

ENVIRONMENTAL AND FINANCIAL PERFORMANCE. ARE THEY RELATED? A META-ANALYTICAL APPROACH

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ABSTRACT

What do we know about the relationship between environmental performance and firm performance?

After more than four decades of theoretical as well as empirical research, evidence to date appears to be relatively inconclusive and there is still a lack of consensus in the literature.

In this context, the aim of this study is to provide evidence for the debate on the relationship between corporate environmental performance (CEP) and corporate financial performance (CFP). Therefore, this study aims to improve the qualitative as well as quantitative knowledge about the relationship between both variables.

For this purpose we have disaggregated CEP measures observed in previous research in four proxies: CEP disclosures, CEP reputation ratings, social audits, CEP processes and observable outcomes and managerial CEP principles and values, according to Orlitzky et al, 2003 and CFP measures in three: Accounting-based, market-based and perceptual measures.

In addition, and using a meta-analytical approach, we have revised the most extended sample of articles in any meta-analysis about this topic and we have taken a very large longitudinal scale, including the recent articles of this topic.

The main objective of this study is to give an overall and robust review of the CEP-CFP relationships for each of the principal measures identified in the literature.

One of the largest lines of research and interest among academics and practitioners is the relationship that "may" exist between CEP and CFP. Most of these papers are based on Stakeholder Theory (ST) (Freeman, 1984) and part of the research has tried to link the CEP and the success of the company (Instrumental Stakeholder Theory: Jones, 1995).

Apart from ST and IST, Legitimacy Theory (Deegan, 2002) is another theory for our CEP proxies, in this case for CEP disclosure.

Internal-resources perspective that proposes managerial competencies and learning as the intervening generative mechanism between a positive CEP–CFP link is another part of our framework.

We have tried to associate different frameworks or theories to each CEP measure in order to build a pluralistic framework; but the most important theories that we have used is the IST because it proposes a more flexible framework than other theories.

Literature does not show conclusive results on the causality of the relationship between CEP and CFP (Wagner, 2001; Horváthová, 2011) and the explanations for why empirical results between CEP and CFP are inconclusive vary as well (problem with the measures of CEP, appropriate methodology and existence of moderating variables, among others)

According to our objectives we have used meta-analysis methodology that it is used to do a systematic quantitative synthesis of evidence across a set of empirical studies (useful in areas where multiple individual studies have inconclusive or conflicting results) and widespread used in several areas. This technique overcomes problems of literature reviews and vote-counting (Stanley, 2001).

Each study included in the analysis was carefully analyzed to identify the estimated EP-FP nexus and the factors used by Margolis et al., 2007 structure.

After carrying out a meta-analysis of a global set of articles about this topic (geographical scope and temporal horizon) that analyse the global nexus between environmental and financial performance our results shows that it is a positive relationship between both variables in the four proxies in which we have disaggregated CEP measure

Our main contribution is that we give an overall and robust review of the CEP-CFP relationships for each of the principal measures identified in the literature. Hence, we have given a more realistic and deeper analysis of this relationship taking into account the problems that may be appeared in other meta-analysis and literature-reviews.

These considerations have direct implications for the managers and for the practitioners.