

## **FIRM CHARACTERISTICS AND ACCOUNTING POLICY CHOICES FOR ENVIRONMENTAL LIABILITIES**

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### **ABSTRACT**

The primary objective of this study is to investigate the relationship between financial and environmental measures and environmental accounting policy choices of firms. This study examines why firms choose to recognize, disclose or not report on their contingent environmental liabilities. The results of this study provide limited support for the proposed hypotheses regarding the relationship between firm characteristics and environmental accounting policy choices. Specifically, the findings provide evidence that firms with relatively larger clean-up costs or numerous contaminated sites tend to report and/or disclose more information about their environmental liabilities than firms with smaller clean-up costs or fewer contaminated sites.

The results also suggest that good financial performers are more likely to report and/or disclose information about environmental liabilities. Additionally, the results of this study indicate that high leveraged firms tend to make less recognition/disclosures on environmental matters than low leveraged firms. The findings also suggest a negative correlation between executive bonus amounts and the reporting/disclosing of environmental liabilities. Finally, the results suggest that neither political costs nor customer base are significantly related to a firms' disclosure policy regarding environmental liabilities.

Overall, this research adds to our understanding of firms' accounting policy choices. First, evidence on the relationship between the various types of financial and environmental information, and firms' choice of environmental accounting policies should be useful to policy makers and investors interested in assessing the incremental relevance of environmental liabilities. It may also provide direction for establishing the proper policy regarding the format of financial reporting for financial statement users. Second, the findings of this study provide financial statement users with useful information about contingent environmental liabilities. Third, in general, it also adds to the accounting literature on contingent liabilities.