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## The Impact of Voluntary Environmental Disclosure Quality on Firm Value

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### Abstract

This study examines the relationship between the quality of a firm's voluntary environmental disclosures and firm value, by exploring the correlation between the components of firm value (cost of capital and expected cash flows) and disclosure quality. Using an innovative index to capture variation in environmental disclosure quality, we document a negative relation between cost of capital component of value and voluntary disclosure quality for firms that operate in environmentally sensitive or electrical industries and a generally positive association between the cash flow component of value and voluntary disclosure quality for firms that operate in environmentally non-sensitive industries. Our study provides a comprehensive rationale for a variety of firms to provide high quality voluntary disclosures, even though the means by which firm value is affected varies across firms. In addition, we document that the venue for the voluntary environmental disclosures (within a stand-alone report or as part of the annual report) significantly affect the relations. Overall, our results suggest a complex inter-relationship between firm value and voluntary disclosure quality; one that requires an understanding of the association between both the cost of capital and cash flows and voluntary disclosures.

**Keywords:** voluntary disclosure quality, environmental disclosures, firm value**JEL Classification:** G12, G14, M14, M41, M45[Suggested Citation](#) >[Show Contact Information](#) >[Not Available for Download](#)

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