

INFLUENCE OF ENVIRONMENT-CONSCIOUS MANAGEMENT ON FINANCIAL PERFORMANCE: EVIDENCE FROM CONSTRUCTION COMPANIES IN JAPAN

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Overview

Corporate social responsibility (CSR) has become one of the fundamental assumptions for companies in modern economy. Under the increasing public awareness of environmental protection, many companies particularly pay attention to how to incorporate environment-conscious management into their business routine to combat climate change and global warming problems. Balancing between environment-consciousness and financial success is an important factor for sustainable operations of firms. In the meantime, there are different opinions regarding impacts of CSR on performance of companies. A group of studies such as Simpson and Kohers (2002) show positive impacts of CSR on firms' financial performance, while the other group such as Surroca et al. (2010) gives the opposite results. In addition to the different opinions, there are little studies that examined issues of environment-related CSR for construction companies, although it is an important factor for their operation to give various stakeholders such as investors and consumers their validity of business. The purpose of this study is to examine the influence of CSR incorporation, particularly environment-conscious management, on the financial performance of 43 construction firms in Japan from 2011 to 2015.

This paper is organized as follows: Section 1 gives a brief overview of this study. Section 2 summarizes previous studies that examine relationship between various CSR and corporate performance measures. Section 3 describes empirical model and estimation method used in this study. Section 4 provides for the estimation and empirical results. Section 5 concludes this study and addresses future extensions.

Methods

Panel data estimation, Data envelopment analysis

Results

This study used four financial performance measures as dependent variables; return on assets (ROA), return on equity (ROE), total enterprise value (TEV) and earnings before interest, tax, depreciation and amortization (EBITDA). The independent variables are various environment-related CSR measures, e.g., whether independent department for environment issues is created, full-time executive officer for environment is placed, and environmental accounting is employed. From the panel data estimation, this study found that full-time executive officer, publicized environment policy document, and percentage of environment-related business positively influenced firms' financial performances. On the other hand, environmental accounting and green procurement had negative impacts on the performance, and other variables such as countermeasures against climate change and introduction of renewable energy were not statistically significant.

Conclusions

This study examined influence of environment-conscious management on financial performances of 43 Japanese construction companies and found that employment of full-time executive officers for environment played an important role for increasing financial performance of firms. However, the influence varies depending on performance measures. As an extension of the analysis described in a full paper, we use firm's operational efficiency score from data envelopment analysis (DEA) as an initial step for financial performance assessment, as proposed in Sueyoshi and Goto (2011).

References

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