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THE STATE OF

CORPORATE SUSTAINABILITY

DISCLOSURE IN BRIEF

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UCLA

Speeding Up ESG Disclosure, Maximizing its Utility

Disclosure of Environment, Social and Governance (ESG) metrics remains almost entirely voluntary, resulting in incomplete and unstandardized data that makes it difficult for stakeholders to collectively compare firms and assess their impact.

To align reporting, in 2020 the World Economic Forum (WEF) proposed a framework consisting of metrics it asserted were already commonly used by firms. But little data supports this claim, as there is no comprehensive evaluation on firms' disclosure rates on these metrics.

This project aims to fill this gap. We selected 300 of the largest U.S. public companies from the Fortune 200 and S&P 500 lists because they're high-revenue firms and have a substantial impact on global social and environmental trajectories. And these firms have more resources to devote to reporting ESG metrics.

Under four pillars — **Governance, Planet, People, and Prosperity** — WEF describes 21 core metrics and 34 expanded metrics. This research focuses on these 300 companies' disclosure related to the 21 core metrics, many of which have multiple subparts. For this analysis, we divide the 21 core metrics into 74 submetrics.

We source data primarily from the text of sustainability reports (54.9%), firms' websites, Securities and Exchange Commission (SEC) public filings (37.5%) or the Compustat database, and the Carbon Disclosure Project (CDP) (7.6%).

TOTAL AMOUNT OF FIRMS' DISCLOSURES

WEF specifically selected metrics that are supposed to be broadly reported by firms.

> The average overall disclosure rate across the 300 firms is 49.6%. From a minimum of 14.8% to a maximum of 74.8%.

The average disclosure rates varied substantially by pillar.

The Average Percentage Disclosure for World Economic Forum Metrics by Pillar

Governance 72.2%

People 28.8%

Planet 43.8%

Prosperity 53.6%

To track ESG progress across sectors, companies and years, disclosure rates will have to increase dramatically to provide a complete WEF dataset. Currently, only 52 companies have committed to employing the WEF framework, and few of those are on our list.

Despite a WEF framework developed in collaboration with 51 corporations and a development taskforce composed of experts from the four largest accounting firms, no firm has disclosed 100% of the WEF-proposed Governance metrics.

THIRD-PARTY VERIFICATION OF DATA IS RARE

Lack of verification is notably widespread. Unlike financial disclosures, much of the data presented in sustainability reports has not been audited by an external party.

Because there are no mandatory reporting standards for sustainability disclosures in the U.S., firms have significant leeway in calculating and reporting their sustainability information and their assurance processes are often not disclosed. This leaves stakeholders with little ability to evaluate the quality of disclosures. Independent auditing could provide assurance that how organizations collect and report sustainability information is reasonable.

> Of the 300 companies, only 9.2% state that their report has been fully audited.

DISCLOSURE BY PILLAR AND INDUSTRY

Most of the Governance and Prosperity metrics have been collected and compiled for longer than those of Planet and People. Likely due to this longevity and widespread acceptance, these metrics are more commonly reported on by firms and do not provide significant differentiation among the 300 companies. Therefore, we focus here on the more nascent areas: People and Planet.

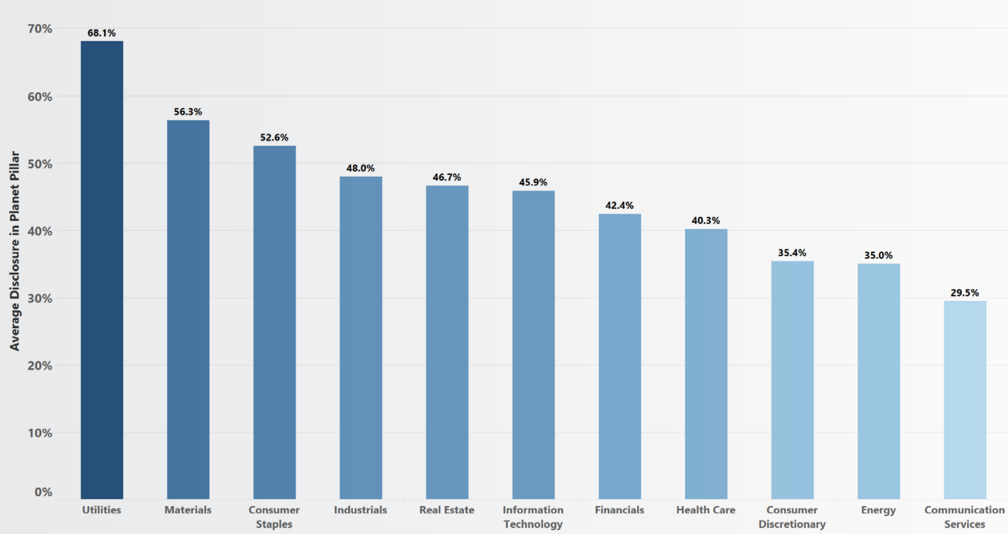
The Planet Pillar

Disclosure rates in the Planet pillar have a wider range across industrial sectors than the other pillars, signifying that within each sector some companies disclose the majority of the data responsive to the WEF metrics while others report very little.

The Utilities sector has the highest average disclosure rate (68.1%), likely due to its higher mandated disclosures, while Communication Services has the lowest (29.5%).

> The overall mean disclosure rate for the Planet pillar is 43.8%. From a minimum of 0.0% to a maximum of 97.7%.

Disclosure by Sector for the Planet Pillar



The Planet pillar seeks disclosure on four principal areas:

- The information requested by the Task Force on Climate-Related Financial Disclosures (TCFD).
- Greenhouse gas (GHG) emissions.
- Water usage.
- Land use and ecological sensitivity.

These comprise 19 submetrics, 14 of which are related to climate change (TCFD and GHG emissions). Nine of the 19 metrics seek quantitative information related to an organization's performance.

The GHG emissions submetrics have the highest mean levels of disclosure at 73.5%.

However, examining the submetrics shows differences in reporting based on the scope of emissions. While average reporting on Scope 1 emissions (direct emissions from operations) and Scope 2 (indirect emissions from purchased energy) is high (81.2% and 78.2%, respectively), the average reporting on Scope 3 (all other emissions associated with company activity) is much lower, with only 61.2% of organizations reporting any relevant information.

Disclosure Rates on Scope 1, 2 & 3 Greenhouse Gas Emissions (GHG)

SCOPE 1 GHG 81.2%

SCOPE 2 GHG 78.2%

SCOPE 3 GHG 61.2%

The People Pillar

The People pillar demonstrates the lowest level of disclosure, despite companies routinely collecting many of the metrics on their employees. For example, the U.S. Equal Employment Opportunity Commission requires all private sector employers with more than 100 employees to collect and submit data related to the race and ethnicity and sex of its employees.

The People pillar metrics focus on:

- Diversity and inclusion.
- Pay equality.
- Wage level.
- Risks for child, forced or compulsory labor.
- Health and safety.
- Training provided.

These core metrics consist of 18 submetrics, 14 of which seek quantitative responses.

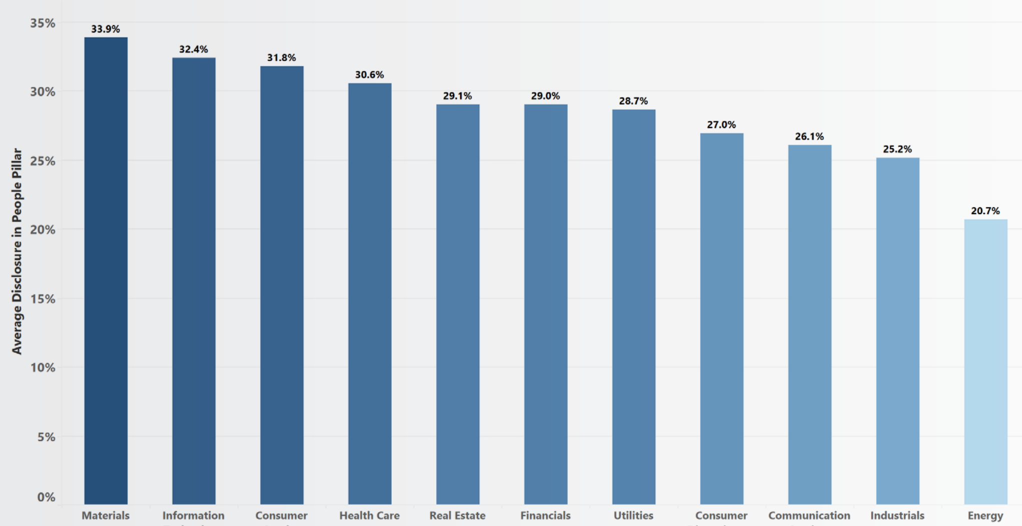
At the metric level, we see the highest response rate for the diversity and inclusion metric, with a mean disclosure rate of 54.9%, and the lowest for the training provided metric, with a mean disclosure rate of 12.9%.

Without a strong uptick in reporting for the People pillar, tracking progress will be difficult.

At the sector level, the Materials sector has the highest average disclosure rate (33.9%), while the Energy Sector has the lowest (20.7%).

The People pillar had the lowest overall mean response rate, 28.8%. From a minimum of 0.0% and a maximum of 70.8%.

Disclosure by Sector for the People Pillar



Outcomes Versus Processes

The WEF provides a mix of process- and outcome-based metrics. Process-based metrics focus on actions taken by an organization to achieve a given goal. Whereas outcome-based metrics assess the actual impact of an organization's operations on an external system like the environment or society. One process submetric seeks information related to internal and external mechanisms for seeking ethics advice from the organization. An outcomes submetric seeks information about the number of fatalities as a result of work-related injuries.

At the submetric level, 32.4% seek information about a company's processes; and 67.6% seek information about outcomes.

> The 300 companies' average disclosure percentage for process-based metrics is 57.8%, while the average for outcome-based metrics is 47.1%.

Companies are more responsive on qualitative metrics, which invite narrative or textual responses. Although quantitative metrics represent two-thirds of the metrics in the WEF framework, only 43% of the companies on average disclosed information in response to quantitative metrics; 62% of companies disclosed information in response to qualitative metrics. It's easier to discuss efforts a company is undertaking than it is to measure progress and be held accountable.

OVERALL DISCLOSURE OF TOP FIRMS

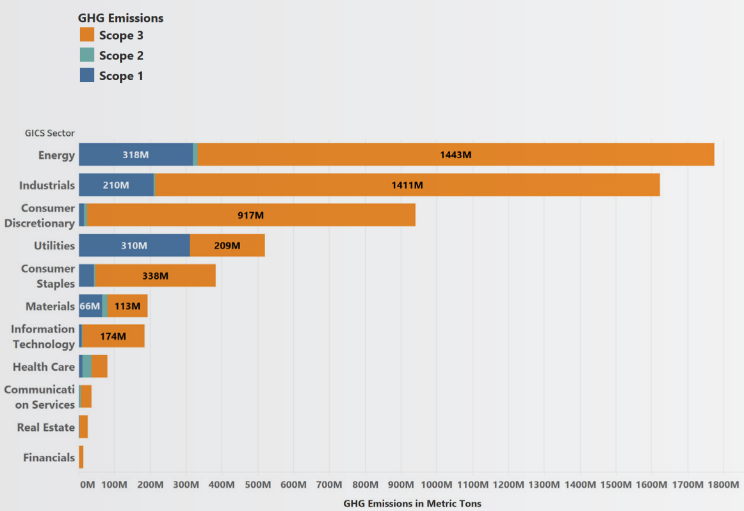
Texas Instruments Inc. has the top ranking for overall disclosure rates, even though it only discloses three-quarters of the data requested in the WEF framework. For individual pillars, Johnson & Johnson ranks highest for Prosperity (86%); Johnson Controls International ranks highest for People (71%) as well as Governance (95%); Texas Instruments Inc. ranks highest for Planet (98%).

> The average reporting for the top 20 firms is about 68.14%.

Top 10 Ranked Companies by Overall Percentage Disclosure for World Economic Forum (WEF) Metrics

1. Texas Instruments Inc. 74.8%
2. General Motors 70.9%
3. Johnson Controls International plc 70.6%
4. Lam Research Corp. 70.4%
5. Newmont Corp. 70.2%
6. Intel 69.5%
7. Philip Morris International 69.4%
8. Edwards Lifesciences Corp. 68.9%
9. Johnson & Johnson 68.6%
10. Ecolab Inc. 68.1%

Selected Outcome Measures



Metric Tons of GHG CO2e Emissions by Sector and Scope

GREENHOUSE GAS EMISSIONS DISCLOSURES

For Scope 1 GHG emissions, Exxon Mobil reports emissions of 111 million metric tons, Chevron 55 million metric tons, and Southern Company 88 million metric tons. Together, these firms emit 25% of the reported Scope 1 emissions.

When we normalize the Scope 1 emissions by the amount of revenue generated by each company, we measure their carbon intensity. We find on average that these companies emit 180.8 metric tons of Scope 1 emissions per million dollars of revenue. The highest carbon intensity is seen at AES Corp., Ameren Corp., and Southern Company.

> More than 80% of the 300 companies report some information related to the greenhouse gasses they emit through their operations.

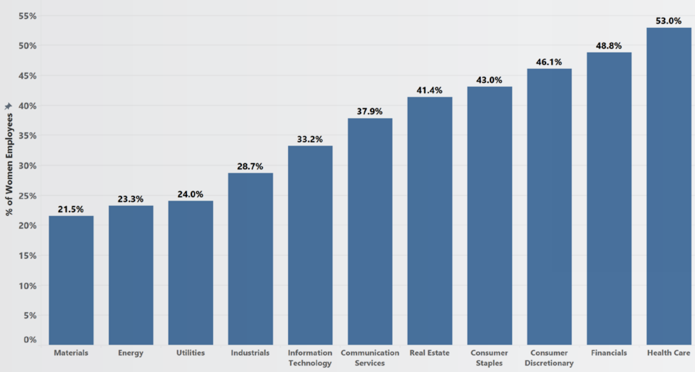
EMPLOYEE DIVERSITY DISCLOSURES

82% of the 300 companies disclose gender diversity.

On average, among the 300 companies reporting on diversity, 39% of employees are women, ranging from under 5% (Norfolk Southern, a railroad) to more than 80% (Estee Lauder, a cosmetics company). The sector with the highest percentages of women is Health Care, least number of women in Materials.

57% of companies report on the various ethnic breakdowns.

Of those companies reporting, on average 10.44% of employees are Black, 11.87% Hispanic, 16.31% Asian, and 59.12% White.



Percentage of Women Employees by Sector

Advanced Micro Devices Inc., Broadcom, Freeport-McMoRan Inc., and Synopsys Inc. all report that 1% or fewer of their employees are Black. Aflac has the highest percentage of Black employees, 33.50%.

Synopsys Inc., Norfolk Southern, Duke Energy, and Broadcom report 3% or less of their employees are Hispanic. Freeport-McMoRan Inc. has the highest percentage of Hispanic employees at 40%.

Duke Energy, Freeport-McMoRan Inc., Home Depot, Kroger, O'Reilly Automotive, PepsiCo, Progressive, Union Pacific, UPS, Walmart, Waste Management, and Norfolk Southern have 3% or fewer Asian employees. Qualcomm ranks highest with 60.90% Asian employees.

The company with the lowest percentage of White employees is Western Digital at 26.10%, and the company with the highest percentage of White employees is Alliant Energy with 94.6%.

IMPROVING THE WEF METRICS

For a number of the WEF metrics, what information the metric seeks is not immediately clear.

One submetric seeks information related to an organization's "appetite" for the risks it faces. However, no information is provided to advise an organization of how to assess its appetite, and indeed, from the data we have gathered, we see fewer organizations are reporting on their appetite for these risks (59.7%) compared with the mean percentages reporting on what they believe those risks to be (88.7%) and how those risks have changed over time (73.8%).

Integrating Risks and Opportunities into Business Practices

88.7%

of disclosures clearly identify the principal risks and opportunities facing the company specifically.

73.8%

of disclosures clearly identify how the risks and opportunities have moved over time and the response to those changes.

59.7%

of disclosures clearly identify the company appetite in respect of these risks.

WEF could strengthen the likelihood of organizations responding to this submetric with information that is ultimately comparable across companies. WEF should provide guidance on how an organization should interpret this metric and standardize the means for assessing and reporting the organization's risk appetite.

OPPORTUNITIES FOR IMPROVEMENT

There is tension between calls for universal metrics and the belief that industry-specific measurements are needed. We suggest a middle ground — a set of universal metrics that all organizations report on covering topics that are material to society, coupled with a sector or industry-based framework.

Metrics need to be more precise to increase comparison. There are more than 70 WEF metrics in the core set. The submetrics within each core metric are often interrelated.

Providing a means to incorporate performance on each submetric into an overall assessment of performance on the core metric could improve these metrics.

Currently stakeholders are left with the task of attempting to weight and aggregate the submetrics on their own.

Metrics that are solely process focused should be accompanied by corresponding outcome-based metrics.

Increase the utility of sustainability metrics by ensuring that the terms used are clearly defined and processes are explicitly laid out for how to collect and report the requested information.

Information should be third-party verified to ensure quality reporting.

Even when considering clearly articulated metrics, ultimately these disclosures are voluntary. Even where it is possible to collect and report much of the requested information in the WEF metrics (like water usage data) or where companies are already required to collect the data (like employee demographics), companies may choose not to. While companies may choose not to disclose outcomes, a stakeholder may find the absence of disclosure outcomes a troubling sign.

While we propose avenues to improve the general quality of the metrics, we likely will need mandated disclosure requirements to reach disclosure rates that will allow a meaningful comparison across firms.

Learn more about this project on company disclosures here.

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