> Thursday, June 22th, 2023
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ACCOUNTING

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘THE ASSOCIATION BETWEEN MANDATED ENVIRONMENTAL LIABILITY RECOGNITION AND THE VOLUNTARY DISCLOSURE OF ESG INFORMATION’

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ABSTRACT

We examine the association between mandated Asset Retirement Obligations (ARO), i.e., environmental clean-up costs of normal operations estimated on the balance sheet, and the quantity of voluntary ESG information disclosed. We hypothesize that when firms recognize larger AROs with higher accuracy that this effort will spill over into more complete voluntary disclosure of a broad range of ESG outcomes. Empirical evidence supports this hypothesis. In a sample of environmentally sensitive industries, we find that firms with larger and more accurate AROs disclose more information about their ESG activities, including the subset of environmentally focused disclosures. We document predictable cross-sectional variation in the relation as a function of plausible mechanism variables. We provide DiD evidence as well as an instrumental variable analysis to address endogeneity, although a changes analysis aimed at also establishing causality produces inconsistent results. Our evidence suggests that accounting resources used to estimate mandatory ARO liabilities induce spill overs into more complete voluntary ESG disclosures.

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