Climate Risks and Divestment: Evidence from Cross-Shareholdings'

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This study examines how firms' climate change risk affects cross-shareholder divestment. Using Japan as a laboratory, we explore how business networks and cross-shareholdings influence shareholders' responses to climate-related risks. Employing firm—shareholder matched data, we show that firms with high CO intensity face divestment by business partners. This effect is more pronounced when shareholders have high ESG scores, hold significant ownership stakes, and operate in carbon-intensive industries. In contrast, the climate risk effect weakens when firms are stable, long-term suppliers with substantial market power and maintain reciprocal ownership ties with shareholders. We address endogeneity concerns using instrumental variables, matching methods, and fixed effects. Our findings suggest that shareholders incorporate climate risk of business partners into investment decisions, whereas inter-firm relationships constrain the full reallocation of capital. Overall, this study provides new evidence on how climate risk shapes capital allocation within corporate ownership networks, with important implications for international finance, particularly in markets characterized by relationship-based ownership structures.

Keywords: Climate change risk; Divestment; Cross-shareholding; Business networks; Capital allocation

JEL classification: G30, G32, G34, Q50, Q54

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