OVERVIEW

Corporate Sustainability Accounting

WHAT CAN AND SHOULD CORPORATIONS BE DOING?

United Nations Research Institute for Social Development

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Corporate Sustainability Accounting: What Can and Should Corporations Be Doing is one of the main outputs of phase one of the UNRISD research project Sustainable Development Performance Indicators (SDPI). The project aims to contribute to the measurement and evaluation of the performance of economic entities—both in the for-profit sector and in the social and solidarity economy—in relation to the vision and goals of the 2030 Agenda. The project aims to assess the adequacy of existing methods and data associated with sustainability accounting; expand the scope of sustainability measurement, disclosure and reporting beyond for-profit enterprises to encompass enterprise models in the social and solidarity economy (SSE); and identify and test a set of indicators that can effectively measure impacts, while ensuring that the economic behaviour of enterprises and other organizations contributes to maintaining environmental and social resources at the thresholds required for sustainable development.

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Contents of the Report

Towards 21st Century Sustainability Accounting?

In recent decades big business has become an important player in efforts to promote sustainable development. Measuring and assessing such efforts has been the remit of what is now a vast industry comprised of corporate sustainability managers and standard-setting organizations, as well as monitoring, certification and rating agencies. This industry is currently at a watershed. It had been assumed that corporate social responsibility (CSR), and so-called triple-bottom-line or ESG (environmental, social and governance) disclosure, would position companies on a pathway to sustainable development through gradual improvements in corporate sustainability performance. This optimistic view is now being questioned.

Many involved in sustainability disclosure and assessment have long recognized the mismatch between reporting practices and basic accounting principles that foster comparability, user-friendliness, relevance, credibility and so forth. A constant stream of adjustments and innovations in reporting guidance and practice have sought to address this issue. But this is only one part of the challenge. Today's global crises—financial, climate and health—as well as the Sustainable Development Goals (SDGs) have raised the bar in terms of expectations regarding corporate sustainability performance. They have also highlighted the need for sustainability policy and practices that address not only the symptoms of unsustainable development—or incremental reductions in harmful impacts—but also the underlying causes. These are associated with structural conditions that reproduce inequality, vulnerability and planetary degradation. In relation to the environmental dimension of sustainable development, attention is focusing, at least to some extent, on structural conditions associated with production and consumption patterns and the dominant growth model. In relation to social and governance dimensions, however, structural conditions—for example, skewed patterns of income and wealth distribution, and gender and power relations—are often ignored. Furthermore, conventional approaches tend to obfuscate important contextual conditions that are needed to effectively assess progress. These include the use of sustainability norms or targets against which to measure progress. Without such context, it is impossible to know where a company is truly positioned on a sustainability pathway.

How, then, might corporate sustainability disclosure and reporting be repurposed to achieve these ends and, in so doing, measure and promote progress from the perspective of the "transformational vision" of the SDGs?

What the Research Demonstrates

The report highlights:

- major achievements and challenges as seen from the perspective of some of the key players within the field of corporate sustainability disclosure and reporting;
- the inherent limits of mainstream approaches to sustainability accounting from the perspective of transformative change;
- issues, indicators and targets that need to be addressed if corporate sustainability performance and disclosure is to contribute in any meaningful way to realizing the SDGs.

With the aim of spurring discussion about how to repurpose the measurement and reporting of corporate sustainability performance for transformative change, the report presents a four-pronged argument.

First, generating and reproducing an economic system that is conducive to sustainable development through corporate responsibility will depend not only on making progress on the performance issues and indicators that are currently the main focus of conventional reporting. Such progress also depends crucially on addressing a set of issues and corresponding indicators that relate directly to the structural underpinnings of (un)sustainable development. Particularly important are conditions associated with distributive (in)justice, inequality and skewed power relations, which are often neglected within the field of corporate sustainability reporting.

Second, while corporate environmental performance is often poor, at least there have been some notable innovations and improvements in environmental disclosure with the emergence of more meaningful indicators, as well as science-based targets. Such improvements need to be replicated in other dimensions of sustainability related to social development and democratic governance.

Third, conventional disclosure focuses heavily on qualitative indicators, notably elements of a management system deemed necessary for enhanced sustainability performance. Such indicators often serve as a proxy for concrete improvements in performance. Far more attention needs to be focused on quantitative metrics and indicators that measure actual levels and variations of impact. Also key are time series data that capture trends, as opposed to annual snapshots, and more granular reporting that can reveal significant variations in performance within corporate structures and value chains.

Fourth, progress associated with transformative change involves not only addressing the structural determinants of unsustainable development but also a journey towards certain thresholds and patterns of fair resource allocation. It is these thresholds and "fair allocations" that define sustainable development when understood in terms of intra- and intergenerational equity, thriving and regeneration, and not simply in terms of incremental reductions in negative impacts. Unless a company sets a target that reflects a sustainability norm, neither its management nor other stakeholders can know where that company is positioned in relation to sustainable development.[1]

The report is divided in two parts. Part 1 assesses the current state of play. It tracks the impressive expansion and ratcheting-up of sustainability indicators over three decades, but also identifies ongoing major weaknesses in reporting. These relate to their failure to conform to basic accounting principles, as well as an "elephant in the room syndrome" whereby a number of issue areas and indicators that are absolutely key for assessing progress towards sustainable development are neglected.

Part 2 delves into the specifics of disclosure from the perspective of "transformative change" (see Box O.1) by focusing on five key performance issues—fair remuneration, gender equality, corporate taxation, labour rights, and corporate political influence.

Box O.1. What is transformative change?

As the international community takes stock of the magnitude of the social and environmental challenge facing humanity and the planet, terms like transformational or transformative change have gained currency. But what exactly does "transformative" mean? For some, it is simply a label used to embellish piecemeal reforms or incremental improvements in performance. In the report, transformative change refers to structural changes that are necessary to transform entrenched patterns of production and consumption, as well as social relations and governance arrangements, that underpin social exclusion, inequality and planetary destruction. Without such changes, neither countries nor corporations can claim to be on a sustainable development pathway.

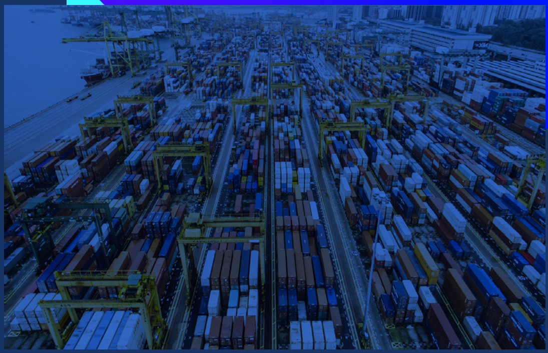
The UNRISD Flagship Report, *Policy Innovations for Transformative Change,* showed how public policies intended to promote social development often focus on social protection—for example, safety nets and social floors such as minimum wage guarantees and basic health services (UNRISD 2016). Similarly, environmental policy often focuses on doing a bit less environmental harm, or a bit more conservation. The focus, then, is often on fairly minimalist aspects of decent work, "targeting the poor" or environmental protection, rather than a more ambitious agenda to promote simultaneously human well-being, intergenerational equity and planetary regeneration. Yet it is these objectives that define the concept of sustainable development.

More often than not, policy reforms tackle the symptoms rather than the causes of unsustainable development, leaving the structures that generate the problems in the first place largely intact. Yet it is the more comprehensive and ambitious approach that is required. A similar argument can be made both for corporations trying to improve their sustainability performance, and for much of the standards regime promoting corporate sustainability disclosure and reporting.

[1] This second aspect of thresholds and allocations draws on the work of Mark McElroy and Bill Baue, who are also members of the UNRISD project team. See McElroy 2019 and Baue 2019; see also Thomas and McElroy 2016, Thurm et al. 2018 and Raworth 2017.

PART 1

Assessing the State of Play



Part 1 of the report takes stock of developments and ongoing challenges related to corporate social and environmental responsibility and sustainability disclosure. Divided into three chapters, it begins by looking at how the field of ESG disclosure has evolved during the past decades.

It then goes beyond incremental adjustment of corporate sustainability accounting practices, emphasizing four insights into the performance issues, indicators and targets that really matter from the perspective of sustainable development and transformative change.

CHAPTER 1

A 30-Year Journey

Chapter 1 identifies key trends and developments—from the early phase of "cosmetic" disclosure to the significant ratcheting-up of standards, indicators and guidelines, as well as the development of a dense institutional ecosystem that promotes, supports and regulates disclosure and reporting. Five areas of progress are particularly evident.

- The early tendency to pick and choose what to measure and disclose has given way to a fairly comprehensive range of standards.
- A more encompassing approach is evident in the fact that additional industry sectors and types of business have coalesced under the corporate responsibility umbrella.
- Reporting and certification guidelines have been ratcheted up.
- Third-party verification and assurance is now commonplace.
- The institutionalization of corporate sustainability also involves rating or ranking the sustainability performance

CHAPTER 2

Where Do We Stand?

This overview of the evolution of corporate sustainability disclosure and reporting indicates a significant intensification of disclosure activity in the name of sustainability. It is likewise clear that many of the key problems in sustainability reporting identified years ago stubbornly remain. They include:

- a level of complexity that confuses, distracts from measuring impact and defies easy comprehension;
- a lack of data comparability and standardization to support useful evaluation;
- imprecise materiality determination leading to low-quality disclosure and uninformed stakeholders; and
- reliability and credibility problems undermining confidence in the sustainability reporting process itself.

Chapter 2 of the report takes a closer look at these accounting issues and describes several mainstream responses to enhance the quality of disclosure, including attempts to align reporting

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