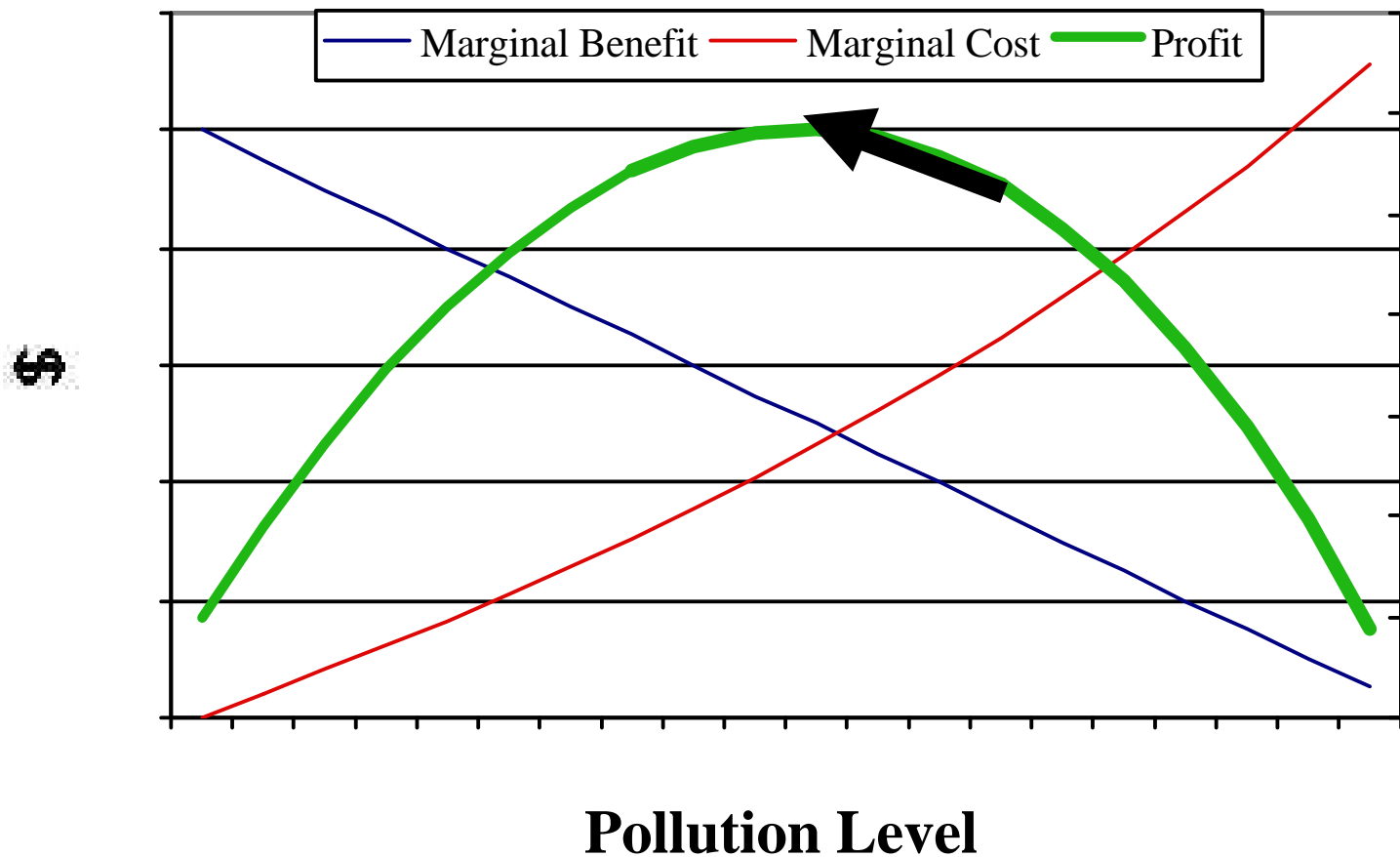
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# Why does it pay to be green?

- 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.

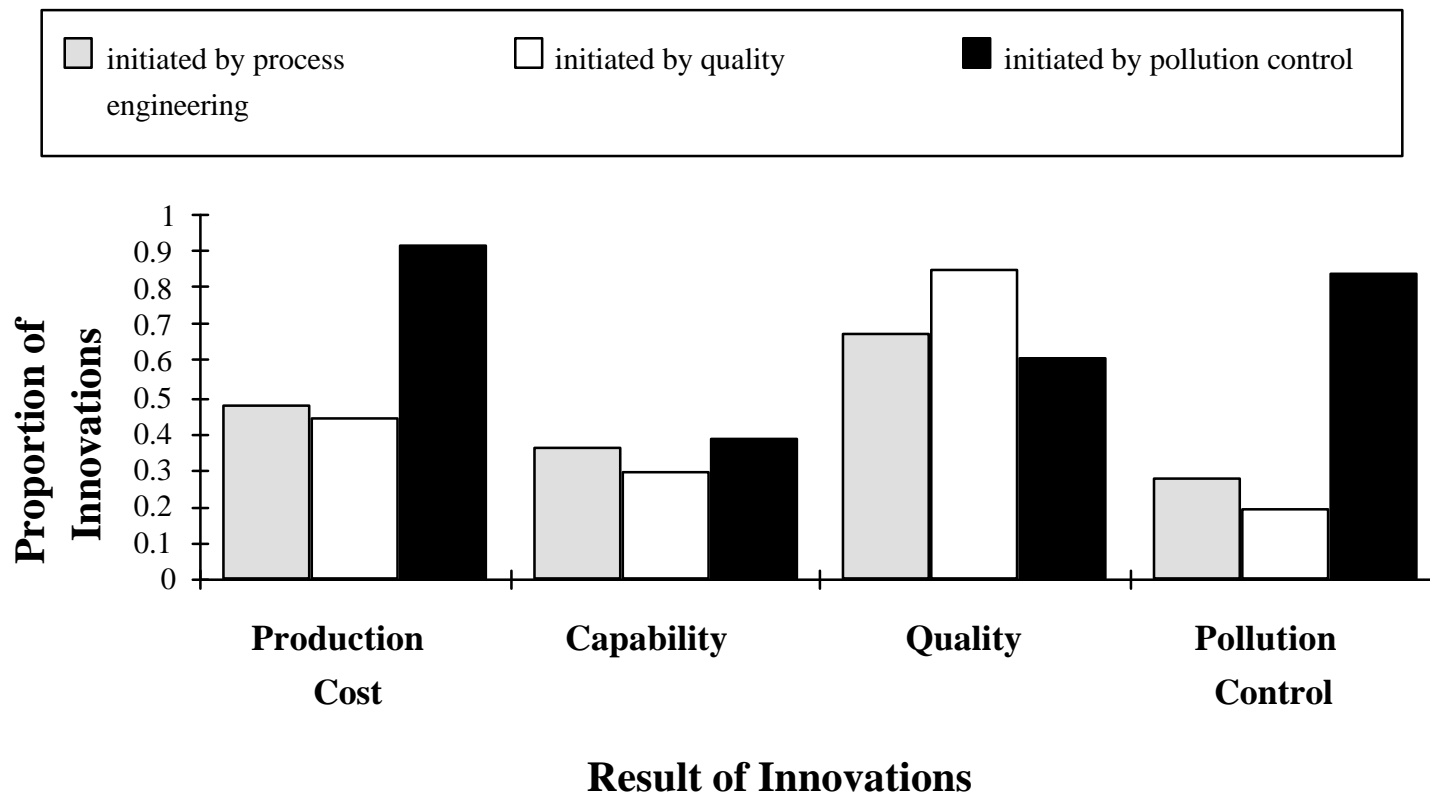


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# Perhaps firms under estimate the potential for innovation.



# 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	<b>-0.021 *</b>			
Relative Emissions		<b>-0.036 *</b>	-0.029 +	-0.032
Industry Emissions		-0.027	<b>-0.076 *</b>	-0.083
n	4483	4483	4483	3130 <sup>a</sup>
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
<b>Waste Prevention</b>	<b>0.244 **</b>	<b>0.219 **</b>
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
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# 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

<b>Ability to Distinguish Environmental Performance</b>	High	<b>Frustrated Stakeholders</b>	<b>Efficient Interaction</b>
	Low	<b>Withdrawn Stakeholder</b>	<b>Unpredictable Stakeholders</b>
		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

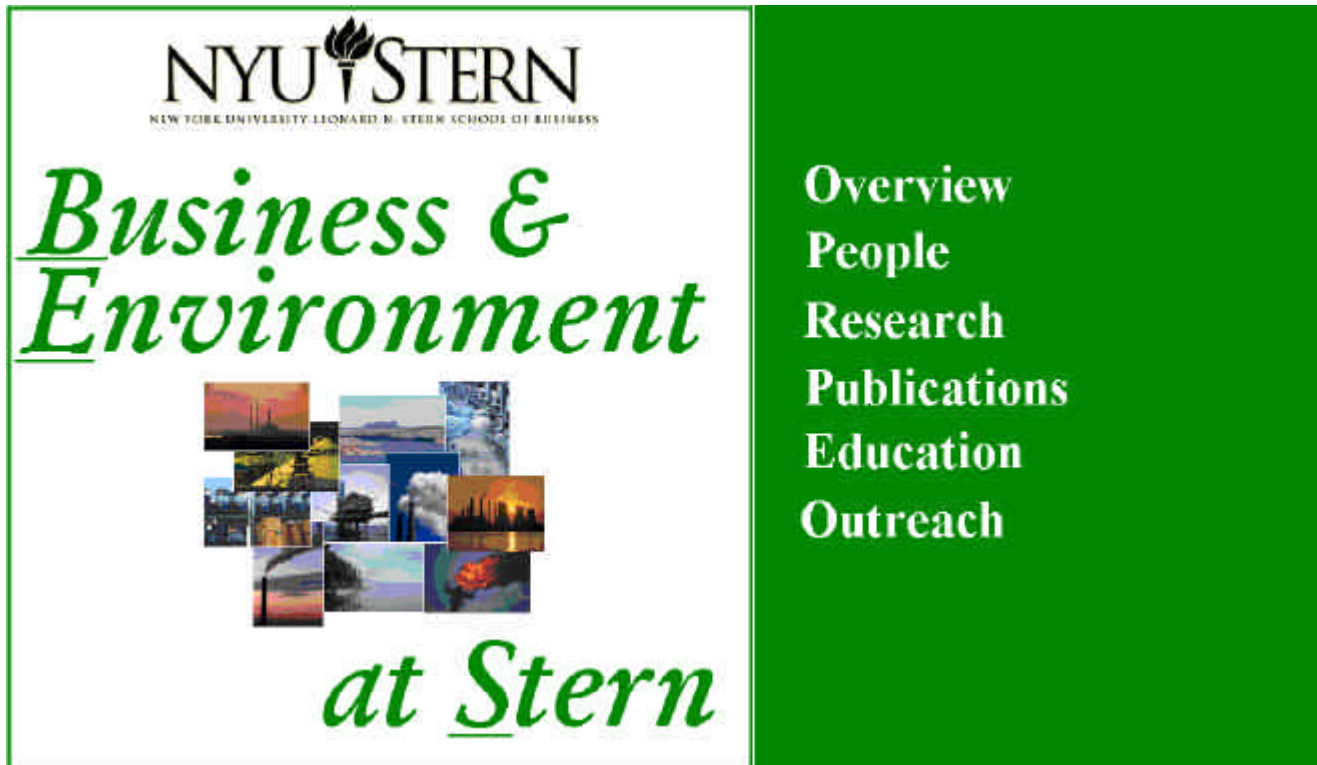


# Conclusion

- 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>

