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To what extent does environmental behaviour influence firms' access to capital?

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Background

With today's pressing environmental conditions, it becomes more and more crucial to research how being green can benefit firms. One might say that funding lays the foundation for all businesses to be able to start working on their goals, and is therefore, a vital ingredient for environmental value creation. However, the effect of environmental behaviour on firms' access to capital remains relatively unknown.

Objective

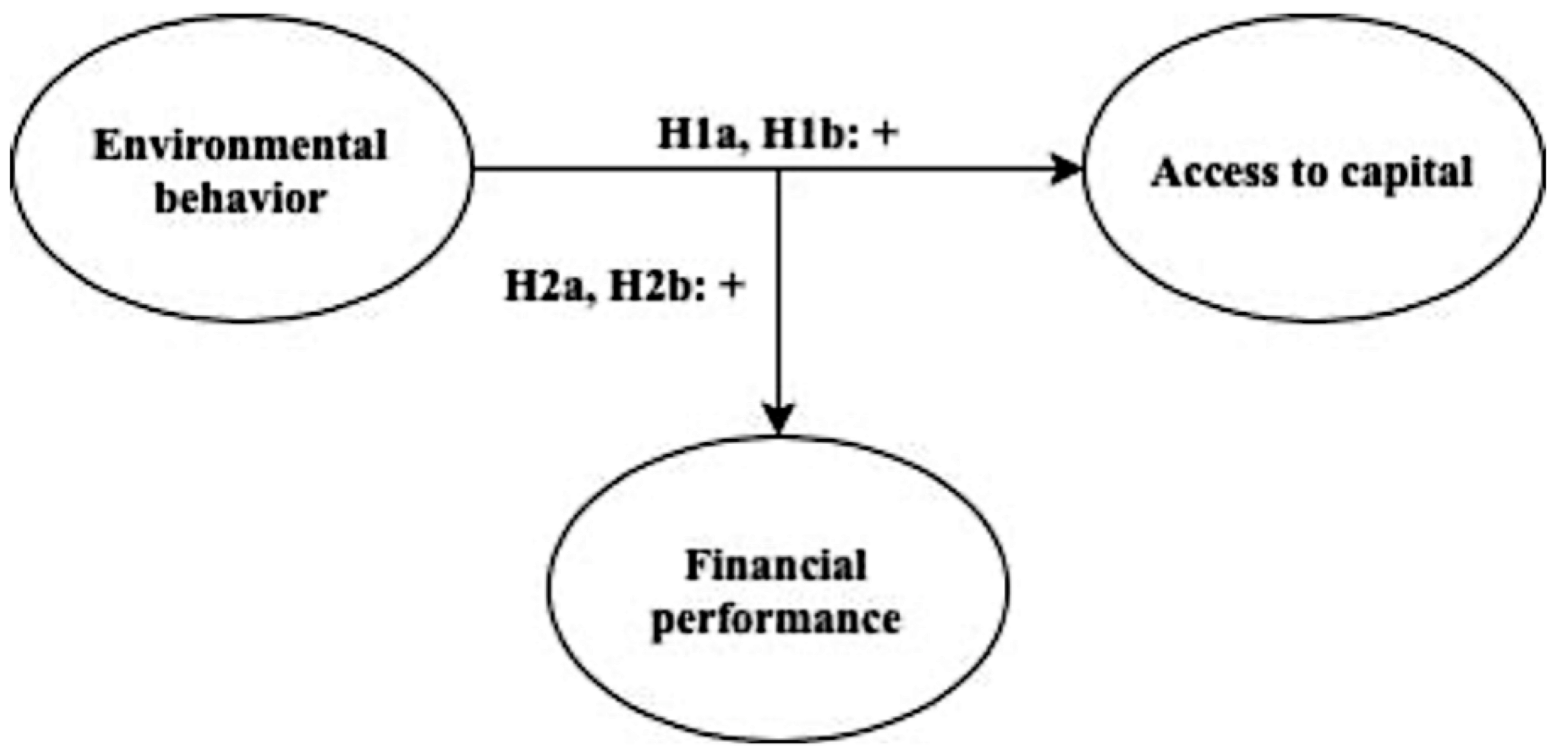
This research explored to what extent environmental behaviour influences firms' access to capital. Environmental behaviour was spilt up in environmental performance (EP) and environmental disclosure (ED), where the former tells something about quality and the latter more about the frequency of being transparent with regard to environmental behaviour. Lastly, the interaction effects with financial performance (FP) were investigated.

Introduction

Until this point, it remains unclear to what extent the greenness of a firm has an influence on access to capital. Therefore, this research addresses the following research question: To what extent does environmental behaviour influence access to capital? Information on this topic will be insightful for firms that are, or would like to become more environmentally friendly, ant would like to know how it affects their financial position, and for investors wanting to get an empirical understanding of the position that green firms are in. Moreover, this research adds to existing research by providing more deductive, empirical insights (other than the paradoxical theoretical background), and as it focuses on the isolated effect of environmental behaviour on access to capital (as financial performance was kept constant).

Theory

Based on theory, the following relationships were expected:



As can be seen from this conceptual framework, the same effects were expected for environmental performance (hypotheses a) and environmental disclosure (hypotheses b).

Methods

For this research, a fixed effects regression analysis was conducted on a combination of economic, financial and environmental panel data, collected from the Asset4, Bloomberg and Compustat databases. This resulted in 14,536 firm-year observations, spanning 11 years (2006-2016) and originating from 2,159 firms. For the dependent variable, access to capital, the 'KZ-index' was calculated, which is a research-based construct that aims to approximate a firm's financial constraints (which is the opposite of access to capital). Also, a number of control variables was included.

Results

- All effect sizes were relatively small.
- EP did not significantly influence the KZ-index.
- The interaction effect between EP and FP was significant. However, it showed to be a conflicting interaction, as EP only increased financial constraints, whereas FP lowered them.
- ED did significantly and negatively influence the KZ-index.
- FP strengthened this relationship between ED and the KZ-index.

Discussion

The results underline the distinction between environmental performance and environmental disclosure, as they show to influence access to capital differently. Environmental performance (through interacting with financial performance) appears to have a negative effect on access to capital. Environmental disclosure shows to be important for gaining advantageous financial markets positions as it has a positive effect on access to capital on itself, and through interacting with financial performance).

The differences in effects might be explained by, for instance, transactional economics (i.e. performance increases transaction costs towards financial markets of finding out what a firm does exactly, whereas disclosure decreases them by its transparency), or the negative association around environmental performance and its financial potential, and the positive association of frequent disclosure and the capitalization of environmental efforts.

Conclusions

- Firms that are, or would like to become more environmentally friendly, should focus on the frequent disclosure of environmental information. Although environmental performance might potentially worsen capital position, this can potentially be offset by being transparent about it.
- Firms should focus on undertaking internal and external actions simultaneously.
- For investors wanting to get a better understanding of the difficulties green firms are facing and subsequently, to help them, it might be wise to consult firms about the benefits of environmental disclosure, following environmental performance.

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