

CORPORATE ENVIRONMENTAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: AN EMPIRICAL EXAMINATION

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Overview

The nature of relationship between corporate environmental responsibility (CER) and financial performance (CFP) has received significant research attention yet it remains controversial to date. The first puzzling issue is the nature of the relationship. Conventional trade-off view held that environmental responsibility is costly hence deteriorating financial performance. Contemporary complementarity view holds that environmental pollution is a result of inefficiencies in productive processes, hence reducing these inefficiencies leads not only to lower pollution, but also lower costs, and in effect, higher financial performance. Empirical results concerning the nature of the relationship are inconclusive, ranging from positive to negative. The second puzzling issue is causality of the relationship. Do environmentally responsible firms improve financial performance or are firms environmentally responsible because their financial performance allows them to be so. Again, empirical results are inconclusive.

The study reported herein aims to provide a deeper insight into the reciprocal nature of the CER-CFP relationship by disentangling the perspective of time (causality). Conceptual model is proposed including several exogeneous variables, CER as a mediating variable and CFP as a final dependent variable.

Methods

Proposed model is tested empirically using a combination of survey collected data and archival data for a sample of large European firms. Quantitative findings are supplemented with qualitative interviews.

Results

Considering the time dimension, consistent with the hypothesis, we find that current CER is positively related with future CFP. Contrary to that, and countering the hypothesis, we do not find a significant relationship between past CFP and current CER.

Conclusions

The findings in this study suggest that corporate environmental responsibility improves financial performance, a finding consistent with the hypothesis that pollution reduction improves also productive efficiency of firms.

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