

Environmental Disclosure: An Action or a Re-action

Presented by:
Hani Tadros
PhD Candidate

Supervisor:
Prof. Michel Magnan

18.00

Research Question

- ✓ In this research, I re-examine the relationship between environmental disclosure and environmental performance.
- ✓ I investigate whether firms with good environmental performance disclose more environmental information or whether it is the other way-round.
- ✓ My main research question focuses on the change in disclosure. Whether a change in environmental performance would induce a change in disclosure.
- ✓ In other words, when a firms experience a change in environmental performance, would it disclose more or less information.

Theories

- ✓ Legitimacy theory predicts that firms with low-environmental performance disclose more environmental information in order to legitimize their existence.
- ✓ Economic theory predicts that firms with good environmental performance have an economic incentive to disclose more information in order to influence their stock prices.
- ✓ Institutional theory predicts that firms would follow the norms of disclosure of their respective industries; therefore, we might not find significant differences between the patterns of disclosure of low-and high environmental performers.

Research Motivation

- ✓ Previous research has landed controversial results. Some research studies suggest that high-environmental performers disclose more environmental information (Al-Tuwajri et al, 2004; Clarkson et al., 2008) while other research studies found that firms with low-environmental performance disclose more environmental information (Patten, 2002; Fekrat et al, 1996, Hughes et al., 2001)
- ✓ There is no common agreement on what is environmental disclosure, the variable has been measured differently in different research studies.

Hypothesis

- ✓ Firms that experience a decline in environmental performance have an incentive to disclose more information in order to legitimize their actions.
- ✓ Firms that experience an improvement in environmental performance have an economic incentive to disclose more environmental information in order to positively affect their market value.

Research Methodology

✓ I examine the environmental disclosures of 78 firms over a period of ten years from 1997 to 2006.

✓ To measure environmental disclosure, I develop a multi-dimensional disclosure index that integrates different aspects of disclosure: (1) content, disclosed (2) negative news disclosure (3) specificity of disclosure. The index is inspired by the work of (Clarkson et al, 2008); however, it also includes aspects of mandatory disclosure)

✓ I measure firms' environmental disclosure in the 3 types of reports: annual reports, 10-K reports, and sustainability reports. The disclosure score is based on firms' disclosures in the three reports.

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Model

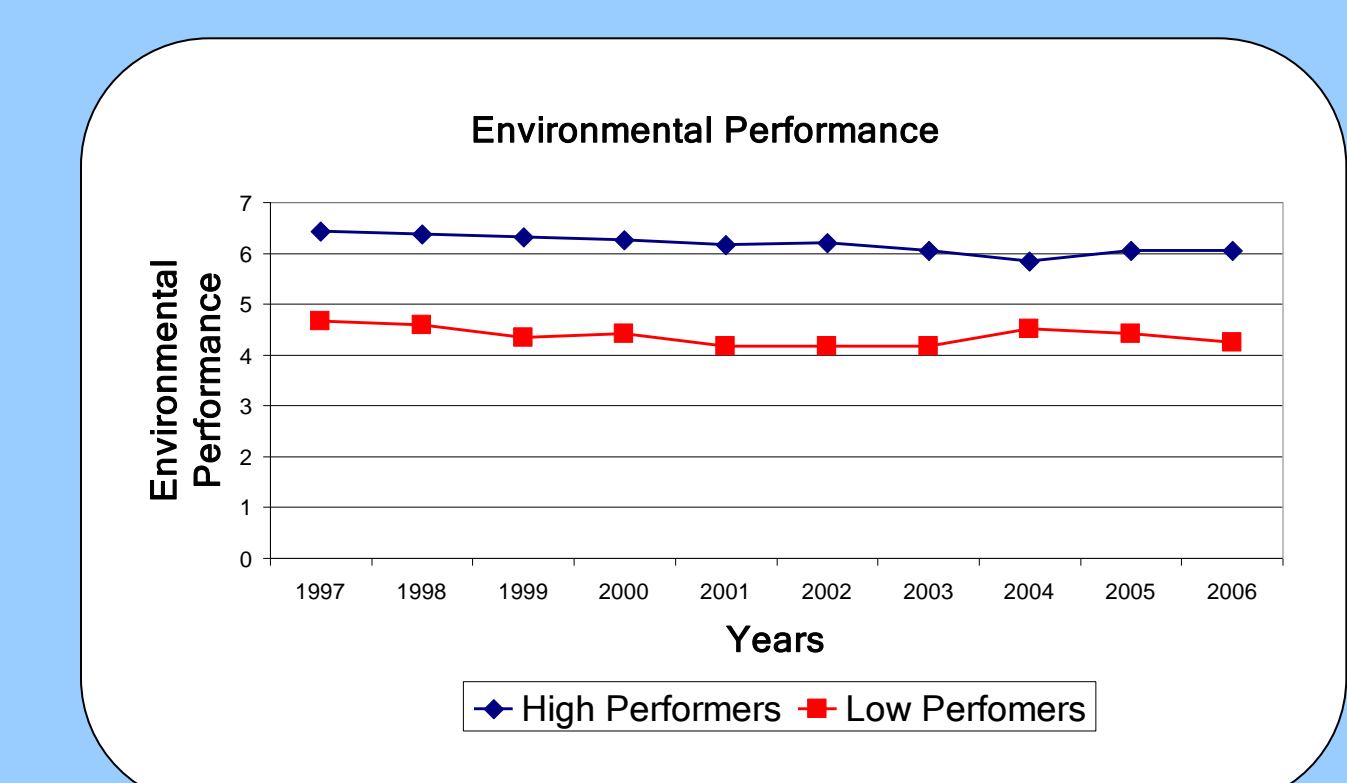
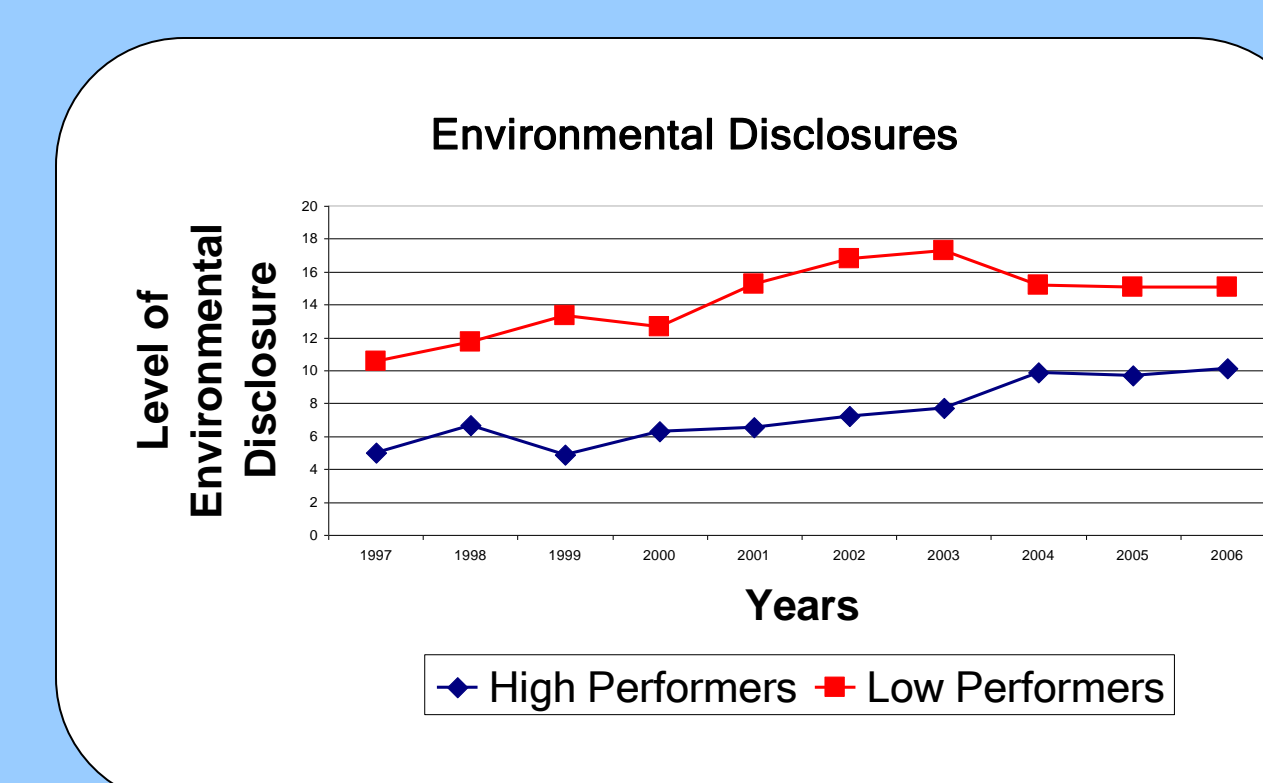
$$\Delta \text{environmental disclosure} = \Delta \text{environmental performance} + \text{Control Variables}$$

Contribution

✓ This research study allows me to examine managerial actions. How disclosure in order to justify change in environmental performance.

Results

Descriptive Statistics: (I am still in the phase of data Collection)



- ✓ Descriptive statistics shows that low environmental performers disclose more environmental information than high environmental performers.
- ✓ The relationship between performance and disclosure is not static over time. There are times where the levels of disclosures of low and high environmental performers are close.
- ✓ Although both low and high performers experienced a slight decline in performance, they still increased the level of environmental disclosure.
- ✓ Low performers increased their level of disclosure at higher rate than high performers → support for legitimacy theory.
- ✓ I still need to perform a regression analysis to examine the relation between the change in performance and the change in disclosure