



CHAPTER 2

# Where Do We Stand?

“  
 ...to read most accounting and finance publications... you could be forgiven for believing that never has capitalism been so robust or the prospects for the joy and fulfilment of mankind so positive. You would find yourself wondering just who perpetrates all this angst about the power of [multinational corporations], the abdication of governments, the rates of species extinction, the growth in ecological footprints, the rate of child deaths through drought and so on.

*Rob Gray (2006:5)*

“  
 The real danger is when politicians and CEOs are making it look like real action is happening, when in fact almost nothing is being done, apart from clever accounting and creative PR.

*Greta Thunberg, COP25, 2019*

The preceding overview of the evolution of corporate sustainability disclosure and reporting certainly indicates an 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. The more salient challenges continue to entail (i) reporting complexity that confuses and distracts from measuring impact and easy comprehension; (ii) a lack of data comparability and standardization to support useful evaluation; (iii) imprecise materiality

determination leading to low-quality disclosure and uninformed stakeholders; and (iv) reliability and credibility problems undermining confidence in the sustainability reporting process itself. This chapter takes a closer look at these accounting issues and describes several mainstream responses to enhance the quality of disclosure.

## Accounting issues

### Complexity



**Not only are these reports a lot of work, but their complexity makes them inaccessible to most people. Several firms attempt to function as a go-between, summing up these disclosures into easily digestible sustainability ratings and rankings. But the broadness of the ESG spectrum makes these ratings nearly meaningless.**

*Tim Mohin 2014*

The ever-expanding number of frameworks, standards and metrics available to guide disclosure and reporting, coupled with the proliferation of ratings tools, has resulted in a crowded, complex and confusing reporting landscape (Korosec 2012). If indicators and indices are intended to help simplify complex material for both specialists and non-specialists (Morse and Bell 2018:6), then reporter feedback suggests that when it comes to sustainability disclosure, there can indeed be too much of a good thing.

Various institutions have attempted to streamline disclosure requirements either by giving companies more leeway to determine what is material or limiting the number of indicators. The World Federation of Exchanges, for example, lists just 30 ESG metrics and indicators (see Annex 7). The United Nations Conference on Trade and Development (UNCTAD) has long been engaged in efforts

to streamline reporting, and in 2018 produced a set of 33 core indicators related to the SDGs (UNCTAD 2018). The issue of the number of indicators is not easily resolved, however; while too many can overwhelm readers and obscure critical issues, too few can leave out key issues (Korosec 2012).

Given that ratings themselves encompass more issues than ever before, the burden on usually small reporting departments can be significant. From addressing complicated reporting demands to filling out unsolicited questionnaires from multiple ratings organizations, those involved in reporting must deal with sometimes byzantine and therefore time-consuming processes. The World Business Council for Sustainable Development (WBCSD) confirms that many reporters find it difficult to meet a ballooning number of disclosure elements in a rigorous manner while also engaging substantively with more diverse stakeholders.<sup>52</sup> SustainAbility's research echoes these findings: "while more data may improve analysis, the growing requests put additional demands on companies. Many surveys are issued at the same time of year; taken together, they can represent thousands of hours of response time, often overwhelming corporate sustainability, IR and communications teams" (2018:6). In addition, sustainability reporters must keep up with a field that is far from static.

Perhaps one of the most detrimental aspects of the current reporting milieu is the question of how much multiple and complex reporting demands detract from a firm's ability to make an actual sustainable impact. In measuring indiscriminately, critical issues may be hidden or lost. Cuff and Murray (2017:3) note that GRI and WBCSD leadership agree that "CSR has ushered in a highly complex world of reporting and standards, that often leaves companies that are genuinely trying to do the right thing confused about how best to proceed. Worse still, there is a risk some firms focus more on getting the reporting right and delivering incremental improvements in their metrics, as opposed to embracing the shifts in their core business models that are required to become truly sustainable operations". Certainly, a crowded, complex and confusing landscape does not bode well for reporting clarity; nor does a lack of comparability and standardization to which we now turn.

<sup>52</sup> See WBCSD 2017.

## Comparability



**In an increasingly global marketplace, comparability is important. Reporting requirements have evolved separately, and differently, in various jurisdictions. This has increased reporting and administrative burden for the growing number of organizations that report in more than one jurisdiction. It has also resulted in diverging disclosure practices that inhibit investors and others from understanding and comparing the information they need for decision-making.**

*IIRC 2011:5*

<sup>53</sup> These include investors making “small deals”, development finance institutions involved in “blended finance” and public capital markets (Macmillan and Eccles 2019).

<sup>54</sup> Two subsequent stages noted by these authors are (i) engagement with appropriate regulators to get feedback on the efficacy and practicality of standards, and (ii) regulatory support involving clearer rules and regulations.

<sup>55</sup> According to the GRI, materiality looks at the impacts of the company on the world around it and relevance for multiple stakeholders. For SASB, materiality focuses on how sustainability topics affect a firm’s financial or operating performance and relevance for investors. The focus of the Climate Disclosure Standards Board (CDSB) is natural capital and equally looks at how a company impacts the environment and how the environment affects the organization. See <http://www.ethicalcorp.com/demystifying-alphabet-soup-reporting-frameworks>

The inability to compare a company’s performance over time and against industry peers precludes meaningful assessment. Covering the broad range of CR issues, metrics are rarely presented in a way that enables easy comparisons between companies. For sustainability information to be useful to stakeholders and investors, reports need to be easily comparable over time and between organizations; however, comparing sustainability reports has become unwieldy and laborious. Indeed, lack of standardization and comparability is a long-standing issue in sustainability disclosure and reporting.

Referring to the field of impact investing, Macmillan and Eccles (2019) make the point that “[d]eveloping rigorous standards...will be challenging since it involves stakeholders who are members of different ‘tribes’. ... Each tribe has its own world view and language system, often using the same word to mean many different things”.<sup>53</sup> The first step towards standardization, these researchers argue, is for all the tribes to “come together to agree to the necessary standards and data reporting infrastructure as a public good”.<sup>54</sup>

Even when there were fewer sustainability indices and ratings agencies, the inability to make meaningful comparisons hindered the ability of firms to meet the information requirements of investors in the field of socially responsible investing (Escrig-Olmedo et al. 2010). According to PwC (2016), while 60 percent of corporate reporters believe their disclosures allow investors to compare companies, 92 percent of investors disagree (cited in D’Aquila 2018). Moreover, when asked their opinion on the quality of sustainability reporting, 71 percent of investors stated that they were not confident about the quality. SASB (2017b) notes that “...achieving the objectives of the PRI or other desired sustainable investment goals is hindered by a lack of comparable, decision-useful data and information about [sustainability] issues. Even when such information is available, culling it from current reports can require substantial time and expense for investors”.

As D’Aquila (2018) suggests, the inability to make effective comparisons across firms may be worsened by differences in how companies and investors regard sustainability itself. Entwined with issues concerning complexity and comparability are challenges at the heart of the sustainability metrics issue, namely, what exactly we should be measuring.

### Relevance and materiality

In addition to overly complex and demanding reporting requirements and a pronounced lack of comparability of corporate performance over time and across sectors, the determination of materiality arguably presents the greatest challenge for crafting frameworks, tools and metrics conducive to assessing and promoting progress in relation to sustainable and inclusive development. While definitions of materiality vary<sup>55</sup> (which in turn is a source of confusion), here we take the term to imply that: (i) information and data are relevant from the perspective of assessing performance and progress related to sustainable development; (ii) there is a need to prioritize sustainability issues and indicators according to their relevance; (iii) the information must be useful for informing key stakeholders concerned with, or impacted by, corporate activities; and (iv) the omission of information could alter their decision making and preferences.

### Immaterial clutter

An ongoing concern relates to the presence and volume of “immaterial clutter” in company reports, be they stand-alone environmental or CSR reports or integrated annual reports. The findings and cautionary comments of the ASB/FRC in their 2009 review of the quality of narrative reporting in annual reports of 50 UK listed companies<sup>56</sup> remain pertinent today. The review observes that despite some clear improvements in reporting across multiple content areas, “we found immaterial clutter detracting from important information most frequently in the corporate social responsibility (CSR) and risk reporting sections of the narrative” (ASB/FRC 2009:3). By way of example, the ASB/FRC review notes:

...some [reports] have fallen into the trap of delivering unnecessary clutter such as ‘football coaching’ for an insurance company and ‘donating chocolate gifts to the community at Easter’ for a service company—these are worthwhile activities but in our view are not material to understanding a company’s performance and position (ASB/FRC 2009:9).

Various factors underpin the volume of immaterial clutter. These include:

- The tendency for corporations to project a favourable societal image by highlighting philanthropic and other do-gooding activities that may be insignificant from the perspective of sustainability performance or company activities.
- The easy option of providing anecdotal evidence in the absence of concrete performance data.
- The ever-growing array of social pressures and reporting requirements. “We must consider whether further reporting requirements in the business review will succeed in changing company behaviour or just in adding clutter to an already lengthy annual report” (ASB/FRC 2009:12);
- The preference for “listing every conceivable risk adds to clutter” (ASB/FRC 2009:9).

Many company reports contain vague information as opposed to meaningful indicators. For example, a company may disclose that it is committed to use renewable energy, but this says nothing about the proportion of total energy use accounted for by renewables. Or a sustainability report might note that a firm has projects supporting women farmers, which leaves us uninformed about the scale and impact of support and any concrete implications for women’s empowerment.

In their work on sustainability reporting by large Italian water utilities,<sup>57</sup> Cantele, Tsalis and Nikolau (2018) not only observe a low level of disclosure on indicators suggested by GRI and SASB, but also reveal that most companies disclose qualitatively, neglecting material aspects related to water management like effluent quality, end-use efficiency, water protection initiatives, customer complaints, and sources of water. The authors contend that in addition to the typically poor quality of disclosed information, only a minority of firms provide the information essential to understanding their impacts on the crucial resource they manage. What they do disclose “cannot be used to assess the process of water utilities performance in various aspects of sustainability and evaluate the effectiveness of their sustainability strategies” (Cantele, Tsalis and Nikolau 2018:8).

Such limitations clearly affect the usefulness of data. So too does the fact that many firms and ratings provide data in the form of annual snapshots, that is, information related to corporate activities and impacts during the financial or calendar year under review. Changes in relation to the previous year may also be noted. Such formats, however, undermine what is essential for assessing corporate sustainability performance, namely trend analysis. Accounting principles related to easy comprehension or user-friendliness require far more attention to multiyear trends of, say, five or 10 years.

### Ongoing gaps and blind spots

Various assessments of the state of disclosure and reporting identify ongoing gaps in issue areas that need to be addressed. The following were among those noted in several of the publications reviewed for this report.

<sup>56</sup> The Accounting Standards Board (ASB) is an operating body of the Financial Reporting Council (FRC). The FRC is the United Kingdom’s independent regulator tasked with promoting confidence in corporate reporting and governance.

<sup>57</sup> The 22 utilities are considered large according to GRI’s reporting list classification criteria.

An EcoVadis analysis of 20,000 companies in 100 countries finds that most companies are “taking a reactive, unstructured approach to fighting **corruption risks**” with 48 percent having a formal policy on corruption, 37 percent having corruption measures in place, and just 9 percent reporting on ethics issues and 3 percent with sanctions (EcoVadis 2018).

The Corporate Human Rights Benchmark that ranks 98 of the world’s largest corporations in three sectors notes that while the UN Principles on Business and **Human Rights** placed this issue on the agenda, it is still at an incipient stage in terms of corporate uptake (CHRB 2018).

Oxfam’s Behind the Brands scorecard for the world’s 10 largest food and beverage corporations reveals

“that the social responsibility and sustainability programs which companies have implemented to date are typically focused on projects to reduce water use or to train women farmers, for example. But these programs fail to address the root causes of hunger and poverty because companies lack adequate policies to guide their own supply chain operations. Important policy gaps include:

- Companies are overly secretive about their agricultural supply chains, making claims of “sustainability” and “social responsibility” difficult to verify;
- None of the Big 10 have adequate policies to protect local communities from land and water grabs along their supply chains; and
- Companies are not taking sufficient steps to curb massive agricultural greenhouse gas emissions responsible for climate changes now affecting farmers” (Oxfam 2016).

Oxfam also notes that of the 10 corporations in this review only one, Nestlé, discloses data on the **ratio of CEO to median worker’s pay** (Oxfam 2016).

EcoAct (2018) notes that just 35 percent of the corporations it monitored were assessed as adapting to a more circular economy<sup>58</sup>, while only 29 percent considered the **natural capital impact** of their operations. EcoAct’s (2018) assessment of the state of environmental reporting of large corporations listed on several stock exchanges, including the FTSE 100, Dow 30, CAC 40 and IBEX 35, shows that while an increasing number are setting carbon reduction targets, relatively few do so with reference to “science-based targets”—that is, ones that are consistent with the goal of keeping global warming at or below 2 degrees Celsius. Furthermore, of the 20 percent with science-based targets, only 8 percent are independently assessed and approved. KPMG notes that carbon targets set by corporations are usually disconnected from international and national carbon reduction goals (KPMG 2017) and that its “survey confirms that a majority of companies do not acknowledge climate change as a financial risk in their annual reports” (KPMG 2017:4).

More specifically, in the field of **renewable energy**, RE100 (2018:6) points out that even among companies committed to significantly reducing carbon emissions (such as those reporting to the CDP, discussed below), “only 11% of the power [they] consumed was actively sourced from renewable sources”.

In a review of 124 CSR reports, Littler (2014:10) notes “only 23 (19%)...gave any account at all of their approach to **taxation**. Only five of those 23—4% of the total—provided anything like a quantitative analysis. The rest gave only a vague assurance that the business was proactive in providing responsible tax planning, without including any facts or figures at all”.

While there are increasing calls for the remuneration issue to go beyond ensuring firms pay at least a minimum wage by instead paying a “**living wage**”, progress has been limited. H&M’s commitment to a living wage, noted above, has come in for considerable criticism. While the company asserts progress has been achieved indirectly through their insistence that supplier factories allow workers to have democratically elected representatives and adopt transparent wage management systems,<sup>59</sup> various monitoring

<sup>58</sup> In contrast to industrial processes and production methods based on the continuous extraction of finite natural resources, the generation of waste and pollution, energy leakage and the degradation of natural ecosystems, the concept of circular economy emphasizes the need to support a regenerative economy, minimizing or reversing these impacts through such means as “closed-loop systems” and “dematerialization” involving eco-efficiency, maintenance, repair, reuse, remanufacturing, refurbishing, retrofitting, recycling and upcycling, among other approaches. See, for example, Ellen MacArthur Foundation (2013).

<sup>59</sup> See H&M, *Fair Living Wages: What did we promise and what progress have we made?* 7 May 2018. Accessed 15 June 2020. <https://hmgroup.com/media/news/general-news-2018/fair-living-wages-what-did-we-promise-and-what-progress-have-we.html>

and advocacy organizations<sup>60</sup> claim that the concrete results pale in comparison with the reputational gain the company achieved when it announced this “unique, first-of-its-kind initiative”.<sup>61</sup>

When corporate sustainability disclosure or standard-setting organizations do factor in the living wage, there is often a tendency to adopt a narrow interpretation by focusing on an enhanced minimum wage, restricting the basket of “basic needs”, or assuming that there is more than one income earner per family. Other more expansive criteria tend to be neglected: a larger basket of basic needs, that the living wage should be earned during a normal working week, that family basic needs should be covered by the wage worker in question, and that the worker/family in question should have the possibility to save (Anker 2011).

If corporations engaged in sustainability disclosure have begun to look beyond their own facilities to those of top tier suppliers, the same is often not the case for **suppliers further down the value chain**. Even among a group of companies engaged with the Decent Work in Global Supply Chains Action Platform, developed by the UN Global Compact in 2017, only 53 percent map their suppliers beyond Tier 1 (UNGC 2018). Less than half (47 percent) require major business partners to have anti-discrimination policies.

An assessment of a group of companies using the Women’s Empowerment Principles Gender Gap Analysis Tool<sup>62</sup> revealed that only 12 percent include **gender equality** criteria in their supply chain management tools. There are also gaps in other aspects related to gender equality. While some 1,800 CEOs have formally committed to continuous leadership and improvement on gender equality and women’s empowerment by signing the CEO Statement of Support for the Women’s Empowerment Principles launched in 2010, even leading companies in this field appear to be failing in various respects. The 2018 *Women’s Empowerment Principles Global Trends Report* (UNGC et al. 2018) finds that among a group of 100 companies that applied the tool early on, a majority reported progress related to maternity and paternity leave, as well as efforts to embed gender in CSR, philanthropy, advocacy and partnerships. Progress in other areas, however, was far less apparent:

- 5% set procurement and/or percentage spend targets with women-owned enterprises
- 15% set goals to build the pipeline of women for management positions
- 10% assess differential impacts on men and women during human rights or social impact assessments
- 16% ensure equal participation of women and men in community consultations
- 23% seek to challenge gender norms and promote positive images of women and girls in marketing
- 30% set time-bound, measurable goals and targets in strategy
- 32% have an organization-wide gender equality strategy
- 45% have a policy addressing equal pay for equal work of equal value
- 49% provide confidential grievance, resolution and non-retaliation mechanisms to ensure an environment free of violence, harassment and sexual exploitation

The fast pace of **technological change** is generating new issue areas or problems that need to be factored into sustainability disclosure and reporting, for example, the socio-psychological impacts on children and others of social media, increasing emissions associated with the transport sector due to online shopping, and employment issues (including work transition) associated with green economy transitions and artificial intelligence, automation and robotics.<sup>63</sup>

**SDG gaps are also apparent.** While large corporations increasingly acknowledge the SDGs, action often relates to only a few goals. An analysis of SDG uptake within the field of impact investing found that investors tended to focus on a limited range of issues: first and foremost, decent work/economic growth (SDG 8), followed by climate action (13), then sustainable cities/communities (11) and global health and well-being (3). Relatively few engaged with goals associated with education (4), inequalities (including gender) (5 and 10)<sup>64</sup>, peace/justice/strong institutions (16), life on land and below water (14, 15), and partnerships for development (17) (GIIN 2017).

<sup>60</sup> See, for example, Clean Clothes Campaign 2018 “Campaign Launch: Turn Around H&M” <https://cleanclothes.org/news/2018/04/30/campaign-launch-turn-around-h-m>

<sup>61</sup> See <http://about.hm.com/en/sustainability/sustainable-fashion/wages.html>

<sup>62</sup> The Women’s Empowerment Principles Gap Analysis Tool (WEPS Tool) was developed in 2017 to provide businesses with a user-friendly and confidential self-assessment of their performance on women’s empowerment and gender equality. The WEPS Tool is composed of 18 multiple choice questions in the areas of leadership, workplace, marketplace and community. Each question is organized across four management stages—commitment, implementation, measurement and transparency—to ensure pledges are coupled with substantive action to implement the WEPS. Topics include company-wide gender equality strategies, equal pay, recruitment, supporting parents and caregivers, women’s health, prevention and response to violence and harassment, gender-responsive sourcing, and advocacy for gender equality in communities of operation. See UNGC et al. (2018) and <https://weps-gapanalysis.org/resources/#>

<sup>63</sup> For a comprehensive analysis of challenges associated with the future of work see Global Commission on the Future of Work 2019 [https://www.ilo.org/global/topics/future-of-work/WCMS\\_578759/lang-en/index.htm](https://www.ilo.org/global/topics/future-of-work/WCMS_578759/lang-en/index.htm)

<sup>64</sup> This is despite the fact that impact investors identify “women and girls” as a key beneficiary group (see GIIN 2017, Figure IV, Executive Summary).

## Reliability and credibility

“  
 ...[B]y and large, companies continue to take a minimally compliant approach to sustainability disclosure, providing the market with information that is inadequate for making investment decisions.”

*Sustainability Accounting Standards Board 2017a:3*

Overly complex and confusing disclosure and reporting, lack of comparability, and clutter and omissions associated with materiality all affect the reliability and credibility of data and reporting narratives. But there are also other conditions that are particularly pertinent in this regard. Here we refer to (i) the degree of bias and self-promotion within reporting, (ii) the possibility that ratings and rankings adopt quite different criteria for assessing performance, (iii) the tendency to focus on policy and reforms to management systems as a proxy for performance, and (iv) a myopic perspective whereby companies fail to relate data on progress to broader long-term goals.

### Selective disclosure and reporting

As indicated in the above quote, disclosure by its very nature involves some bias, which is also underpinned by the multiple uses of indicators. Herzi (2018)<sup>65</sup> refers to five types of usage which have very different positive and negative implications for the quality of disclosure and reporting:

- Instrumental: inform decisions that have impacts
- Conceptual: catalyse learning and understanding
- Tactical: substitute for action and deflect criticism
- Symbolic: provide ritualistic assurance
- Political: support a predetermined position

<sup>65</sup> These multiple uses are cited in Bell and Morse (2018:7-8).

<sup>66</sup> Cited in Nitzberg (2016).

“  
 ...indicators...are simplifying tools designed to capture complexity and help convey information...[T]his process of simplification results in trade-offs; decisions to exclude and include; and to manipulate data...We must accept that [sustainability indicators] are not ‘laws of nature’ but human constructs that reflect the biases, failings, intention and worldview of their creators.”

*Bell and Morse 2018:6-7*

From the perspective of sustainability, care needs to be taken to constantly rein in the tactical, symbolic and political uses of disclosure and reporting. Mark Kramer, who with Michael Porter promoted the concept of “shared value” noted above, points out that while

most companies right now are doing a sustainability report...[they’re] generally not reporting the bad news, and [instead share] some anecdotes about some of the wonderful things they’re doing that they have cherry-picked. So, extractives companies don’t say a whole lot about carbon footprints and fossil fuel, and banks don’t say a whole lot about the high charges for people with bad credit or the overdraft fees. Having this sustainability report gives them a vehicle to report on the things that they want to report on and that make them look good and skip over the tougher issues.<sup>66</sup>

Despite the considerable efforts of the GRI and others to promote more meaningful disclosure and reporting, there are ongoing concerns that

[t]oo many companies have used the [GRI] framework à la carte, and very few hire external assurers to report on the enterprise’s adherence to the guidelines. ...While organizations are undoubtedly spending considerable time and effort to apply the GRI, the reports

in large part represent a biased public relations medium, emphasizing what those organizations wish to report—the positive features about their sustainability endeavors, omitting descriptions of the negative features that require significant attention (Bloom 2016:229).

Comparing disclosure among large United States corporations in 1977 and 2010, Cho et al. (2015) find that “legitimacy factors” related to firm size and membership in environmentally sensitive industries were a major driver of disclosure. Therefore, they suggest, concerns about disclosure being an exercise in image enhancement remain as pertinent today as they were in the past.

In their evaluation of the Ethical Trading Initiative (ETI), Barrientos and Smith (2012) note that within the area of labour standards there is a tendency for companies to focus more on “outcome standards” related to occupational health and safety or minimum wage compliance than on “process rights” associated with core labour standards such as freedom of association and collective bargaining.

Part of the problem regarding selective reporting and bias concerns the process of determining what is a material issue and indicator—that is, one that is necessary in order to be able to make informed decisions. A rigorous process of materiality determination is the key to consistent, relevant and credible disclosure. As noted in Chapter 3, Mark McElroy (2019) points out that such a determination process should involve identifying the multiple impacts that corporate behaviour has on different forms of capital (natural, social, human, economic and so forth), as well as the key stakeholders impacted. Their concerns and preferences should, in turn, be factored into the process.

#### Variations in assessment criteria

Managers, like other stakeholders, may adopt quite different criteria to determine what constitutes good and bad practice, as well as what is material. This also applies to different ratings and rankings entities or scorecard initiatives that may assess the performance of a particular corporation quite differently. Even assessments

made by stakeholders that have a more critical take on big business may vary significantly.

It is curious, for example, that a company like Danone, which receives kudos from people like Mohammed Yunus and the social business or B Corp community, as well as the international trade union movement concerned with worker rights, comes in at the bottom of the Oxfam ranking of the world’s top 10 food and beverage corporations, as referred to in Box 1.3 and Annex 3.

Why does Oxfam rank Danone so poorly? In relation to workers, it is apparently because the company does not publish the number of workers in its supply chain. For union organizations, such as the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF), this indicator probably pales in comparison with the fact that Danone was one of the first transnational corporations to sign an international framework agreement to respect workers’ rights across its global operations and, more recently in 2016, signed an agreement with the IUF, its tenth, to address the structural problem of precarious employment.<sup>67</sup>

From the perspective of transformative change, the social business model is important given that the surplus generated is reinvested into the business and the target group of beneficiaries rather than being passed on to investors (Yunus 2007:24). Similarly, international framework agreements between international union federations and transnational corporations can play a key role in promoting labour rights globally. One example with a long track record is the agreement between Danone and the IUF.

Similarly, two companies that rank fairly high on the Oxfam rating—Nestlé and Coca-Cola—are repeatedly singled out as bad performers on the IUF website. The only company that seems to fare reasonably well for both these stakeholders is Unilever. Such discrepancies point to the need for not only greater consensus among key stakeholders on key performance issues and indicators, but also critical assessment of assumptions about what are key performance indicators.

<sup>67</sup> See the IUF’s web repository of international framework agreements at <http://www.iufdocuments.org/ifa/>

### Policy versus performance

Data and information often focus more on company policy and management systems, and less on actual social and environmental performance and impacts. While it is tempting to assume that improvements in management systems inevitably translate into positive outcomes in terms of performance, the evidence is far from conclusive and, indeed, may point in the other direction (Delmas and Blass 2010; Boiral 2013).

The assessment and ranking of 98 of the world's largest publicly traded companies from three "at risk" sectors—agricultural products, apparel and extractives—conducted by Corporate Human Rights Benchmark (2018) revealed that while most had a system in place to identify human rights risks and impacts,

many companies are not implementing the UN Guiding Principles on Business and Human Rights (UNGPs), with all the dangers of human rights abuses of workers and communities that this implies...On average, companies are better at demonstrating their commitments via policy than their actual processes. Similarly, processes are better disclosed than evidence of systematic implementation (CHRB 2018:6).

This observation is confirmed by the data presented above, on how companies are addressing corruption or applying the Gender Gap Analysis Tool in the supply chain. While a substantial percentage of corporations have a policy in place, concrete implementation measures are far less apparent.

Frequently we are reminded of the contradiction between seemingly good CR policy and bad performance when global corporations find themselves at the centre of negative public attention and are delisted from key ratings initiatives such as the DJSI. Examples include:

- BASF, Merck (Germany) and others found guilty by the European Union of price fixing related to vitamins in 2001.
- Siemens, for bribery scandals in 2008.
- BP, following the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.
- TEPCO's health, safety and risk

assessment failures related to the 2011 Fukushima nuclear disaster.

- Olympus, Tesco and Toshiba accounting scandals unearthed or prosecuted in 2011, 2014 and 2015, respectively.
- Petrobras fraud and corruption scandal reported in 2015.
- Volkswagen's emissions scandal in 2015.

A more fundamental problem with ratings is that observed by Delmas and Blass (2010) in relation to environmental disclosures. The case may be that corporations with poor performance, who are under the greatest pressure to adopt CR principles and policies and to work hardest to (re)gain reputational advantage, end up having the best environmental management systems. The problem is that, often, ratings assess environmental management systems to a far greater extent than actual performance or impacts. Hence, firms that are placed at the top of ratings may be doing well in terms of their environmental management systems and reporting but far worse in terms of performance (Delmas and Blass 2010). Similarly, Boiral finds that information in the sustainability reports of 23 energy and mining companies that claimed the GRI A or A+ rating (see Box 1.2) were largely disconnected from several GRI principles, real business impacts and critical issues revealed by others (Boiral 2013).

Indeed, a key challenge is how to move beyond the focus on adapting or reforming ESG management systems to actual performance and impacts. Too often management system reform is taken as a proxy for improved impacts. The old adage about how a manufacturer of cement life jackets could obtain ISO 9001 certification (for management systems aimed at ensuring product quality) illustrates the problem at hand—the product poses a serious threat to any user regardless of the fact that its design and manufacturing complied with various specifications.

### The broader sustainability context

Another major limitation of data aimed at assessing corporate sustainability performance relates to the broader sustainability context (Reporting 3.0 Blueprint 5). As Ralph Thurm

(2013) explains: “information available through sustainability reports and websites only tells us who is less bad. We seem completely in the dark when it comes to knowing what is minimally good enough”. GRI co-founder Allen White argues that:

ESG does not, by nature, carry a true sustainability gene. A company may rate very highly on an ESG score, but to say this company is an excellent sustainability performer is a very fundamentally different statement. [A] company [should be] positioned to prosper for the long-term in a way that respects limits, thresholds, and norms that are externally defined, not simply defined by peer group comparison or internal targets and goals (cited in Baue 2013).

Another contextual gap relates to so-called fair allocations—that is, the consideration of what an equitable distribution of resources among stakeholders might entail (Thomas and McElroy 2016).<sup>68</sup>

As r3.0 points out, “...existing reporting frameworks and standards...tend to provide numerators without denominators...[T]his would be akin to a sports reporter mentioning the improvement rate of a star player’s first-half goal scoring, while neglecting to mention her teammates’ worsening rates dragging the overall team rate down; or the team’s statistical underperformance in the second half, and hence its overall losing streak” (Thurm et al. 2018:52).

For example, a company may provide data that indicate a decline in carbon emissions but not relate this to a tolerable amount of GHG emissions from the perspective of science-based targets aimed at controlling global warming.

Other data may show an increase in workers’ wages but fail to relate this to the distribution of company income and economic or financial performance. Put another way, are workers receiving their fair share of the pie or are they getting the crumbs? To know this, workers’ wages need to be viewed in context. How are wage trends faring in relation to profitability and executive remuneration? How unequal

is the CEO-worker pay ratio? How do trends in real wages compare with trends in labour productivity? Similarly, data may show an improvement in certain working conditions among core employees but ignore broader trends related to subcontracting, which are often associated with a decline in labour standards.

Rotz and Fraser (2018) point out that “indicators need to be nested in a broader analysis that helps to make sense of context specific dynamics” (cited in Bell and Morse 2018:6). Emphasizing context also requires an assessment of “linkages, synergies and antagonisms between goals and targets (and their associated sustainability indicators of course) rather than simple listings under themes” (Bell and Morse 2018, citing Gallopin 2018:6).

In an effort to go beyond selective ESG disclosures and to ensure that sustainability reporting would “explicitly link micro (company) performance with macro (systems wide) outcomes”,<sup>69</sup> GRI introduced the Sustainability Context Principle in the early 2000s. Companies were expected to link the assessment of performance to key contextual issues and trends at local, national, regional and global levels. However, as noted by the co-founder of the Global Reporting Initiative, Allen White, its application “remains incipient, uneven and occasional”.<sup>70</sup> A 2017 study that reviewed over 40,000 sustainability reports published since 2000, found that just 5 percent of reports cited ecological limits at all, while only 31 out of 9,000 companies had disclosed their environmental impacts in the context of ecological limits and strategies for meeting these limits (Bjørn et al. 2017, cited in Reporting 3.0 2018).

## Mainstream responses

Within the dense institutional ecosystem that supports CR, efforts are emerging on various fronts to address the above accounting issues related to complexity, comparability, reliability, credibility, relevance and materiality. Indeed, today there is a palpable urgency to the matter and even the stalwarts of sustainability measurement and reporting cannot remain

<sup>68</sup> See also Baue 2019, Raworth 2017, UNEP 2015.

<sup>69</sup> Allen White cited in Thurm 2017:122.

<sup>70</sup> Cited in Baue 2017.

static in the face of shifting global economics, growing resource scarcity, and investor and stakeholder demands for more and better quality information regarding multiple impacts.

In 2019, for example, the Global Impact Investing Network (GIIN) launched the IRIS+ system in order to address three key concerns within the field of impact investing: lack of implementation guidance, lack of core metrics and comparable data, and continued confusion and fragmentation. The IRIS+ system brought together standards and norms of impact measurement and management associated with numerous initiatives, and sought greater alignment with the SDGs. Investors are encouraged to adapt these to their specific priorities and needs. The aim is to provide clarity regarding data and best practices, as well as “streamlined, practical, how-to guidance that impact investors need – all in one easy-to-navigate system”.<sup>71</sup>

Several other initiatives to address core sustainability accounting issues are described in Annex 4. They include:

- GRI Sustainability Reporting Standards
- Action Platform Reporting on the SDGs
- SDG Compass
- World Benchmarking Alliance
- Corporate Reporting Dialogue
- UNCTAD and International Standards of Accounting and Reporting (ISAR)
- Science-Based Targets initiative
- CDP and Climate Disclosures Standards Board
- World Federation of Exchanges ESG Guidance and Metrics
- European Commission Guidance on Non-Financial Reporting Directive

### **Digital innovations**

Considerable store is also being placed on technological innovations as a means of improving disclosure (see Annex 5). As the GRI report *The Next Era of Corporate Disclosure: Digital, Responsible, Interactive* highlights, digital innovations not only entail novel formats and

information sources but also new content and focus, as well as a fresh role for stakeholders empowered with more information (2016a). Sustainability data are becoming available to stakeholders in real time and “companies will have less control over information about their performance than they do today” (GRI 2016a:20). The report contends that disclosures and data will more readily and clearly reveal corporate impacts on communities across operations related to climate change, the ecosystem, contamination, and access to food, education, health services and civil rights.



**We are now on the cusp of a new era: the way we capture, analyze and use sustainability data is about to be transformed...We are moving from an era where sustainability information is collected and reported, to an era in which stakeholders—including the companies themselves—are using this information to learn more about their risks and opportunities, and learning to make better decisions...We need to unlock the value of sustainability performance data, allowing it to be accessed and shared in a variety of ways.**

*Michael Meehan*  
Former Chief Executive, GRI  
(GRI 2016a:3-4)

<sup>71</sup> See GIIN. *About IRIS+: Background and Purpose*. Accessed 20 June 2020. [https://s3.amazonaws.com/giin-web-assets/iris/assets/files/IRIS\\_2-Page.pdf](https://s3.amazonaws.com/giin-web-assets/iris/assets/files/IRIS_2-Page.pdf)

Indeed, enhanced and emerging technologies are particularly useful for improving communication and engaging with stakeholders, gathering accurate and reliable information, monitoring performance, and responding to risks and opportunities throughout the supply chain (see Box 2.1).

For further and more detailed examples of how digital innovations are being harnessed to potentially improve sustainability, see Annex 5. It is important to point out that while digital innovations present opportunities to improve the quality of CR disclosure and reporting, they also have a variety of actual or potential limitations, as additionally noted in Annex 5.

### Box 2.1. Enhancing Disclosure and Reporting Through Digital Innovations

- Heineken published its first digital-only combined financial and sustainability annual report in 2018. Website visitors can access the company's interactive GRI reference table to see the company's reporting against the GRI Sustainability Standards and to learn more about its "Brewing a Better World" strategy.\*
- Thread International and Patagonia employ supply chain mapping to trace raw materials (Amesheva 2017). Using Sourcemap software, Thread follows the collection of plastic bottles through to their transformation into "flakes" and, ultimately, clothing.
- Carbon Trust's collaboration with BT (formerly British Telecom) using big data led to the discovery that emissions beyond the telecom company's direct control made up 92 percent of the total and that two-thirds of the emissions originated in BT's supply chain of 17,000 suppliers across the world (Hsu 2014).
- Austral Fisheries is piloting the new OpenSC digital platform, launched by WWF-Australia and BCG Digital Ventures, that employs blockchain and cutting-edge technologies to help firms clear their supply chains of illegal, unethical and environmentally damaging products. OpenSC is one of the world's first "profit with purpose" startups using blockchain technology to reach the SDGs. Consumers can track "where a specific product came from, when and how it was produced, and how it journeyed along the supply chain" (Austral Fisheries 2019).
- IBM, LG Chem, Huayou Cobalt and Ford are partners in a pilot watched over by RCS Global, a multinational responsible-sourcing organization to cut the use of cobalt connected to human rights abuses. The technology traces cobalt from the Huayou mine and smelter in the Democratic Republic of Congo to the LG Chem battery and cathode factory in South Korea and ultimately to the Ford plant in the United States. The goal is to increase transparency along the mining industry's worldwide supply chain (Jamasmie 2019).
- Walmart uses an IBM blockchain platform to track 25 types of food products such as chicken, milk and berries. The rationale is to build trust with consumers and respond to their need to know where their food originates, how it was grown and if it is organic. In the future, the company will enable customers to engage with its blockchain solution (Bhattacharyya 2018).

\* See [www.theheinekencompany.com](http://www.theheinekencompany.com)