

The Relationship between Multi-Dimensional Environmental Performance And Corporate Financial Performance: An Investigation of UK Companies

Pingli LI

Zhuang Zhang

Bai XUE*

Southampton Business School, University of Southampton

Abstract

With a new climate change agreement signed by 200 countries at the Paris Summit in December 2015, it has become more important for both governments and companies to understand the impact of companies' environmental performance. For the past decades, scholars have shown great interest in how the corporate environmental performance influences the corporates' financial performance. However, the results are contradictory and there is a lack of agreement on the theoretical framework. This study investigates the impact of multi-dimensional corporate environmental performance on the corporate financial performance by taking consideration of both environmental management and operation performance. We use a sample of carbon-intensive firms in the UK with their carbon emissions disclosed from 2005 to 2012, and find a positive influence of the companies' environmental operational performance – carbon emission performance - on their financial performance. Our results indicate that while the effect on financial performance is linear for environmental operational performance on the same year and with one year lag, it becomes U-shape for 2-year lag. The results also suggest that corporate environmental management performance has significantly negative impact on the financial performance. When considering the interaction between environmental management and the carbon performance, we then find that corporate environmental management performance has a weak moderation effect on the relationship between environmental operational performance and financial performance. The overall picture of the results suggests that environmental management generates costs for the firms and jeopardises the financial performance, while better environmental operational performance would help the firms to achieve better performance financially, hence engaging in environmental initiatives benefits firms' financial performance in the long term.

Key Words: Climate change; environmental operational performance; environmental management performance; corporate financial performance.

*Corresponding author. Email address: b.xue@soton.ac.uk