“Do Corporate Global Environmental Standards Create or Destroy Market Value?”

Glen Dowell, Stuart Hart, and Bernard Yeung

Executive Summary

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Multinational corporations are often criticized for deliberately investing in nations with weak environmental standards in order to reduce costs or to produce goods outlawed in stricter jurisdictions. Whether such actions are common, and if so, whether they produce economic returns to the multinationals are open questions, however. In fact, there are countervailing arguments that firms may be better served to exceed environmental standards in weak jurisdictions. For example, technologies that reduce environmental impact are often also more economically efficient; therefore, companies using these efficient technologies should enjoy cost advantages over those firms that employ less efficient methods.

Dowell, Hart, and Yeung (2000) study a sample of 89 companies from the S&P 500 that are involved in manufacturing or extractive industries and are headquartered in the United States. These companies all maintain production facilities in potential pollution havens, thus they have the opportunity either to adhere to a single worldwide standard or to adapt their standards to the weaker environmental jurisdictions. The companies’ strategies are indicated by their responses to the Investor Responsibility Research Center’s Corporate Environmental Profile survey.

Contrary to the supposition that pursuing lower environmental standards would be profitable for multinational firms, firms choosing to employ their own strict global environmental standard abroad were found to have an individual value of approximately $10.4 billion higher than those using less stringent U.S. standards. The authors write, “This paper refutes the idea that adoption of global environmental standards by multinational enterprises constitutes a liability that depresses market value. On the contrary, the evidence from our analysis indicates that positive market valuation is associated with the adoption of a single stringent environmental standard around the world.”

Furthermore, the researchers found that defaulting to lax local environmental standards is by no means the most common practice. Nearly 60% of the companies observed in this sample adhere to a stringent internal standard, compared to less than 30% that only enforce developing countries’ standards. The study also contains public policy implications, as developing countries that use lax environmental regulations to attract foreign direct investment may attract poorer quality, less competitive firms.

Why does Wall Street value companies with high global environmental standards? The authors speculate that adopting lax local practices may hurt profits and growth over the long run by courting bad publicity and failing to anticipate future changes in standards as local incomes rise. A single high standard deflects criticism, builds employee morale, and permits the rapid diffusion of new technology throughout a company’s international operations.
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