

Environmental, Social, Governance (ESG) Disclosure Trends

Analytic Mindset Voluntary disclosures.

Keywords:

Analytic Skillsets Trend analysis, drill-downs, and comparisons.

Keywords:

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CASE BRIEF

Which companies have been improving their sustainability reporting?

You have been asked by a manager to examine potential trends in sustainability disclosures. They anticipate a large amount of advisory work associated with sustainability reporting and would like to know more about how sustainability reporting has been evolving over the last 15 years. The manager also wants to be provided with example companies that are good disclosers and bad disclosers.

Broadly speaking this case is about how sustainability disclosures provide an alternative set of accounting data that can help individuals understand a company's sustainability actions. This case will use Bloomberg's proprietary Environmental, Social, and Governance (ESG) Score measure to examine trends in different industries and to identify leaders and laggards in ESG disclosure.

BACKGROUND

Sustainability reporting is becoming an increasingly important part of voluntary disclosure practices of large businesses and there is growing consensus for mandating sustainability disclosure.¹ Many companies are voluntarily providing insights on their sustainability endeavors: Apple² announced it is carbon neutral for their headquarters and plans to eventually have all operations become carbon neutral; T-Mobile³ is providing internet access to

¹ Lydenburg, Rogers, Wood "From Transparency to Performance; Industry-Based Sustainability Reporting on Key Issues"

² <https://www.apple.com/newsroom/2020/07/apple-commits-to-be-100-percent-carbon-neutral-for-its-supply-chain-and-products-by-2030/>

³ <https://thehill.com/changing-america/respect/accessibility/515488-t-mobile-to-give-free-internet-to-10-million-students>

underprivileged children across the United States in the pandemic; and Intel⁴ disclosed their salaries for diversity hires, calling on other technology companies to do the same. Sustainability is an important aspect of business, and we will focus on the reporting and assurance of these issues.

Sustainability reporting is a broad topic area which includes voluntary disclosures on environmental, social, governance (ESG) and other sustainability issues (the various issues are discussed in more detail below). ESG and other sustainability issues vary in their importance, or materiality, to different industries.

ALTERNATIVE DATA

Sustainability Reporting

Sustainability reporting covers a large set of voluntary disclosures that companies disclose to provide insight into various environmental, social, governance (ESG) and other sustainability issues. We will use the material covered by the Sustainability Accounting Standards Board (SASB, <https://www.sasb.org/>) to provide a framework for considering sustainability reporting. The SASB was established by the SASB Foundation which is a not-for-profit organization whose mission “is to establish and improve industry specific disclosure standards across financially material environmental, social and governance topics that facilitate communication between companies and investors about decision-useful information.” (see <https://www.sasb.org/governance/>).

These SASB categorizes sustainability issues under the following five broad sustainability dimensions:

⁴ <https://www.npr.org/sections/alltechconsidered/2016/02/03/465270938/intel-discloses-diversity-data-challenges-tech-industry-to-follow-suit>

1. Environmental
2. Social Capital
3. Human Capital
4. Business Model and Innovation
5. Leadership and Governance

The SASB uses these broad dimensions to organize 26 sustainability issues the details of which can be found at: <https://www.sasb.org/standards-overview/materiality-map/>. Some of these sustainability issues have multiple sustainability disclosure topics relating to the issue. There is no need to repeat all the details here, but as an example, Human Capital includes: (1) Labor Practices; (2) Employee Health and Safety; and (3) Employee Engagement, Diversity & Inclusion.

We will also follow how the SASB defines industry groupings for this case. The SASB uses the **sustainability industry classification system (SICS)** the details of which can be downloaded here: <https://www.sasb.org/wp-content/uploads/2018/11/SICS-Industry-List.pdf>. Which include the following 11 Industry Sectors:

1. Consumer Goods
2. Extractives & Minerals Processing
3. Financials
4. Food & Beverage
5. Health Care
6. Infrastructure
7. Renewable Resources & Alternative Energy
8. Resource Transformation
9. Services
10. Technology & Communications
11. Transportation

Each of these sectors is further sub-divided into different industries, for example, the services sector includes seven different industries that are quite distinct (services include Hotels & Lodging and Casinos & Gambling as an example). Each industry will face different the sustainability issues

ACCOUNTING ANALYTICS

The MSCI ESG scores database provides both aggregate scores that measure the transparency of ESG disclosures made by public companies. They describe their ESG Rating score as follows:

“An MSCI ESG Rating is designed to measure a company’s resilience to long-term, industry material environmental, social and governance (ESG) risks. We use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. Our ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). We also rate equity and fixed income securities, loans, mutual funds, ETFs and countries.”

The ESG data has been provided from 2000-2020 for all firms covered by MSCI. The database is an international database which is not limited to US firms. We can use the data to visualize trends in ESG reporting since 2000 and drill-down into the data to identify the leaders and laggards in terms of disclosure transparency. Comparing the leaders and laggards will give an idea as to where ESG disclosures are weakest for the industry your group has decided to examine. This will be a largely exploratory data analytics exercise, aimed at helping find concrete examples of high and low quality ESG disclosures.

DATA AND ADDITIONAL RESOURCES

The following data and resources are available in the case supplement:

1. The datafiles with the MSCI ESG detailed scores in CSV format.
2. Please see canvas for further details.

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