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## **Does Environmental Disclosure Influence Cost of Capital? An Empirical Investigation of Japanese Companies**

**Charles H. Cho**

ESSEC Business School  
cho@essec.edu

**Giovanna Michelin**

University of Padova  
giovanna.michelon@unipd.it

**Yuki Tanaka**

Hosei University  
y.tanaka@hosei.ac.jp

### **ABSTRACT**

In this paper, we examine the economic consequences of corporate environmental disclosure commitment and environmental performance efforts in the Japanese context. More specifically, we investigate whether both commitment to voluntary environmental disclosure per se and efforts made to improve environmental performance through disclosure are related to a firm's cost of capital. Based on a sample of non-financial companies listed on the Tokyo Stock Exchange for the period 2003-2009, we report a negative relation between the issuance of a voluntary environmental report and firm cost of capital. Our results also indicate that long-term commitment to environmental disclosure is associated with a lower cost of capital. For a subset sample of firms that provide specific disclosure items, we finally find that both improvement in environmental performance and reported environmental efforts also decrease firm cost of capital. Overall, our results support the argument that, consistent with evidence found in some of the prior literature, capital market participants appear to value the existence and availability of voluntary corporate environmental information as well as firm commitment and efforts both in terms of environmental disclosure and environmental performance.

**Keywords:** Environmental Disclosure, Corporate Environmental Report, Cost of Capital, Empirical analysis