© The Journal - Contemporary Management Research
2017, Vol. 11, Issue No. 1, 1 - 26.

THE IMPACT OF VOLUNTARY ENVIRONMENTAL DISCLOSURE ON COST OF EQUITY CAPITAL - EVIDENCE FROM INDIAN FIRMS

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ABSTRACT

Purpose
The aim of this study is to examine the impact of the industry sector on the voluntary environmental disclosure and the association between the firm's carbon-related risk exposure and the cost of equity.

Design/methodology/approach
The study covers ET top 20 Indian firms from seven different industry sectors over the period 2011-2014. Environmental Disclosures Model is developed to test the industry sector effect on the voluntary environmental disclosure. Further, a regression model is developed to investigate the association between voluntary environmental disclosure and the cost of equity.

Findings
Using panel data regression analysis, this paper finds a positive association between the carbon-related risk exposure and the cost of equity capital. Firms with carbon-related risk exposure in capital market have a greater cost of equity. This study also found that the firms, which are operating in the highly environmental-sensitive industry sectors, are more likely to disclose carbon information publicly compared to those, which are operating in the less environmental-sensitive industry sectors.

Originality / value
Previous literature confirmed that the firm's carbon-related risk exposure adversely affects corporate entities' cost of equity financing in developed economies. Yet, an important question remains unanswered that how investors in developing countries use firm's carbon-related risk exposure in their investing decisions. In this paper, we tried to answer this question within the context of the Indian equity market.

Keywords: *India, Carbon risk, Voluntary Disclosure, ET 500, Cost of equity.*