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The positive effect of environmental practices on the financial performance of firms



Sergio Manrique, doctoral student of the Ph.D. in Economics, Management and Organization at the Business Department of UAB, and Dr. Carmen Pilar Martí-Ballester, associate professor of the same Department, have recently published their research work on the relationship between environmental performance and financial performance of corporations located in developed and developing countries.

The motivation of this work is based on the challenge that firms face with respect to the relationship with the environment and with stakeholders beyond firm's borders, which has become a need supported and promoted by the international community, especially in environmental terms. Industry generates pollution and waste that can damage natural systems, causing a reduction in the environmental resources available to society irreversibly. In this sense, firms must take care of preventing and reducing their environmental impact, through the adoption of environmental practices. However, these environmental practices can also have a positive impact on firms in terms of resource efficiency and reputation, which can lead to a better corporate environmental performance.

The relationship between corporate environmental performance and corporate financial performance has been extensively studied in developed countries, but it has received less attention in developing countries. For this reason, the main objective of this paper was to examine the effect of corporate environmental performance on corporate financial performance during a global financial crisis, considering the economic development level of the country where a firm is located, an unexplored variable in this research topic. To this end, the authors obtained data for a sample of 2982 large firms from 2008 to 2015 and performed the correspondent econometric analysis.

The results obtained show that the adoption of environmental practices significantly and positively affects the corporate financial performance in developed and developing countries. However, this effect is stronger for firms located in developing countries than those located in developed countries. These results partially contradicted the initial hypotheses of the authors; despite a positive effect of adopting environmental practices on corporate financial performance was hypothesized and confirmed for firms in both developed and developing countries, it was expected that this effect would be greater for firms located in developed economies, due to weaknesses in the institutional framework of developing economies, but this assumption was diminished. Manrique and Martí-Ballester argue that there are different levels of implementation of environmental practices; firms in developing countries, in an early phase, are exploiting the closer and more accessible benefits, while firms in developed countries, in an advanced phase, require bigger efforts and investments to, for instance, develop environmentally-friendly products.

These findings could be of interest to: (1) managers who wish to implement environmental practices in firms located in developed and developing countries, as these allow them to assess the positive impact of those activities; (2) economic policy-makers who should encourage the introduction of environmental practices at firms, given that these allow the improvement their corporate financial performance, also enhancing country's reputation and taxes collection; and (3) investors who are interested in investing in firms located in developed or developing countries.

This paper had its origins in the master thesis of Sergio Manrique under the direction of Dr. Martí-Ballester at the M.Sc. in Management, Organization and Business Economics, also from UAB, and was further developed until its recent review and publication in the open access academic journal *Sustainability*.

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References

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