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# The value relevance of environmental performance

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## Abstract

This paper provides insight into how environmental information is reflected in the market value of listed Swedish companies. Using the residual income valuation model, we express market value of equity as a function of book value of equity, accounting earnings, and environmental performance, where the last variable is used as a proxy for other value-relevant information. Our research is motivated by the recommendation of the Swedish Society of Financial Analysts regarding environmental reporting. This recommendation is likely to increase the transparency of environmental information, which is likely to contribute to the empirical performance of environmental reporting. Our research finds that increased environmental performance is positively related to the market value of equity, and that this relationship returns to the market value of equity because of the current research finding support for the cost-concerned theory, because

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the results indicate that environmental performance has a negative influence on the market value of firms.

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## Notes

- <sup>1</sup>See also Appendix.
- <sup>2</sup>Also note that the intercept allows for the non-zero mean valuation effects of other valuation-relevant information, besides environmental performance which is picked up by the error term.
- <sup>3</sup>Five of the companies studied did not use SEK as a reporting currency. For these companies, we translated the accounting numbers into SEK using the relevant exchange rate as of the last trading day of the quarter. The exchange rates were collected from Reuters.
- <sup>4</sup>In a few cases, the same company was included in the sample more than once, representing a proxy for the company's performance in different markets.
- <sup>5</sup>Forty-two companies were included in the sample, representing a total of 1,040 observations.

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<sup>6</sup>As a robustness check, we reran all the tests deflating equations 3–5 by sales instead of opening book value. The results obtained were very similar to those reported in the paper.

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