ABSTRACT

Based on the proposition that leasing is environmentally superior to selling, some firms have adopted a leasing strategy and others promote their existing leasing programs as environmentally superior in order to “green” their image. The argument is that as a leasing firm retains ownership of the off-lease units, it has an incentive to remarket them or invest in designing a more durable product, resulting in a lower volume of new production and disposal. However, leasing might be environmentally inferior due to the direct control the firm has over the off-lease products, which may prompt their premature disposal to avoid cannibalizing the demand for new products. Motivated by these issues, we adopt a life-cycle environmental impact perspective and analytically investigate if leasing can be both more profitable and have a lower total environmental impact. We find that leasing can be environmentally worse despite full remarketing, and greener than selling despite the premature disposal of off-lease products. Our analysis also shows that while the firm does have an incentive to offer a more durable product under leasing, this can directly lead to leasing being environmentally worse. Our results also provide insights for policymakers that promote leasing as a “greener” choice by identifying how they can induce firms to voluntarily adopt the greener strategy.