SESSION 3: OWNERSHIP STRUCTURE AND DISCLOSURE

CLIMATE CHANGE AS A NEW PERSPECTIVE OF CORPORATE GOVERNANCE DISCLOSURE: THE CASE OF ITALY

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Abstract

Nowadays climate change represents the most critical issue facing the global economies, and, at the same time, the most misunderstood risk that organizations face in the coming years

Greenhouse gases emissions (GHG emissions) will cause further global warming, responsible for environmental and economic damages, even if there is still no exact estimate of timing and severity of physical effects (Masson-Delmotte et al., 2021; Abhayawansa & Adams, 2021; The Core Writing Team, Pachauri, & Meyer, 2014; Cotter & Nahjh, 2012; Cotter, Lokman, & Najah, 2011; Parry, Canziani, Palutikof, van der Linden, & Hanson, 2007).

In 2016, nearly 200 United Nations Frameworks Convention on Climate Change (UNFCCC) members have signed the Paris Agreement, dealing with greenhouse gas emissions mitigation, climate change, adaptation and finance.

The reduction of GHG emissions demonstrates a move away from fossil fuel energy to a transition of a lower-carbon economy which can cause economic losses to companies that do not adapt on time, but also

create opportunities for climate change mitigation and adaptation solutions.

Companies who develop a mechanism for protection against climate change and seize opportunities, including the ability to respond to transition risk and physical risk, are resilient to a lower-carbon economy, will last longer and their investors will experience higher returns.

This means that investors cannot avoid climate change, therefore, organizations and investors should consider long-term strategies and the most efficient way to allocate capital.

In this sense, many securities regulators and stock markets have begun to recognize that climate risks may be material to investors and financial markets, but existing current climate-related disclosures seldom provide information on the business financial implications of climate change (Aureli, Del Baldo, Lombardi, & Nappo, 2020).

The necessity to cover this gap leads to the spread of alternative disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosure (TCFD).

The TCFD was established in December 2015 by the Financial Stability Board to "develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks" (TCFD, 2017, p. iii).

The Task Force recognizes the significant threat climate change poses to the global economy and encourages disclosing consistent, reliable and clear climate-related financial disclosures enabling investors to take into account climate-related risks.

There is growing interest in having a clear and consistent disclosure by investors and shareholders. Effective disclosure focuses on transparency and risk analysis, which leads to well-founded investment decisions and a reduction in capital loss (Basuony, Elseidi, & Mohamed, 2014)

TCFD provides 11 recommended disclosures related to 4 thematic areas (governance, strategy, risk management, and metrics and targets).

In our research, we focus the attention on the thematic area of governance because we are interested in studying companies' awareness of climate change and the extent to which they assessed environmental issues, risks and impacts in relation to their business.

Investors, lenders, insurance underwriters are looking at the role at companies' board plays in be responsible for climate-related issues (Malik & Yadav, 2020; Gray, Walters, Bebbington, & Thompson, 1995; Gray, Owen, & Adams, 1996). This information allows users of climate-related financial disclosures to understand an organization's governance to assess if the board and management are taking enough care of these issues. Moreover, according to legitimacy and stakeholder theories, social and environmental disclosure is a valuable tool for influencing their external perceptions and legitimizing their business activities to

stakeholders (Grove & Clouse, 2021; Osemeke, Osemeke, & Okere, 2020; Cotter et al., 2011).

We conducted an empirical analysis to investigate the level of companies' commitment to putting climate change risks at the forefront of their business strategy, risk management policies and objectives.

As far as concern the sample, we examined the latest available Consolidated Non-Financial Declarations (CNFD) of the major Italian listed companies.

This panel, excluding companies incorporated under foreign law and companies operating in the banking and insurance financial sector, consists of 22 companies as of September 30, 2021.

After a first reconnaissance of the physical location of the CNFD, in the majority of cases positioned within the Sustainability Report of the period, we carried out a content analysis of governance issues related to climate change, with particular reference to the requirements of the TCFD.

Among the major results of the analysis: the adherence to TCFD policies appears, on the whole, limited (slightly over 50% of companies), with a rather significant polarization of information, whereas of the 13 companies that explicitly confirm their adherence to TCFD, only 5 produce a report in strict and full compliance with the requirements of the task force.

Our findings, even if preliminary, provide interesting insights and implications both from a theoretical and managerial point of view, displaying that, in line with mimicry studies on corporate disclosure, the conduct of companies towards climate change disclosure suggests an imitative behaviour amongst competitors.

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