

## CHAPTER 4

# Learning from the Environmental Dimension

Before delving into the black box of measurement and disclosure associated with social dimensions of sustainability accounting, it is instructive to draw lessons from the environmental field. Much has changed since the term “greenwash” was popularized in the 1990s<sup>97</sup> to highlight the tendency of corporations to disclose environmental information and data via reports that often misinformed stakeholders about their real environmental performance and impact. Despite various ongoing concerns, noted in Part 1 of this report, the quality of environmental disclosure shows some signs of improvement. Recent developments suggest a heightened level of rigour and ambition that could usefully be replicated in the social domain. This is apparent in at least four respects.



<sup>97</sup> See Greer and Bruno 1996.

First, efforts are under way to address what, until recently, was a blind spot within environmental reporting—namely, the tendency to focus on metrics associated with resource or emissions intensity rather than absolute reductions in resource use, waste and emissions. As noted in the 2030 Agenda, development actors need to “endeavor to decouple economic growth from environmental degradation” (SDG 8, Target 8.4). While this principle has a long pedigree, attention within sustainability accounting tended to focus on what is known as relative decoupling, that is, reductions in negative environmental externalities (for example, emissions, waste, pollution and natural resource depletion) relative to a company’s growth measured in revenues or production volume. This often means that negative externalities—such as greenhouse gas emissions—continue to increase in absolute terms although indicators related to resource intensity show improvement (see Table 4.1). Climate science and internationally agreed targets to deal with global warming indicate that a focus on absolute reductions in emissions, or absolute decoupling, is essential for planetary health and, by implication, intergenerational justice (Jackson 2009). Unlike reductions in resource intensity, absolute decoupling requires fundamental changes in investment, production and consumption patterns. In other words, it challenges, rather than aims to co-exist with, the dominant growth model.

While some standard-setting frameworks, such as the International Chamber of Commerce’s (ICC) Business Charter for Sustainable Development, emphasize resource intensity, most leading standard setters like the GRI and the World Federation of Exchanges (WFE) generally call on companies to report on both. Often, however, companies present data related to both aspects but emphasize progress associated with relative decoupling in narrative reporting.

Second, the qualitative leap forward is also reflected in the shift away from a focus on performance related only to activities directly controlled by the company in question. Instead attention is now also being paid to performance associated with the company’s global value chain

and its broader sphere of influence. Regarding GHG emissions, corporations are now being called upon to report not only on Scope 1 emissions related to the direct operations of the facilities they own but also on Scope 2—the energy services they rely on—and, more significantly, Scope 3, which refers to emissions associated with their suppliers, distributors and consumers (WRI and WBCSD 2011). This is particularly important as it is Scope 3 that often accounts for the vast bulk of the emissions associated with a particular product or service.<sup>98</sup> While the measurement of Scope 3 emissions is extremely challenging, at least it is now being recognized as an issue within sustainability disclosure. Ultimately, it may prove impossible for a company to significantly reduce Scope 3 impacts, particularly given its limited control over suppliers and consumers,<sup>99</sup> but the data themselves are important. They allow managers to identify those specific activities in the value chain where remedial action may be possible. Furthermore, stakeholders more generally surely have a right to know (i) the scale of the entire environmental footprint associated with the goods and services a company produces and the consumption patterns it promotes; (ii) where a company is positioned on a sustainability pathway that factors in such a comprehensive footprint; and (iii) the scale of the challenge of transforming patterns of investment, production, trade and consumption associated with its core business. Crucially, reductions in Scope 3 emissions can shed considerable light on trends and prospects related to the absolute decoupling referred to above.

Third, as noted earlier, improvements in performance tended to be incrementalist in nature. Companies adhering to CR principles aimed to reduce levels of harm without any reference to meaningful longer term quantitative targets. In short, conventional environmental reporting failed to contextualize performance in relation to sustainable development targets. In this way corporations could project an image of responsible environmental action without ever having to assess whether that action was meaningful from the perspective of sustainable development. Today, companies are being urged to assess progress in relation to science-based targets. Not only are they encouraged

<sup>98</sup> Patagonia, for example, reports that 86 percent of its carbon emissions come from the raw materials it uses and their supply chains (Patagonia 2019). PUMA estimates that Scope 3 emissions accounted for 81.6 percent of their total in 2018 (PUMA 2019:16).

<sup>99</sup> See, for example, Patagonia 2019, Unilever 2019a and *Financial Times* 2019a referring to Repsol.

to go beyond a focus on reducing emissions intensity by reporting progress related to absolute emissions but they are also called to meet targets consistent with climate science.

The recommendations of the Task Force on Climate-related Financial Disclosures<sup>100</sup> are clear in this regard:

Organizations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals. ... In describing their targets, organizations should consider including the following: whether the target is absolute or intensity based, timeframes over which the target applies, base year from which progress is measured, and key performance indicators used to assess progress against targets. Where not apparent, organizations should provide a description of the methodologies used to calculate targets and measures (2017:23).

A study of emissions trends among the world's 250 largest corporate emitters<sup>101</sup> notes that company progress in relation to the long-term transformative challenge "can be assessed by looking at whether a specific emitter is reducing aggregate emissions across all scopes [1, 2 and 3] in line with the latest scientific guidance, or roughly 3 percent per year through 2050" to keep global warming to below 2 °C above pre-industrial levels, as agreed in the Paris Climate Agreement (Lubin et al. 2017:2). While corporate sustainability performance is still well below this benchmark (with the group of largest emitters having a flat emission trend instead of a decline), at least a consensus is emerging that key performance indicators and targets need to be consistent with the transformative challenge. The same cannot be said for the social dimension.

Fourth, cutting-edge approaches to environmental performance accounting have transformed the process of materiality determination, or how to decide what to measure. It is no longer dependent simply on the opinions, preferences, priorities and decision-making power of man-

**Table 4.1. Leading emitters with increasing emissions trend and high emissions intensity performance**

Company	GHG Index (above 100 indicates increasing emissions trend)	Decoupling Index (above 100 indicates revenues increasing faster than emissions)
Coal India	111	107
Volkswagen AG	101	106
Honda Motor Company	109	107
Novatek OAO	113	133
Nissan Motor Co. Ltd.	107	109
Rolls-Royce	102	107
Duke Energy Corp	101	125
Dongfeng Motor Group	102	145
Toray Industries	103	111
Westmoreland Coal Company	119	109
Tatneft OAO	103	120
Renault	103	121
BMW AG	106	111

Source: Based on Lubin et al. 2017.

agement and selected stakeholders (such as standard-setting and certification agencies). Rather, it is increasingly informed by science, with scientific evidence and analysis determining not only key performance issues and indicators but also medium- and long-term targets.

It should also be noted that some progress is apparent in relation to the way in which data are presented. As pointed out in Part 1, providing annual snapshots, or even data for two or three years, is not user friendly; indeed this can mask more than it reveals. Guidance provided by the Task Force on Climate-related Financial Disclosures (TCFD) notes that metrics should be provided for historical periods to allow for trend analysis. While Exxon Mobil's emissions reduction performance has been poor, at least it is possible to (partly) gauge this from the data series it provides.<sup>102</sup> Typically, data interpretation would be obscured by annual snapshots, anecdotes and selective narrative reporting. In 2014, the company started reporting data over a 10-year period to show performance trends over time (see Table 4.2).

<sup>100</sup> Established in 2015 by the Financial Stability Board (FSB), the TCFD was tasked with developing consistent climate-related financial risk disclosures for use by companies, banks and investors. Following the publication of the recommendations in June 2017, the UNEP Finance Initiative initiated TCFD Pilot Projects for banks, investors and insurers to develop practical approaches for the assessment and disclosure of climate risks and opportunities (UNEP Finance Initiative: <https://www.unepfi.org/climate-change/tcfd/>).

<sup>101</sup> Known as the Global 250, this is a group of publicly traded businesses that produce approximately one-third of global annual anthropogenic emissions when including their value chains (Lubin et al. 2017).

<sup>102</sup> It should be pointed out, however, that the data ignore Scope 3 emissions associated with the combustion of petroleum products at the consumer end of the value chain, which accounts for the bulk of emissions. See As You Sow. Exxon Mobil Climate Change Risk Reporting. Accessed 20 April 2020. <https://www.asyousow.org/resolutions/2019/12/18/exxon-mobil-climate-change-risk-reporting>

The above discussion highlights a number of useful developments within environmental disclosure and reporting in recent years. They are not meant to suggest, however, that progress related these standards and metrics is rapidly becoming the new normal within corporate environmental disclosure, let alone environmental performance. Indeed, many of the old limitations and biases in reporting persist.<sup>103</sup> But if companies begin to step in line with these approaches, stakeholders will be able to get a far better handle on the state of play regarding environmental performance.

The social dimensions of sustainability performance accounting (including socio-economic and socio-political factors) could usefully take a leaf out of the contemporary environmental playbook. Far more attention needs to be focused on indicators related to transformative blind spots, the global value chain, concrete targets, and the contribution of (social) scientific analysis to materiality determination and target setting. In Part 1, we suggested that the social dimensions within not only sustainability accounting but also much of public policy related to transformative change tend to be reduced to social protection issues, such as occupational health and safety, and compliance with minimum wage legislation. Given short shrift are the structural conditions associated with distributive justice, inequality and power relations that determine people's life chances and the possibilities for transformative

change. Taking the social dimensions seriously within sustainability accounting means addressing these aspects. In the chapters that follow, we focus on five issue areas which are key in this regard.

<sup>103</sup> A Thomson Reuters study (Moorhead and Nixon 2016) covering performance from 2010 to 2015 reveals that the 500 largest businesses in the world which account for 10 percent of Scope 1 and 2 global GHG emissions (a far higher percentage if Scope 3 is included) actually increased their emissions by 1 percent between 2010 and 2015, rather than embarking on the required reduction trajectory. Of the 20 largest emitters, only nine managed to reduce their emissions between 2010 and 2014. A 2019 study of Australia's biggest companies, in sectors confronting the most significant climate risks, found that many still failed to publish full climate risk analysis. Out of 72 ASX100 firms, FOE Australia affiliate Market Forces found that just 25 percent disclose emissions intensity, even less (22 percent) report absolute emissions, while 51 percent of firms reviewed fail to disclose any emission reduction targets at all. While the study depicts a significant increase over the previous year in the proportion of firms reporting Scope 1, 2 and 3 emissions, just 47 percent report all three, 42 percent report only Scope 1 and 2, and 11 percent fail to disclose any emissions (Market Forces 2019).

**Table 4.2. Exxon Mobil emissions\***

<b>Absolute GHG emissions (net equity, CO2-equivalent emissions) millions of tonnes</b>										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	126	123	126	128	126	127	123	122	123	122
<b>Upstream and downstream GHG emissions normalized (net equity, CO2-equivalent emissions) tonnes per 100 tonnes of throughput or production</b>										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Upstream	21.0	20.1	20.5	20.7	22.3	23.2	23.9	24.9	24.3	24.6
Downstream	21.0	21.0	20.8	20.0	19.6	19.7	19.2	18.9	19.5	18.6

\* 2019 Energy and Carbon Summary - Metrics and Targets, [exxonmobil.com](https://corporate.exxonmobil.com/-/media/Global/Files/energy-and-carbon-summary/2019-Energy-and-Carbon-Summary_archive.pdf). Accessed 20 December 2019. [https://corporate.exxonmobil.com/-/media/Global/Files/energy-and-carbon-summary/2019-Energy-and-Carbon-Summary\\_archive.pdf](https://corporate.exxonmobil.com/-/media/Global/Files/energy-and-carbon-summary/2019-Energy-and-Carbon-Summary_archive.pdf)