

The Environmental Policies and the Cost of Debt: Operational Strategies and Disclosure in the Energy Sector

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Abstract

One of the crucial challenges in energy management is the conversion to sustainable operations. The present work is an attempt to verify if financial institutions are able to identify and valorise those energy companies that have embarked on a virtuous process of emissions reduction. Focusing on a sample of international energy enterprises observed over a time-span from 2003 to 2016, the analysis aims to verify the extent to which measures related to environmental disclosure are negatively associated with the cost of debt. Moreover, it tests whether measures relating to the emission of GHG are positively associated with the cost of debt. The empirical analysis is conducted through panel models, and the results show that a higher environmental disclosure is negatively associated with the cost of debt. Disclosure strategies allow energy companies to communicate their sustainability policies, which are generally connected to lower environmental risks and the implementation of more sustainable production processes; such processes are associated with a lower risk perceived by financial institutions and, in turn, with a lower cost of debt. The results also show that measures relating to the emission of GHG are positively associated with the cost of debt. Higher emissions show less attention towards sustainability policies and, therefore, reflect a higher overall risk of companies. The empirical analysis suggests that environmental policies and disclosure may be tools to achieve higher financial soundness of companies encouraging the conversion process towards new and more sustainable business perspectives.

Keywords: Energy sector, environmental score, GHG emission, cost of debt