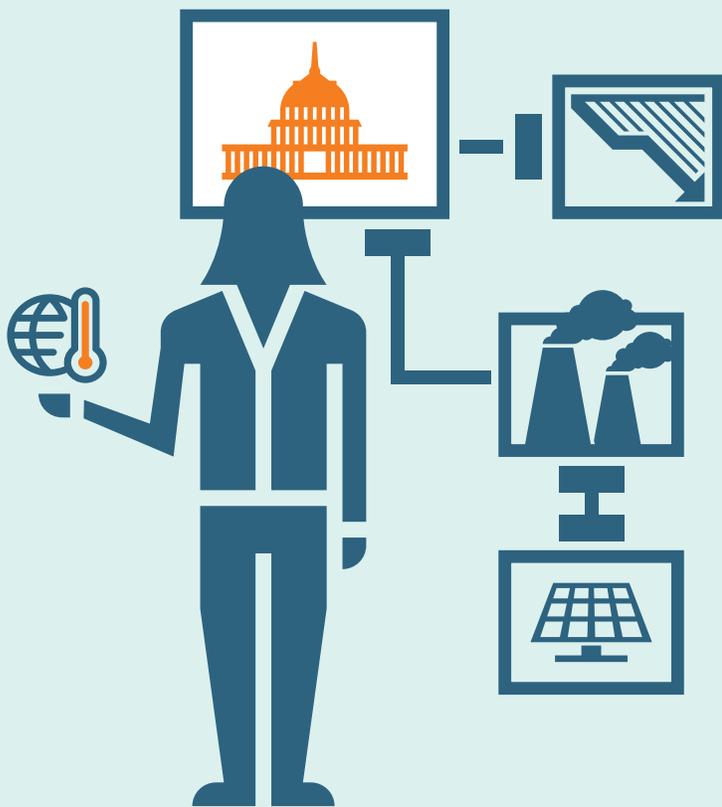


# THE BLIND SPOT

in Corporate Sustainability Rankings:  
Climate Policy Leadership

The most powerful tool companies have to fight climate change is their political influence.



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# Executive Summary

Corporate climate commitments and initiatives have grown dramatically in recent years: over 60 percent of Fortune 100 companies have one or more clean energy goals, approximately half of Fortune 500 companies have set at least one climate or energy target<sup>1</sup> and over 530 companies are setting greenhouse gas reduction goals through the Science Based Targets initiative.<sup>2</sup>

Alongside this growth, numerous sustainability rankings have emerged to help stakeholders assess corporate environmental performance and identify leaders. Beyond their public relations benefits, these rankings also provide an essential service to companies by helping them define internal performance measures, attract top talent and link executive compensation to corporate sustainability. However, most of these rankings are missing a critical element of sustainability leadership: corporate engagement in climate policy.

While voluntary actions by companies to reduce greenhouse gas emissions are important, only public policy can deliver the pace and scale of reductions necessary to avoid the worst impacts of climate change.

The urgency and magnitude of the climate challenge demands a bigger response from businesses than cutting their greenhouse gas emissions; companies also need to support policies that drive down emissions across the entire economy. That's why policy advocacy is an essential element of sustainability leadership.

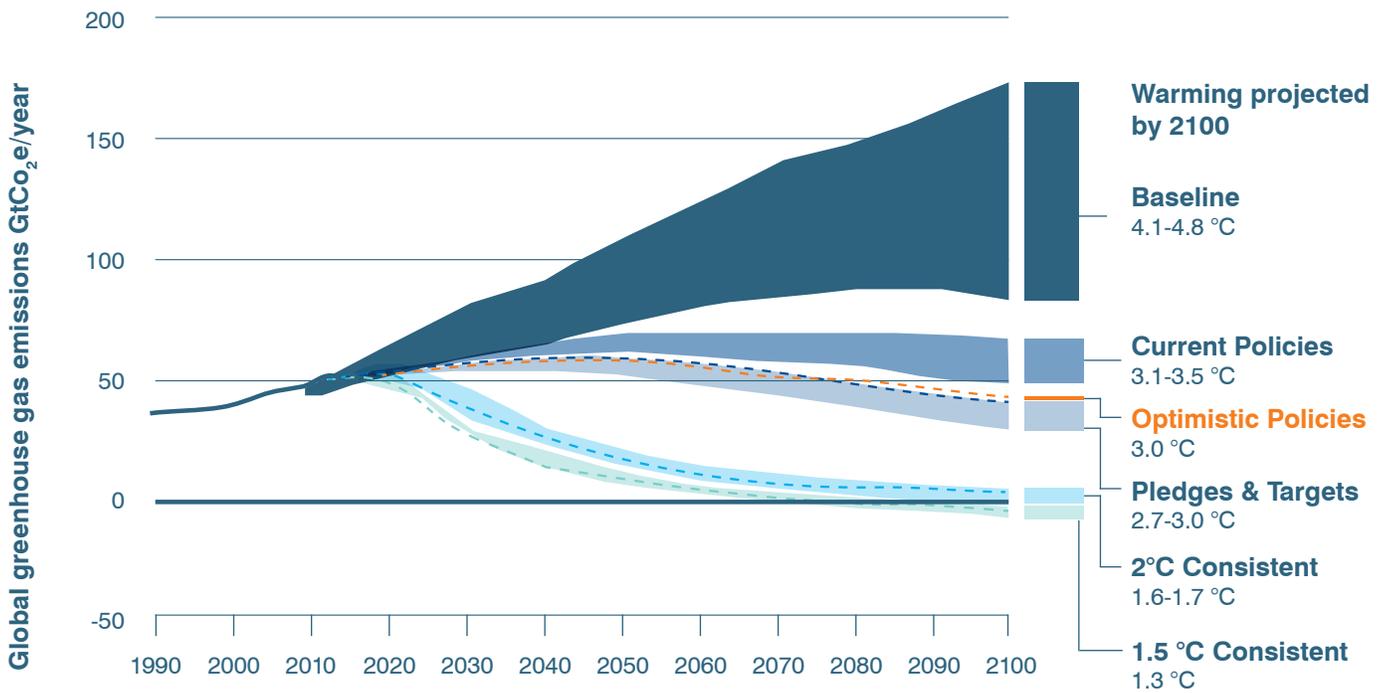


**It's no longer enough to reduce, or even eliminate, the greenhouse gas emissions in one's operations and supply chain. Today, leadership companies are those that speak up and speak out in favor of ambitious climate policies, and companies will increasingly be held accountable on that score."**

Joel Makower, Chairman and Executive Editor, GreenBiz Group

## 2100 Warming Projections

Emissions and expected warming based on pledges and current policies



SOURCE: *Climate Action Tracker*

According to the [Climate Action Tracker](#), "In the absence of policies global warming is expected to reach 4.1 - 4.8°C above pre industrial temperatures by the end of the century."<sup>3</sup>

**T**his report examines eight widely cited sustainability rankings and finds that only one (InfluenceMap’s Climate Policy Engagement A-List) recognizes companies for lobbying or other activities in favor of public policies that protect the climate. Only two (InfluenceMap’s Climate Policy Engagement A-List and Corporate Knights Global 100) penalize or disqualify companies for lobbying or activities against public policies to protect the climate. With the exception of InfluenceMap, none of the rankings analyzed in this report give weight to public policy advocacy commensurate with its outside impact on environmental outcomes.

This blind spot in corporate sustainability rankings is a problem. Rankings that omit climate policy advocacy give stakeholders an incomplete picture of companies’ ambition and accomplishments in sustainability. Moreover, they imply that companies can be sustainability leaders without making any effort to reduce emissions beyond their own operations or supply chains. This needs to change.

The primary challenge for ranking entities in evaluating corporate engagement in climate policy is the lack of transparency in lobbying and other political activities. This report recommends that as a first step, ranking entities ask companies to disclose the nature and extent of their engagement in climate policy. This would begin to give the ranking entities the information they need to comprehensively evaluate sustainability performance.

The [U.N. Global Compact Guide for Responsible Corporate Engagement in Climate Policy](#) offers a useful framework for ranking entities in developing their disclosure guidelines. It recommends three actions companies can take to demonstrate responsible engagement in climate policy:<sup>4</sup>

- 1 IDENTIFY:** Inventory influences, risks and opportunities with internal and external experts.
- 2 ALIGN:** Complete internal audit to ensure consistent positions, strategies and investments.
- 3 REPORT:** Disclose positions, actions and outcomes.



## Rankings vs. Ratings

This report considers sustainability *rankings*, as distinct from sustainability *ratings* of individual companies intended primarily for investors. As defined by SustainAbility in the important [Rate the Raters](#) research series, “rankings are lists that classify companies based on their performance and put them in a certain order or grouping based on a specified grading system. Examples include the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index series.”<sup>5</sup>

Ratings are “evaluations of a company based on a comparative assessment of their quality, standard or performance on environmental, social or governance issues. These pertain to individual companies. Examples include MSCI ESG Ratings, Sustainalytics ESG ratings and CDP company performance scores.” Unlike rankings, there is no threshold of performance required for a company to be considered in a sustainability rating system.

Recognizing or even requiring disclosure of corporate engagement in climate policy would create a major shift in the landscape. It would enable ranking entities to give their audiences — consumers, investors, employees and companies themselves — a more complete picture of a company’s sustainability performance. Most important, publicly recognizing the leadership of companies that advocate for climate policy will encourage other companies to do the same, thus building business support for policies that cut climate pollution in a meaningful way.

# Analysis of Rankings

The authors reviewed eight rankings by evaluating the methodologies that these systems have published online and that are available to the public. They assessed whether companies' policy engagement activities were considered in the rankings, and how, if considered, they were tabulated as part of the companies' overall rankings or scores.

Five of the eight rankings include questions or criteria pertaining to a company's public policy positions or activities (not necessarily specific to climate change policy). Two of these penalize or disqualify companies that have exercised political influence in opposition to progressive climate policy. Only one, InfluenceMap's Climate Policy Engagement A-List, highlights companies that have engaged in activities supportive of climate policy.

Two of the eight rankings consider certain qualities as inherently "unsustainable" and thereby disqualifying. The Corporate Knights Global 100, for example, automatically excludes companies that lobby to block climate change policy, an activity it considers "counterproductive to sustainable development."

For the purposes of this report, public policy engagement includes direct lobbying; financing think tanks, foundations, political action committees (PACs) or super PACs; establishing front groups; working through trade associations or advocacy groups; providing testimony before legislative or regulatory bodies; serving on government advisory committees and funding candidate or issue campaigns.



**While leading assessments like Newsweek's are admirably rigorous and comprehensive, all major green rankings have an important blind spot: They do not account for corporate lobbying and campaign contributions around environmental policy. ...Green ratings ought to include political transparency scores to get a fuller picture of corporate greenness."**

Harvard Business Review<sup>6</sup>

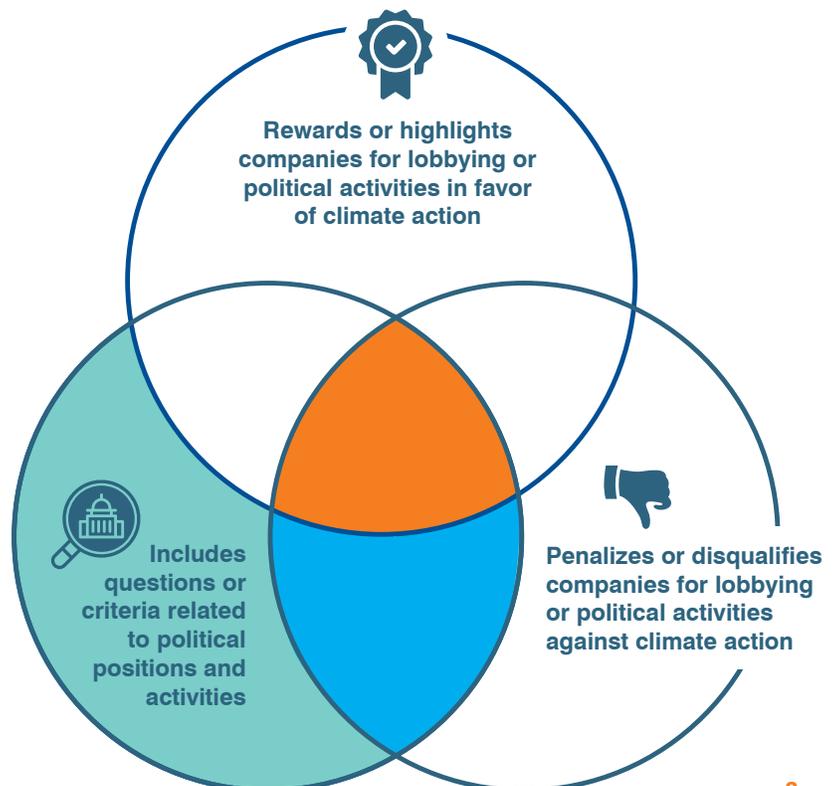
## Sustainability Rankings Assessed for Political Transparency

- InfluenceMap Climate Policy A-List
- Corporate Knights Global 100
- CDP Climate Change Score
- Dow Jones Sustainability Indices
- Good Company Ratings Report

Barron's 100 Most Sustainable Companies

CR Magazine 100 Best Corporate Citizens

Newsweek Green Rankings





“

**We created InfluenceMap to fill a clear gap in the way in which companies are assessed on climate change — that is, their impact on climate policy and narrative. Judging companies solely based on operational and product emissions is insufficient.”**

Dylan Tanner, executive director and co-founder, InfluenceMap

# Challenges

## in Integrating Climate Policy Advocacy into Sustainability Rankings



### Lack of Transparency in Corporate Climate Advocacy

While some rankings have attempted to incorporate policy engagement in the past, a sustained inclusion of these considerations has not materialized, in large part due to the lack of corporate disclosure of climate advocacy efforts.

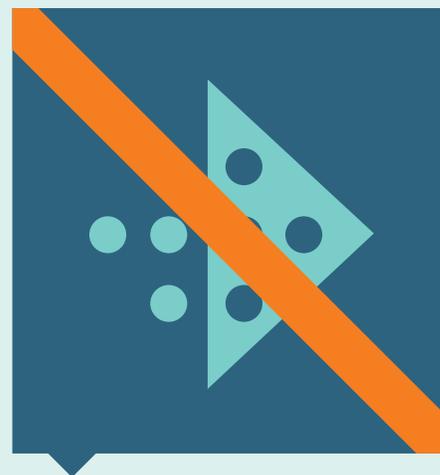
For rankings like the CDP Climate Change A List, which has previously attempted to incorporate climate policy advocacy in its scoring rubric, the lack of corporate disclosure poses a major hurdle. Without knowing how, where, or with what other advocacy groups a company works to influence public policy on climate, it is difficult to use public indicators as a meaningful proxy for performance in this area. Frameworks like the *U.N. Global Compact Guide* offer initial guidelines for how to overcome this transparency problem.



### Lack of Transparency in Sustainability Rankings' Criteria

While transparency around climate policy advocacy is essential to accurately assess sustainability leadership, transparency is equally vital in the indicators that ranking entities use to evaluate corporate sustainability. A lack of comprehensive and publicly available rubrics from many ranking systems blurs the avenues by which they arrive at their conclusions, and makes analysis of public policy engagement more challenging.

While many ranking systems publish broad, thematic overviews of their methodologies, they do not elaborate on the specific “indicators” that are used in scoring. This lack of disclosure makes it difficult for companies, investors, activists and others to understand how different rankings evaluate sustainability leadership.



### Lack of Consistency in Scoring Methodologies

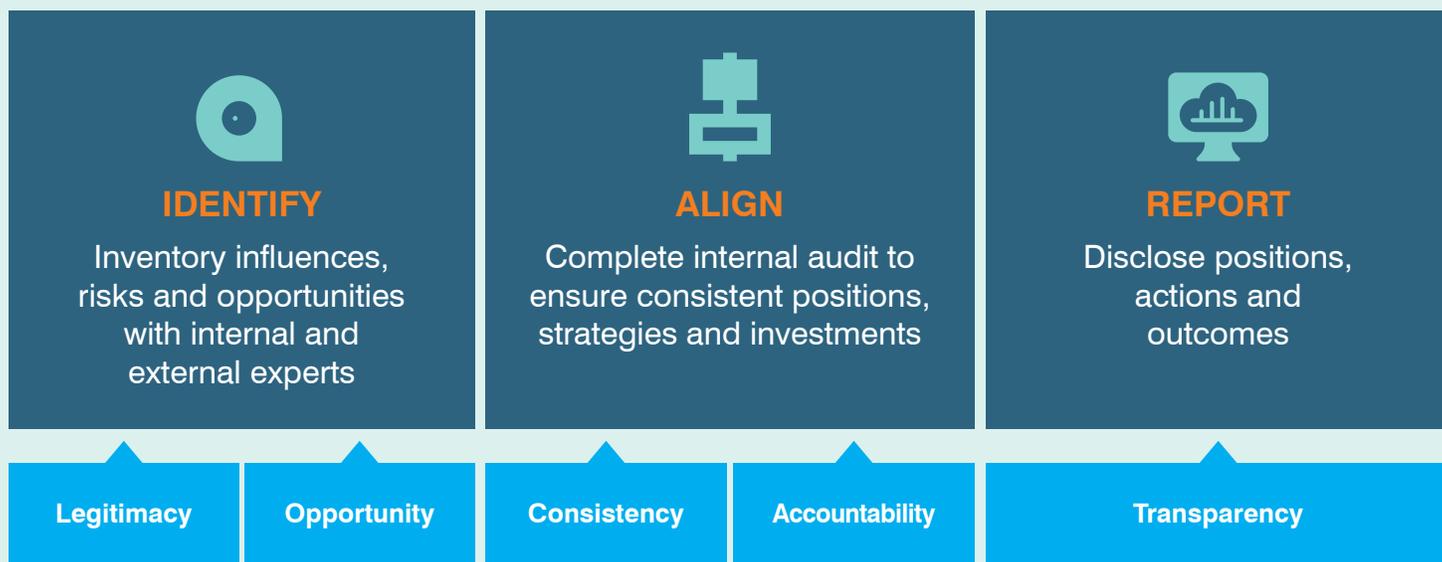
Some rankings, such as the CDP Climate Change A List, ask companies to complete a questionnaire that informs how they are scored, whereas others rely exclusively on publicly available data. Still others invite companies to self-report (with corroboration), and then use public data to fill in any gaps.

This variation in scoring methodologies is relevant because rankings that rely exclusively on publicly available data currently have a limited ability to evaluate a company’s engagement in climate policy. It further underscores the need for companies to disclose their climate policy advocacy.

# Recommendations

As scrutiny of corporate lobbying has increased in recent years, a number of resources have been introduced to help companies align their policy advocacy with their environmental goals. One such resource, the [U.N. Global Compact Guide for Responsible Corporate Engagement in Climate Policy](#), offers companies a succinct but inclusive framework:

## Three Actions Companies Can Take Today



## Five Core Elements of Responsible Corporate Engagement in Climate Policy

SOURCE: *U.N. Global Compact Guide for Responsible Corporate Engagement in Climate Policy*

Beyond aiding companies, the *U.N. Global Compact Guide* provides important insights into how sustainability rankings might incorporate a company's climate policy engagement into its overall sustainability score. Ranking entities could ask companies questions drawn from the *U.N. Global Compact* guidelines:

- 1 Has a company identified risks and opportunities in climate policy and disclosed the ways it directly and indirectly influences public policy?
- 2 Has a company demonstrably aligned its public policy engagement with its rhetoric on climate?
- 3 Has a company disclosed its policy positions, policy influences and outcomes?

The element underpinning each of these considerations — disclosure — should be foundational to the rubrics that rankings employ. A company's climate policy activities can be understood through its lobbying expenditures, public testimonies, electoral contributions, trade association memberships, and funding of research, foundations, think tanks or front groups. Rankings should recognize companies that volunteer this information, or even mandate disclosure for companies that aspire to a designation of excellence.

The DJSI offers a model of how such disclosures might be scored. Its questionnaire includes “disclosure” and “performance” questions. “Disclosure” questions solicit quantitative or qualitative information, awarding a set point value to respondents that answer them without assigning a value judgment to those answers.

**O**n public policy engagement, DJSI asks several “disclosure” questions, probing companies for “total annual monetary contributions to and spending for” a series of political campaigns, lobbying groups, trade associations or other entities working at the nexus of business and public policy. The DJSI encourages companies to state their positions and associated political spending or engagement on public policy issues. Though the questionnaire is not specific to climate policy, its format could be easily adapted for that purpose.

Public policy transparency has gained traction as a cause among activist investors, who have introduced a growing number of shareholder resolutions calling on companies to disclose information such as:

- Company policies and procedures governing lobbying.
- Company public policy objectives related to climate change and renewable energy.
- The amount and percentage of company political spending that goes toward lobbying firms, campaigns, and trade associations working on issues related to climate and the environment.

## Investors increasingly calling for transparency on policy advocacy

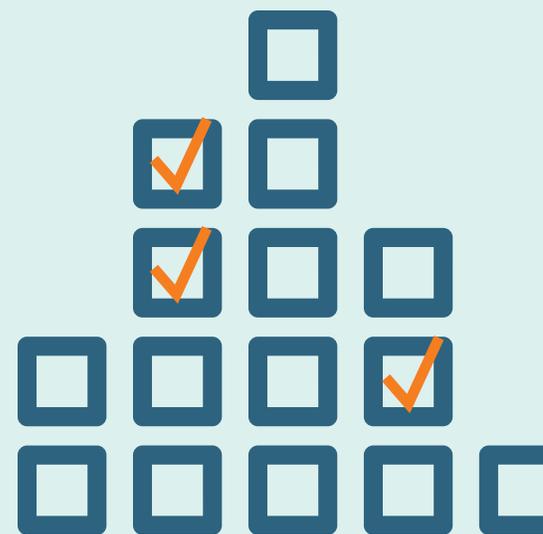
Shareholder resolutions introduced during recent proxy seasons underscore the perceived value to shareholders in understanding the public policy engagement activities of their companies. In September 2018, Nike shareholders introduced a resolution calling for greater transparency on political spending and proposing regular reporting on political contributions.<sup>7</sup> In February 2019, Hilton Worldwide Holdings, Inc. agreed to disclose its political spending, obviating a pending shareholder resolution proposed by the New York State Common Retirement Fund.<sup>8</sup>

In addition, socially responsible investment firms such as Walden Asset Management and Domini Impact Investments, along with pension funds, religious denominations, and other major shareholder groups are increasingly demanding that companies’ policy advocacy match their public rhetoric on climate change.

- Company membership in trade associations and tax-exempt organizations that write or endorse model legislation.
- An activity sheet of meetings or events involving the company or its representatives and legislators, regulators, or other lawmakers.

Including public policy disclosure questions in sustainability rankings is crucial for producing comprehensive and informative assessments. For rankings that rely entirely on public data for their sustainability appraisals (as opposed to those that also issue questionnaires directly to companies), the inclusion of public policy disclosure criteria may encourage companies to volunteer this data as part of their regular public filings.

InfluenceMap’s Climate Policy Engagement A-List, which draws on the *U.N. Global Compact Guide*, offers a strong example of how companies’ political activities may be folded into overall considerations of sustainability. InfluenceMap considers such factors as regulatory consultations, CEO activism and public comments on policy to assess both where a company falls on the climate policy spectrum, and the intensity of its associated engagement efforts. It also scrutinizes the activities of major trade associations, and may disqualify companies if they belong to groups that work against climate policy.



# Conclusion

While corporate initiatives to cut climate pollution should be celebrated, even the most ambitious of those efforts fall far short of what's needed to bend the curve on carbon emissions. Policy solutions are urgently needed to drive down greenhouse gas emissions across the economy.

Most corporate sustainability rankings do little to encourage companies to engage in climate policy, as they neither recognize support for nor penalize opposition to climate policy. This blind spot

prevents them from presenting a complete picture of sustainability performance, and diminishes their value by omitting the most important measure of sustainability leadership.

The most powerful tool companies have to fight climate change is their political influence. By integrating climate policy advocacy, sustainability rankings will identify the true leaders and raise the bar for all companies to support policies that enable a transition to a low-carbon future.

## About Environmental Defense Fund

Environmental Defense Fund (EDF) is one of the world's largest environmental nonprofit organizations, with more than two million members and a staff of over 500 scientists, economists, policy experts and other professionals working around the world. EDF finds practical and lasting solutions to the world's most serious environmental problems. Working with leading businesses, innovators, scientists and academics, EDF is catalyzing scalable solutions for minimizing the environmental, economic and human health risks associated with rising greenhouse gas emissions.



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