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Exploring the current status and key determinants of corporate disclosure on climate change: Evidence from the Greek business sector

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ABSTRACT

An increasing number of large corporations around the world engage in accounting for and reporting on their plans and measures towards climate change mitigation, as part of their environmental responsibility agenda. Using a disclosure index, this study contributes to the discussion of enhancing climate change corporate disclosures and informs the limited research assessing such information provision by companies operating in countries of the Southeastern European region. It explores the status of the disclosure practices of the largest 100 firms operating in Greece with respect to the pivotal issue of climate change mitigation and sheds light on determinants that drive domestic companies to publicly disclose such information. The analysis suggests that only a small group of leading Greek companies appears to endorse a climate change discourse as an instrument of empowering stakeholders' decision-making. Relying on ordered logit regression specifications, we find that subscription to externally-developed voluntary initiatives, international presence well as operating in environmentally sensitive sectors, are significant variables that positively affect climate change disclosure. In contrast, size has a positive yet negligible effect while sector, profitability and type of ownership seem to have no significant influence.

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1. Introduction

Scientific assessments suggest that the overall impact from climate change is most likely unpredictable but also denote that extreme weather conditions are to be expected among the various geographical regions in the years to come.[1] Such perturbations entail significant changes in the distribution of precipitation, affecting the intensity and frequency of draughts and floods, severe disease and pest outbreaks as well as widespread fires in forested areas (e.g. Beniston et al., 2011, 2014; Beniston, 2015). In this respect, the need for co-ordinated action to mitigate climate change impacts is an essentially complex policy problem of modern times. Over the world, governments, environmental groups, trade associations among other groups are developing initiatives, setting forth proposals and stressing the need for co-ordinated action to confront climate change implications.

Meaningful actions from the business community are imperative in shaping effective policy responses and appropriate mitigation measures to avert this inarguably greatest environmental threat of our time (Jeswani et al., 2008; Engau and Hoffmann, 2009; Gouldson and Sullivan, 2013; Fleming et al., 2015). From the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 to the Kyoto Protocol in 2005, the business sector has been pinpointed as a critical actor in addressing climate change. This is because companies are significantly contributing and simultaneously are essentially exposed to the direct physical impacts of climate change but they also face regulatory risks from impending legislation with respect to their greenhouse gas emissions. Such parameters related to business performance have drawn the attention of various stakeholders (e.g. governmental bodies, financial institutions, investors, consumers, suppliers and NGOs) who are expecting adequate information on corporate policies, plans, programmes along with appropriate measures to tackle climate change. For instance, collective action by institutional investors has contributed to the emergence of the Carbon Disclosure Project (CDP) in order to stimulate CCD among the largest corporations over the world, while environmental NGOs have undertaken adversarial or 'watchdog' roles over

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[1] For information on the dimensions of the problem of climate change and its economic effects see Halkos (2014, 2015).

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environmentally irresponsible business conduct and engaged in name-and-shame activities.

Therefore, under the critical circumstances climate change posits, companies need to maintain the support and approval of their stakeholders by introducing or refining practices that will counteract possible legitimacy threats related to climate change (Cotter and Najah, 2012; Murray, 2013). Along with effective internal accounting and reporting techniques, monitoring systems of carbon footprint measurement and performance benchmarking, companies are expected to endorse greater transparency and accountability to the public by disclosing financial and non-financial implications of climate change to their operations. In this context, discretionary climate change disclosure (hereafter CCD)[2] offers improved efficiency to business management and ultimately improves shareholder value. Moreover, it can potentially lead to less governmental intervention and the ability to implement less costly policy measures. Likewise, it can facilitate the investors' ability to better estimate a firm's performance as well as its future cash flows (Venugopal et al., 2009) while it can yield reputational benefits and enhance brand equity. In this context, as uncertainty over future weather trends and patterns is reduced, the examination of how business entities inform society at large on their performance and actions to control greenhouse emissions makes a useful endeavour in defining concrete ways to mitigate climate change.

While carbon disclosure is still non-mandatory for companies in most countries, strategic responses to voluntary disclosure (hereafter CCD) vary considerably among for-profit organizations. Many firms have taken steps to mitigate their carbon footprint and publicize detailed data on their performance and proactive measures while others remain opaque and avoid public scrutiny. However, despite there has been an increasing interest to the field of environmental information provision by firms (Deegan, 2002), studies on voluntary CCD are still scarce and mainly focus either on large, highly developed and industrialized countries or large, international, corporations. Indeed, samples of most previous studies are derived from the Fortune 500, the Global 500, the S&P500 or the Carbon Disclosure Project as well as western countries (Reid and Toffel, 2009; Prado-Lorenzo et al., 2009; Haque and Deegan, 2010; Dawkins and Fraas, 2011; Rankin et al., 2011; Berthelot and Robert, 2012; Pellegrino and Lodhia, 2012; Luo et al., 2012; Stanny, 2013; Matisoff et al., 2013; Matsumura et al., 2013). Moreover, large, and most often, multinational corporations included in such indices are generally subject to mandatory reporting requirements and their CCD practices are primarily regulatory-driven rather than discretionary (Luo et al., 2012). Little is known on the adoption and implementation of CCD by firms of smaller and/or less wealthy countries as well as the determinants influencing such information provision (Jeswani et al., 2008; Belal et al., 2010; Luo et al., 2013; Amran et al., 2014). This reflects a critical sample bias shortcoming, given the difficulties of the global community in defining concrete ways to confront climate change, as smaller and/or less industrialized countries collectively contribute significantly to climate change but the response of companies operating in these countries remains largely under-researched.

In this study, we draw on the Greek business sector and seek to identify the status and key determinants of CCD of leading domestic companies. We shift the research lens from the largest multinationals (that are subject to various legislative requirements around the globe) and leading national economies (where prior research has placed more emphasis) towards a national business sector where CCD and voluntary reporting are still in their infancy. Motivated by an emerging body of research that examines the role of large business entities in carbon disclosure responsibility and practices our assessment investigates the status of CCD of Greek firms and examines key determinants of company attributes that drive such information provision.

Greece is one of the few EU member states which saw an increase in their total GHG emissions during the 1990–2010 period: national GHG emissions were 12.65% higher than in 1990 (EEA, 2013). Under the European Climate and Energy Package, Greece was obliged to reduce GHG emissions outside the EU ETS (non-ETS) by 4% compared to 2005 levels. While this target is already surpassed, the recent decrease in emissions is attributed to the debt crisis which was coupled with a sharp and protracted economic downturn. Yet, this drop cannot balance the strong emissions' increase in between 1990 and 2005 (Landis et al., 2013). National policy measures towards climate change mitigation with direct effect on the Greek business sector are the obligatory implementation of energy management systems, the implementation of energy and environment management centres in business parks, the endorsement of voluntary agreements in industry and energy services towards energy savings along with the provision of subsidies to industrial and service sectors in order to increase energy efficiency and renewable energy investments (Landis et al., 2013).

In this context, our findings offer insights (a) on how domestic companies respond to the pressing issue of climate change mitigation and (b) on key determinants of CCD endorsement. The remainder of this paper is structured as follows. Section 2 presents the conceptual underpinnings of CCD. Section 3 develops the research questions and identifies the factors that are likely to drive CCD. Section 4 discusses the research design including sample identification and the econometric model for assessing CDD determinants. Section 5 presents the empirical results. Finally, Section 6 concludes with a summary of key findings, explanatory remarks of the Greek case and implications of the study.

2. Background and conceptual underpinnings

CDD's conceptual underpinnings rely primarily to legitimacy theory. The concept of legitimacy according to Dowling and Pfeffer (1975, p. 122) is defined as "a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part' and add that 'when a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy". Legitimacy theory posits a systems-oriented perspective to the business-and-society relationship, where the firm influences and is influenced by the social context within which it operates. It sets forth a form of a 'social contract' where society provides the company with a range of resources to conduct its activities along with an overarching 'licence to operate', in return for the provision of socially acceptable (i.e. legitimate) business conduct (Mathews, 1993; Deegan, 2002). Whenever the organization's operation is not meeting the society's set of norms and values then the latter can revoke its 'licence' and for the firm to retain its legitimacy practical demonstrations of adherence to such expectations are essential. Discretionary corporate CCD has been identified as a valuable legitimation instrument which can mitigate conflicts with stakeholders and a practice with a mediating effect in convincing societal members that the organization is fulfilling their expectations (Dowling and Pfeffer, 1975; Lindblom, 1994).

According to Gray et al. (1987), such disclosure practice refers to "the process of communicating the social and environmental

[2] For the purpose of this study, CCD pertains to disclosures of strategic posture and governance structures in relation to climate change; regulatory, physical and other risks and opportunities of climate change; GHG emissions data, GHG intensity ratios and performance against relevant reduction targets; electricity and fuel consumption; participation in international initiatives and schemes for climate change mitigation.

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