Abstract:

IBM, Office Depot, and McGraw-Hill allocate many resources towards becoming greener companies, but it is unknown whether being a green company contributes any value to the company. Investing in green initiatives can enhance public perception and investing in projects and resources that boost ecological sustainability can increase the market value of the corporation. Dissenters argue that green companies waste resources on managing environmentalism and should focus on maximizing every dollar through traditional means. Since 2009, Newsweek has ranked the United States’ largest firms based on their environmental performance. Newsweek considers the environmental impact, sustainability management efforts, and the company’s disclosure of its footprint when assigning Green Scores, thereby providing a holistic assessment of a company.

Using Newsweek rankings from 2011 and 2012, I track accounting measures and market performance to measure both internal results and data from investors. Using a two-sample t-test, the green companies have higher gross profits than brown companies. After controlling for a firm’s size and the performance of its industry, the linear regression analysis shows a positive correlation exists between a company’s Green Score and various accounting performance measures. The higher the company’s Green Score, the higher the total profits, profit margins, and intangible assets in both 2011 and 2012 scores. The ratio between the market value and the book value of a company shows that companies with higher Green Scores have a statistically significant higher market to book value ratio. This indicates that investors value green companies more highly than brown companies. Companies accomplish two things when they focus on being green: they reduce their environmental impact on the planet while boosting the profits and market value of the firm.