Q&A: The new landscape of corporate climate disclosure

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Is corporate sustainability an oxymoron? California Gov. Gavin Newsom's recent signing of a law that requires large companies to disclose their greenhouse gas emissions has refocused attention on the role of business in combatting climate change. In this article, Lily Hsueh, a visiting scholar at the Stanford Woods Institute for the Environment, discusses California's first-of-its-kind law, climate action challenges and opportunities for corporations, and more.

Hsueh, an associate professor of economics and public policy at Arizona State University's School of Public Affairs, studies corporate environmental behavior and public policy, including its effects on vulnerable communities. She is completing a book that examines governance and economic and political factors that motivate some global businesses but not others to engage in proactive climate action.

Does voluntary corporate climate action work, or do we need to mandate climate disclosures from businesses?

Hsueh: We know that companies are profit seeking entities, and they actually think a lot about the costs of private and public politics. They will act preemptively if threatened by activism or to get ahead of expected regulation. But how much effort they put towards substantive performance depends on the credibility of the activism and existing regulation or the threat of future regulation. Ultimately, voluntary corporate climate action can work, if it is well designed.

For example, companies around the world, including many technology companies based in Silicon Valley, voluntarily disclose their carbon management and emissions to the CDP (formerly called the Carbon Disclosure Project), a nonprofit based in London that surveys companies about their plans to measure, report, and reduce carbon emissions on behalf of institutional investors. However, my research shows that since the CDP grades companies based on sustainability outputs rather than outcomes, companies could earn an "A" or "B" grade from CDP and still increase their entity-wide carbon emissions, notably when they do not experience regulatory pressure.

What about the argument that these kinds of reporting requirements are unfair, costly burdens on companies that will hurt the US economy?

Hsueh: The type of reporting we are talking about is required only of large corporations. Most U.S. companies are small. Just about all large corporations are multinationals. They have been preparing for these mandatory disclosure rules for a while. Currently, more than two-thirds of them voluntarily report to the CDP. The European Union, countries like New Zealand and Singapore, and cities like Hong Kong, as well as the SEC's proposed disclosure rule have built on this system to varying degrees.

Large companies operating in California and federal government contractors are now being required to use the same or similar reporting protocol. I would say in many ways it is not cumbersome for the large corporations targeted because most of them have by now participated in voluntary carbon disclosure.

Is there a silver lining for companies with California's SB 253 and similar reporting regulations?

Since the writing is on the wall, it is better to get ahead of the game in terms of regulatory adherence. If we ever get into a world of carbon pricing, large companies will be better able to quantify their direct and indirect upstream and downstream emissions, and profit from carbon markets. Also, we know a lot of young people care a lot about the environment in ways that previous generations did not. They are demanding corporations be socially and environmentally responsible.

Companies that do not will lose out on consumers and qualified employees. Some research even shows that environmentally conscious employees are willing to accept less pay in order to work for environmentally proactive corporations.

How might reporting climate data alter corporations' behavior, business plan, and / or goals?

With consistency, comparability, and third-party verification, companies will have to make sure their pledges are real and not just a front for greenwashing. They are going to be held accountable. It represents mainstreaming of climate disclosures.

Your upcoming book frames climate change as a 'global commons problem.' What do you mean by that and why does it matter?

Hsueh: The conventional wisdom and the dominant view in economics and much of political science and management is that climate change is a collective action problem. So, actors, whether they are corporations or countries, have the incentive to freeride off of others, to let others shoulder the costs and rights of the global commons. For many years, the conventional solution has been to try to get all the nation states in the world to cooperate. And then the idea is that eventually it will trickle down to the sub-national level, to cities and even to corporations through policies and laws. This approach continues to be relevant. At the same time, there is increasing attention to a more bottom-up approach, involving businesses.

Global businesses represent close to 70% of annual global industrial greenhouse gas emissions, and a majority of the carbon emissions are emitted by about 100 corporations. So, these companies' sheer size, economic contribution, and carbon footprint warrant a need to investigate the factors that motivate their climate mitigation or lack thereof, as they respond to different sources of pressures domestically and globally. I examine this in my upcoming book.

In the US, some have opposed mandatory emissions reporting and attacked environmental, social, and governance or ESG investing, characterizing it as prioritizing liberal goals over investor returns. What does your research suggest?

Hsueh: There's been a lot of myths, misinformation and disinformation about ESG. A well-designed climate disclosure program can help companies by giving clear guidelines of what constitutes a low-carbon initiative, defining carbon footprints so that metrics are comparable across companies and over time, and reporting explicit timelines for phasing out fossil fuel assets set by companies themselves if and when a company pledges to do so.

What are some corporate climate policy options that might be feasible in Congress?

Hsueh: Increasingly, large numbers of companies are setting an internal price on carbon, and they're doing so voluntarily. So, they are more and more ready for some form of carbon tax, in case that is ever on the horizon. That said, there has to be a policy package, if you will, a portfolio where you include policies with more teeth and more concentrated costs with those with concentrated benefits.

Such policy packages would compensate those that bear the costs—for example, through revenue recycling to consumers to offset pricing costs—which could help reduce opposition from potential policy losers. Alternatively, a policy package could invest revenues collected from a carbon pricing scheme toward renewable energy deployment. An increasing number of companies would likely support this policy portfolio approach.

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