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A COMPREHENSIVE ANALYSIS OF THE NEXUS BETWEEN ENVIRONMENTAL REPORTING AND MARKET PERFORMANCE OF EUROPEAN COMPANIES

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Abstract

The paper aims to carry out a cross-country analysis of the effects of environmental reporting on company's market performance. For this purpose, we have used a set of data comprising information on industrial companies ranked in top 150 by net sales for the year 2017 and originating from 15 European countries, for the period 2007-2016. The study included both environmental qualitative reporting based on environmental scores calculated by the authors, and reporting combining qualitative and quantitative data. Using a panel data model with fixed effects, the study has shown that there is a positive relation between qualitative environmental information and financial performance, measured by Q-Tobin ratio, which proves the relevance of environmental reporting for increasing the market value of listed companies. Additionally, the usefulness of environmental reporting is high, especially when it includes both non-financial and financial information, in which case investors tend to pay less attention to qualitative information that lose some of its explanatory power on market performance. The results are robust when macroeconomic variables are introduced into the models to reflect the governmental revenues collected from environmental fees and the governmental spending on environmental protection. Therefore, empirical results show that companies may benefit from proactive environmental reporting strategies that could play a significant role in increasing their financial success.

Keywords: environmental disclosure, environmental reporting, environmental score, market performance, Q-Tobin ratio

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