THE EFFECT OF COMPANIES' ENVIRONMENTAL CONDUCT OVER THEIR BUSINESS PERFORMANCE

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Abstract: *In the context of ensuring sustainable development, the performance of businesses have come to be viewed from different perspectives: financial, operational, reputational etc. More recently, an increased attention has been directed toward the environmental aspect of a company's activity which, depicts the ways in which a company responsibly integrates the environment in its daily operating activities, how it measures its positive and negative impact over the environment and how it reports it. This is a particularly important subject considering the rise of sustainable practices all over the world and their support given from investors, regulators and the overall public.*

Key words: *environmental reporting, environmental disclosure, environmental impact measurement, financial performance, operational performance, cost*

Introduction: Over the past decades, numerous concerns have been raised by the international regulation bodies regarding environmental concerns and how the economic sector is negatively influencing the quality of life with respect to air pollution, climate change, plastic pollution and other major environmental pitfalls. Along these issues, the loss of biodiversity, ocean acidification, deforestation and other crucial key environmental threats, are putting economic activities at risk, as resources become scarce and investors, as well as the large public start comprehending the true value of the environmental conduct of companies.

On one hand, as stated in the Global Environment Outlook (GEO-6) Report, the drivers and pressures leading to an unhealthy environment "result from a continuing failure to internalize environmental and health impacts into economic growth processes, technologies and city designs.". Recent studies have mentioned that "welfare losses due to pollution are estimated to amount to US$4.6 trillion per year," which is "about 6.2 per cent of global economic output" (Landrigan et al. 2018, p. 462). On the other hand, environmental protection and hazard prevention may generate major sources of economic opportunities. Roughly 10 years ago, the global economic value of ecosystem services was estimated to be about US$ 125 trillion (Costanza et al. 2014). 10 years later, the trend of shifting the industries away from the "create now, clean up later" process has become more imperative, in the context of globalization and innovation.

Scope: This thesis has the objective of inspecting the impact of environmental conduct on business performance from the perspective of several authors and offering the reader an insight into the benefits of adopting environmental-related practices.

Research methodology: The article was constructed mainly on theoretical, exploratory and descriptive research, which served as a basis for hypothetical-deductive and qualitative conclusions.

Results of the research: The question of the relationship between environmental responsibility and financial performance has been a subject of investigation by the community of business and society scholars for over 30 years (Orlitzky, 2008). Waddock and Graves (1997) opined that "any review of different theoretical proposals on the relationship between environmental responsibility and financial performance offers arguments for multiple possibilities: negative, neutral or positive:

–*Negative:* Premised on the fact that companies that behave responsibly are at a competitive disadvantage as they incur costs that they could otherwise avoid or would pass on to other agents (for example, employees, customers or government). Based on this reasoning, there are few economic benefits for socially responsible behavior, but there are many costs, thus leading to the expectation of an fall in the financial performance of the company (Friedman, 1970).

– *Neutral:* This is a denial of the existence of any kind of relationship, either positive or negative, between environmental behavior and financial performance. The authors that belong to this opinion (Makni et al, 2009; Ullman, 1985) argue that there are so many factors or variables that intervene between social-environment and financial performance that there is no reason to assume the existence of any relationship between the two variables, except possibly by chance.

– *Positive:* This third perspective is of the view that there is a tension between the explicit costs of the company (for example, payments to creditors) and their implicit costs to other agents (for example, product quality costs or environmental costs). So, a company that tries to reduce its implicit costs by means of socially irresponsible acts will incur greater explicit costs, the result of a competitive disadvantage (Cornell and Shapiro, 1987).

An increased number of initiatives have been developed regarding sustainability reporting and environmental performance measurement, such as: The International Integrated Reporting Council (IIRC), Account Ability's

AA1000 Series, United Nations (UN) Global Compact's Communication on Progress (COP), Organization for Economic Cooperation and Development Guidelines (OECD), International Organization for Standardization Standards (ISO). However, the lead framework of sustainability and environmental reporting are the guidelines of the Global Reporting Initiative (GRI), since they represent the most widely used benchmark by companies worldwide.

With these initiatives being catalysts for the practice of sustainability reporting, organizations have been enabled to measure and disclose more about their environmental practices over the years. As a result, according to The State of EU Environmental Disclosure in 2020 Report that reviews the environmental disclosures of the top 50 European listed companies with a combined market capitalization of USD 3.5 trillion, the latest reviews "show signs of improvement in the completeness and quality of aspects of environmental disclosure". Thus, the following results have been achieved:

- 52% of companies fully disclosed the relevant environmental aspects of their business model.
- All companies disclosed environmental policies, however 30% did not clarify board and management level due diligence.
- All companies provided greenhouse gas emissions disclosures, however only 10% disclosed metrics on biodiversity.
- 68% referenced Task Force on Climate-Related Financial Disclosures, but only 18% adequately disclosed their resilience to different climate scenarios.

The results achieved are continuing to grow, as the report shows that compared to 2019, 6% more companies disclosed environmental aspects in their business models and 15% more, included environmental business model information in the mainstream report, incorporating it into the description of their core business strategy. The data above, clearly shows that companies have good reasons to allocate additional time resources to measure and disclose indices related to their sustainable performance. While the most important reason may be their willingness to contribute to the environment's well-being, for the purpose of this paper, we will formulate and comment on two additional hypotheses:

Table 1: Comparison of environmental conduct benefits

Hypothesis 1	Hypothesis 2
The practice of environmental disclosure positively influences company's investments and operational profitability	The practice of environmental disclosure increases company operational efficiency
1. Through emissions calculations and environmental reporting, an organization can present its valued	1. In order to reach certain environmentally related goals, it's vital for the company to start its

stakeholders with exact numbers in a transparent way. Providing information to stakeholders, whether they are consumers, investors, or value chain partners will improve an organization's relationship with those parties. 2. A firm's negligence or irresponsible environmental behavior can lead to regulatory sanctions, a negative reputation in the eyes of the investors and other interested third parties (e.g., suppliers, customers). Consequently, this may affect the stock value of companies. 3. Acquiring capital investment is vital for established businesses. Therefore, an investor will need to know the risks associated with their investment. Not having a clear picture of a particular company's risk profile is worse than the company not having a perfect score on all aspects of sustainability. 4. In the recent years environment friendly companies have generated significantly higher stock returns compared to "brown" companies. This gap in the average returns of green and brown stocks was more pronounced during the first COVID-19 (coronavirus) wave in 2020, when the market crashed (Albuquerque et al., 2020).	sustainability journey by measuring the organization's current impact. This improves performance, which enables profits to increase, as well as makes the company more competitive in the rapid and dynamic market. 2. The practice of environmental measuring and reporting creates opportunities for a better vision and strategy, which in turn would enable the company to make more effective decisions with positive long-term impacts. 3. A company who performs environmental impact measurement and reporting, is automatically a company which adheres to the environmental accounting practices. By including environmental accounting activities, the company can better estimate the inputs used, outputs obtained, their size and value and their impact over the company's entire financial performance. This may lead to better budget executions and more precise forecasts.

Conclusions: While the economic literature makes room for all justified opinions related to the interrelation between companies' financial performance and environmental conduct, the author believes that the arguments presented above sufficiently sustain the belief that an environmentally responsible company generates more benefits and manages to better mitigate threatful risks than incur costs which have a negative impact over its financial situation. Therefore, organizations should look into balancing their internal human, financial and work resources with the environmental requirements of the countries it operates in, as well as with its desires to adhere to impactful environmental business practices.

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