Company environmental performance – '*those who shout loudest'*… don't always perform. Neil Woodcock, Richard Davis and Merlin Stone

Summary

Recent years have seen a strong government policy focus on ensuring that companies disclose their environmental performance, especially their carbon emissions, but also in other areas e.g. other emissions, recycling. However, research shows **that company environmental disclosure is largely unrelated to environmental performance**, and at worst may be **inversely correlated**. In other words, companies may be – consciously or unconsciously – greenwashing. This inverse correlation seems worst in the most polluting industries. The EU's recent decision to impose carbon border taxation may lead to a stronger effort by companies to control their contribution to the carbon problem. Many companies' business models take little or no account of environmental performance. Until companies understand and manage the complex relationship between their environmental *performance* on the one hand and environmental *strategy, governance, reporting, accountability and culture* on the other, the focus on *environmental disclosure* will continue to mislead the world.

Introduction

Governments have encouraged and in some cases required companies to disclose their environmental performance. However, recently, university research has confirmed that, with some exceptions, the relationship between disclosure and environmental performance is either weak, absent or inverse. This is despite the fact that in some industries there are acknowledged measures of environmental performance, especially in the most polluting industries. Encouragingly, the research also confirms that in some cases disclosure and performance are positively related, although it also identifies that this relationship is not secure i.e. the reasons why it is positive when it is positive are not always clear.

The reasons for avoiding reliance on disclosure

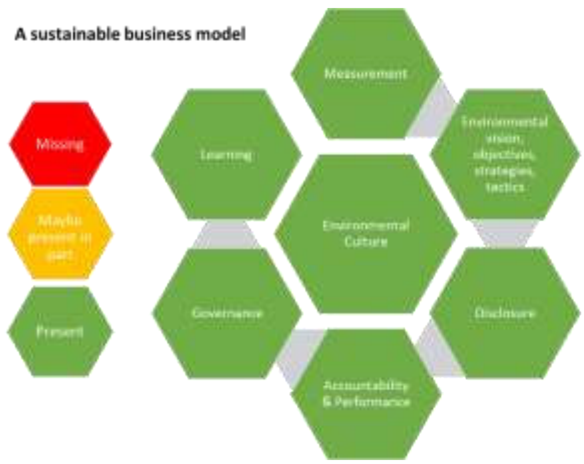
Disclosure is just one element of a company's approach to environmental matters. Equally if not more important are:

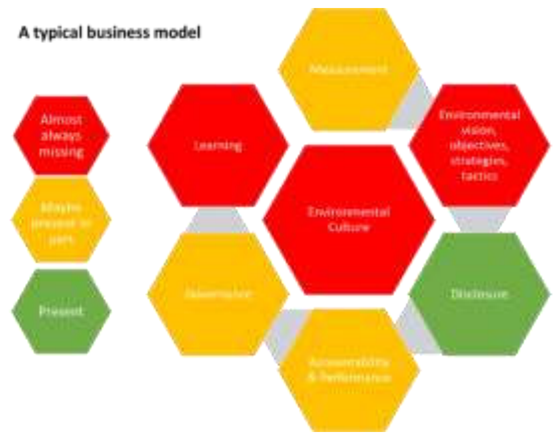
- **Culture**: It is hard to find a company that does not refer to its concern about the environment and society in their company annual report. However, a company may have no environmental culture, in the sense that 'care for the environment' is not "in its DNA" – and competing objectives, values and behaviours are greater driving forces for the business and its various stakeholders, such as shareholders (who may be more interested in profit) or employees (who may be more interested in security of employment or compensation).
- **Accountability**: Even if senior management cares strongly about the environment and has the right strategy and plan, there may be no collective and individual accountability for delivery. Employees and contractors may not be rewarded for environmental performance and may even be penalised if, in order to follow environmental policies, they perform less strongly in areas that are considered higher priority.
- **Governance**: The company may have no formal mechanism (e.g. a board committee, an independent verifier, CXO environmental offices and targets for other CXOs) for managing environmental performance. If it has a mechanism, it may not deliver improved environmental performance, just disclosure. Even if these are all in place, the company may not be able to measure environmental performance so it can be governed in practice. Of course, in some countries, such a formal mechanism is becoming a legal requirement (e.g. TCFD in the UK).
- **Environmental business model**: Sustainable business models go beyond delivering economic value and include consideration of other forms of value for a broader range of stakeholders and the policies of a company's suppliers and customers (whether the latter are business customers, distributors or consumers). A business model designed to improve environmental performance of the company and its supply chain may be lacking.

- **Environmental strategy and transformation**: Even if the culture, accountability, governance and business model are in place, the company may not have strategies, objectives and tactics that translate these elements into practical outcomes. If it has, these strategies may or may not be producing results, perhaps because they are focused on peripheral issues and not on their major, harder to fix emissions. Achieving environmental transformation, as opposed to other forms of transformation, is very difficult, with self-confessed failure to achieve goals (where failure is defined as less than 50% of the goals achieved) more than double the normal transformation failure rate.

The desired relationship between key concepts

This is illustrated in the following diagrams.





All model components above are likely to be present in an organisation that wants to make a difference and not just 'report and disclose'. A more typical model just focuses on disclosure, with minimal measurement (e.g. omitting carbon emissions and waste incurred in the supply chain – so called 'scope 3'), accountability and governance.

Implications

The implications of the above are that **disclosure** of environmental activities and performance is at best a first step in changing a company's approach, but in some cases it is the opposite – greenwashing. Research shows that this is very likely where CEO rhetoric, often evidenced by CEO letters in annual reports, features environmental performance strongly. Here, the rhetoric may just be an attempt to impress stakeholders and reduce the cost of equity financing. In analysing the environmental performance of companies, it is critical for the companies themselves, investors and governments to have a basis for a comprehensive and accurate measurement of **actual environmental performance** that meets the highest standards of corporate reporting, not just basic government requirements. This same basis should be extended by large companies to their suppliers and business customers, as there is clear evidence that environmental performance may depend on cooperation between companies.

The benefits of improved measurement and outcomes

These include:

- Clarity for senior management as to what actual performance is so they can manage improvements in it
- Clarity for external investors , in terms of guiding their discussions and relationship with the company
- Tax and penalty avoidance through better compliance with government regulations
- Using the PR associated with real performance improvements, to build brand reputation and attract consumers
- Greater ability to attract and retain talent, especially millennial talent
- A stronger basis for design of incentives, training, recruitment and other human resource aspect.

Conclusion

Our view is that the main requirements for true environmental performance improvement is a clear, accurate and open line of sight into that performance. By this we mean two-way *verifiability;* from data sources to measurement and from initiatives to the outcomes they achieve.

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