Why Do Some Companies Revise their Carbon Disclosures?

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Summary

Reducing carbon emissions has been the generally-accepted first step towards slowing global climate change. A growing list of government and social organizations have called for corporations to take a leading role in this area. They have asked companies to disclose how much carbon they generate and then commit to reduce their carbon footprint.

A high percentage (>50%) of the world's 5,000 largest companies are currently disclosing data on their carbon profile. However, a surprisingly large number of companies revise their disclosures each year. We sought to discover the source of these revisions. One of our partners, Carbon Market Data, built a list of 40 companies who had made major revisions between 2013 and 2014. We compared various aspects of the sustainability reporting profile of these 40 companies to those of 272 other companies who may face similar regulatory and social pressures to accurately report this information.

We found that the companies that revised their data were generally perceived to have stronger-than average sustainability programs. The 40 companies that revised their numbers received especially high marks for their climate change and resource management performance from the 400+ sources that CSRHub tracks. However, these companies did not have especially strong track records on environmental tracking and reporting.

We therefore conclude that revisions may occur when companies have made a strong commitment to reducing their carbon footprint but have not yet put into place strong systems for tracking and reporting carbon information. It may be possible to predict future revisions by looking for companies who meet these criteria.

Our Data Sets

Carbon Market Data (CMD) routinely gathers and analyzes data across a wide range of publicly-traded European companies. It shares the results of its research with investors and other research groups and maintains a number of carbon-tracking databases.

CMD analysts found 41 cases in 2014 where companies who were listed on a major UK exchange had substantially revised the carbon intensity estimates that they reported in 2013. In some cases, companies changed the carbon emissions numerator (the amount of carbon emitted). In others they changed the denominator (scaling factors for emission intensity such as revenue, number of employees, or square meter of premises). In most cases, companies did not disclose any reason for their revision. These were "quiet" changes that seemed most likely to be corrections for previous errors or omissions.

CSRHub tracks the perceived sustainability performance of 15,234 companies in 132 countries. 40 of the 41 companies identified by CMD have a full set of CSRHub ratings. (The only missing entry was TR Property Trust. CSRHub does not normally track trusts or other funds that are passive holders of the equity or debt of other entities.)

CSRHub selected a set of 272 other companies from its coverage universe who were included in either the FTSE 100 or FSTE 250 Index at some point in the past three years (2012-15). We used only companies who also had a full set of CSRHub ratings. These 272 companies were broadly similar to the 40 companies identified by CMD in terms of market capitalization and industry focus.

For both the 40 companies with revisions and the other 272 companies, we extracted percentile rankings for the twelve sustainability factors that CSRHub tracks. We also counted the number of data sources that reported on each company and whether or not each company reported to CDP, the Global Reporting Initiative, and/or the UN Global Compact.

Despite our effort to pick a "comparator set" that would be similar to the companies that had revisions (the "study set"), there were some discernable differences between the two groups of companies. The companies that had revisions had larger market capitalizations, higher turnover, and were tracked by more sources of sustainability information. It seems clear that the revision-making companies are among the largest and best-known companies in the UK investment space.

Companies With Reporting Inconsistencies Are Bigger, Higher Rated, and Make More Disclosures

	Number	Avg Mkt Cap ($B)	Avg Turnover ($B)	Avg Overall Rating	Avg # of Sources
Study Set	40	15.9	12.9	63.7	34.1
Comparator Set	272	3.3	2.2	59.2	19.3

Analysis

CSRHub tracks perceived sustainability performance across four different dimensions: Community, Employees, Environment, and Governance. (Some sources refer to "ESG" reporting. This acronym is derived from the terms "Environment, Social, and Governance." CSRHub has split the Social element of ESG into two different areas.) Our first analysis compared the relative performance of the study set companies to the comparator companies across these four dimensions.

Average Category-Level Percentile Ranks

	Community	Employees	Environment	Governance
Study Set	54.2%	59.8%	65.3%	75.6%
Comparator Set	48.4%	49.3%	47.0%	71.6%
% Difference	5.8%	10.4%	**18.3%**	3.9%

The study set group had higher scores in all four areas of perceived sustainability performance, with the biggest difference in the Environment area. CSRHub further divides Environment performance into three subcategories: Energy & Climate Change, Environment Policy & Reporting, and Resource Management. The study set companies outperformed the comparator companies on all three of these subcategory areas.

Average Subcategory Percentile Ranks Within Environment Category

	Environment		
	Energy & Climate Change	Environment Policy & Reporting	Resource Management
Study Set	75.2%	56.2%	66.4%
Comparator Set	53.8%	43.1%	49.8%
% Difference	**21.3%**	**13.1%**	16.7%

We noted that the smallest difference in perceived performance for the study set companies was in the environment reporting area. We investigated this difference further by examining how many policy and statistical issues each group of companies disclosed. The study group companies reported an average of 41 policy measures and 71 statistical items—a high percentage of the total that we track and many more than the average for a comparator set company.

Policy and Statistical Disclosures for 240 CSRHub-Tracked Carbon Indicators

	Number	Avg # of Policy Disclosures	Avg # of Statistics Disclosures
Study Set	40	41	71
Comparator Set	272	4	7
Total Available Disclosures		*95*	*145*

Certain reporting systems encourage disclosure of carbon and climate change information. In particular, CDP (formerly the Carbon Disclosure Program), the Global Reporting Initiative (GRI), and the UN Global

Compact all offer guidance on this area. In past studies, CSRHub has found that companies that report under one or more of these systems are generally more favorably regarded for their sustainability performance than those who do not. The study set group had both higher average perceived performance ratings and much a much higher rate of reporting to one or more of these systems.

All Study Set Companies Reported to CDP

(Study Set Companies Also Had Higher GRI and UNGC Reporting Rates)*

	Number	% With CDP Reports	% With GRI Reports	% With UN Global Compact Reports
Study Set	40	100%	38%	25%
Comparator Set	272	62%	13%	8%
All CSRHub Fully Rated	*6,864*	*34%*	*21%*	*32%*

* Counts companies who reported either in 2013, 2014, or both.

In fact, the entire study group set—all forty companies—reported their carbon footprint to CDP. In doing so, they were required to calculate their "Scope 1" footprint—the carbon they directly emit—and also their "Scope 2" footprint—carbon that is generated by their suppliers and the business activities of their employees. Some of the companies also reported other aspects of their carbon and climate change behavior—it typically takes at least several people months of work and $100,000 of expenses to generate a CDP report.

Conclusions

It seems that companies that make major revisions share a number of characteristics. They are larger than average, have strong overall sustainability programs, and report more information to more outside stakeholders than an average company does. We believe that these characteristics could all contribute to a tendency to make revisions in carbon disclosure:

- ⇨ Large, complex organizations may have more difficulty gathering all of the information needed to make complete disclosures of their carbon footprints. It is difficult to calculate this data across the operations of a medium-sized company in a single country and industry. It is exponentially more complex to make these estimates across multiple industries and geographies.
- ⇨ Companies that have committed to transparent disclosure of their sustainability performance may believe that it is important that the data they share is accurate. They are more likely to compensate their managers based on sustainability factors or to seek to gain market and competitive advantage from performing well in these areas. Because they take their numbers seriously (and may in many cases have had them assured by an outside source), they feel obligated to revise them when they spot an error.
- ⇨ Companies who report more information and more detailed information create more opportunities for reporting a mistake.

We note also that the companies that made revisions did not have as much of a lead in their Environment Policy & Reporting performance as they did in other aspects of their Environment sustainability work. This may indicate that the study group companies have not yet invested as much (or enough) in their reporting capabilities to keep up with the expansion of other parts of their sustainability efforts.

Next Steps

Some aspects of carbon reporting may soon become part of government- and exchange-mandated reports. If these factors become part of a company's "integrated report," they will fall within the scope of normal audit procedures. This may dramatically improve the accuracy with which these figures are reported (although companies routinely restate their financial performance metrics, too!). It would be interesting to see if companies who have filed an integrated report are more or less likely to make a revision in their carbon emissions data.

An increasing number of investment firms and non-governmental organizations focus on company carbon emissions data. By itself, this focus and interest may force companies to do a better job in this area. Further, a number of software companies offer pre-packaged tracking solutions. We suspect that companies who have one of these programs may experience fewer errors and revisions than those who do not.

Finally, the sustainability staff members of companies who revise their numbers know the story behind each revision. It would be interesting to interview the staff for a number of the companies in the study set and hear these stories. Of course, there are issues of confidentiality—and few companies like to say much about how and why they made a mistake. But, sharing these experiences would likely help many other companies avoid similar issues, in the future.

About the Authors

About Carbon Market Data

Carbon Market Data is a carbon market research company and data vendor offering information, consulting and technology services to a wide range of organisations in the world. Carbon Market Data developed the World Carbon Market Database, a unique and innovative carbon disclosure solution gathering data on the world's carbon trading markets.

A Demo version of the World Carbon Market Database is accessible online at http://www.carbonmarketdata.com.

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About CSRHub

Bahar Gidwani is CEO and Co-founder of CSRHub. He has built and run large technology-based businesses for many years. Bahar holds a CFA, worked on Wall Street with Kidder, Peabody, and with McKinsey & Co. Bahar has consulted to a number of major companies and currently serves on the board of several software and Web companies. He has an MBA from Harvard Business School and an undergraduate degree in physics and astronomy. He plays bridge, races sailboats, and is based in New York City.

CSRHub provides access to the world's largest corporate social responsibility and sustainability ratings and information. It covers over 15,000 companies from 135 industries in 132 countries. By aggregating and normalizing the information from 400 data sources, CSRHub has created a broad, consistent rating system and a searchable database that links millions of rating elements back to their source. Managers, researchers and activists use CSRHub to benchmark company performance, learn how stakeholders evaluate company CSR practices, and seek ways to improve corporate sustainability performance.

See the companies reviewed in this study on CSRHub.