Pure Profit:  
The Financial Implications of Environmental Performance

Description:

Today's investors and companies are increasingly aware of the influence of environmental issues on the performance of their assets and businesses.

New environmental regulations, fluctuations in the availability of raw materials, and changes in consumer attitudes have all impacted financial performance.

- In some cases, environmental issues constitute potential liabilities and risks that business have to manage carefully, or that investors have to diversify against.
- In other cases, environmental issues create opportunities in the form of new markets or by motivating the introduction of improved technologies.

Despite the growing importance of the environment in this context, there has been little systematic integration of environmental issues into mainstream financial and corporate decision-making. This is largely due to the lack of any feasible methodology for translating environmental performance into financial terms.

In Pure Profit: The Financial Implications of Environmental Performance, WRI economists Robert Repetto and Duncan Austin attempt to fill this gap.

- They demonstrate a new methodology that allows investors to translate pending environmental issues into the financial terms that they need in order to make sound investment decisions.
- The approach is forward-looking, deals explicitly with uncertainties regarding future environmental developments, and is fully consistent with established financial valuation techniques.
- Not only is the approach suitable as a tool for investment analysis, it could also be used to assess credit ratings and insurance risks, and can easily be adapted for use by company managers as an internal strategic planning tool.

An application of this methodology to 13 leading companies in the U.S. pulp and paper sector the authors demonstrate why evaluating environmental issues should be a central part of investment analysis.

This report is the latest in a series of WRI publications aimed at improving the management of environmental issues by the private sector, including:

- The Next Bottom Line: Making Sustainable Development Tangible;
- Green Shareholder Value: Hype or Hit? (available online in PDF Format); and
- Green Ledgers: Case Studies in Corporate Environmental Accounting.
We welcome any comments that you might have on this report.