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Study Finds No Correlation Between Consumer Perception of Corporate Environmental Performance and Verifiable Data

by Robert Kropp

A study by New Scientist magazine employs data from ESG research provider Trucost, and finds that companies perceived by consumers as green often lag in environmental disclosure.

SocialFunds.com -- Largely driven by demand from investors for enhanced disclosure of environmental, social, and governance (ESG) risks and opportunities, corporate disclosure of environmental factors has increased significantly in recent years. Companies reporting their greenhouse gas (GHG) emissions and climate change strategies to the Carbon Disclosure Project (CDP) has nearly tripled since 2006, to about 2,500. In the US, interpretive guidance published recently by the Securities and Exchange Commission (SEC) is likely to provide investors with the enhanced disclosure they seek.

As corporate disclosure of environmental risks and opportunities becomes mainstream, the involvement of a second group of key stakeholders can be expected to grow. Increasingly, consumers are expecting the companies whose products and services they purchase to act as stewards of the global environment. Accordingly, expectations by consumers for access to the verifiable disclosure called for by investors for years should become a greater concern for companies.

Late 2009 saw the publication by Newsweek of its green rankings of the top 500 companies in the US, which brought considerable mainstream attention to the issue of corporate reporting on environmental performance. That Newsweek used ESG research data provided by Trucost, whose data and analysis on company emissions and natural resource usage has contributed to investment decision-making since its founding in 2000, made the rankings more compelling for advocates of enhanced reporting.

Trucost also contributed its quantitative assessment of corporate environmental impact to a study released last week by New Scientist magazine, entitled Hey green spender: The truth about eco-friendly brands. The study is based on a poll of 30,000 consumers in the US, which was conducted by Earthsense. According to New Scientist, “the Earthsense scores were derived from the answers to two questions: one on perception of each company’s overall operations and policies; the other about the environmental impact of its products.”

Against the perceptions of US consumers, the economic modeling technique employed by Trucost provided a quantitative measure of the economic and environmental performance of companies, based on the external cost of corporate usage of environmental resources. Trucost’s methodology ranks a company’s environmental impacts in order of significance. Companies using data from Trucost should be able to assess the necessity of public disclosure of environmental factors more objectively. Investors and other stakeholders can use the data as the basis for improved dialogue with companies.

Because the transition to mainstream public awareness of corporate disclosure on environmental issues is a relatively recent phenomenon, it is not surprising to find that the gulf between perception and reality is often wide. The New Scientist study compares consumer perception and quantitative reality in nine key industry sectors. According to the study, “Information for wannabe green consumers has so far lagged behind that for investors.” Finding no correlation between the Earthsense and Trucost scores, the study concludes, “US consumers have little idea about companies’ environmental performance relative to each other.”

In larger part because of its heavy use of water resources, the food and beverage sector had the highest environmental impact, according to Trucost’s analysis. However, not only do “US consumers fail to recognize the high environmental costs associated with agriculture and food processing,” according to the study; companies such as soft drink manufacturing rival Coca-Cola and Pepsico, despite their efforts to reduce the amounts of water used in manufacturing, are not perceived by US consumers as taking actions that are friendly to the environment.

In the Earthsense survey, consumers ranked Coca-Cola and Pepsico 16th and 17th among the 22 food and beverage companies included in the study. However, in its analysis of environmental impact, Trucost ranked Coca-Cola second in the sector, and Pepsico 12th. Although the two companies are taking similar steps in reducing water consumption, the difference in their ranking is due to the quality of their environmental reporting. According to the study, PepsiCo “has not yet given detailed figures on its progress.” As a result, Trucost had to model PepsiCo's environmental impact from an analysis of its overall operations, based on the performance of the sector as a whole.

James Salo, Trucost's vice-president for strategy and research, said, “We cannot update our data without disclosure from a company.”

A company in the retail sector that may enjoy an undeserved reputation as green is Whole Foods, which ranked first in consumer perception but 30th out of 36 companies. Its performance was virtually indistinguishable from that of Safeway, a traditional grocery chain. Despite its branding and energy efficiency measures, Whole Foods has not disclosed its key environmental data, forcing Trucost to apply the same modeling that it did for PepsiCo in the food and beverage sector.

Green marketing by companies has become a controversial subject, as those who engage in it expose themselves to charges of “greenwashing,” a term coined by environmentalist Jay Westerveld in 1986 to denote companies perceived as misleading the public through outwardly environmentally-conscientious acts while devoting few resources to environmentally sound practices and reporting.

However, the New Scientist study found one example of green marketing that has met with success, that of GE’s Ecomagination campaign, which the company launched in 2005. Not only did consumers rank GE first among the five companies in the Industrial Goods and Services sector; Trucost also ranked it first, finding that “its environmental footprint is indeed smaller than other industrial engineering firms.” GE ranked seventh among the 115 companies included in the study.

“This just screams opportunities for companies to be clear about what they are doing,” said Earthsense co-founder Amy Hebard.

In an opinion piece accompanying the study, the editors of New Scientist echo what social investors have been saying for years.

“We need legal requirements for full disclosure of environmental information, with the clear message that the polluter will eventually be required to pay,” the editors wrote. “Then market forces will drive companies to clean up their acts.”

“Before we can have a green economy we need a green information economy,” the editors continued.