

Shareholders more likely to support eco-initiatives if they have experienced climate disasters

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Shareholders in locations recently hit by climate-related disasters such as hurricanes are far more likely to support environmental proposals, by as much as 38%, even when such proposals risk decreasing firm value, according to new research from the Rotterdam School of Management Erasmus University (RSM) (<https://www.rsm.nl/>).

The study (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3895071), undertaken by Dr Guosong Xu (<https://www.rsm.nl/people/guosong-xu/>) at RSM alongside Dr Eliezer Fich (<https://www.lebow.drexel.edu/people/eliezerfich>) at Drexel University, sought to bring greater understanding to two key questions at the crux of encouraging corporations to better support environmental protection efforts; whether shareholder beliefs about climate change alter their support for environmental proposals, and whether those proposals affect firm value.

Dr Xu says,

“Climate change related proposals have increased steadily in recent years, reflecting growing investor demand for corporate accountability. However, despite their popularity, these proposals commonly receive insufficient support. According to a report by the UN, just 2.8% received enough votes to pass during stockholder meetings held from 2006 to 2020. Our study seeks to better understand why these initiatives receive such little support, and what it takes to pass them successfully.”

The researchers speculate that such a lack of voting support is driven by stockholders’ perception that climate-change is not an immediate concern. Belief, they say, plays an important role in investor behaviour.

The researchers analysed mutual funds’ voting records of US firms according to the Institutional Shareholder Services (ISS) Voting Analytics database, between 2006 and 2020. They then mapped each funds headquarters to the Census 2010 county Federal Information Processing Standards (FIPS) code, to identify hurricane locations. By doing this, the researchers were able to base their findings on more than 357,000 voting observations made by shareholders of US-based firms.

Dr Xu and Dr Fich made several key discoveries.

Firstly, funds in areas hit by a hurricane were significantly more likely to vote for an environmental proposal in the immediate aftermath of the event, as were funds located in other hurricane-prone locations. The difference in investor support was as much as 38% higher in such locations.

However, the effect was, for many, temporary, with most investors returning to their previous stances and reversing their support for such schemes within three years.

Notably, the researchers say that fund characteristics such as size, performance, flows, attitudes towards environmental, social and corporate governance (ESG) issues had little impact on their research findings. Those instances where unconditional support was found for climate proposals did not differ

among funds located either inside or outside of hurricane-prone locations in the years without a hurricane strike.

Therefore, shareholders' changed perceptions about climate risks were the most likely reason for their increased support for pro-environmental initiatives after a hurricane strike.

Lastly, once climate-related proposals were passed, firm performance typically weakens. In analysing whether ESG-related proposals created value for firms, the researchers discovered that companies that approved environmental proposals also typically exhibited lower long-term stock returns and accounting underperformance.

The researchers say their work adds important information to the ongoing debate on the role of corporations in global environmental protection, by highlighting the role of investor psychology in altering shareholders' perceptions about climate risks and, consequently, their support for corporate environmental policies.

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For further information, to request an interview with Dr Guosong Xu or to receive a copy of the research paper please contact Kerry Ruffle at BlueSky Education - +44(0)1582 790701 / kerry@bluesky-pr.com