

INVESTMENTS IN GREEN STRATEGIES IMPROVE COMPANY VALUE

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ABSTRACT

The opportunities and challenges in investing in environmental strategies have become an important issue as the world transcends into being more sustainable. Investments in green related strategies are given more importance as there is now opportunity to develop and engage in green projects. Firms are beginning to engage and involved themselves in the green marketplace at rapid pace to keep themselves on par with customers' expectation as well as society's expectation. These expectations include the demands for the reduction of ecological effects and the potential benefits of such actions. There has to be some sort of quantifiable meaning to these environmental actions to firms while trying to meet customers' and societal expectations. Thus, the question of whether firms that invest in green initiatives improve their company value arises.

KEYWORDS

Green strategies, company value, Malaysia

1. INTRODUCTION

Greening a business is not a walk in the park. There are various factors that must be taken into consideration and in particular, in this context the benefits of engaging in such actions specifically company value. We are now in the era of green economy where new opportunities and platform are present. Green economy as defined by UNEP is an economic structure of the manufacture, supply and consumption of goods and services which improves long run social welfare without substantial ecological threats and scarcities. As such, companies that practice green strategies will face a lot of challenges but surmountable.

Companies have also become aware of the need to be good corporate citizens and therefore should take more leadership roles in being significant part of the green economy. Companies should have responsibility for the environment (Feng, 2010). Emphasis given to environmental strategies may have impact to the company's image and consumers may form responses due to their perceptions. These companies are conscious of the fact that they must initiate green strategies to garner support from the various stakeholders. But again, the main question arises. Do these environmental strategies improve the companies' value? For instance, there were 53 percent of people refrained from purchasing a product from a manufacturer due to environmental concerns. This was based on a Wall Street Journal survey in 1991 (Hawken, 2002). Feng, 2002 emphasized the importance of a company's response to the challenges of becoming a green company in relation to how consumers have transformed to become green consumers. Schlosser, 2001 indicated that McDonald's has been a green company from the time it was established whereby McDonald's had initiated various green strategies. With McDonald's global presence in this green economy, it must have benefited from its investments in environmental strategies that led to improvements in company value.

As companies are now expected to go green, the outcome of such green initiatives would include positive evaluations for these companies (Brown and Dacin, 1997), consumers responses to buying plans are higher (Mohr and Webb, 2005), companies are more resilient to bad publicity (Pelozo, 2006), optimistic word of mouth (Hoeffler and Keller, 2002), and less elastic to higher prices shown by certain buyers (Laroche et al., 2001). Therefore, it becomes relevant in this green economy that we study the relationships between green strategies and company value.

2. DISCUSSION ON ISSUE

The importance of green strategies has been gaining a lot of attention particularly in this green economy environment. From the finance context, the relationship between green strategies and company value are important in order to suggest that going green is financially beneficial to companies. Companies are expected to engage and invest in some sort of green strategies in this green economy but such investments require analysis of the benefits before companies can really adopt or continue to adopt any green strategies. Henriques and Sadorsky (1996) indicated that the greater the pressure from stakeholders in demanding that companies adopt green strategies, the more likely companies would embrace green strategies.

It would become a huge problem for companies if such investments in green strategies do not bring improvements in their company value. Malaysian companies' involvements in green strategies are still considered at an infancy stage. Malaysian companies that engaged in green strategies are merely responding to the demands of green economy without really considering the relationship of such strategies to their company value. The government of Malaysia has even called for companies to embrace green strategies and included green technology as one of the vital drivers in the national economy. The Energy, Green Technology and Water Ministry was established in the early 2009 to transform Malaysia into a green economy and nation (SMECorp, 2010). As such, companies in Malaysia must adopt green strategies to stay relevant in this green economy.

However, there is still lack of awareness and studies on this area particularly in Malaysia. The best practices are not studied. Risks and opportunities related to green strategies are also not studied. Consequently, the relationship between green strategies and company value remains to be founded in Malaysia. Until a study that can show such relationship, Malaysian companies that adopt green strategies will continue to use the 'herd mentality' by pursuing the actions of other companies that engaged in green strategies without identifying whether or not their green strategies have any impact to their company value. For those companies that have yet to embrace green strategies, the relationship between green strategies and company value can guide them to make strategic decisions concerning their investments in green strategies. If investments in green strategies do improve company value, failure to take the necessary green strategies would result in a company being more vulnerable to competitive pressures; the likely potential loss of customers and loss of revenue. A delayed decision to adopt green strategies would provide great challenges to these companies as the loss of image can be detrimental (Kasseye, 2001).

In one study, the relationship between green strategy and company value indicated that the performance of a company is related to the overall value of the company. Adopting green strategy does improve the company value with the exception of companies which have industrial customers (Curcio and Wolf, 1996). The impact of green and socially related strategy on financial performance was found to be positively related in a 'meta-study' (UK Environment Agency, 2004)

Most previous studies related to green strategies did not specifically address the issue of the relationship between green strategies and company value. However, related issues such as reasons for engaging in green strategies were addressed. For example, the primary concerns and secondary concerns were identified in a study by Kasseye, 2001. In that study, companies were categorized into small, medium and large. The primary concerns for small enterprises with sales revenue of less than \$20 million were cost, customer expectation for green actions, government intervention while the secondary concern was reducing environmental impact. While Kasseye's study provided us with the motivations of companies to embrace green strategies unfortunately, it does not provide companies with a concrete reason to engage in green strategies particularly when improvements in company value is the main objective in the sustainability of any company.

First empirical study of the relationship between green strategies and company value by Curcio and Wolf (1996) showed the presence of a relationship whereby companies that adopt green strategies demonstrated significant improvements in the financial performance. However, company that had the industrial sectors as customers did not demonstrate such a relationship. Derwall et. al., (2005) found that there is substantial benefits attained from considering green strategies when investing.

There was a suggestion for positive association between social responsibility and financial performance in the long term (van Beurder and Gossling, 2008) but was not supported by the studies done on the relationship between corporate environmental strategies and financial performance (Chen and Metcalf, 1980; Hart and Gautum, 1996; Filbeck and Gorman, 2004; Moneva et al., 2007) due to methodological limitations as well as

the mismatching effect of the stakeholders (Wood and Jones, 1995). Nevertheless, the suggestion for corporate environmental strategies and financial performance was supported in other studies (Roman et al., 1999; Orlitzky et al., 2003; Margolis and Walsh, 2003; Wu, 2006; van Beurden and Gossling, 2008).

According to Esty and Winston, 2009, companies that embrace green strategies are generally more innovative (Porter, 1990; Friedman, 2005) and demonstrate greater entrepreneurship qualities compared to their competitors which translates to intangibles such as employee motivation and commitment; brand trust and financial benefits such as higher revenues, lower cost of operation, obtaining funds and financing from green financing providers (Global Finance, 2008).

3. CONCLUSION

Investments in green related strategies are given more importance as there is now opportunity to develop and engage in green projects. The importance of environmental or green strategies has been gaining a lot of attention particularly in this green economy environment. A study should be conducted in Malaysia in order to contribute to corporate judgment when comes to investing in green strategies as the nation embraces a green economy. Academically, this study serves to add to the knowledge development and evolution of finance that must be relevant to today's green economy.

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