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Capital Market Implications of Resource Consent Information in New Zealand Listed Company Announcements

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Abstract

This thesis investigates the capital market impact of resource consent information disclosed in New Zealand listed company announcements from 1991 to 2007. Since 1991, New Zealand environmental law has required individuals and businesses to obtain resource consent approval to use resources or undertake development activities that may have potentially adverse environmental impacts. Wide-spread criticisms of excessive delays, uncertainties and compliance costs purportedly caused by the consenting process have motivated this study of the economic implications to New Zealand listed companies of resource consent information. This study adds to the New Zealand capital market literature, employing an event study approach that allows for rigorous, empirical testing of small samples that are problematic in small economy research.

The impact of environmental regulatory delay on capital market reactions to capital expenditure announcements is investigated. A measure of the expected time to gain resource consent (regulatory) approval is developed and used as an indicator of expected resource consent compliance costs. The event study results indicate positive valuation effects from project announcements when the expected time to gain resource consent approval is long. The key findings imply that by undertaking voluntary capital expenditures with high environmental compliance costs, listed companies can create strategic advantages. The results also suggest that if New Zealand legislators are able to reduce environmental regulatory delays associated with capital expenditures through further legislative changes, then the opportunity for firms to earn economic profits may be diminished.

Investor access to timely, financial resource consent information is argued to be problematic, consequently further investigations consider the capital market impact of announcements to the stock exchange that disseminate information on the progress of resource consent applications. The event study results indicate that resource consent announcements are newsworthy and provide timely, valuable information to the market. Further evidence suggests that media dissemination plays an important role in the price-adjustment process for news of resource consent successes. Given the

prominence of environmental compliance issues for firms, the results of this thesis underscore the importance of timely disclosures of firm environmental risk management strategies and processes through stock exchange and press releases.

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