The Effects of Asymmetric Cost Behavior on
Corporate Environmental Commitments and Actions

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ABSTRACT

We examine the effects of asymmetric cost behavior (a.k.a. "cost stickiness")—costs falling less for sales decreases than rising for equivalent sales increases—on corporate environmental commitments and real actions. Prior research suggests that corporate environmental commitments involve multi-year resource deployments and that reductions in firms' environmental commitments lead to negative investor reactions. Building on these findings, we predict that firms with higher cost stickiness will make lower initial corporate environmental commitments because they are less capable of maintaining high levels of environmental commitments in the future than firms with lower cost stickiness if sales decrease. Using measures of firms' environmental commitments based on MD&A disclosures and earnings calls, we find results consistent with our prediction. In addition, we show that firms with higher cost stickiness take weaker real environmental actions, as evidenced by economically significant increases in industry pollution and decreases in green investments. To mitigate endogeneity concern, we use two quasi-experimental designs that utilize plausibly exogenous variations in labor-adjustment costs caused by wrongful discharge laws and close-call union elections. These quasi-experimental tests yield results consistent with the main results. Cross-sectional analyses provide support for the proposed mechanisms. Our study provides novel insights about how cost behavior influences firms' environmental initiatives.

Keywords: *asymmetric cost behavior; cost stickiness; environmental commitments; sustainability*

Data Availability: Data are available from the public sources identified in the manuscript.