

Institutional investor influence on global climate change disclosure practices

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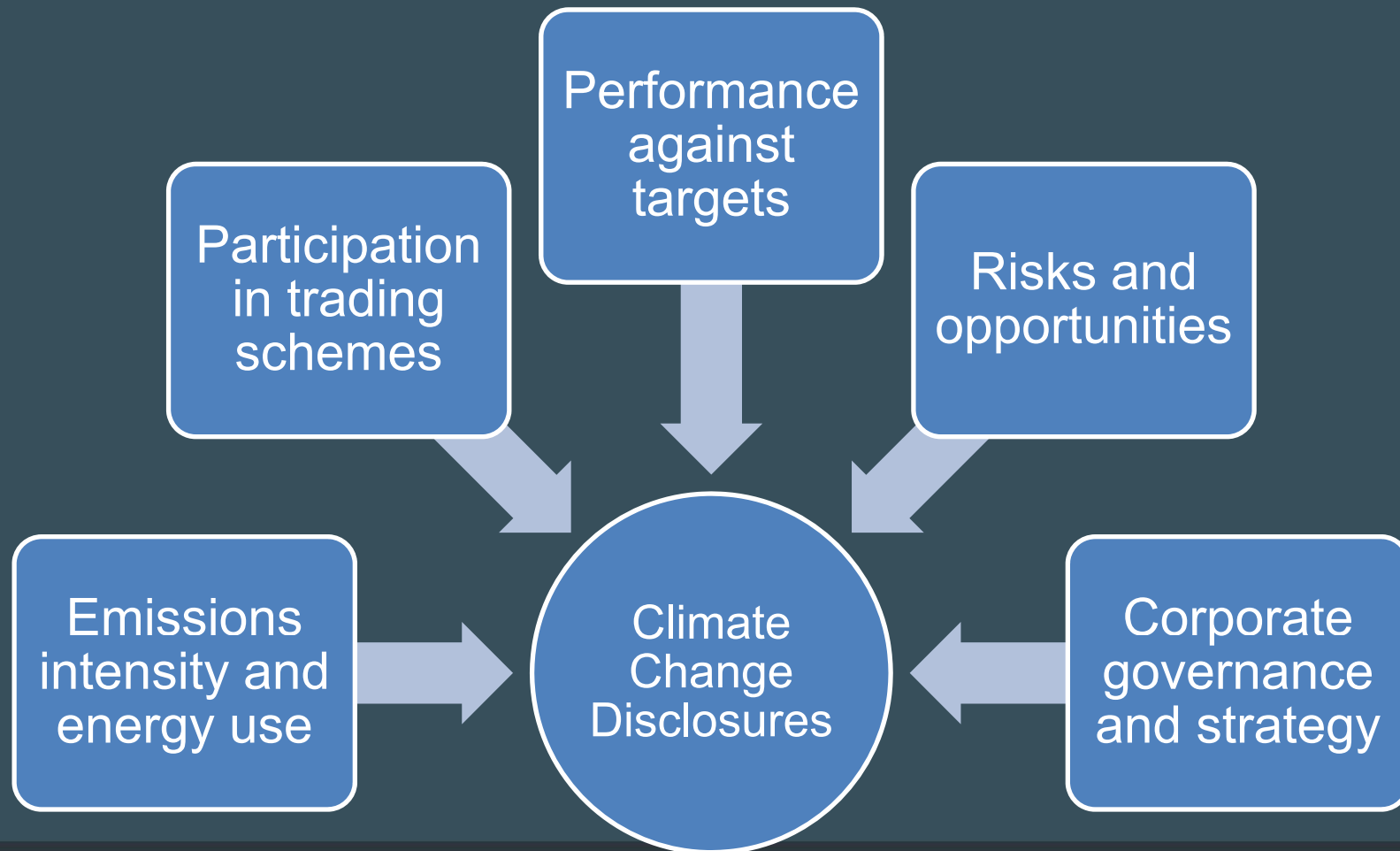
Research Question

- To what extent and in what ways have institutional investors influenced climate change disclosure by large companies?

Overview

- Climate change disclosure
- Collective action – institutional investors and CDP
- Institutional Investor Influence on Climate Change Disclosures
- Research methods
- Results
- Conclusions and contributions

Climate change disclosures



Climate Change Disclosure Mediums



Regulated Disclosures
Eg. NGERs, made directly to
regulator

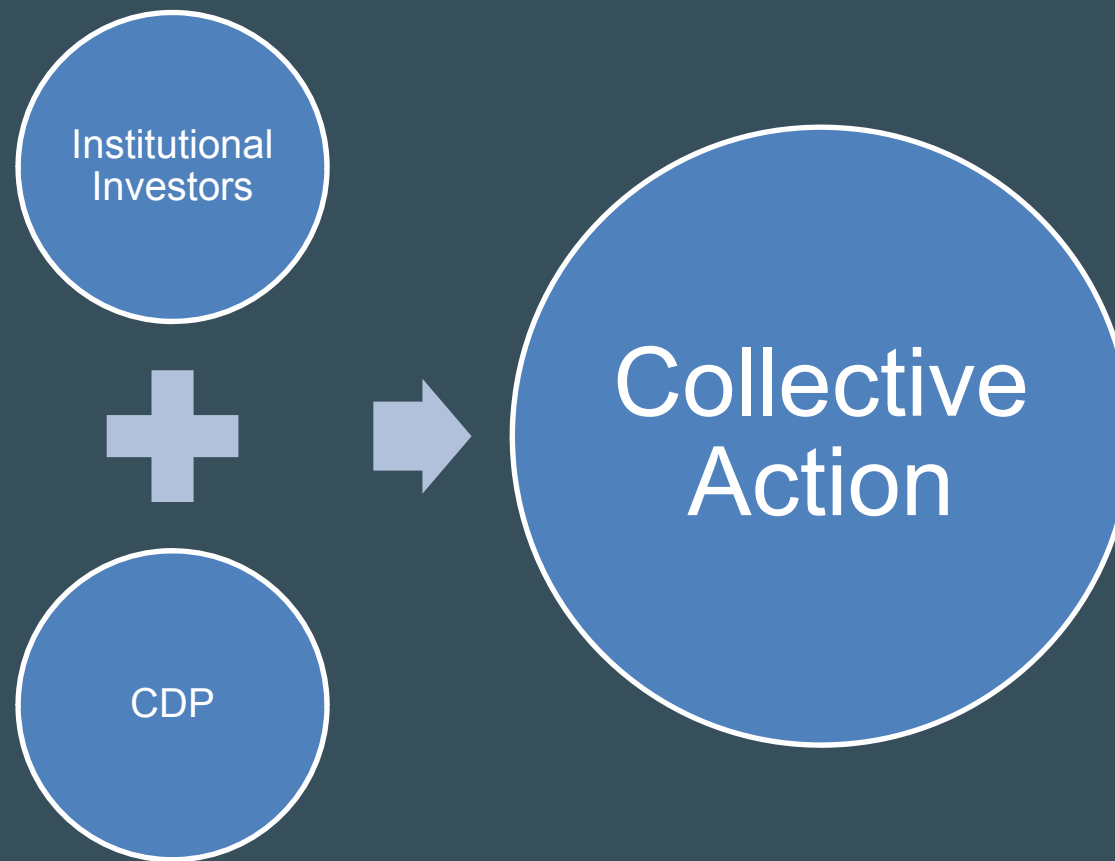
Carbon Disclosure Project
questionnaire response

Voluntary Disclosures in
Annual and/or Sustainability
Reports or on company
websites

Carbon Disclosure Project

- About CDP
 - Independent, not-for-profit organisation
 - Collects climate change data from approx. 3000 companies around the world
 - Represents 551 institutional investors with over US\$71 trillion in assets under management
- CDP questionnaire
 - Sent to 4500 companies globally in 2010 (including ASX200)
 - 235 responses in 2003; 2204 in 2008
 - Sections on climate risks and opportunities, GHG emissions, performance and governance
 - Increasing amount of information requested each year

Institutional Investor Coalition



Institutional Investor Influence on Climate Change Disclosures

Powerful stakeholder coalition

Institutional Investors

Carbon Disclosure Project

Corporate engagement

CDP Questionnaire

CC Disclosure in annual and sustainability reports, company websites

Extent

Quality

Nature

Hypotheses – the following companies are expected to have higher climate change disclosure scores

H1
Full sample

- Companies that complete the CDP questionnaire and consent to having their response published on the CDP website

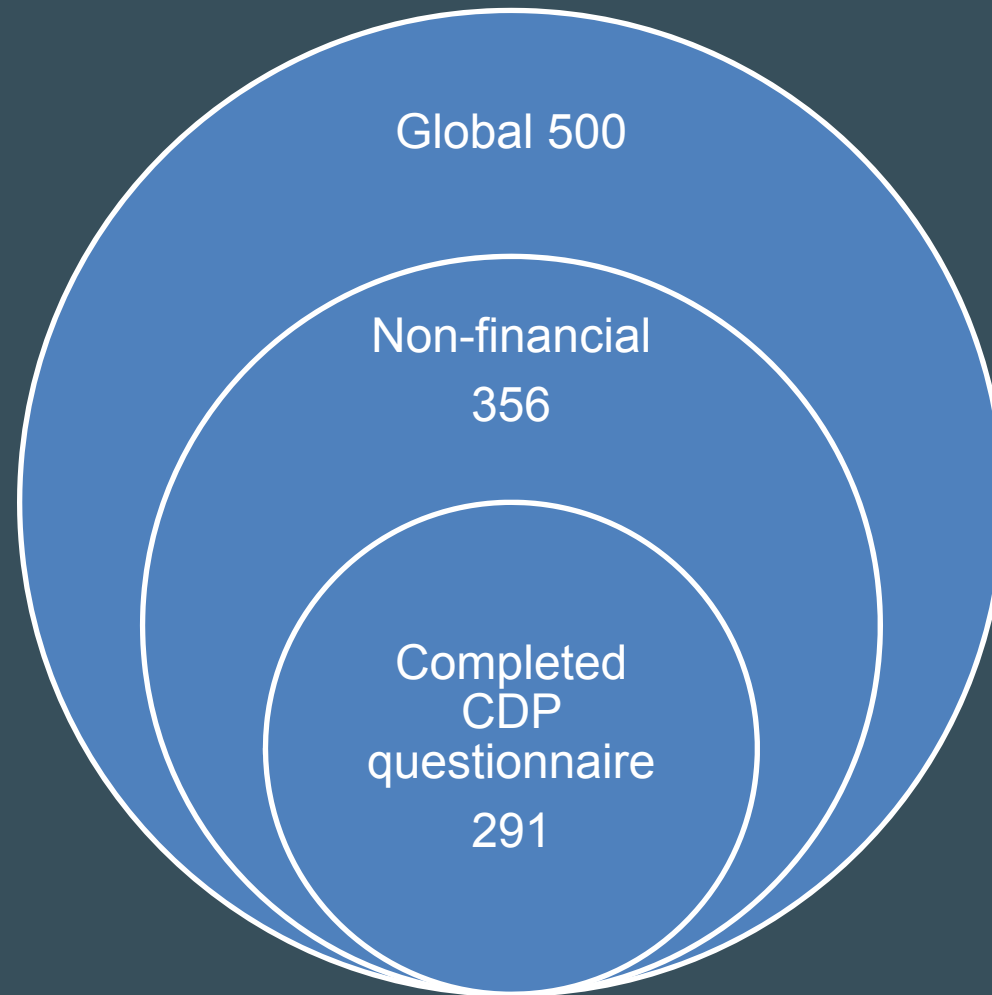
H2
Companies that complete the CDP questionnaire

- Those that indicate the influence of CDP activities in their corporate communications

H3
Companies that complete the CDP questionnaire

- Those with higher climate change disclosure scores based on their CDP response

Sample



Data sources

Climate
Change
Disclosure
scores

- Hand collected from annual and sustainability reports and company websites
- Most recent available at June 2009 (June or December 2008)

CDP
questionnaire
responses

- 2008 CDP Global 500 report (based on May 2008 responses)
- CDP website

Table 2: Breakdown of sample by response to CDP information request and references to CDP in corporate communications

PANEL A: Response to CDP information request	Number of Companies
Questionnaire at least partially completed and published by CDP	236
Questionnaire at least partially completed but not published by CDP	55
<i>Companies completing the CDP questionnaire</i>	291
Provided some information to CDP but did not complete questionnaire	5
Declined to participate	18
Did not respond to CDP	42
<i>Full sample of G500 non-financial companies</i>	356
PANEL B: References to CDP in corporate communications	
Full CDP response provided on company website	16
Link to CDP provided in annual or sustainability report	40
Participation in CDP questionnaire mentioned in annual or sustainability report	88
CDP not mentioned	147
<i>Companies completing the CDP questionnaire</i>	291

Table 3 Climate change disclosure scores for sample of 340 companies

Category of Disclosure	Mean	Median	Standard Deviation	Minimum	Maximum	Max Score Possible
Risks and Opportunities	1.83	1.21	1.97	0	9	27
Emissions Accounting	6.92	7.16	4.70	0	23	27
Verification and Trading	2.96	2.31	2.97	0	15	20
Performance	4.01	4.81	3.02	0	12	18
Governance	3.36	3.58	2.15	0	8	8
<i>Total Disclosure Score</i>	19.09	19.00	12.47	0	51	100

The model used to test the hypotheses is:

- $CCDISC_i = \alpha_0 + \alpha_1 X_{CDP_i} + \alpha_2 ROA_i + \alpha_3 SIZE_i + \alpha_4 LEV_i + \sum COUNTRY_i + \sum INDUSTRY_i + \varepsilon$
- Where CCDISC is the climate change disclosure score and X_{CDP} indicates the relevant independent variable used to test each of our hypotheses as follows:
 - H1 – completed and published CDP questionnaire
 - H2 – link to CDP website or CDP participation mentioned
 - H3 – CDP disclosure score

Table 7 Regression results: Dependent variable is climate change disclosure score

	H1		H2	H3
Intercept	-27.081 (-2.736)**	-26.975 (-2.730)**	-23.367 (-2.160)*	-33.676 (-2.833)**
Completed CDP questionnaire	11.409 (7.874)**	-	-	-
Completed and published CDP questionnaire	-	9.419 (7.954)**	-	-
Link to CDP website	-	-	10.329 (6.074)**	-
CDP participation mentioned	-	-	7.449 (5.868)**	-
CDP disclosure score	-	-	-	0.302 (9.216)**
ROA	0.100 (1.275)	0.043 (0.558)	0.023 (0.256)	0.080 (0.918)
SIZE	1.922 (3.331)**	2.126 (3.706)**	2.431 (3.822)**	2.163 (3.098)**
LEV	1.280 (2.316)*	1.335 (2.421)**	0.567 (0.959)	0.539 (0.885)
Adjusted R ²	0.408	0.409	0.389	0.489
F statistic	15.357**	15.474**	11.137**	14.514**
N	335	335	272	227

Contributions and Conclusions

- First known study to examine the extent, quality and nature of a comprehensive set of climate change disclosures for a sample of large global companies
- Extends the literature on the determinants of climate change disclosure – the influence of institutional investor engagement activities has not been previously examined
- Stakeholder engagement literature – empirical support for the role of collaborative shareholder engagement in relation to climate change disclosures
- Supports the tenets of stakeholder theory and demonstrates the potential for this powerful and legitimate stakeholder group to influence corporate disclosures

Support for Institutional Investor Influence on Climate Change Disclosures

Powerful stakeholder coalition

Institutional Investors

Carbon Disclosure Project

Corporate engagement

CDP Questionnaire

CC Disclosure in annual and sustainability reports, company websites

Extent

Quality

Nature

Thank you

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