Assessing corporate ESG transparency: Europe, N. America lead ranking; social, environment disclosure trails governance

Companies headquartered in Western developed countries report most extensively on ESG, with those in Thailand and South Korea standing out among Asian countries, according to our study of the world's largest companies by market value. Globally, companies tend to report most fully on qualitative governance measures and provide limited information on environmental and social indicators.

Our findings are based on analysis of how the world's 2000 largest companies by market capitalisation report on 414 individual ESG cross-sectoral indicators. For our country ranking, we included only the 23 countries which were home to at least 15 of the large-cap companies, equivalent to a total of 1820 firms.

Looking at ESG components themselves, we find large gaps in corporate disclosure which includes significant variations between non-financial sectors and wide divergence in the quantity and quality of reported data. Disclosure ranges from ample but often opaque reporting for governance to more limited information on social and uneven statements on environmental criteria.

The limited transparency in ESG reporting that we find among such large, high-profile companies is a reminder of the challenges investors face in assessing corporate sustainability in the absence of internationally agreed and standardised data and reporting standards - even though there is progress on these fronts, led notably by private-sector associations, the European Commission and most recently the Securities and Exchange Commission in the US.

Rank	Country	Average Transparency	#
1	Canada	55%	64
2	United Kingdom	54%	77
3	Italy	54%	16
4	Thailand	54%	15
5	France	53%	62
6	Switzerland	53%	39
7	Germany	53%	61
8	Ireland	52%	18
9	Denmark	51%	17
10	Spain	50%	19
11	United States	50%	624
12	South Korea	50%	15
13	Australia	49%	36
14	Netherlands	49%	25
15	Sweden	48%	29
16	Hong Kong	46%	44
17	Malaysia	45%	17
18	India	42%	46
19	China	39%	326
20	Taiwan	37%	36
21	Japan	36%	171
22	Saudi Arabia	30%	19
23	Brazil	28%	27

Source: Scope ESG, Bloomberg

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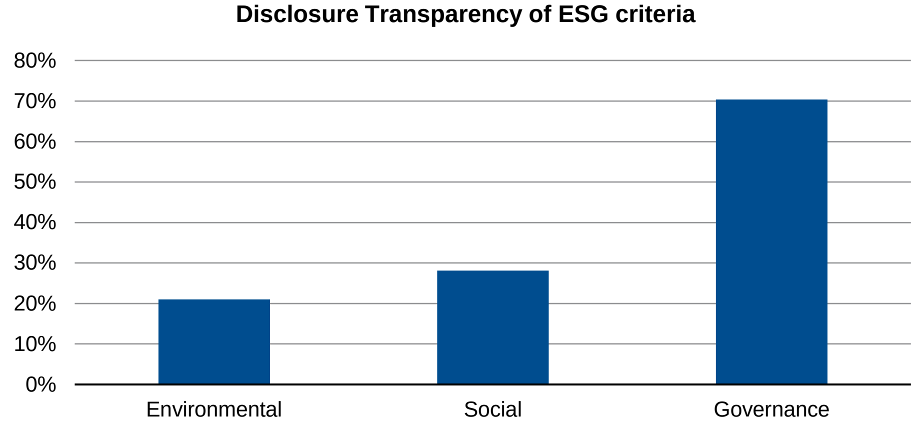
Comprehensive governance reporting, but how useful is it?

Disclosure varies significantly across ESG categories

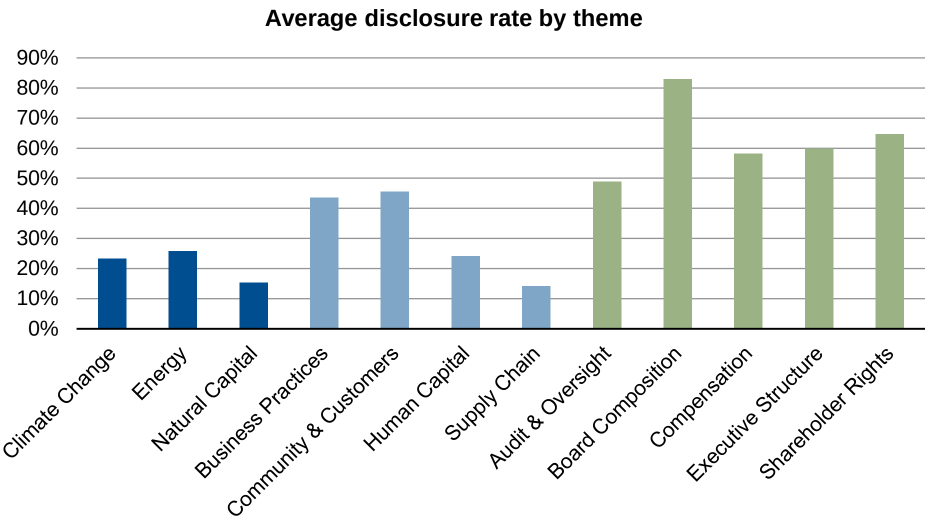
Few companies have full ESG disclosure. Governance reporting is extensive but often comprises disclosure on superficial governance indicators. On the environment, companies disclosed information on an average of just 21% of the 145 indicators we looked at. Disclosure for social data was higher, at 28% of the 67 indicators, but barely 30% of companies report widely on environmental and social indicators (see **Figures 1, 2**).

Figure 1: Large-cap corporate ESG disclosure: governance runs far ahead of environmental, social (% of companies disclosing)



Source: Scope Ratings, Bloomberg

Figure 2: Transparency of disclosure on E, S & G (% of companies disclosing)



Source: Scope Ratings, Bloomberg

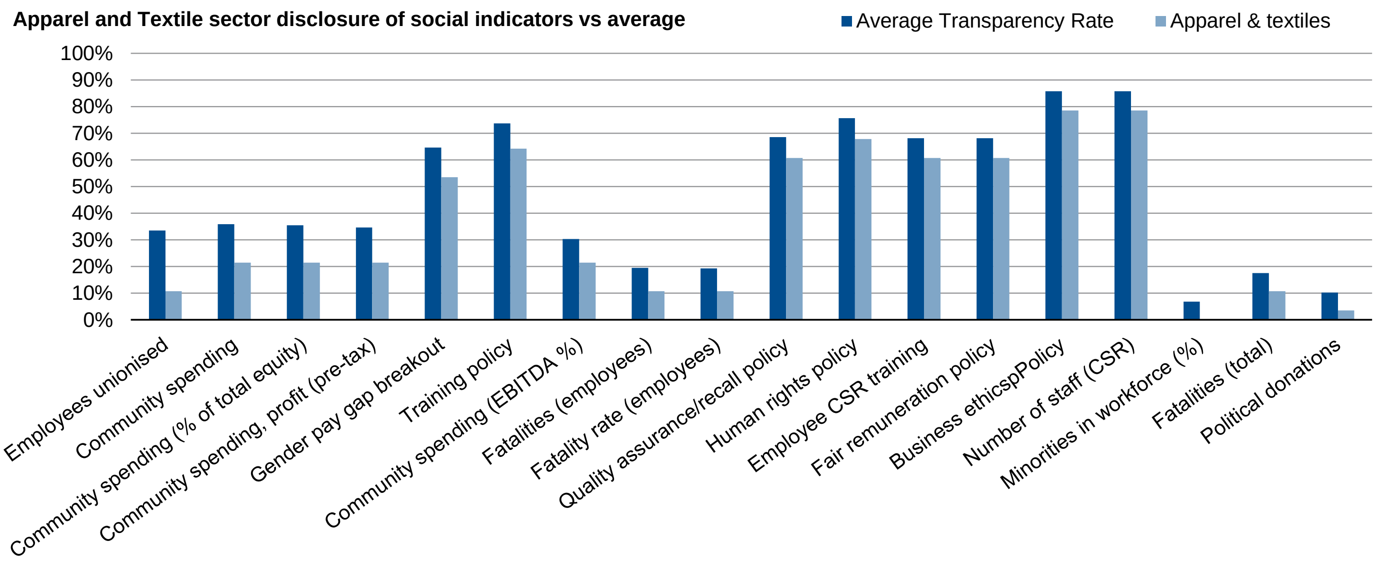
ESG disclosure varies among industries

Apparel and textiles disclosure below average

In terms of sector-by-sector disclosure, we find that agriculture, services and manufacturing companies are relatively poor in disclosing data on climate change even though agriculture and manufacturing are significant emitters of greenhouse gases. It is important to note the small number of agriculture companies among those we surveyed.

We looked at apparel & textiles for a snapshot of reporting on social indicators given it is a sector where the sustainability of businesses and supply chains are under growing investor and regulatory scrutiny (see **Figure 3**). We found that disclosure generally below average.

Figure 3: Sector snapshot: apparel and textiles social-indicator disclosure



Source: Scope Ratings, Bloomberg

Looking at reporting on social indicators in general, we found that the apparel & textiles, food, manufacturing and services are all laggards in disclosure on human capital. In contrast, our study shows that the energy carrier, mining and utilities sectors are relatively transparent, partly a reflection of the long-standing pressure on them for more ample disclosure on ESG given the hefty environmental impact and often dangerous working conditions intrinsic to their operations.

Quality vs quantity: governance reporting lacks precision

Governance variables are the most reported ESG indicators

We find that governance disclosure is plentiful – given the long history of national and international requirements for reporting on how companies are governed (boardroom structures), how management interacts with shareholders and other stakeholders, and how executives are paid and incentivised. However, the information that companies report includes some data of little relevance if any for investors looking to assess the quality of the governance or the sustainability of a business.

For example, of the 70 most disclosed ESG variables of the 414 in our study, all relate to governance. However, they include data points such as the last board start date, the number of members on the executive board, the number of members on the remuneration committee, shares held by board members as a percentage of outstanding shares in issue, and whether the board includes at least one woman – information which leaves investors little better off in assessing the governance risks and costs a company faces. The construction, food and transport sectors stand out for being the least transparent in the reporting on governance.

Disclosure of quantitative environmental, social data remains limited

Rudimentary environmental, social disclosure most common

Quality is also an issue in terms of environmental and social disclosure and tends to centre on the existence of policies rather than disclosure of quantitative data related to risks and impacts.

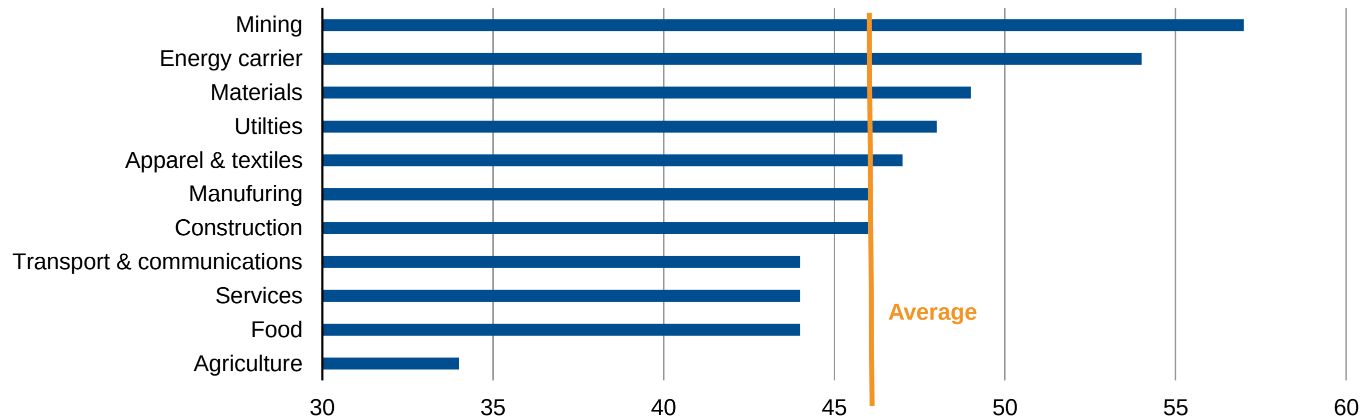
The most common disclosure on social and environmental factors comprises binary indicators confirming the existence of policies - on equal opportunities, business ethics, energy efficiency – or the lack of them. Disclosure containing quantitative information is much more limited with an average disclosure rate around 40%. The percentage of women in the workforce, the total greenhouse gas emissions, energy consumption and community spending are among the most disclosed indicators.

We acknowledge that disclosure of ESG indicators often varies from sector to sector by dint of the nature of the business involved, such as an integrated oil and gas company or utility compared with a business-services company.

However, this should not reflect on the quality and quantity of ESG disclosure. After all, companies' different business models do not free them from the need for full financial disclosure even if some line items are less significant in one business rather than another. The relatively lack of ESG transparency in the transport, communication and services sectors is a case in point (see **Figure 4**).

Indeed, regulatory change to this effect is underway in Europe's financial sector. For financial-services companies, the EU's Sustainable Finance Disclosure Regulation came fully into force on 10 March, committing investors to report quantitative metrics on their outstanding portfolios. This step towards standardised reporting requirements will also oblige companies of every size to invest more into sustainability reporting.

Figure 4: Average degree of ESG transparency by non-financial sector (% of companies disclosing key indicators)



Source: Scope Ratings, Bloomberg

Regulation, efficient markets: crucial factors for ESG transparency

Regulation helps the transparency of corporate ESG disclosure, as the concentration of European countries at the top of our ranking suggests.

EU adopts Non-Financial Reporting Directive

In Europe, the EU approved the Non-Financial and Diversity Information directive in as long ago as 2014. In the directive, large companies were called on to disclose material environmental, social and employee-related matters with goal of contributing to long-term economic growth and employment.

In 2014, the EU also adopted the Non-Financial Reporting Directive ("NFRD") to assist "large companies" in disclosing non-financial information in a more consistent and comparable manner. In 2017, the EC issued guidelines on non-financial reporting, with further important milestones due this year, including the EU Taxonomy on climate change.

Canada, US show market forces can drive better disclosure

In contrast, the strong showing, for example, of Canada and the US, in our ranking demonstrates that levels of voluntary ESG reporting can be relatively high in efficient markets where there is investor demand for increasingly transparent corporate disclosure. Take the example of New York-based BlackRock, the world's biggest asset manager, which is urging companies to commit to net zero greenhouse-gas emissions by 2050 and has suggested it might remove those that do not from its actively managed funds.

Some ESG regulation is in place, even in these markets, and it looks set to tighten. The SEC said only this Monday, 15 March, that it is reassessing its disclosure rules with a view to facilitating the disclosure of "consistent, comparable, and reliable information on climate change."

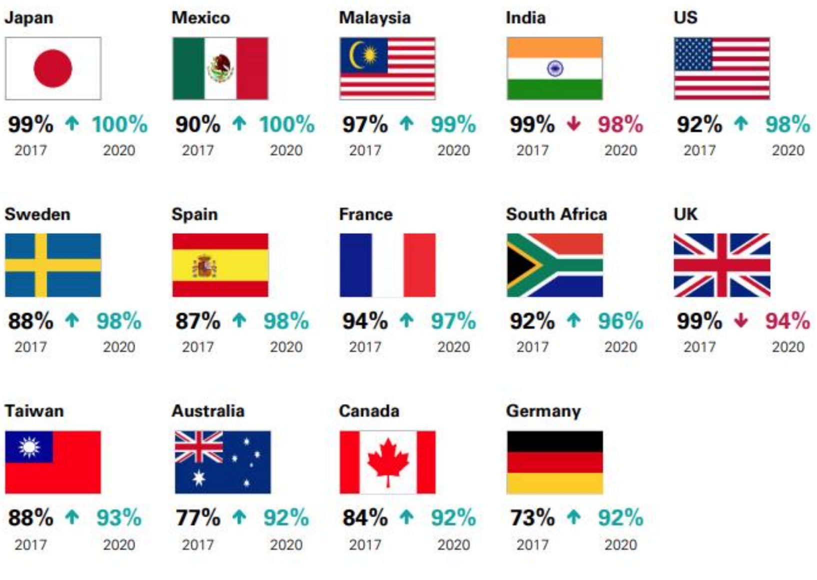
Other countries with big-cap companies with transparent ESG disclosure - but excluded from our ranking due to the small number of companies involved - included Argentina, Portugal and South Africa, with reporting on more than 60% of ESG indicators.

Comparison with KPMG survey: high number of Asian firms report on ESG

KPMG survey of number of firms reporting on ESG

Our findings make an interesting comparison with KPMG's Survey of Sustainability Reporting (see **Figure 5**) which focuses on the number of companies disclosing ESG data, rather than the quality of the reporting across a wider range of ESG indicators.

Figure 5: KPMG corporate ESG disclosure survey (number of companies among largest by revenue which report on ESG factors)



Base: 5,200 N100 companies
Source: KPMG Survey of Sustainability Reporting 2020

Japan ranks more highly in KPMG survey

The latest KPMG survey found that 80% of the world's top 100 countries ranked by revenue (the N100) and 96% for the top 250 (G250) reported ESG data, with American and Asian companies, including Japan's, scoring well.

Thailand ranks highly for volume and quality of ESG disclosure

Japan, Malaysia and India rank highly in terms of KPMG's criteria while the transparency of their disclosure – the reporting of 414 indicators that we follow – was a below-average 46%.

Thailand is the Asian country which ranks best by both number of companies reporting on ESG, according to KPMG, and the transparency of the disclosure in our study.

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