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Research Article

The effects of sustainable development on firms' financial performance – an empirical approach†

Dong-shang Chang, Li-chin Regina Kuo

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† The sustainability score is supplied by SAM Sustainable Asset Management. The views expressed in this paper are those of the authors and do not necessarily represent those of SAM Group. All the corporate sustainability indicators used in the present study have been independently elaborated by the authors of this article from the original data provided by SAM Group. Any possible error in the interpretation of such data remains the sole responsibility of the authors.

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Abstract

This research studies firms' sustainable development in term of economic, environmental and social dimensions and their financial performance, which includes a broader coverage of stakeholder engagement of both sustainability and profitability in a structural equation model (SEM). The secondary data of 311 firms' sustainability scores are analyzed and our observations reveal that (1) the better sustainability performers may have a tendency of positive influence on firm profitability in the same and later periods, (2) a positive reciprocal causality may exist between sustainability and profitability among the better sustainability group, (3) profitability affects corporate sustainability positively in both higher and lower sustainability groups and (4) sustainability influences firm profitability negatively in the lower sustainability group. Copyright © 2008 John Wiley & Sons, Ltd and ERP Environment.

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