

Does it green to pay?

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Abstract

It is often argued that corporate environmental performance and shareholder value creation are mutually reinforcing and that such win-win strategies represent the gold standard of how companies could contribute to environmental sustainability (Epstein & Roy, 2003; Hart & Milstein, 2003; Reed, 1998; Schaltegger & Figge, 2000). Following this paradigm of the so-called green business case, numerous scholars have investigated the question if and under which conditions it pays off financially for companies to act in an environmentally responsible way (e.g. Al-Tuwaijri, Christensen,

& Hughes II, 2004; Aragón-Correa & Rubio-López, 2007; Derwall, Guenster, Bauer, & Koedijk, 2005; Reinhardt, 1999; Russo & Fouts, 1997; Stanwick & Stanwick, 1998). All these approaches have in common that they assume that driving shareholder value through enhanced corporate environmental performance provides a positive contribution to more environmental sustainability. In this presentation, we argue that focusing on the green business case will not be sufficient to ensure positive corporate contributions to environmental sustainability. We show that environmental performance and shareholder value creation can be in line but that there is no unambiguous link between the two. We will give examples of companies that create shareholder value and contribute positively to environmental sustainability as well as companies that create shareholder value at the expense of environmental performance and companies that provide a positive environmental performance while failing the business case test.

In this presentation and by building on our previous research (Figge & Hahn, 2004; 2005; Figge, 2001) we apply the notion of opportunity cost to the assessment of corporate environmental performance. In other words, we assess corporate environmental performance in the same way corporate financial performance is assessed according to the shareholder value logic. According to this reasoning, a company uses its environmental resources in a value creating way only if it covers the opportunity cost of these resources, i.e. the return that the market on average would have created with these environmental resources. Companies should thus not only cover the opportunity cost of their economic capital but also of their environmental resources. Instead of just driving a more value-creating use of economic capital, corporate environmental strategies should thus focus on using environmental resources in a value-creating way.

We argue that in order to avoid an instrumental bias towards financial performance corporate performance has to pass a double test: Both the use of economic capital and environmental resources should cover its opportunity costs.