Internet Reporting: Availability of Financial and Environmental Information for the Environmentally Responsible Investor



Kathy Lancaster, Cal Poly – San Luis Obispo Carolyn Strand, Seattle Pacific University

Motivation

- Corporate websites
 - Increasing reliance on website as information source for investors (dot.com.com survey 2000)
 - Reliable source of environmental performance information for socially responsible investors?
- Firms in oil and gas industry often have environmental responsibilities
- Some promote themselves as being environmentally friendly (i.e. BP Amoco)
 - Can socially responsible investor discriminate based on web information

Research Questions

- What type of environmental performance information is available on corporate websites for firms in the oil and gas industry?
- Does information on the corporate website accurately reflect the company's environmental performance?
- Does size of firm impact quality of web-based information?

Background/Literature Review

- 73% of Forbes 500 firms did not disclose environmental issues anywhere in the their 1991 annual report (Kreuze et al. 1996)
- 1992 survey by then PW found that 62% of companies with environmental liabilities did not disclose in annual report (Surma and Vondra 1992)

Background/Literature Review

- 87% of 290 firms across seven industries maintained a web site (Ashbaugh et al. 1999)
 - Seventy percent of the firms with web sites provide internet financial reporting (IFR), including:
 - Comprehensive set of financial statements
 - Link to their annual report housed on a third party site
 - Link to the U.S. Securities and Exchange Commission's (SEC) EDGAR system.
 - Conclude there is considerable variation in the quality of information and usefulness of firms' IFR practices

Background/Literature Review

- Analysis of web presence of top global oil and gas companies suggests that most companies provide financial, product, service, and community service information (EY 1999)
 - Lack detail of what is disclosed

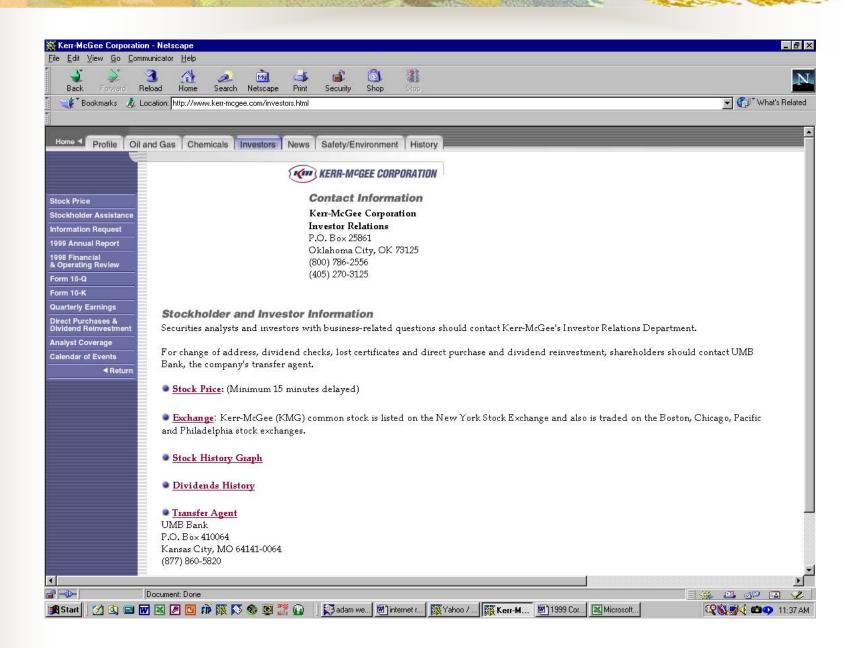
- Evaluate web disclosures of financial and environmental performance for oil and gas firms
- Began with 27 oil and gas firms with CEP or IRRC ranking, final sample consisted of 18 firms
- Accessed all sites in October, 2000

- Evaluate web disclosures using categories described by Louwer et al. (1998)
- High-quality web site meets the needs of users in two ways:
 - Quality of information
 - Breadth
 - Depth
 - Frequency
 - Timeliness
 - Usability and Accessibility of information

- Compare environmental performance to CEP (1997) and IRRC (1996) ranking
 - CEP ranks Oil and Gas companies on a 3-factor environmental performance rubric
 - Environmental impact (60 percent)
 - Environmental management systems and policy (30 percent)
 - Environmental reporting and communications (10 percent)
 - IRRC ranks Oil and Gas firms using Compliance Index
 - Normalizes the total cost of penalties for all environmental statutes in a single year

Sample Firms Characteristics

Characteristic	Minimum	Maximum	Mean
Sales (000)	\$2,870		\$38,790
Assets (000)	\$1,688	\$223,000	\$29,188
Market Capitalization (000)	\$2,281	\$144,521	\$50,162
Return on Equity	7.00%	\$544,570	20.27%
Return on Assets	3.00%	47.03%	6.97%
Beta	.36	11.09%	.74
		1.07	



Summary of Financial Disclosures

Quality Measure	Percent of Firms with	
	Characteristic	
Breadth		
Stock Price on Web site	72	
Stock Chart on Web site	72	
Current Annual Report	89	
Access to 10K	78	
Edgar Link	39	
Depth		
SEC filings	83	
Ability to Download and Manipulate Information	17	

Summary of Financial Disclosures

Quality Measure	Percent of Firms with	
	Characteristic	
Frequency		
Quarterly Financial Information	78	
Link to Presentations	56	
Link to Press Releases	89	
Timeliness		
Current Quarter Results	89	
Accessibility		
Link on Home Page with Constant Sidebar	72	
Investor Relations Link	83	
Searchable Site	61	

Summary of Environmental Disclosures

Quality Measure	Percent of Firms with Characteristic
Breadth	
Full Environmental, Health, and Safety Report	50
Depth	
Detailed Release Information	44
Multi-year Comparisons	22
Frequency	
More than One Year of Information	28

Summary of Environmental Disclosures

Quality Measure	Percent of Firms with	
	Characteristic	
Timeliness		
Current year (1999) Report	39	
Accessibility		
Link on Homepage	33	
Easily Viewable	50	

- Firms in the lower half of the CEP ranking are less likely to include full EHS reports on their website
 - Two of the four firms with no environmental performance information are in the bottom half
 - Other two are not ranked by CEP

- Results are mixed when we compare the IRRC compliance index to web disclosures
 - Firms are just as likely to include a full EHS report if their performance is in the lower 50th percentile as those in the upper 50th percentile
 - Enron, the firm with the best IRRC ranking, had very proactive environmental disclosures
 - Kerr McGee, the firm with the worst ranking, did not have any hard data on their Web site

Concluding Remarks

- Financial performance much more comprehensive than three years ago, can use to evaluate performance
- Environmental performance difficult to make comparisons, environmentally responsible investors must still rely on other sources such as the CEP or the IRRC database

Concluding Remarks

- Suggestions to firms
 - Downloadable Excel files
 - Consistent menu template as user "drills down"
 - Comparable coverage across companies
- Future research
 - Identify best practices
 - Amoco for Financial disclosures
 - Enron for Environmental disclosures
 - Implement environmental disclosures based on guidelines (i.e. STEP)