Taylor & Francis Online

Home ▶ All Journals ▶ Economics, Finance & Business ▶ Financial Analysts Journal ▶ List of Issues ▶ Volume 61, Issue 2 ▶ The Eco-Efficiency Premium Puzzle

Financial Analysts Journal ›
Volume 61, 2005 - Issue 2

2,126 Views
674 CrossRef citations to date
6 Altmetric

PORTFOLIO MANAGEMENT

The Eco-Efficiency Premium Puzzle

Jeroen Derwall, Nadja Guenster, Rob Bauer & Kees Koedijk

Pages 51-63 | Published online: 02 Jan 2019

Cite this article https://doi.org/10.2469/faj.v61.n2.2716

Sample our Economics, Finance,Business & Industry journals, sign in here to start your access, latest two full volumes FREE to you for 14 days

References Citations Metrics Reprints & Permissions

Read this article Share

Abstract

Does socially responsible investing (SRI) lead to inferior or superior portfolio performa … can be thought … t generates, and four … tegic Value Advisors … ted two equity p … ovided substant … he 1995–2003 pe … ences in mark … the results rema … ncremental benefits

In recen … of socially responsi … nagement are inve … of SRI, however … e stock selection

We Care About Your Privacy

We and our 911 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage .Your choices will have effect within our Website. For more details, refer to our Privacy Policy. Here

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purpose

Our study focused on a concept called “eco-efficiency,” which can be thought of as the economic value a company produces relative to the waste it generates. Using corporate eco-efficiency scores from Innovest Strategic Value Advisors, we evaluated self-composed equity SRI portfolios. Focusing exclusively on the environmental element of social responsibility, we investigated whether a long-run premium or penalty exists for holding environmentally responsible companies.

In the first part of the research, we constructed two mutually exclusive portfolios with distinctive eco-efficiency scores. We applied performance attribution models to test whether any performance differential between the portfolios was significant and attributable to the environmental component. This method allowed us to examine the long-term benefits of including environmental criteria in the investment process. We demonstrate that a stock portfolio composed of U.S. companies with high eco-efficiency scores sizably outperformed stocks with low scores over the 1995–2003 period. Using single-factor and multifactor attribution models, we also show that this performance differential cannot be explained by differences in market risk, investment style, or industry exposure.

Obtaining evidence by adjusting returns after the fact may not be very useful, however, from an investor's perspective. Therefore, we also outline the economic implications of our findings by demonstrating how one can construct an environmentally responsible

investm ... e
construc ... sis, in which
all stock ... relative to
their ind ... ated into the
best-in-c ... he best-in-
class po ... percentage
points o ... on costs, the
differ

Our evid ... ial. Our
results a ... ance
different ... mmon risk
factors f ... a mispricing
story.

We are grateful to Innovest Strategic Value Advisors for supplying us its eco-efficiency database and to Mark Bremmer for helpful comments. We also thank Mark Carhart and Kenneth French for providing the benchmark portfolio returns and Vishal Jadnanansing for helpful suggestions and data assistance. We appreciate some computational support by Joop Huij. The financial support of Inquire Europe is gratefully acknowledged. The views expressed in this article are not necessarily shared by ABP Investments.

Financial Analysts Journal: Invested in Research, Shaping the Future. Click to find out more

Related research

People also read | Recommended articles | Cited by 674

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright

Accessib

Registered
5 Howick Pl

or & Francis Group
orma business