

intersections

A publication highlighting work at the intersection of business and society

Environmental Investments and Shareholder Wealth

An Interview with Professor Karin Thorburn

Karin Thorburn is associate professor of business administration and associate director of the Center for Corporate Governance at Tuck. Professor Thorburn's research focuses on bankruptcy, takeovers, corporate restructuring, corporate governance, and environmental economics and has been published in the top academic finance journals. She teaches courses in corporate restructuring and mergers and acquisitions. Prior to her academic career, Professor Thorburn held various positions within the ABB Financial Services group and was a member of Greenpeace as a teenager. Intersections spoke with Professor Thorburn about her recent working paper, which investigates the connection between shareholder value and the announcement of a company's voluntary environmental actions. Coauthored with Professor Karen Fisher-Vanden, a Dartmouth environmental economist, their paper was featured in a special supplement to the New York Times.

Can you give us a brief overview of your findings?

The most important finding is that when companies announce that they have joined the EPA's Climate Leaders program—an industry-government environmental partnership aimed at reducing the emission of greenhouse gases—their stock price drops. Also, on subsequent announcements of those companies' greenhouse-gas goals, their stock price drops again.

Is that surprising?

We are the first ones to look at the stock market evidence; that is, to examine what the market thinks about these voluntary environmental initiatives. The stock-price decline suggests that the market believes that the costs of the required investments exceed the potential gains. Climate Leaders basically says to companies, "Join us, and we'll help you reduce your carbon footprint. You'll save money because you'll reduce energy costs and at the same time create 'green goodwill,' which may increase the demand for your products." Our research shows that it may not be profitable to do so.

What does previous research indicate?

Previous research looked at violations of environmental regulations and releases of toxic emissions. We examined the market reaction to the announcement of companies that voluntarily join environmental programs such as Climate Leaders and Ceres as an example of environmentally responsible investments.

What implications does your work have for business decision making?

Our interpretation is that the leaders of these companies are doing something that reduces shareholder value, which is in direct conflict with fiduciary responsibility and illustrates a conflict of interest between stakeholders and shareholders. Climate change is a classic example in economics of an externality. It is very costly for society but does not show up on the individual company's income statement. Another issue involves companies that invest in energy-saving technologies and do not join groups like Climate Leaders. The CFO of a Fortune 500 company told us they are constructing a new plant that will significantly reduce energy use. They are starting with one plant and will then consider future, related actions. Companies join Climate Leaders and announce a double-digit percentage-emissions reduction goal, so it's possible that it is not the best way to undertake a reduction in a company's carbon footprint.

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Making an Impact

Oil & Water: Business Opportunities to Fuel Our Future

The 2008 Business & Society Conference

It might seem an odd mix, but the pairing of oil and water makes sense when you consider that both resources are critical to civilization and that it will take cooperation from all sectors to protect them. The 2008 Business & Society Conference brought together more than 25 energy, water stewardship, and sustainability experts from around the globe. Over three days, they discussed the economic and environmental challenges and opportunities presented by these two vital resources. Considering the event drew more than 300 Tuck students—the largest number ever to attend a student-organized conference at the school—the topic did indeed prove appealing.

In spite of foreboding assessments of dwindling supply, conference chair Dave Adams T'08 says, "It is the belief of many that over the next 30 years the issues and challenges created by these two commodities will yield the greatest opportunities to drive earnings, implement conservation programs, and enact social good." He's talking triple bottom line—a new model gaining momentum in the business world. It's about pursuing opportunities that are simultaneously (1) profitable, (2) socially responsible, and (3) environmentally sustainable.

Participating conference experts were drawn from Fortune 500 companies, world-class consultant groups, developers, investment firms, and nonprofits. Panel topics included the financial risk of climate change, clean-tech investing strategies, sustainable water solutions in developing nations, and realizing significant cost efficiencies through water stewardship. In the first keynote address, Matthew Simmons, chairman of Simmons & Company International, provided incisive insight into the oil industry; in the second, John Brock, CEO of Coca-Cola Enterprises, discussed his company's corporate responsibility program and its integral link to company strategy.

In his introduction to John Brock, Dean Paul Danos emphasized how proud Tuck is of the conference. "Its topics dovetail

with what we try to do at Tuck to help students create a personal leadership profile that's sensitive to the environment but at the same time aims at growth, productivity, and profitability for their firms." Ultimately, the conference did provide a direction forward and clear action items that could indeed improve a company's financial bottom line while addressing resource and environmental issues.

Transforming the Inner City: Economic Development in Philadelphia

A Tuck GIVES Internship (Summer 2007)

The Philadelphia Industrial Development Corporation (PIDC) is a private not-for-profit corporation charged with stimulating economic development in the city of Philadelphia. It is the custodian for much of Philadelphia's surplus city-owned industrial land. PIDC provides financing and real estate services with the goal of transforming dormant parcels of land into sites for job-creating enterprises.

Although the corporation sells its real estate holdings to developers, it does not just sell to the highest bidder. PIDC takes into consideration the neighborhood benefits of a potential development, particularly the number of jobs that might be created. Since its founding in 1958, PIDC has contributed to the completion of \$16 billion in projects and the creation of over 442,000 jobs. As a seller of real estate, it is imperative that PIDC price parcels to ensure the best possible sale value.

After conducting an exhaustive study of real estate sales in Philadelphia, I created an interactive database that will help PIDC be more successful in negotiating with potential developers. The information provided by the database will help management devise more effective pricing strategies before entering into sales negotiations. I also participated in several interactions with potential developers, assisting in the analysis of proposals and creating a tool that will improve the corporation's ability to properly administer its leases.

Intern: Michael Wilson T'08

Empowering Young Urban Talent to Reach Their Potential

A Tuck GIVES Internship (Summer 2007)

Year Up is a one-year intensive training program that provides urban young adults, ages 18 to 24, with a combination of hands-on skill development, college credits, and corporate apprenticeships. Since 2001, Year Up has graduated over 600 young adults, who earn, on average, \$30,000 per year after completing the program. Year Up currently serves more than 450 students a year at sites in Boston, Cambridge, Providence, Washington, D.C., and New York City. Having just completed a successful \$19 million capital campaign, Year Up is looking to expand nationally, with the goal of adding four new sites over the next three years.

My summer internship involved working with CEO and Founder Gerald Chertavian on a due-diligence analysis of the cities Year Up is considering for its new sites. It was a great learning experience to be able to take a project from its beginning through problem definition, research, and analysis to the presentation at the end. As a result of my work this summer, the organization has focused its expansion efforts on two priority cities and has a framework for thinking about expansion, which will support good decision making going forward. The best reward for me is that startup in these two cities is underway, and Year Up is now that much closer to having a national-level impact on the lives of urban young adults.

Intern: Nick Richardson T'08

Food Security Initiative in Central America

First-Year Project (Spring 2008)

Green Mountain Coffee Roasters (GMCR) is developing a pilot project in Nicaragua to address the problem of food security in the coffee-growing region. The region's coffee farmers eat well for eight to nine months of the year while they're selling coffee but then suffer three to four "thin months" when food prices go up and they have no coffee income. GMCR plans to partner with a fair-trade coffee cooperative and an experienced international nongovernmental organization (NGO) to create a sustainable solution to this issue. The Tuck team

will be creating a business plan for the project, benchmarking with other corporate/NGO partnerships, and helping improve the management of the cooperative itself to make the food-security solution sustainable. Four team members traveled to Nicaragua during spring break to begin gathering data by meeting with farmers in several mountain communities, the cooperative's directors, and potential NGO partners.

T'09 team: Alex Burgess, Lea Goryn Grunfeld, Bradley Lang, Kristen Loureiro, Aaron Mihaly, and Anja Veckenstedt

Doing Well, Doing Good, and Having Fun

Allwin Initiative Guest Speaker (Fall 2007)

Gary Hirshberg, chairman, president, and "CE-Yo" of Stonyfield Farm, a New Hampshire-based manufacturer of organic yogurt products, was among the guest speakers hosted by the Allwin Initiative this academic year. Hirshberg spoke to the Dartmouth community about his success developing an organization that combines doing well, doing good, and having fun. In growing Stonyfield Farm from seven cows to over \$260 million in sales, Hirshberg demonstrated that it is possible to build a for-profit enterprise that can successfully compete in the national and global marketplace while being environmentally responsible. Stonyfield Farm's commitment to quality, sustainable farming, employee well-being, environmental responsibility, and profitability contributes to its status as the #3 yogurt brand in the United States and the largest organic yogurt brand in the world. Encoding its mission statement into everything it does also contributes to Stonyfield Farm's ability to develop an emotional relationship with its customers, allowing the organization to spend less of its annual revenues on advertising (only one percent) and more of its revenues on its products and the planet. As the first U.S. manufacturer to offset 100 percent of its CO₂ emissions, the first dairy producer to pay farmers for not using synthetic growth hormones, a donor of 10 percent of its profits to environmental causes, and as of October 2007, a 100 percent organic food producer, Stonyfield Farm is a role model: truly a company that embodies the phrase doing well by doing good.

Student writer: Rachel Roth D'02, T'09

That being the case, what might be the implications of this research for public policy?

One implication of this research is that regulation of greenhouse gases might be called for in the United States. I think about the Kyoto agreement. A number of countries agreed to a reduction in greenhouse-gas emissions, and each provided its own goals—how much they would cut back from a base level. Europe began moving to calibrate the systems, while the U.S. chose not to regulate.

What future research questions do you have in mind?

There isn't much work being done at the intersection of environmental studies and finance. We want to continue work in this area. One idea is to identify other voluntary environmental initiatives. Another is to look more broadly at how green companies perform. We will give seminars and present the paper at academic conferences to get input on this work.

What's important for MBA students to consider?

This research raises questions on green goodwill and where we are today. Would marginal consumers shift consumption patterns and pay more? Where at the margin—even if you create green goodwill—do you use corporate resources? It comes back to regulation. If we as a society want companies to reduce their carbon footprints on a broad scale, we need a policy change. For example, in Sweden, taxes on oil and gas are high, so geothermal options are competitive for home heating. Maybe when oil becomes more expensive in the United States, using geothermal energy may become a competitive alternative to oil. The City of Oslo, Norway, allows small electric cars to park for free in its downtown area. There is something similar in California. You can use economic incentives to encourage action. Maybe Tuck should reserve parking spaces for electric cars and hybrids!

About the Allwin Initiative for Corporate Citizenship

An interconnected globe, shifting ideologies, and the changing role of governments have made business a significant agent of transformation. Business knowledge can be applied to community needs and world issues. It can work across sectors to develop solutions. The opportunities are endless. The Allwin Initiative aims to prepare Tuck students for decision making and leadership in this increasingly complex, interconnected world. We work to ensure that the changing issues at the intersection of business and society are a key component of our MBA education and a part of Tuck's broader scholarly activities.

Allwin Initiative for Corporate Citizenship

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