

Environment-Specific Political Risk Discourse, Environmental Reputation, and Stock Price Crash Risk

Authors : Sohanur Rahman, Elisabeth Sinnewe, Larelle (Ellie) Chapple, Sarah Osborne

Abstract : Greater political attention to global climate change exposes firms to a higher level of political uncertainty, which can lead to adverse capital market consequences. However, a higher level of discourse on environment-specific political risk (EPR) between management and investors can mitigate information asymmetry, followed by less stock price crash risk. This study examines whether EPR discourse in the earnings conference calls (ECC) reduces firm-level stock price crash risk in the US market. This research also explores if adverse disclosures via media channels further moderates the association between EPR on crash risk. Employing a dataset of 28,933 firm-year observations from 2002 to 2020, the empirical analysis reveals that EPR discourse in ECC reduces future stock price crash risk. However, adverse disclosures via media channels can offset the favourable effect of EPR discourse on crash risk. The results are robust to the potential endogeneity concern in a quasi-natural experiment setting.

Keywords : earnings conference calls, environment, environment-specific political risk discourse, environmental disclosures, information asymmetry, reputation risk, stock price crash risk

Conference Title : ICEBFM 2022 : International Conference on Economics, Business, Finance and Management

Conference Location : Amsterdam, Netherlands

Conference Dates : September 15-16, 2022