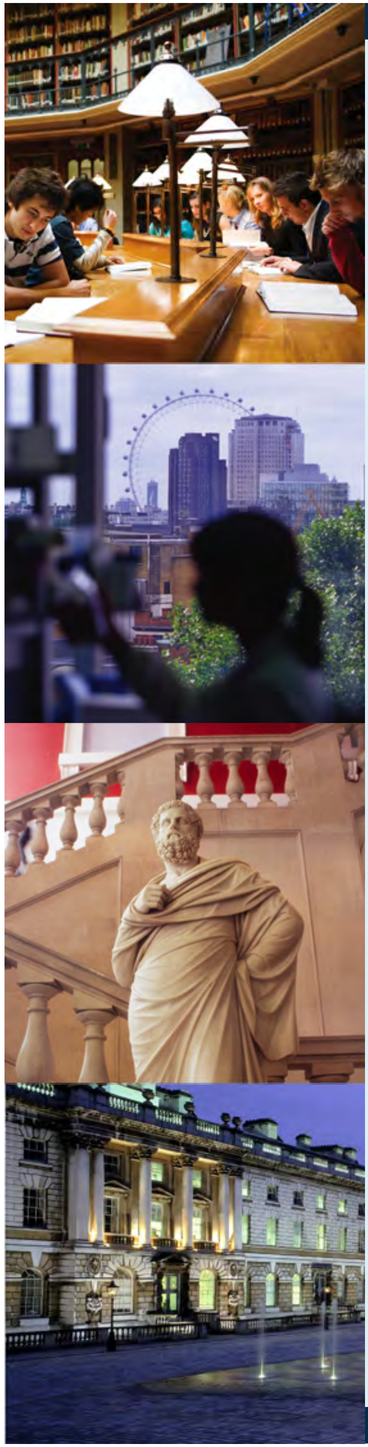

Reporting, Regulation, and the Governance of Climate Change in the U.K.

CSTPR Noontime Seminar
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Outline

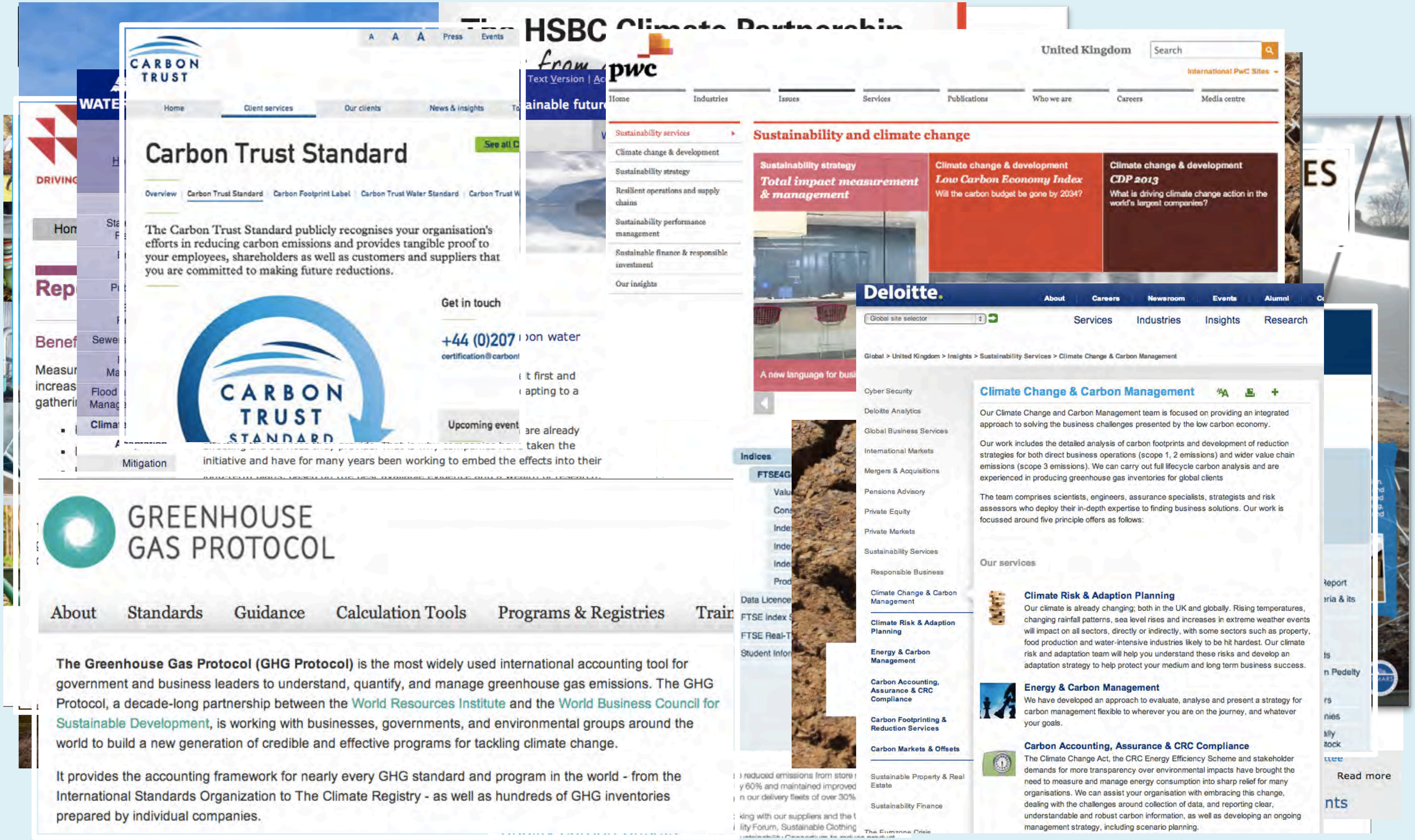
Purpose of today's talk: Introduce my research

1) Conceptual framework
2) Methodology
3) Patterns of reporting
4) Rationale for reporting
5) Perceptions of reporting requirements
6) Conclusions

Corporate reporting is:

the disclosure of information that aims to better inform the public about the company's culture, behaviour and performance (e.g., strategy, operations, risks)

1) Conceptual framework: Direct and indirect climate change reporting



In summary, UK business community is subject to

- An increasing number of mandatory climate change reporting requirements;
- AND, voluntary-led forms of disclosure are also increasing *(Knox-Hayes and Levy, 2011; Sullivan and Gouldson, 2012)*

BUT despite all this reporting and newly available information it is not exactly clear…

How all this reporting helps business and society more generally address the challenges to climate change?

Why businesses report on climate change in the first place?

Important to understand because…

- Action by the business community is often cited as key to tackling climate change *(Jira and Toffel, 2012; Nyberg and Wright, 2012).*
- Literature focusing on other domains of corporate reporting is critical of business intentions; if similar, is our ability to tackle climate change undermined?
- Complex nature of climate change does not make it possible to simply assume that pre-existing conditions and conceptions of corporate reporting behaviour and culture are directly applicable.
- Immaturity of climate change policy domain make it an excellent opportunity to better understand decision making processes and implementation responses before they become embedded and routinised.
- The very act of reporting is increasingly being used as a mechanism of light-touch regulation

Research Aims and Objectives

Scope and patterns

(Who is reporting?)

Framing and content

(What and how are they reporting?)

"Why do large corporate business organization's in the UK report on climate change?"

Rationale and motivation

(Why are they reporting?)

Implications/Responses

Non-financial reporting literature

1. Ecological modernization

“Win-win” of environmental protection (Mol and Sonnenfeld, 2000; Murphy and Gouldson, 2000)

2. Greenwashing

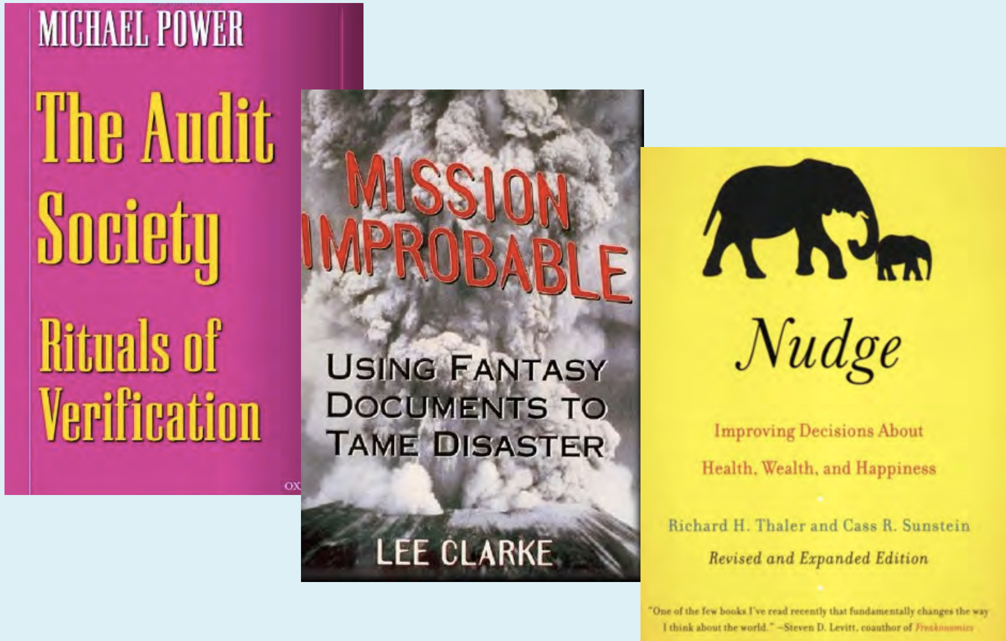
Seek legitimacy whatever the cost

(Lyon and Maxwell, 2011)

3. Audit culture

Cultural shift in reporting (Power, 2003)

- Box-ticking (Stubbs et al., 2012)
- Fantasy documents (Clarke, 1999)
- Libertarian paternalism, or a system of ‘nudges’ (Thaler and Sunstein, 2008; Jones et al., 2011)



2) Methodology: Strategy

Phase One

- Extensive screening review of 170 business website's
  - 96 FTSE listed companies
  - 74 ARP first round reporters
    - 12 sectors

Phase Two

- 22 Case study organisations (from 5 sectors)
  - 40 Interviews
  - Document analysis *(Business financial, CR, and sustainability reports; External ranking/standard indices disclosure)*

Phase Three

- Supplementary data collection
  - 20 interviews (*Politicians, Civil servants, Regulators, Consultants)*
  - Archival document analysis *(e.g., Legislation; Hansard Parliamentary records)*

Table 1. Rationale for selected case study organisations in Phase Two

Sector	N	Regulatory requirements (carbon, ARP, both)	Environment reputation and public pressure	Level of engagement (with public)	Emitting GHGs	Energy use	Website terminology primarily on adaptation or carbon emissions
Energy	4	Both	Medium	Historically limited	High and direct	High	Carbon
Extractives	5	Carbon	High	Pro-active	High and direct	High	Carbon
Finance	5	Carbon	Low	Limited but growing	Low and indirect	Low	Carbon
Water	5	Both	Medium	Highly pro-active	Medium and indirect	Medium	Equal weight
*Other**	3	Carbon	Low	Varies	Low and indirect	Medium	Carbon

*Other is made up of a Pharmaceutical, Communication, and Environmental/Waste service.

Table 2. Job titles of representatives from case study organisations

Business function	Job title	n
Executive Committee	Company Secretary	1
Environment *Includes Climate Change, Sustainability, and Corporate Social Responsibility*	Director/Head of Climate Change and Sustainability Vice President Sustainability and Environment Climate Change/Sustainability Strategy Manager Group Environment/Corporate Responsibility Manager Climate Change/Sustainability Analyst Group Sustainability Officer and Reporting Lead	3 1 5 5 5 2
Policy and Regulation	Global Senior Advisor on Energy Security and Climate Change Chief Advisor Energy and Climate Change Policy Lead Advisor on Carbon Regulation and Research Advisor Team Leader on Regulatory Compliance	2 1 2 1
Energy	Energy Services Manager Energy Reduction Advisor Energy Generation Analyst	3 1 1
Facilities	Head of Facilities and Business Continuity	1
Supply Chain	Group Supply Chain and Strategy and Performance Manager	1
Procurement	Senior Procurement and Supply Chain Senior Sustainability Analyst in Global Procurement	1 1
Finance	Management Accountant	1
Health and Safety	Manager HSE Legislative Compliance and Social Responsibility	1
Marketing	Communications Officer in Government and Stakeholder Engagement	1

Interview protocol

1. **About their role and responsibilities**

2. **Organisation approach to non-financial reporting**
   – What are the principal environmental issues your organisation faces?
   – How do you monitor and manage these?
   – Where did the agenda to look at these issues come from?

3. **Organisation positioning on climate change**
   – What does climate change mean for your organisation?
   – What are the principal risks and opportunities associated with climate change?
   – What has influenced this stance/positioning on climate change?

4. **How do they do their climate change reporting?**
   – What kind of climate change reporting do you do internally and externally?
   – How are these reports put together? What information goes into them?
   – Why do you undertake these reporting practices?
   – When did this reporting begin?

5. **What happens as a result of reporting?**
   – What impact has reporting on climate change made on your organisation's business strategy and operations?
   – How do you use this collected information within reports?
   – What purpose does reporting fulfill?

Question examples for additional stakeholders

1. What services do you provide?
2. In your experience are some sectors more sophisticated than others?
3. In your opinion what principally motivates organisations to report on climate change?
4. Is the business community doing enough to tackle climate change?
5. What do you think of the Mandatory Carbon Reporting/Adaptation Reporting Power?
6. What impacts on business strategy and operations have they made/will they make?
7. What is the value of the information/data collected/available from climate change reporting requirements? What does it inform?
8. Is there a difference between the quality and quantity of information produced for and disclosed in voluntary forms of reporting compared to mandatory requirements?
9. How have climate regulations effected your relationships with the businesses you interact with?
10. Where do you think the business community situates adaptation to climate change?

3) Patterns of reporting

Table 3: Physical, social and economic risks and opportunities identified

	Risks	Opportunities
Physical	• Day to day environmental management • Management practices of extreme weather events (e.g. increased frequency of flooding/drought) • Sea-level rise	• Better management of key resources/ assets • Reduce net carbon emissions
Social	• Reputation • Legislation • Employee travel • Employee safety, health and wellbeing	• Fund research • Increased Government support • Competitive advantage • Enhance corporate reputation • Recruit and retain environmentally aware talent
Economic	• Inappropriate investment • Energy use costs • Supply chain dynamics • Reduced financial investment • Changes to business assets (e.g., supply and demand) • Infrastructural repairs • Transportation of goods	• Responsible investment • Reduce immediate expenditure/costs • Long-term money saving (e.g., reduce maintenance costs from better/more efficient infrastructure) • Selling of advanced technology/ product • Tax and renewable incentives

Characteristics of climate change information

Quantity

- ***147 organisations have 'some' to 'a lot' of information, 23 do not report***
  - *Quantity breakdown: 'None' 14%; 'Some' 43%; 'Moderate' 18%; 'A lot' 25%*

Terminology

- ***Mitigation prominent and detailed, adaptation secondary and light touch***
  - 72% of sample used terms associated with mitigation
  - 0% adaptation
  - 14% equal weighting to mitigation and adaptation

    (3 Energy; 3 Extractives; 7 Public body; 1 Transport; 11 Water)
  - 14% neither

- Of the 74 ARP first round reporters, only ***15 clearly talk about adaptation***

Response actions

- ***Mitigation preferred over adaptation***
  - 81% mitigating, 33% adapting

- Mitigation actions are more readily quantifiable: easily managed, adjusted and assessed

Examples of response actions

Mitigation actions

- GHG emission reduction
- Enhancing energy efficiency
- Recycling of materials and waste management
- Carbon footprinting
- Development and utilisation of renewable resources of energy and water

Why?

1. *Reduce environmental impact*
2. *Perception will lead to better technical and financial variability*
3. *Help improve business image in public/society (e.g., CO2 reporting "improves" business transparency)*
4. *Reward and external accolades*

Adaptation actions

- More detailed planning for droughts and floods
- Advanced contingency planning for weather extremes (e.g., snowfall, strong and high wind speeds)
- Design and develop new technology/assets
- Increase resilience of infrastructure (e.g., water pipes/sewer drains reassessed to cope with weather extremes)
- Changes to management practices

Why?

1. *Pre-existing plans not able to deal with future changes*
2. *Develop/design of new assets to cope better with future changes*
3. *Infrastructural developments are needed to cope with predicted changes*
4. *Long-term management practices poorly accommodate future changes*

Mechanics of reporting

Size of team

- Largest businesses, and more sophisticated/ mature reporting sectors have one individual per reporting requirement
- Smallest businesses have one individual for multiple reporting requirements

Cost

- High in Extractive and Water

Detail

- Bare minimum is met, especially mandatory requirements
- Consist of boiled down points stakeholders will be interested
- Positive, lack of negativity

Data collection

- Each business function
- Collated by central function

External reports

Responsibility

- Environment/CSR/ Marketing business functions
- Increasing dedication of specific teams

Peer activity

- Voluntary reporting often competitive

4) Rationale for reporting: General reasons

Economic

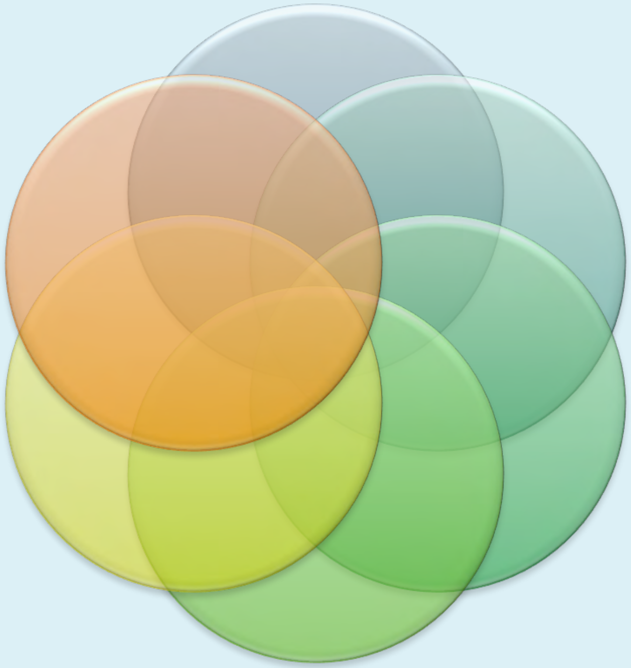
- Save money
- Economically viable
- Resource cost

Reputation

- Affiliation with 'right' indexes and actors
- Brand integrity
- Prestige of being a leader
- Stakeholder relationship maintenance

Opportunity

- Identify and develop new technology (for retail)
- Meet stakeholder expectations
- Raise issue prominence within organisation



Physical

- Vulnerability, fear of resource/asset ceasing to exist
- Supply chain security

Regulation

- Compliance is key

Eco-values

- Good corporate citizen/ business responsibility

Rationale for reporting: Initial reasons from case study sectors

Energy: reputational/legislative risks, social opportunity

- Fear of public criticism; to justify energy prices

Extractive: reputational risk, economic opportunity

- Transparency is key defensive strategy

Finance: reputational risk, social opportunity

- 'Carrot and stick' mentality to avoid any potential repercussions

Other: legislative risks, economic opportunity

- Technological/asset development

Water: physical risk, economic opportunity

- First hand experience of extreme weather impacts

All sectors report because:

1. ***Their peers do, 'report to report'***
2. ***Fulfills overall corporate objective of competitiveness and financial sustainability***

5) Perceptions of reporting requirements

1. Rarely match or compliment existing business strategy or reporting style
   – Different units or narratives; have to recalculate data

"…a lot of the big companies have found CRC very irritating because it is asking them to report on something that is different to the way they would normally report and it doesn't really fit with their business strategy and targets." (Energy Company)

"Companies are being asked to essential report lots of similar information in different ways. It then becomes just an administrative burden rather than a useful business behaviour change tool." (Consultant)

2. Some reporting requirements seen as unnecessary, but they will continue to report because of regulatory, societal and reputational risks

"If the Government asks you to do something, whether that be formally or informally, you are going to do it." (Water Company)

   – ***Would like some reporting requirements to be removed***
   – ***Reporting needs better consistency***
   – ***One size fits all approach is not useful***

3. Minimal influence behind actions
   - ***More immediate issues*** like energy prices have a greater impact than carbon emissions or adaptation planning
   - ***Public more concerned about economy and cost of service*** than whether sustainable or tackling climate change

4. Reporting is an opportunity for organisations to tell the world what they are doing and gain investment

"The purpose of the report is to tell the world at large what your philosophy is about; how you will manage people's money and what your philosophy is as a business in regards to social and other governance type issues." (Finance Company)

5. Management change, more formal framework/practice

"In 2008 it was done in quite an ad hoc way. Now it has become more, well not well entrenched, but at least there is a formal process for understanding adaptation risks." (Extractive Company)

6. Highlighted pockets of good practice to the forefront

"We had lots of good pockets of stuff; but trying to put it coherently together was a real challenge. The ‘ARP’ gave us a real driver to do that work." (Water Company)

7. Increased discussion with supply chain

"In our assurance programme we ask our suppliers whether they have a strategy in place to reduce their carbon footprint." (Extractive Company)

"One of the other things we are talking about now, off the back of the significance of climate change is what is going to the impact on the security of supply." (Extractive Company)

6. Conclusions

1. **Mitigation versus Adaptation**
   - Majority of business functions and employees are familiar with carbon accounting practices, not all are aware of adaptation planning (in particular the ARP requirement)

- ***Carbon seen as strategic***
  - saving money, reputation enhancement, improved efficiency
    - Widespread reporting
    - Implementation is quantifiable
    - Short-term visible benefits

- ***Adaptation seen as technical***
  - about safety, risk management
    - Little reporting
    - Hard to know if this is being implemented
    - Seen as expensive and long-term investment
    - About building a narrative

Carbon accounting is more desirable than adaptation planning

Building climate resilience will take a very long-time, need a significant shift change

Sense that even if arguments for adaptation continue to increase, businesses are not interested

2. What is the value of mandatory reporting?

- Organisations become more aware and/or begin to think/plan
- Some sectors question/uncertain what the value of mandatory reporting is
- Mandate to report on adaptation does not appear to translate any further than the planning and reporting process
  - ***Are fantasy documents being produced?***
- Mandate for carbon accepted because manageable

3. What is the value of reporting?

– Different business functions have different perspectives of where it fits in with their daily activities

– Data used for disclosure in reporting requirements/ indices is often not used elsewhere to make internal decisions
  - Reporting indices are not particularly useful and/or do not match what the business may want to do/does
  - ***To what extent is this greenwash?***

– 'Audit culture' is present
  - Some organisations explicitly stated they are reporting because their peers do

To what extent is the business community contributing to tackling climate change?

Thank you for your time, questions?