# The power of disclosure to move toward net-zero goals

## Institutional investors are tuning into C02 data from companies. The environmental impact is positive.


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- **It's not just greenwashing or window-dressing: empirical evidence strongly suggests that institutional investors are valuing corporate disclosures of**

climate-related information to mitigate climate risk.**
- **Institutional investors that sign up to receive reports on carbon emissions are also more likely to engage with and divest from top $CO_2$ emitters.**
- **Companies that report on their carbon emissions are likely to subsequently lower them.**

Why do institutional investors request climate-related disclosures? Research based on data collected from more than 7,000 public companies spanning 51 countries, indicates that the short answer to that question is: Because institutional investors genuinely value climate-risk information and act on it.

Skeptics, read up: The scientific evidence that carbon-emissions disclosures can work to lower climate risk is mounting. When carbon-emissions data are reported and disclosed by companies, institutional investors take note. In fact, companies that report on their carbon emissions subsequently lower them.

The findings were published in the article "Institutional investors, climate disclosure, and carbon emissions" by Gaizka Ormazabal and Igor Kadach of IESE, working with Shira Cohen of San Diego State University, in the Journal of Accounting and Economics. As a working paper, the research was recognized with an award from the Alliance for Research on Corporate Sustainability in the fall of 2022.

## Investors value sustainability

So, do $CO_2$ disclosures make companies behave more virtuously? The coauthors are careful to concede that “firms could reduce carbon emissions and disclose [them]… in an attempt to attract capital from ESG investors.” That is, they observe the lowering of emissions along with disclosures, yet it’s hard to distinguish corporate motives here. But, at the end of the day, institutional investors’ interest in disclosures is important and has positive consequences because these investors can leverage their power to engage with and divest from top polluters.

The study draws its data from the CDP, formerly known as the Carbon Disclosure Project, which is the world’s largest platform of climate risk data that is provided voluntarily. By signing up to the CDP, institutional investors like BlackRock, Vanguard and State Street — also known as the Big Three — are then granted private access to data collected from thousands of companies around the world.

Digging into this trove of data, the study finds empirical evidence that firms are more likely to disclose their climate information to the CDP when they have major shareholders who, like the Big Three, are CDP signatories. As mentioned above, they also find that CDP-reporting firms reduce their emissions after starting to disclose to the platform. Finally, they observe that CDP signatories are more likely to engage with or divest from top $CO_2$ emitters in an industry.

## Methodology, very briefly

Working with the CDP platform, the study analyzed a sample of more than 7,000 public firms from 51 countries during the period from 2003 to 2020.

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