

“If Not Certain Be Vague”: How Uncertainty about Investors’ Preferences Shapes Voluntary Climate-Change Disclosure

The increasing attention that stakeholders are paying to firms' Environmental, Social, and Governance (ESG) practices has led to more extensive ESG reporting efforts by companies, with the median length of environmental and social reports increasing significantly over the past few decades. However, this increase in reporting has been accompanied by a concerning trend: a rise in boilerplate language and a decrease in the specificity of these disclosures. This trend is problematic because accurate and timely information about firms' risk exposure, including environmental risks, is crucial for the efficient functioning of financial markets. Therefore, investors are increasingly demanding detailed environmental information to assess climate-related risks and opportunities. This study aims to explore one of the potential underlying reasons for the rise in boilerplate language and nonspecificity in climate change disclosures.

Traditional disclosure theory suggests that firms should truthfully disclose information, but market inefficiencies can lead to suboptimal levels of voluntary disclosure. One such inefficiency is firms' uncertainty about their audience's preferences. Our paper hypothesizes that this scenario is particularly relevant for climate change disclosures, where investor preferences are often not homogeneous.

Motivated by the theoretical framework provided by Bond and Zeng (2022), this study investigates whether managerial uncertainty about audience preferences is associated with the prevalence of boilerplate and nonspecific content in climate change disclosures. Utilizing the unique setting of the CDP (previously known as Carbon Disclosure Project), the world's largest repository of climate change disclosures, we measure uncertainty about investors' preferences using the percentage of ownership held by institutional investors not included in the CDP Signatory Investor List. This measure serves as a proxy for unclear environmental preferences among investors, as enrollment in the CDP Signatory Investor List is interpreted as a public request for climate-related information. We quantify the occurrence of "Non-Answers," which includes both questions left blank and vague answers, using a dictionary approach and ClimateBert, a Large Language Model specifically trained on CCR disclosures.

The main findings indicate a positive association between investor preference uncertainty and the prevalence of silence and vagueness in voluntary climate change disclosure. We also explore heterogeneity in the use of silence and vagueness based on company type. Firms with extreme environmental performance—either very good or very bad—are more likely to resort to silence and vagueness when faced with uncertainty, consistent with the idea that these firms may prefer to be perceived as average by investors.

Beyond institutional investors, this study considers the impact of broader stakeholder preferences, who can exert pressure on firms through reputational costs. To gauge the preferences of all stakeholders, we adopt the public opinion on corporate responsibility

toward climate change, measured at the country level. The results show that firms experiencing higher disagreement in public opinion are more likely to provide vague or nonspecific answers in their CDP questionnaires.

Several additional analyses are conducted to reinforce the study's findings. First, we examine whether the absence of relevant climate change information in CDP questionnaires leads to increased interest in climate change topics during earnings calls. Specifically, we find that financial analysts tend to ask more questions about climate change when firms provided more Non-Answers in the previous year's CDP questionnaire. Second, we assess the impact of a change in uncertainty about institutional investors' preferences, using the introduction of the CDP Signatory Investor List annual fee as a natural experiment. The findings suggest that firms exposed to higher uncertainty reduce their use of Non-Answers more than those exposed to lower uncertainty after the fee's introduction. Third, we control for the potential role of private communication channels between managers and investors, which could mitigate the need for public disclosure. The results indicate that the relationship between investor preference uncertainty and the use of Non-Answers remains robust even after accounting for the main private communication channels.

The paper makes several contributions to the academic literature. First, it provides a novel explanation for the prevalence of boilerplate language in corporate ESG disclosures, showing that managerial uncertainty about investor preferences can lead to vagueness in disclosures. Second, it contributes to research on the value relevance of climate change disclosures by highlighting an impediment to firms' provision of relevant information to the market. Third, it adds to the literature on the role of investors in climate change disclosure, focusing on the influence of institutional investors who do not publicly express their interest in climate-related information. Finally, the study empirically tests and supports the predictions of Bond and Zeng (2022), demonstrating that non-disclosure can be a strategic response to uncertainty about audience preferences.

Finally, we believe that the findings of our papers are of interest for regulators. As policymakers across jurisdictions consider introducing or expanding mandatory ESG disclosure requirements, the study underscores the importance of clear guidelines to address concerns about vague and incomplete environmental disclosures.