

The impact of environmental performance on firm's default. The mediating role of stranded assets and innovation

Cristina Gutiérrez-López(*)
Universidad de León
Campus de Vegazana, s/n 24071, León

Paula Castro
Universidad de León
Campus de Vegazana, s/n 24071, León

María T. Tascón
Universidad de León
Campus de Vegazana, s/n 24071, León

Abstract

The structural economic change taking place in the EU during the transition to become carbon neutral by 2050 is a challenge for firms. The increasingly stringent regulation and the required technological change in a context of environmental demands by the firm's stakeholders and the civil society may compromise the viability of high carbon emitters. This study analyzes the impact of environmental performance on the firm's default risk and estimates the moderating effect of firms' stranded assets and innovation activities on this relationship. Considering listed firms from 16 European countries over the 2005-2018 period, our results indicate that firms with better carbon performance show a higher distance to default. This firm's default risk is lower when tangibility decreases and the firm has an active role in innovation activities, being these effects amplified for good carbon performers. Our results are robust to the use of alternative by-firm proxies for stranded assets and innovation.

Keywords:

Environmental performance, default risk, stranded assets, innovation.