What Environmental Ratings Miss

Auden Schendler
Michael Toffel

Working Paper
12-017

September 21, 2011
What Environmental Ratings Miss
Auden Schendler and Michael Toffel
July 18, 2011

News Corporation’s CEO Rupert Murdoch recently announced that the media conglomerate and parent company of Fox News Channel had become carbon neutral, meaning its operations yielded net zero carbon emissions. His move garnered praise from EPA head Lisa Jackson, and represents what is broadly considered to be best practice for how corporations should respond to climate change.

But just two months earlier, Rolling Stone Magazine named Murdoch #1 in its list of “politicians or execs blocking progress on global warming.” “No one does more to spread dangerous disinformation about global warming than Murdoch,” the article noted, highlighting News Corp. subsidiaries like The Wall Street Journal dismissing climate change as “an apocalyptic scare” and influential Fox News commentators such as Sean Hannity and Glenn Beck rejecting climate science.

Despite all this, and largely because of the carbon neutrality of its physical operations, News Corp.’s climate change performance was recently rated “AAA,” the highest possible score in the Global Socrates database produced by MSCI ESG Research, a leading rating organization. In fact, most major corporate environmental rankings like the Dow Jones Sustainability Index (DJIS) similarly focus on operational impacts such as pollution levels and regulatory compliance, as well as the presence or absence of environmental management practices affecting operations (e.g., environmental auditing) and stakeholder engagement (e.g., environmental reporting).

The problem with nearly all major environmental rating schemes, one that threatens their validity in assessing environmental leadership, is that they fail to incorporate political activities that influence environmental regulation. More than 1,000 business leaders have joined We Can Lead, a group that advocates strong climate policy. Twenty companies (including Aspen Skiing Company) have joined Business for Innovative Climate & Energy Policy (BICEP), a leading corporate policy advocacy group. And according to The Independent, a London newspaper, “anti-climate change think tanks” have received hundreds of thousands of dollars from ExxonMobil. But none of these important acts affect company ratings. Along similar lines, Apple publicly quit the U.S. Chamber of Commerce, the largest lobbying group in the U.S, believing its efforts to quash binding climate regulations was an affront to their corporate values. Despite Apple’s aggressive leadership, Newsweek’s green rankings continue to place Apple far below its industry peers.

Compared to companies’ efforts to green their own operations, corporate political actions—like lobbying or campaign funding—can have a vastly greater influence on environmental protection, and arguably represent the greatest impact a company can have on protecting (or harming) the environment. In fact, the very existence of a debate on climate science in the United States, and consequent lack of policy action, has been attributed to massive corporate support for the “denial industry,” as detailed in Naomi Oreskes and Erik Conway’s book Merchants of Doubt. The U.S. Chamber of Commerce, for example, spent $132 million on lobbying in 2010, and opposed all climate legislation. Corporate influence on government policy will only increase after the Citizens United Supreme Court case, which allows corporations to spend unlimited amounts on elections.

Given the scope and scale of the climate crisis, the pressing need for broad policy solutions can’t be overemphasized. According to NASA climatologist James Hansen, climate change is “the predominant moral problem of the 20th century.” The Intergovernmental Panel on Climate Change – the leading international

§ Auden Schendler is Vice President of Sustainability at Aspen Skiing Company, and recent author of Getting Green Done: Hard Truths from the Front Lines of the Sustainability Revolution and several Harvard Business Review articles on corporate environmental strategy. Michael Toffel is Associate Professor at Harvard Business School in the Technology and Operations Management unit. His research examines the effectiveness of environmental management practices within companies’ operations and supply chains, and he teaches an award-winning MBA elective on corporate environmental strategy.
scientific body studying climate – calls for CO₂ reductions of 80-95% below 1990 levels by 2050. That aggressive target offers just a 50/50 chance of preventing a global average temperature rise of 2°C, beyond which millions are put at risk of drought, hunger, and flooding, according to the IPCC. Therefore, an exclusive focus on voluntary operational greening including carbon neutrality distracts from the far greater need for climate regulation to achieve the dramatic overall reductions called for by climate science.

The primacy of policy in solving the world’s environmental problems suggests that corporate activism should be considered in a much broader set of environmental rankings. Why shouldn’t ratings like GoodGuide, which tell consumers which products are healthy, green and socially responsible, consider whether a manufacturer’s political activities support or undermine climate action? Why shouldn’t standards that purport to identify environmental leaders, like the ISO 14001 environmental management system adopted by half a million organizations worldwide, require engagement in the political process to promote climate change regulation? Point-based programs such as the LEED green building standard could give credit for advocating such policies.

At least one News Corp subsidiary has been awarded ISO 14001, and News Corp.’s New York City headquarters is a LEED certified building. Admirable actions to be sure, but these environmental awards risk contributing to greenwash, distracting the public with the left hand while the right undermines environmental protection.

Third party corporate responsibility ratings matter. They help consumers vote with their wallets, aid jobseekers with employment decisions, bolster employee morale, guide socially responsible investors and pension funds, and generate good, or bad, PR for businesses. Research has shown that poorly rated firms respond by improving their performance. Even Bloomberg terminals, widely used by financial analysts, have begun providing Bloomberg’s own ESG (environmental, social and governance) ratings (as well as others’), a move that sparked half a dozen large banks to create divisions to analyze their ratings.

As currently structured, sustainability ratings risk seriously misleading consumers and shareholders, and can even enable greenwashing by allowing corporations to game the system, gaining high rankings while avoiding controversial policy advocacy that takes courage, invites attack, and actually drives real change.

Fixing this problem isn’t all that complicated. Rating systems should factor in political contributions, CEO advocacy work, and engagement with non-governmental organizations among other actions. Just as rating agencies make many subjective decisions about which criteria to incorporate, identifying merit-worthy activism is a subjective task. Rating agencies needn’t take on this new task alone; they could partner with environmental non-profits to identify which activities and organizations promote or undermine climate policy. Incorporating corporate advocacy can strengthen the competitiveness of ranking systems, enhancing their differentiation in a crowded field of company ratings and rankings.

As a result of these changes, the new rankings could also do something remarkable: they could spur corporate activism, and in the process, help solve the world’s most pressing problems.