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Disclosure Effects, Carbon Emissions and Corporate Value

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ABSTRACT

Purpose- The main objective of this study is to examine the impact of corporate carbon emissions and disclosure on corporate value, especially regarding whether disclosure helps to reduce uncertainty in valuation as predicted by carbon emissions using a unique data set on Japanese companies.

Design/methodology/approach- Empirical analysis of the relations between corporate carbon emissions using compulsory filing data to Japanese government covering more than 1,000 firms, corporate carbon management disclosure (CDP disclosure), and the market value of equity.

Findings- We find that (1) corporate carbon emissions have a negative relation with the market value of equity, (2) the disclosure of carbon management has a positive relation with the market value of equity, and (3) the positive relation between the disclosure of carbon management and the market value of equity is stronger with a larger volume of carbon emissions.

Practical implications- Our results may be an important when considering the inclusion of carbon disclosure as a component of nonfinancial disclosure. In addition, our findings encourage Japanese companies to reduce carbon emissions and to disclose their carbon management activities.

Originality/value- We provide the first empirical evidence of an interactive effect between the volume of carbon emissions and carbon management disclosure on the market value of equity. And, our results concerning the relation between environmental performance, disclosure, and market value are readily generalizable, especially as all companies emit carbon, either directly or indirectly. In addition, our results are arguably free of problems with sampling bias and endogeneity as we employ data obtained from the compulsory filing of carbon emissions information.

Keywords: Carbon emissions, Disclosure, Value relevance, Interactive effect