

CO2 Emissions and Corporate Financial Performance: Evidence from S&P 500 Firms

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Abstract:

This study explores the relationship between the CO2 emissions and firm financial performance, incorporating both accounting-based (e.g., return on assets, return on equity) and market-based (e.g., Tobin's Q) measures. Drawing on the stakeholder and legitimacy theories to explain how environmental sustainability influences the financial performance. This study includes a sample of 500 listed companies of the S&P stock exchange. Data for this study is gathered from BoardEx and Thomson Reuters for the period between 2000 and 2023. The study employs ordinary least squares regression and additional statistical techniques to investigate the effect of the CO2 emissions and the firm's financial performance using some control variables such as firm size, leverage, and profitability. The results suggest that there is a significant association between the CO2 emissions and the firm's financial performance. The findings offer valuable implications for policymakers and investors, highlighting the significance of integrating environmental sustainability into corporate strategies, stressing the need for investors to account for environmental sustainability in valuation models, and for policymakers to set the regulations that promote corporate environmental sustainability without bargaining the financial performance.

Keywords:

CO2 Emissions, S&P 500 index, Financial Performance, Environmental Sustainability.