Climate change disclosures driving awareness and action among companies and investors

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As some of the world's largest companies begin to embrace transparency in sharing information about their carbon footprint, new research is yielding valuable insights into the impact these environmental disclosures can have for companies, their investors and our changing climate.

In his paper, "Supply Chain Carbon Footprinting and Climate Change Disclosures of Global Firms," Christian Blanco, assistant professor of operations and business analytics at The Ohio State University Max M. Fisher College of Business, examines how information gathered by the Carbon Disclosure Project (CDP) over the past 20 years has influenced firms' action in the face of climate change.

Established in 2000, the nonprofit CDP began as a little-known index of publicly traded companies for investors who shared an "ambition of transforming capital markets by making environmental reporting and risk management a new business norm." The CDP grew from 35 investors and 245 companies in 2002 to more than 525 investors, 8,400 companies and $96 trillion in assets today.

Driven by investor curiosity and demand, companies affiliated with the CDP voluntary submit annual disclosures about their carbon emissions and environmental footprint. Blanco's research, which analyzed the text from 10,925 CDP reports filed by 2,003 firms during the years 2007-2016, uncovered an incremental shift in the quality and impact of these disclosures. Simply put, the reports became more comprehensive and detailed.

"As climate change and sustainability initiatives have become a larger focus for the general public, investors began to take notice," Blanco said. "This demand for more information has led companies to pay closer attention to the quality and breadth of information they were submitting as part of the CDP."

"These improved reports, in turn, began forcing companies to confront, understand and view climate change as a real risk to their supply chains—be it physical risks such as weather-related supply chain disruptions or risks as manifested by new or increased climate regulations."

The analysis also revealed a realization among CDP-affiliated companies that their supply chains—and environmental impacts created by them—were larger than they had originally scoped. Whereas disclosures made immediately following the creation and launch of the CDP in the early 2000s focused on emissions directly produced at a company's physical headquarters, more recent disclosures now account for total emissions produced up and down a company's entire supply chain.

"What we're seeing in these disclosures are companies that are more willing to invest the time and resources to measure the environmental impact of assets like their warehouses, delivery trucks, air cargo planes and data facilities," Blanco said. "It's a much wider—and accurate—view of their total carbon output. It's also much more difficult."

So what does it mean? Blanco said it's easy to focus on what large companies aren't doing to confront climate change. His analysis, however, illustrates positive change—albeit slow, incremental and driven by money—in how companies are quantifying and addressing the impact their entire supply chains are having on climate change.

"It is encouraging to see companies beginning to broaden the scope of their disclosures and actions," Blanco said. "This wider view of operations throughout their entire supply chains provides companies more visibility as to potential climate change-related risks and/or opportunities."

More information: Christian C. Blanco, Supply Chain Carbon

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