Powerful Investors Push Big Companies to Plan for Climate Change

This spring, Wall Street seems more accepting of climate science as shareholders demand plans to reduce risks

By David S. Rauf on May 3, 2018

Energy companies are being pushed by investors to change business models and account for climate science. *Credit: Eric Kulin Getty Images*

Fortune 500 corporations like Chevron and Kinder Morgan are facing renewed pressure from climate-focused activist investors. This year some of the most powerful shareholders, which include giant mutual funds, are supporting the push for businesses to respond to climate change. And the prodding has had more effect than ever before.

The coming weeks are dubbed "proxy season" by corporate governance experts. Most publicly traded companies hold annual meetings in which shareholders, via nonbinding resolutions, signal their approval or dislike of proposed company policies. This year initiatives on climate change are among the most popular ballot items: Of the more than 420 shareholder resolutions initially proposed, about 20 percent focused on climate, tied for the largest of any proposal category, according to a report by the group Proxy Impact. Some reolutions ask companies to adopt greenhouse gas emission targets whereas others ask for reports on ways businesses could be affected by the Paris climate agreement's global temperature goals.

Already, several companies have bowed to investor demands before votes are held. Why? Several major asset managers—like BlackRock and Vanguard Group—are now putting their heft behind climate resolutions, says Aaron Ziulkowski, a manager at Boston-based Walden Asset Management who works on shareholder engagement initiatives. It is a signal, he says, that Wall Street's skepticism of climate science has dwindled: "It's now widely recognized that climate change is a legitimate risk." Still, some observers caution corporate reports do not equal policy changes.

Shareholder proposals are part of the process at publicly traded companies where activist investors jockey annually to exert pressure on everything from board oversight to policies dealing with guns, cybersecurity and gender discrimination. For years investors at these meetings have offered proposals based on climate change but lost when votes were tallied. Last year, however, momentum started to shift. Investors at Occidental Petroleum and ExxonMobil rebuked their respective corporate boards and voted to demand the companies produce reports on the business impacts of climate change. It marked the first time shareholders at major U.S. oil and gas producers backed such proposals, and corporate governance experts say the moves were game changers.

This year many companies are not waiting for ballot counts. So far about 20 climate-related resolutions have been withdrawn before a vote because agreements have been reached, according to a database compiled by Ceres, a nonprofit that tracks shareholder engagement and works with investors on sustainability issues. Nearly a dozen companies, Dominion Energy and Devon Energy among them, have agreed to produce reports on climate-related financial risks. Last year only one company, Xcel Energy, did anything like that. "The fact that there's fewer proposals going to a vote and more agreements shows how serious the investor momentum is," says Andrew Logan, director of oil and gas at Ceres.

Yet simple reports may not amount to much. Months after shareholders voted last year, Exxon released the asked-for document. Then some Exxon shareholders publicly criticized the oil and gas giant for concluding it faced no financial risk from the Paris accord. Others said the report was overly broad, relied on optimistic assumptions and failed to provide details on emissions.

But continued shareholder pressure can lead to actual changes in how a company does business, Logan says. He points to British-Dutch oil-and-gas giant Shell. In recent years growing investor alarm about climate change risks have led the company to sell off carbon-heavy oil sands assets. Last year shareholders voted—and the company agreed—to tie 10 percent of executive bonuses to cutting greenhouse gas emissions.

In the U.S., Logan says, investors are pushing for disclosures, for the most part, but that push still has an effect. The reports create competition within an industry, as companies vie with one another for investor dollars that go with the more aggressive climate-related plans. "Disclosure has real implications that these companies are going to have to follow through to actually mitigate risks," Logan says. Investors at Chevron, for instance, are trying to get the company to address future changes to its portfolio, including expansion of renewable energy holdings. That proposal failed last year, but is up for a vote again at the end of May.

The follow-through may take longer than Logan envisions, however, says David Webber, a corporate governance expert and law professor at Boston University. It could take years and will require a sustained shareholder effort. "In the happiest version of the story companies will see the writing on the wall and take action on their own, but shareholders should be prepared to keep up the pressure," he says. "These are long-term goals that may seem distant, and there's no assurance they might be obtained. But people said that a few years ago about steps that have recently been accomplished with climate proposals. It's important to take stock of the progress made so far."