

# Institutional investor influence on global climate change disclosure practices

Julie Cotter  
Muftah Najah

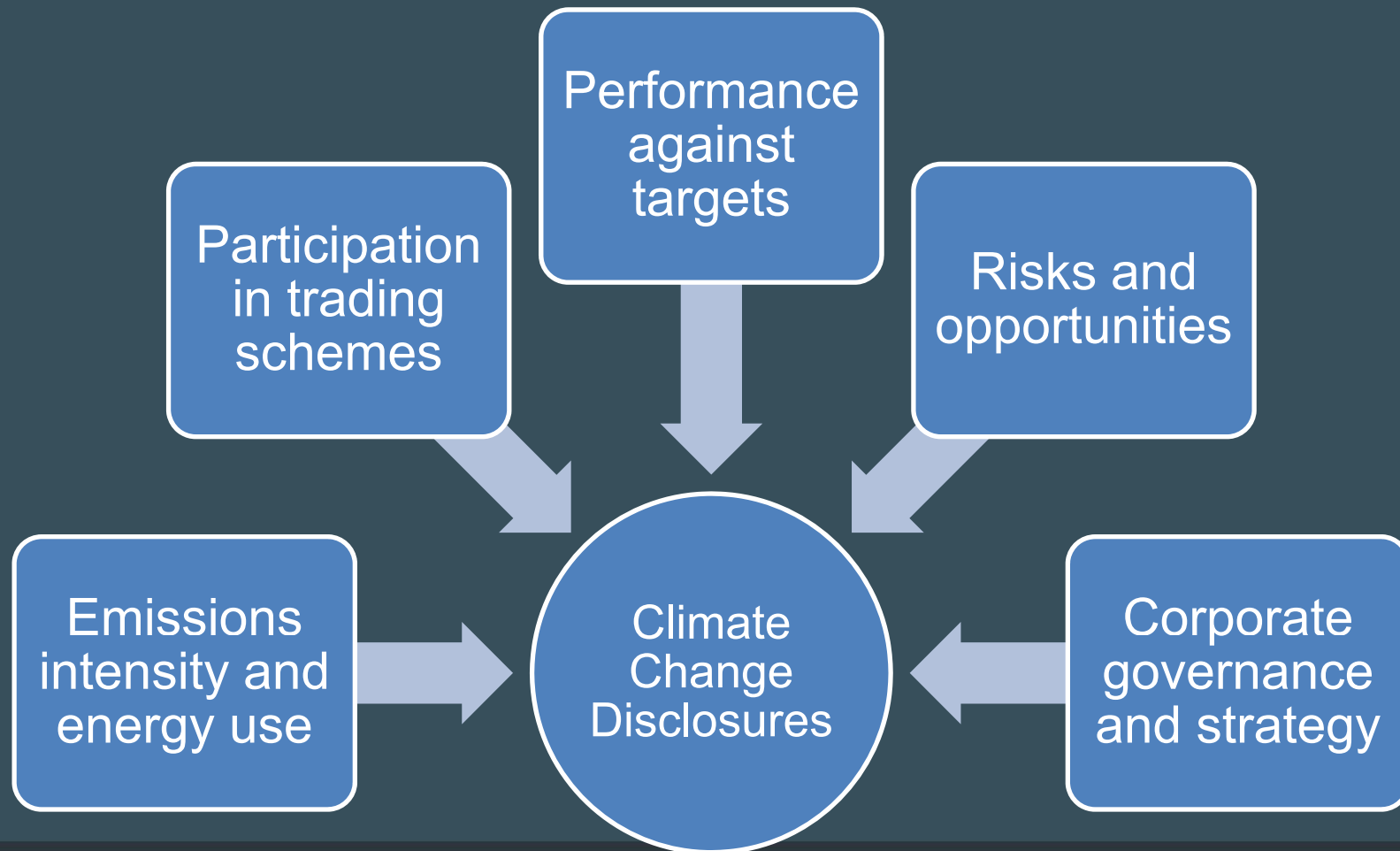
## Research Question

- 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

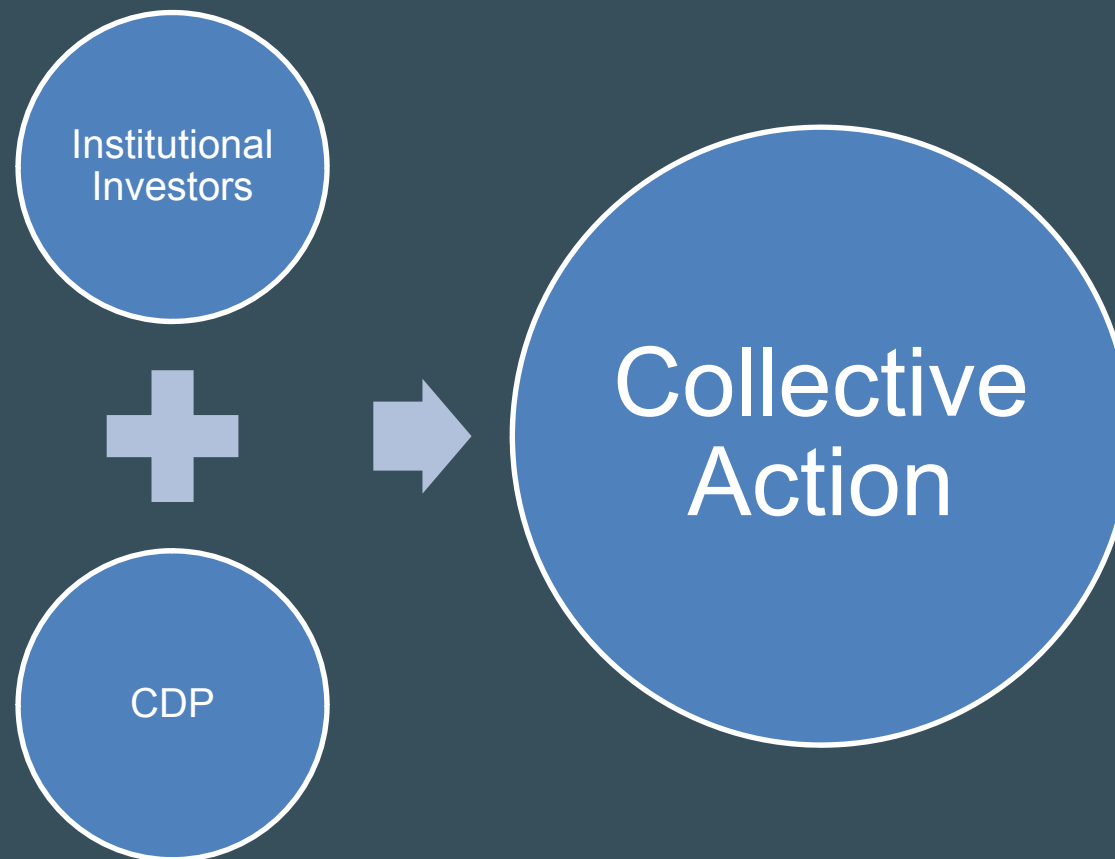
Carbon Disclosure Project  
questionnaire response

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

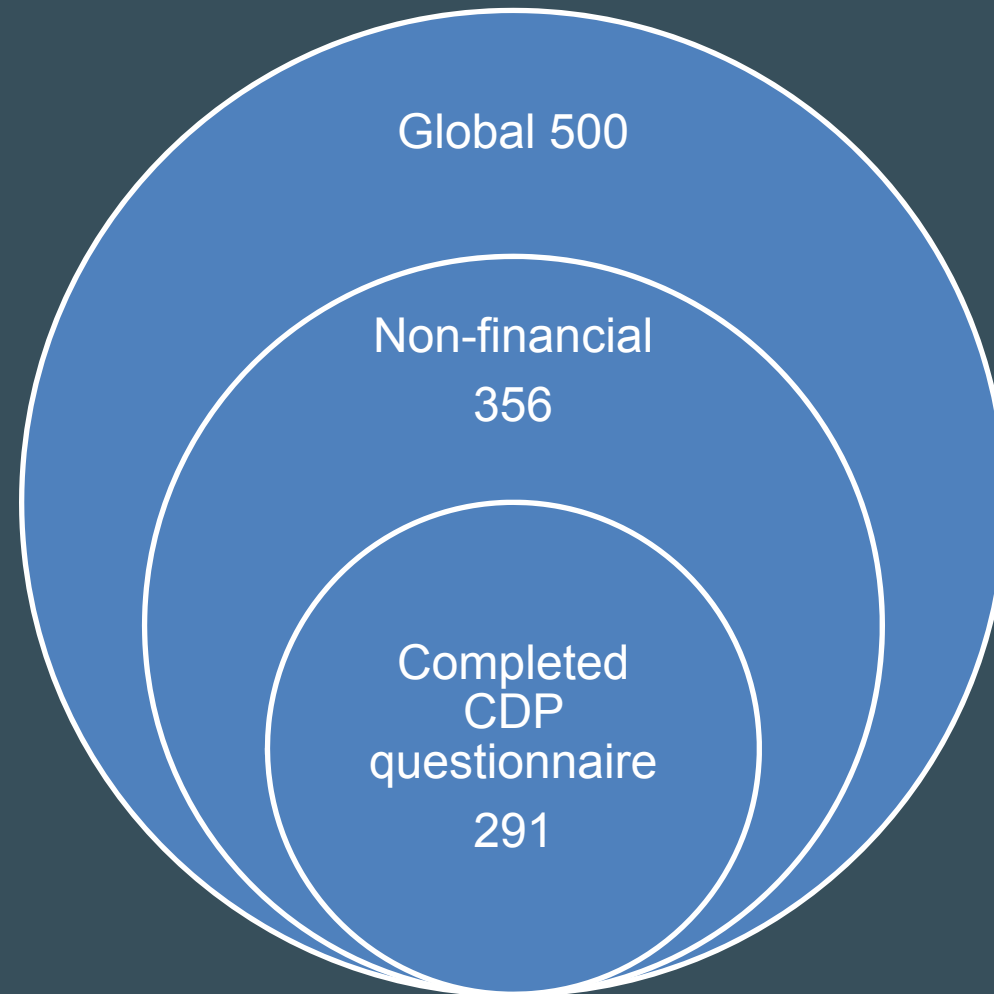
H2  
Companies that complete the CDP questionnaire

- 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**

<b>PANEL A: Response to CDP information request</b>	<b>Number of Companies</b>
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>	<b>291</b>
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>	<b>356</b>
<b>PANEL B: References to CDP in corporate communications</b>	
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>	<b>291</b>

**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 <sup>2</sup>	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**

Professor Julie Cotter

Australian Centre for Sustainable Business and Development

[cotter@usq.edu.au](mailto:cotter@usq.edu.au)