

The Impact of Climate Engagement: A Field Experiment

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Research Question

Does rules-based engagement by an index provider affect corporate climate policies?

Setup

- ▶ Index provider has a family of climate indices (EU PAB/CTB compliant)
- ▶ Indices are tracked by ETFs of about USD 100m and licensed by institutional investors with assets > USD 1 trillion
- ▶ Index rule: without a Science-Based Target (SBT) verified by the Science-based targets initiative (SBTI), the weight in the index is reduced each year, reaching zero in 2030.
- ▶ Index rules are publicly available

Outcome Variable

- ▶ SBT Status provided by Science-based target initiative (SBTi) online <https://sciencebasedtargets.org/companies-taking-action/>
- ▶ Public registry, independent of the index provider
- ▶ Two-step process: 1. Commitment, 2. Verified Target (within 2 years)
- ▶ We count both “Targets set” and “Committed” as a successful outcome

Investors

Home > Investors

531.00 GBP 26/05/2023 at 17:35
+2.60 / +0.49%

IR NEWS

25 May 2023
TUI extends 2.7 billion euros credit lines banks until summer 2026 - terms tied to sustainability targets for the first time

28 April 2023
TUI repays financial aid from the Economic Stabilisation Fund in full

TUI SUSTAINABILITY AGENDA

BY 2030 Airline Emissions -24%	Our reduction targets for 2030 have now been validated by independent NGO Science Based Targets Initiative. We will reduce our emissions significantly in our airline, cruise and hotels operation. And we are committed to achieving net zero emissions in our own operations and supply chain by 2050 the latest.
Cruise Emissions -27.5%	
TUI Hotels & Resorts Emissions -46.2%	

Find out more about the TUI Sustainability Agenda >

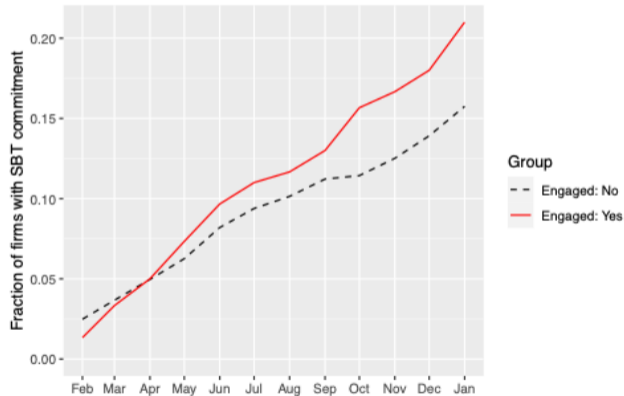
Treatment

The treatment is a letter highlighting the importance of an SBTI target to avoid index exclusion, sent by mail from the CEO to the chairperson of the board.

- ▶ Population: 1227 international firms without SBTI target
- ▶ 300 treated firms; 927 control
- ▶ Letters sent in February 2022,
- ▶ Outcome observed Jan. 31, 2023
- ▶ The procedure was pre-registered:
<https://www.socialscienceregistry.org/trials/8924>



Results: SBT Commitments over Time



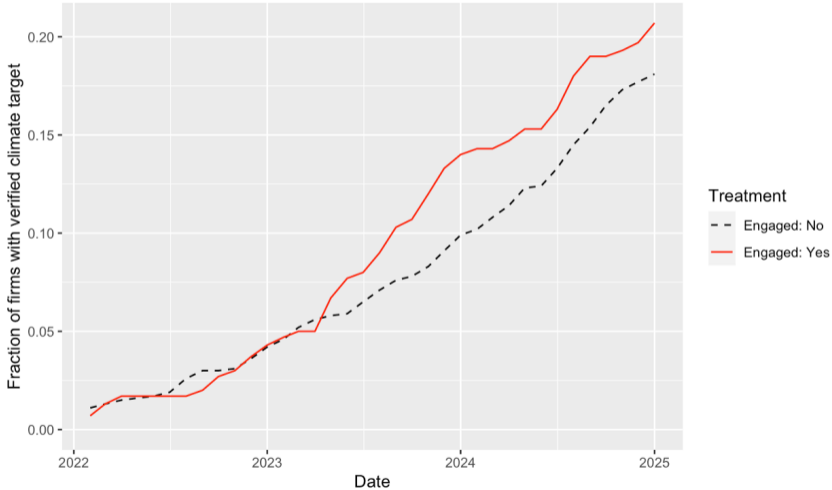
	Control	Treatment
SBT No	781	237
SBT Yes	146	63
Sum	927	300
Fraction Yes	15.7%	21.0%

Pearson's Chi-Square Test: 4.42,
 $p=0.036^{**}$

Results: Probit Regression

	Dependent Variable: SBT Commitment			
	(1)	(2)	(3)	(4)
Treatment	0.198** (0.096)	0.212** (0.098)	0.231** (0.099)	0.249** (0.103)
Size				0.002** (0.001)
Total Emissions				0.010 (0.011)
Emission Intensity				-0.0003* (0.0002)
Constant	-1.005*** (0.050)	-0.736 (0.484)	-5.211 (266.405)	-6.626 (387.413)
Country Fixed Effects	<i>NO</i>	<i>YES</i>	<i>NO</i>	<i>YES</i>
NACE Sector Fixed Effects	<i>NO</i>	<i>NO</i>	<i>YES</i>	<i>YES</i>
Observations	1,227	1,227	1,227	1,227
Log Likelihood	-557.892	-527.028	-531.065	-493.110
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01			

Results: Longer Term Effects on Verified Targets



Implications

- ▶ Combining exit and voice: Engagement can increase the salience of an existing threat of exit
- ▶ Financial institutions that already apply ESG screens could proactively inform companies about these screens.
- ▶ Index providers can offer collective, rules-based engagement