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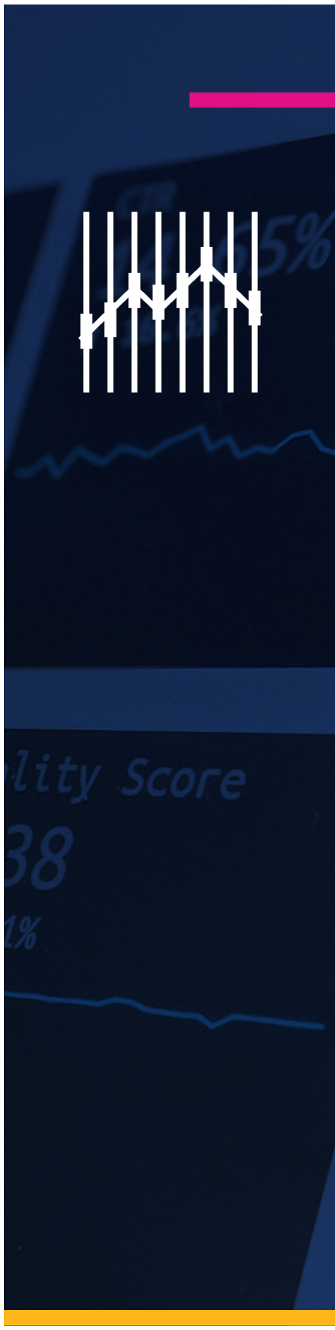
Measuring Corporate Sustainability
TOWARDS ACCOUNTING FIT FOR THE SDGS

Despite several decades of concerted efforts to improve corporate sustainability reporting, the issues, indicators and targets that really matter for assessing performance often fly under the radar. This brief proposes a new approach to gauge whether companies are on a pathway that truly leads to a future consistent with the transformative vision of the Sustainable Development Goals (SDGs).



The Issue

Nearly 30 years have passed since world leaders at the 1992 "Earth Summit" urged global corporations to prioritize disclosure and reporting associated with sustainable development. A vast industry has since developed to promote corporate sustainability accounting. Despite evident progress, there is widespread recognition that the field is overly complex and overburdened by an ever-proliferating array of indicators. It is prone to cherry-picking among myriad issues and indicators, inhibits comparability, is not user-friendly and, more generally, lacks credibility, particularly for assessing progress related to the SDGs. Various initiatives are currently under way to deal with these concerns (see box 1).

Furthermore, several contemporary contexts—the SDGs, the climate crisis, rising income and wealth inequality—have raised the bar in terms of what is expected of corporations. This has not only injected momentum into the reform agenda to improve corporate sustainability accounting, but also raised more fundamental questions about whether such accounting, as currently designed and practised, is indeed fit for purpose. The socio-economic impacts of Covid-19 are likely to increase such scrutiny further.

This policy brief distils the main findings and recommendations in *Accounting for Sustainability: What Can and Should Corporations be Doing?* (Utting with O'Neill, Forthcoming) which deals with sustainability disclosure and reporting by for-profit enterprises, in particular, multinational enterprises. The report was prepared under UNRISD's project on Sustainable Development Performance Indicators (SDPI) (see box 2).

Box 1. Some recent initiatives to improve corporate sustainability accounting

2015	Science Based Targets Initiative (SBTi): Showcases companies setting science-based emission reduction targets and promotes best practices.
2015	SDG Compass: Guides firms to align their business strategies with relevant SDGs and measure their impacts.
2016	Net Positive Project: Develops guidelines to enable companies to transition from a 'do no harm' approach to one that ensures a positive societal and environmental footprint.
2016	GRI Global Reporting Standards: Revision of GRI standards aimed at improving reporting relevancy, clarifying reporting requirements and content, and simplifying language.
2017	Business Reporting on the SDGs Action Platform: Promotes improved reporting alignment and measurement and reporting of company impacts on the SDGs.
2017	European Commission Guidance on Non-Financial Reporting: Guidance for companies that must comply with the 2014 EU Directive on non-financial reporting.
2018	r3.0: Seeks to close gaps between current practice and sustainability norms through a series of Blueprints and the incubation of a Global Thresholds and Allocations Council.
2018	World Benchmarking Alliance: Develops publicly available and free corporate benchmarks of companies' contributions to the SDGs.
2018	UNCTAD's Guidance on Core Indicators: Recommends a concise set of 33 indicators aimed at harmonizing disclosure and aligning company reporting with the SDGs.
2019	IRIS+ system: Provides investors and companies with a common understanding of how to measure and manage their impact, as well as clarity on how to improve that impact over time.

Rethinking Corporate Sustainability Disclosure and Reporting

From the perspective of sustainable development, there is a fundamental problem with corporate sustainability accounting: we may be missing the forest for the trees. In other words, various aspects of current reporting practices and formats are preventing us from grasping the bigger or real picture regarding both sustainability impacts and the trajectory of change—both positive and negative. The following constitute key obstacles.

The transformative approach to corporate sustainability accounting covers key issues, indicators, metrics and targets related to inequality, distributive justice and power relations.

Box 2. Sustainable Development Performance Indicators

UNRISD's SDPI project (2018-2022) 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 will 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); 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. Phase 1 of the project, comprising both a state-of-the-art review and preliminary guidance on key performance issues, indicators and targets, was completed at the end of 2019, in view of a testing phase in 2020-2021. Publications emerging from Phase 1 are listed under "Further Reading", below. For more information, visit **www.unrisd.org/sdpi**.

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Key structural issues often constitute blind spots. The types of issues that are prioritized within sustainability disclosure tend to deal more with aspects of social and environmental protection—or harm reduction—rather than transformation of the structural conditions that underpin unsustainable development. These include:

- skewed power relations within corporate structures and value chains, often exacerbated by labour market flexibilization and outsourcing, that marginalize the voice and bargaining power of workers and producers;
- ownership and governance structures that privilege returns to shareholders and senior management over more equitable patterns of distribution of income, and also reinforce forms of hierarchy that constrain workplace democracy;
- gender disadvantages in pay and promotion associated with lack of recognition or support for care-giving roles; and
- adverse public policy environments, shaped in part by regressive forms of corporate political influence.

The emphasis on qualitative as opposed to quantitative data. Reporting on reforms in management systems—for example, whether there is a policy in place; whether there is board-level oversight or independent verification; whether training takes place on a particular issue—is often held up as a proxy for improvements in impacts, when in fact no such correlation can be taken for granted in the absence of quantitative data.

The tendency to present de-contextualized metrics (numbers) as opposed to meaningful indicators—for example, the amount of taxes paid rather than the percentage gap between statutory and effective tax rates; or company-wide collective bargaining coverage as opposed to a more granular breakdown of collective bargaining by country. Lack of context is also apparent in situations where corporations report progress in relation to one aspect, such as the number of unionized workers among full-time employees, but fail to relate this to another that may be contradictory from a sustainability perspective. An example might be a significant reduction over several years in full-time employment and greater reliance on non-unionized, outsourced or part-time labour. Similarly, stable full-time employment in contexts of rapid revenue growth may be a "red flag" that signals increased reliance on more informal labour relations.

The inability to accurately assess progress. Even if improvements in both qualitative and quantitative dimensions of corporate performance are occurring, there is no way of knowing, under current reporting formats, whether such improvements are significant from the perspective of sustainable development. A narrow focus on incremental adjustments to reduce negative impacts may reveal little, if anything, about whether an organization is genuinely on a path towards sustainability. Such an assessment requires not only quantifying the extent of an impact, but also comparing any variation in performance to an agreed metric that defines what a sustainability threshold or fair allocation would be.

The propensity to provide annual data snapshots, or year-on-year comparisons, rather than a user-friendly disclosure format that allows management and other stakeholders to easily gauge performance trends over a longer time horizon.

The process for determining materiality is often myopic. The process for determining what data are needed to facilitate informed decision making often relies on a narrow set of preferences or the concerns of a limited set of stakeholders. Not only do stakeholder dialogues need to be more inclusive, but the process of determining what is "material" needs to be more science driven and evidence based. Just as natural and climate sciences are beginning to shape corporate environmental accounting, theory and analysis informed by multiple social science disciplines and schools of thought need to inform sustainability accounting.

Raising the Bar

How might a transformative approach to sustainability disclosure be applied in practice? Recent developments in environmental reporting provide some pointers. These include the focus on transforming patterns of production and consumption in order to achieve absolute reductions in carbon emissions and resource use, as opposed to simply improving resource intensity; measuring impacts not only at the company level but throughout the value chain; establishing concrete time-bound targets—for example, reducing carbon emissions by 50 percent by 2030; and bringing science into the process of materiality determination.

The challenge now is to raise the bar, moving, for example:

- beyond compliance with minimum wage standards to measuring how equitable or skewed the distribution of income is within the enterprise;
- beyond equal pay for equal work to addressing the gender pay gap, as well as key determinants of the gender pay gap related to the gender (im)balance in different occupational categories and (lack of) support for care giving;
- beyond the amount of corporate taxes paid to focusing on the size of the tax gap (effective tax rate as a percentage of the statutory rate);
- beyond occupational health and safety, or working conditions, to engaging in labour rights, notably collective bargaining coverage and trade union density; and
- beyond qualitative statements of principle to providing quantitative data on multiple forms of corporate political influence.

Context-based accounting is also critical at this juncture. This requires more granular disclosure, identifying areas of contradictory performance and positioning incremental improvements in relation to normative sustainability targets.

Addressing such challenges need not be viewed as yet another burden on managers and companies. The UNRISD research shows that most of what is proposed here, in terms of key performance issues and indicators, has already been recognized as material by several leading standard-setting organizations and corporations, as well as in the field of progressive public policy (see Further Reading). The challenge is not to reinvent the wheel, but to reprioritize issues and indicators. Companies would do well to step up and actually implement the guidance provided by several innovative standard-setting organizations.

Setting Sustainability Targets

Quantifying thresholds and fair allocations in order to define targets involving sustainability norms is no easy task. As a first step, UNRISD research suggests various avenues of inquiry that could yield useful insights. These include:

- "best in class" guidance based on the experiences of companies that are setting an example for others when it comes to aligning performance with aspirational goals;
- ambitious targets, set by certain ratings and rankings entities or initiatives, as criteria for assessing positive sustainability performance;
- alternative enterprise models, such as B Corps or cooperatives, as well as certain varieties of capitalism (and periods in modern history) where legal, governance and cultural arrangements serve to align the performance of enterprises with environmental and social objectives and democratic governance; and
- progressive norm setting by civil society organizations and public policy making that sets benchmarks for acceptable and fair business behaviour.

Key Transformative Performance Issues and Indicators

To illustrate how the transformative approach to corporate sustainability accounting outlined above can be applied in practice, the UNRISD research focused on **five issue areas**. These areas are not meant to be exhaustive; rather, they illustrate key issues, indicators, metrics and targets related to inequality, distributive justice and power relations. The first three are:

(i) **fair remuneration**, comprising both the issue of intrafirm (in)equality assessed through the lens of the CEO-worker pay ratio and the payment of a living wage;

(ii) **gender equality**, comprising gender balance within corporate structures, the gender pay gap, and care support and responsibility—not only in relation to pre-natal and post-natal care but throughout various phases of the life cycle that impact the situation of women in paid work; and

(iii) the distribution of corporate income via **taxation**, using indicators that reveal the gap between effective and statutory tax rates, the effective tax rate as a percentage of pre-tax profits and the industry norm, and profit shifting.

Two additional issue areas concern the question of skewed power relations, and how to assess progress related to the reconfiguration of power relations in ways amenable to sustainable development. These are:

(iv) **labour rights**, particularly the percentage of workers covered by collective bargaining, and

(v) **corporate political influence** associated with political spending, lobbying efforts and the "revolving door" (that is, the two-way flow of personnel between the public and private sectors).

Far more **transparent and granular disclosure is required for each**. The research suggests the following examples of how to do this.

- **Fair remuneration**: Include all elements that make up the CEO remuneration package.
- **Gender equality**: Go beyond company-wide metrics by disaggregating both gender representation and the gender pay gap by occupational category. For full disclosure and quantification of life cycle care needs and levels of support, disaggregate company support for care giving by different types of support in terms of expenditure and number of beneficiaries.
- **Corporate taxation**: Disclose the tax gap and the effective tax rate as a percentage of pre-tax profits and the industry norm, as well as the volume and percentage of global profits attributed to recognized tax havens and low-tax jurisdictions; country-by-country tax reporting should be publicly disclosed, including data related to revenues, assets, employment, pre-tax profits, taxes paid and the effective tax rate.

The UNRISD research demonstrates how to apply the transformative approach to sustainability accounting in the areas of fair remuneration, gender equality, taxation, labour rights, and corporate political influence.

- **Labour rights**: Reveal collective bargaining coverage and trade union density by main countries of operation, and by affiliate and main suppliers; and publicly disclose supply chain factories, enterprises and producers, including employment and labour rights data. Include data on the volume and percentage of total employees in affiliates, factories and top tier suppliers engaged via subcontracting, temporary or part-time contracts.
- **Corporate political influence**: Move beyond partial to full disclosure related to multiple forms of corporate political influence by providing data on both direct and indirect political and lobbying expenditures (including via trade associations); disaggregate data by different levels of policy making (international, national, state/provincial and municipal), countries of operation, major affiliates, major recipients, major issue areas and SDGs.

Regarding concrete **normative goals**, the research identifies a number of targets, or target ranges, such as:

- CEO–worker pay ratios in the region of 10-50 to 1 depending on sector and context;
- wage levels that meet the living wage;
- decreases in the gender pay gap of 3 percent or more per annum, and a gender pay gap of less than 3 percent;
- equal representation of women and men in the workforce; women's representation above 40 percent at board and executive levels;
- a corporate tax gap between 0 and 5 percent;
- zero corporate political spending, or spending not exceeding USD 0.2-0.5 million per annum in the case of large corporations.

The Way Forward

The structural and contextualized perspective outlined in this brief, and elaborated in the research, provides a foundation for future work to ensure that corporate sustainability accounting serves to measure impacts and progress effectively. The type of collaborative UN–led inquiry practised in the SDPI project constitutes a useful format going forward. Accordingly, the research includes the recommendation that an inter-agency UN working group lead efforts to design and promote

- **Examining transformative blind spots** that are flagged in the research but not examined in depth, for example, the fair distribution of income and value added throughout the global commodity or value chain, and whether a company's commercial policy and purchasing practices facilitate or undermine its upgrading efforts in the supply chain.
- **Promoting granular and transparent disclosure**, identifying those indicators where this is particularly important, for example, country-by-country tax disclosure, pay and promotion by occupational category, and supply chain performance.
- **Promoting time series data** for user-friendly disclosure that allows stakeholders to view trends as opposed to annual snapshots.
- Highlighting the need for disclosure and data related to **contradictory performance trends and "red flags"**.
- **Raising the bar, and promoting greater consistency and harmonization** of the methods used for calculating specific indicators, for example, CEO pay and CEO-worker pay ratios, the living wage, the gender pay gap and corporate political spending.
- Identifying **normative targets or target ranges related to thresholds and fair allocations consistent with a transformative notion** of sustainable development. Also important is the question of setting **time-bound targets** that set a date for compliance, as in the case of the 2030 horizon for the SDGs.

Further Reading

Baue, Bill. 2019. *Compared to What? A Three-Tiered Typology of Sustainable Development Performance Indicators: From Incremental to Contextual to Transformational.* UNRISD Working Paper 2019-5. Geneva: UNRISD.

McElroy, Mark W. 2019. *Making Materiality Determinations A Context-Based Approach*. UNRISD Working Paper 2019-6. Geneva: UNRISD.

Novkovic, Sonja. Forthcoming. *Sustainability Indicators from a Cooperative Perspective*. Geneva: UNRISD.

Salathé-Beaulieu, Gabriel, in collaboration with Marie J. Bouchard and Marguerite Mendell. 2019. *Sustainable Development Impact Indicators for Social and Solidarity Economy – State of the Art*. UNRISD

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