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Can the market for Corporate Environmental Reporting be classified as a Market for Lemons?

Abstract

Using Akerlof's 1970 Lemon Market Theory, this research investigates whether the market for Corporate Environmental Reporting (CER) demonstrates the characteristics of a "market for lemons" by adversely selecting poor quality reports and so is ultimately bound for failure. This work, which is the first phase of a PhD thesis, draws on existing evidence to show that the market for corporate environmental reporting demonstrates similar characteristics to those described by Akerlof i.e. there is an asymmetry in information available, there is a range of reporting quality as well as motivation for companies to produce poor quality or "lemon reports". Consistent with Akerlof's theory, countervailing mechanisms in the CER market are examined for their adequacy, or in this case inadequacy, to counteract the effect of the lemon market. Finally, existing evidence of poor reputation of the corporate environmental reporting market provides further signals of the lemons effect. Suggested methodologies for empirical work to progress this research are then put forward for discussion.