With globalization, transnational corporations were seen to be reaping considerable benefits without assuming commensurate responsibilities in relation to their social and environmental impacts (UNRISD 1995). Throughout the 1980s, a series of high-profile disasters, scandals and exposés raised public and political awareness of this mismatch. They involved, for example, oil and toxic gas spills (Exxon, Union Carbide), complicity in human rights abuses (Shell), corporate connections to rainforest destruction (McDonalds), sweatshop labour (Nike) and child labour (carpet industry), and unethical marketing of infant formula (Nestlé).
Watchdog organizations and other forms of “civil regulation” of business actively named and shamed corporations and industry sectors (Bendell and Murphy 2002). And in a context where intangible assets, notably brand names, were becoming an ever more valuable asset, it was essential for corporations to safeguard reputation and gain reputational advantage. Threats of government regulation to deal with environmental and other harms associated with corporate behaviour and value chains further pressured companies to self-regulate through voluntary initiatives (NGLS and UNRISD 2002).

Meanwhile, strands of management theory put paid to Milton Friedman’s (1970) adage that “the business of business is business”. Rather, the modern-day corporation should respond to not only the concerns of governments (regulation) and shareholders but also a far broader range of “stakeholders”, defined as those that affect—or are affected by—a company’s operations (Freeman 1984). Such responsiveness was key to gaining a competitive advantage. CR also came to be associated with Total Quality Management—the comprehensive management approach for enhancing quality and reputation, as well as fostering “continuous improvement”—which was instrumental in the success of the Japanese business model in the 1970s and 1980s (Deming 1986). Later Peter Senge (1990) would expand this approach to emphasize the virtues of the adaptive or “learning organization”, a concept that resonated with the evolving CR agenda.

In this context of external pressures and enlightened self-interest, the field of corporate environmental and social responsibility expanded rapidly. Early initiatives centred to a large extent on developing industry and company codes of conduct (Jenkins 2002). The nature of corporate philanthropy also began to change, with corporations emphasizing conventional charity less and their contribution to society more through support for local economic and social development. The disclosure and communication of information in the form of stand-alone reports, notably environmental reports, also took off.

There was, however, considerable scepticism regarding these early initiatives. Codes of conduct were often dismissed as window dressing—an exercise in public relations. Philanthropy was no substitute for needed reforms in labour practices and production systems, and was generally detached from core business strategy (Porter and Kramer 2006). Environmental reports often amounted to “green glossies” or “greenwash”, while pleasing to look at they provided little information of substance.

The upshot was that corporate self-regulation did not pass muster. Rather than telling stakeholders to “trust us, we’ll fix it”, companies promoting corporate social and environmental responsibility were urged to adhere to a “tell me and prove it” approach. “Tell me” required CR reporting; “prove it” required CR management systems, measurement of impacts, continuous improvement in both management systems and performance, and third-party verification and assurance.

Ratcheting up and institutionalization

The 1992 UN Conference on Environment and Development (Agenda 21) supported the first worldwide call to promote environmental management: “Business and industry, including transnational corporations, should recognize environmental management as among the highest corporate priorities and as a key determinant to sustainable development” (United Nations 1992: para 30.3). A decade later, the outcome document of the 2002 World Summit on Sustainable Development, the Johannesburg Plan of Implementation, endorsed sustainability reporting and advocated that businesses use the Global Reporting Initiative’s (GRI) Sustainability Reporting Framework launched in 2000 (see Box 1.2).

Around the turn of the millennium CR disclosure and reporting expanded significantly. Reviewing a decade of sustainability reporting from 1992 to 2002, Ans Kolk (2004) highlighted two sets of developments linked to (i) a stakeholder approach, and (ii) “implementation likelihood”. The stakeholder approach was evident both in reports that included data on the distribution of value added among categories such as “employees”, “state”, “shareholders”, “company”, and in greater attention to stakeholder dialogue and feedback. Enhanced
“implementation likelihood”, that is, “moving from words to deeds”, was evident in both benchmarking of performance via increased use of performance measurements in reports and the growing influence of standard-setting entities, such as the GRI, launched in 1997. But various caveats applied, including the fact that only 28 percent of the largest 100 corporations in selected countries were publishing environmental reports, and that benchmarking tended to be related to just a few issues areas, notably health, safety and some environmental aspects (Kolk 2004).

Since the turn of the millennium there have been notable advances regarding the scale of disclosure and reporting.

- KPMG reports that the percentage of large corporations (global top 250) producing CR reports has increased year on year, from 33 percent in 1999 to 93 percent in 2017. For the largest 100 firms in selected countries (totaling 4,900 firms), the corresponding figures were 12 percent and 72 percent (KPMG 2017).
- The world’s largest registry of reports, CorporateRegister.com, contains 97,997 corporate responsibility reports from 16,398 organizations.27
- As of mid-December 2018, some 50,638 reports, 31,198 GRI reports and 13,148 organizations were included in GRI’s Sustainability Disclosure Database.28
- KPMG et al. (2016) identify 383 mandatory and voluntary reporting instruments in 64 countries, with a particularly significant increase in recent years.
- By October 2018, the UN Global Compact recorded 9,886 firms as participants (4,556 companies and 5,330 SMEs).29

Both the scaling up of sustainability disclosure and the ratcheting up of standards has occurred in a dual context where declining trust in a range of institutions, including corporations, coexists with heightened societal expectations that business should do what is “right”.30 Civil society activism has remained a powerful driver of progressive change, expanding its portfolio of action to include not only naming and shaming of corporations seen to be engaged in wrongdoing, but also various forms of collaboration and partnership. This combination of “insider” and “outsider” tactics has been crucial for ratcheting up standards and processes of disclosure and reporting (Bendell 2004; Utting 2005, 2008, 2012b).

The institutional ecosystem promoting, supporting and regulating disclosure and reporting has thickened considerably. Global development institutions and processes associated with intergovernmental and multistakeholder bodies such as the World Bank, the Organisation for Economic Cooperation and Development (OECD), the European Union (EU), the International Organization for Standardization (ISO), the International Labour Organization (ILO) and other entities in the United Nations system have also played a key role. Building on recommendations emanating from the 1992 and 2002 United Nations “Earth Summits”, the outcome document of the 2012 Rio+20 Summit further encouraged corporations to integrate sustainability disclosure into their reporting practices, and governments, industries, the United Nations and other stakeholders to work to improve this reporting.31

The OECD Guidelines for Multinational Enterprises (MNEs) were one of the first international regulatory initiatives to establish principles and standards for responsible conduct. Adopted in 1976, the Guidelines have been periodically revised, in part to ensure greater attention to supply chain and human rights issues as well as render the complaints procedure more effective. More recently, the European Commission (EC) has obliged large companies to report on ESG issues through a 2014 Directive (Directive 2014/95/EU). As noted in Annex 1, the EC has provided guidance on principles, content and key performance issues and indicators to be addressed in non-financial reporting (European Commission 2017c).

As in the case of early CR initiatives, not only push factors involving external pressures but also various pull factors associated with conventional business logic explain the ongoing ratcheting up of disclosure and reporting. By the turn of the century it had become clear that a massive “market for virtue” was emerging, creating vast

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27 As noted on corporate.register.com, 11 December 2018.
28 As noted on database.globalreporting.org, 11 December 2018.
29 www.unglobalcompact.org
30 This milieu of both distrust and high expectations continues to exist. The 2018 Edelman Trust Barometer (https://www.edelman.com/trust-barometer) reports that faith in CEOs has fallen to 37 percent while three-quarters of respondents expected companies to both increase profits and improve economic and social conditions in local communities where they operate.
31 See the Rio Outcome document at https://sustainabledevelopment.un.org/futurewewant.html
opportunities for generating both profits and reputational advantage by catering to “green” or “ethical” consumers (Vogel 2007). Employee culture was also evolving, with millennials wanting to work for decent companies and participate in decent causes (BCG 2017). Shareholder activism centred on CR concerns emerged as another driver of change. The socially responsible investment community also became a key player. According to RBC GAM’s 2018 international survey of investment consultants and institutional asset owners regarding attitudes towards ESG integration and responsible investing, 84 percent of institutional investors now incorporate ESG into their investment analysis (RBC GAM 2018).

Furthermore, certain strands of management theory insisted that corporate social responsibility would not be sustainable unless it were part and parcel of core business strategy that aimed to create “shared value” (Porter and Kramer 2006, 2011). Rather than simply paying farmers more via fair trade for example, the “creating shared value” approach sought to raise both productivity and the quality of products as a means to higher prices and incomes.33

The Bottom of the Pyramid (BoP) approach, popularized by Prahalad (2005), extended this logic by pointing to the business opportunities and profits associated with integrating low-income producers and communities into corporate value chains as suppliers, distributors and consumers. For example, rather than donating cheap drugs, it made more sense, from this perspective, to develop a business model based on packaging and distributing drugs to low-income consumers.34 In Mexico, the cement manufacturer CEMEX, through its programme Patrimonio Hoy, organizes low-income families into self-financing cells to facilitate the building and renovation of homes.35

The changing nature of governance within some global value chains also ensured increased attention to social and environmental standards. For example, within supermarket chains there has been a shift from a situation where lead firms attempted to impose standards on the supply chain to one where multiple inter-firm and intra-firm relations and other multistakeholder interactions re-produce standards throughout the chain (Pickles et al. 2016).

Another important driver of ratcheting up and institutionalization was the process of “learning by doing”. As companies gained experience with ESG initiatives, they discovered that what had initially appeared as a very high bar became less intimidating. Consequently, some aspects of corporate culture began to change. Institutionalizing sustainability disclosure and reporting within the corporation meant shifting responsibility for non-financial disclosure up the chain of command to the C-suite. In the process, such disclosure gradually moved from being a side show to one that was linked to core business strategy. As such, terminology within the CR field shifted from “corporate social responsibility” towards “corporate sustainability”.36

The upshot of these drivers has been the emergence of an increasingly dense institutional ecosystem to promote CR and accompanying forms of sustainability disclosure. Beyond the firm itself, this ecosystem is made up of old and new actors and institutions, including:

- civil society organizations, as well as knowledge institutions, engaged in technical assistance, research, monitoring and advocacy;
- multistakeholder standard-setting, promotional, certification and monitoring institutions and initiatives, several of which are indicated in Table 1.1;
- mainstream private sector organizations and institutions such as accounting firms, stock exchanges, and business, employers or industry associations as well as other firms engaged in certification, ratings and assurance;
- state actors—including both national and intergovernmental entities—that regulate, support or otherwise promote corporate sustainability and impact assessment via public-private partnerships, regulations, and “soft” and “hard” law requiring disclosure and reporting or participation in multistakeholder standard-setting and regulatory initiatives.

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32 Survey participants came from the United States, Canada, Europe and Asia.
33 Porter cited in Elkington 2011.
34 Porter cited in Elkington 2011.
35 See Shared Value Initiative 2015.
36 See Lacy et al. 2010.
### Table 1.1. The rise of multistakeholder institutions and initiatives

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>Forest Stewardship Council (FSC)</td>
<td>Sustainable forestry standards; eco-labelling and certification</td>
</tr>
<tr>
<td>1995</td>
<td>ISO 14001</td>
<td>Environmental management standard/certification</td>
</tr>
<tr>
<td>1997</td>
<td>Global Reporting Initiative (GRI)</td>
<td>Sustainability reporting indicators; application checks</td>
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<tr>
<td>1997</td>
<td>Social Accountability (SA) 8000</td>
<td>Labour standards/certification</td>
</tr>
<tr>
<td>1997</td>
<td>Marine Stewardship Council (MSC)</td>
<td>Sustainable fisheries; certification and eco-labelling</td>
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<tr>
<td>1997</td>
<td>EuropeGAP/GlobalGAP</td>
<td>Food industry standards; certification</td>
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<tr>
<td>1997</td>
<td>Atlanta Agreement on Child Labour</td>
<td>Child labour</td>
</tr>
<tr>
<td>1997</td>
<td>Fairtrade International</td>
<td>Fair trade/agro-ecology; certification</td>
</tr>
<tr>
<td>1998</td>
<td>Ethical Trading Initiative (ETI)</td>
<td>Agri-food supply chain standards; reporting</td>
</tr>
<tr>
<td>1999</td>
<td>Fair Labor Association (FLA)</td>
<td>Labour standards/assessments</td>
</tr>
<tr>
<td>2000</td>
<td>Worker Rights Consortium (WRC)</td>
<td>Labour standards; investigation of complaints</td>
</tr>
<tr>
<td>2000</td>
<td>OECD Guidelines for MNEs revised via multistakeholder process</td>
<td>Global ESG standards; complaints procedure</td>
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<tr>
<td>2000</td>
<td>Voluntary Principles on Security and Human Rights</td>
<td>Standards for participating extractive industry corporations</td>
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<tr>
<td>2002</td>
<td>Extractive Industries Transparency Initiative (EITI)</td>
<td>Revenue transparency; disclosure and monitoring</td>
</tr>
<tr>
<td>2003</td>
<td>Common Code for the Coffee Community (CCCC)</td>
<td>Standards in the coffee chain</td>
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<tr>
<td>2003</td>
<td>The Gold Standard</td>
<td>Carbon mitigation standard; certification</td>
</tr>
<tr>
<td>2003</td>
<td>CDP (formerly Carbon Disclosure Project)</td>
<td>Worldwide disclosure system for use by investors, companies, cities, states and regions in managing environmental impacts</td>
</tr>
<tr>
<td>2004</td>
<td>Roundtable on Sustainable Palm Oil</td>
<td>Standards in palm oil production; certification</td>
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<tr>
<td>2006</td>
<td>Roundtable on Sustainable Biofuels</td>
<td>Standards for biofuel production; certification</td>
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<tr>
<td>2006</td>
<td>Roundtable on Responsible Soy</td>
<td>Standards in soy production; certification</td>
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<tr>
<td>2006</td>
<td>Principles for Responsible Investment (PRI)</td>
<td>Principles for responsible investment involving financial services industry actors</td>
</tr>
<tr>
<td>2007</td>
<td>Better Cotton Initiative</td>
<td>Standards in cotton production</td>
</tr>
<tr>
<td>2009</td>
<td>Aquaculture Stewardship Council</td>
<td>Standards and certification in fish farming</td>
</tr>
<tr>
<td>2009</td>
<td>Global Impact Investing Network (GIIN)</td>
<td>Promotes impact investing and manages the Impact Reporting and Investment Standards (IRIS)</td>
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<tr>
<td>2010</td>
<td>ISO 26000</td>
<td>Guidance standard on social responsibility</td>
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<tr>
<td>2010</td>
<td>Women’s Empowerment Principles</td>
<td>Provide guidance to business on how to promote gender equality and women’s empowerment in the workplace, marketplace and community</td>
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<tr>
<td>2010</td>
<td>International Integrated Reporting Council (IIRC)</td>
<td>Promotes integrated reporting, alignment of reporting frameworks</td>
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<tr>
<td>2014</td>
<td>Corporate Reporting Dialogue</td>
<td>Promotes coherence, consistency, comparability between corporate reporting standards and frameworks</td>
</tr>
<tr>
<td>2015</td>
<td>Science Based Targets initiative (SBTi)</td>
<td>Showcases companies setting science-based emission reduction targets and promotes best practices</td>
</tr>
<tr>
<td>2015</td>
<td>SDG Compass</td>
<td>Guides firms to align their business strategies with relevant SDGs and measure their impacts</td>
</tr>
<tr>
<td>2015</td>
<td>UN Guiding Principles Reporting Framework</td>
<td>Guidance for companies to report in line with the UN Guiding Principles on Business and Human Rights adopted in 2011</td>
</tr>
<tr>
<td>2017</td>
<td>Business Reporting on the SDGs Action Platform</td>
<td>Promotes alignment, measurement and reporting of company impacts on the SDGs</td>
</tr>
<tr>
<td>2018</td>
<td>World Benchmarking Alliance</td>
<td>Develops publicly available and free corporate benchmarks of companies’ contributions to the SDGs</td>
</tr>
</tbody>
</table>

Key features of the ratcheting up of CR standards and practices associated with corporate sustainability disclosure and reporting include the following. First, the early tendency to pick and choose what to measure and disclose has given way to a more comprehensive range of standards. Institutions like the United Nations Global Compact (see Table 1.2), the International Organization for Standardization (ISO) via the ISO 26000 Guidance Standard on Social Responsibility, the Global Reporting Initiative (GRI), the OECD Guidelines on MNEs, and the EU Directive on Non-Financial Reporting all call on corporations to disclose data related to multiple issue areas.

ISO 26000, for example, identifies seven core subject areas that an organization should address “to define the scope of its social responsibility, identify relevant issues and set its priorities…” (ISO 2010:19):

- organizational governance;
- human rights;
- labour practices;
- the environment;
- fair operating practice;
- consumer issues; and
- community involvement and development.

Furthermore, economic aspects, health and safety, the value chain and gender dimensions are identified as cross-cutting themes, while organizations are urged to adopt a holistic approach that “consider[s] all core subjects and issues, and their interdependence, rather than concentrating on a single issue”, and to be aware of trade-offs (ISO 2010:20).

Through time, there has been an attempt to address gaps related to certain issue areas via additional principles and standards. These include:

- Human rights, which were explicitly connected to the corporate sustainability agenda via the UN Guidelines on Business and Human Rights in 2011, and internalized more explicitly in regulatory initiatives such as the OECD Guidelines for MNEs.
- Women’s economic empowerment, the profile of which was raised via the Women’s Empowerment Principles launched by UNICEF, the UN Global Compact and Save the Children in 2012.
• Lobbying practices, with disclosure and reporting guidelines not only calling for greater transparency but also lobbying to “drive stronger social and environmental policy frameworks in support of core business” (SustainAbility and WWF 2005:3).

• Taxation, in a context where “regulation on tax disclosure has increased as companies come under increasing pressure to demonstrate they pay their fair share of taxes in all countries in which they operate” (KPMG International et al. 2016:9).

• Supply chain management, with the establishment of several certification bodies in the late 1990s, and other initiatives, such as the Sustainability Accounting Standards Board (SASB) Supplier Code of Conduct.

• Poverty reduction, particularly in the context of the UN Millennium Development Goals (MDGs) and subsequent SDGs (van Tulder 2010).

New issues are constantly being put on the table. Among key emerging issues currently are those related to carbon emissions and the SDGs (SustainAbility 2018).

While initiatives such as ISO 26000, the UN Global Compact and GRI have sought to identify a set of core issue areas of relevance to multiple stakeholders, others like the Sustainability Accounting Standards Board focus primarily on issues material to the company itself in the context of the particular sector within which it operates. Core issues specified by SASB are listed in Annex 2.

Ratcheting up is also apparent in relation to specific issue areas. With regard to remuneration, for example, the attention of certain standard-setting entities such as the Ethical Trading Initiative (ETI) has broadened beyond the payment of minimum wages to the payment of a “living wage”, the topic addressed in Chapter 5. The clothing retailer H&M adopted, in 2013, a “Fair Living Wage Strategy”. The labour standards certification scheme SA8000 transitioned from going beyond certifying compliance with the law, or with the prevailing industry wage, to certifying whether workers were being paid a wage that was sufficient to meet basic needs. Furthermore, in a context where the law in China does not mandate collective bargaining, SA8000 also called on companies seeking certification for their operations in China to allow workers to freely elect a representative (Rasche and Gilbert 2012:74).

Similarly, in the field of labour rights (addressed in Chapter 8 of this report), global union federations and transnational corporations have signed international framework agreements (IFA) which commit the corporation in question to assuming responsibility for labour standards across its global operations. The number of transnational corporations signing IFAs increased from 14 in 2001 to 119 in 2017 (Hadhwiger 2018; ILO 2018).

A key aspect of ratcheting up relates to the process by which a company goes beyond a policy statement that signals its commitment to responsible behaviour regarding a particular issue, to specify and apply concrete implementation measures. The discussion below, related to the application of the Women’s Empowerment Principles, is a case in point. The uptake and application of the UN Guiding Principles on Business and Human Rights is another.

Second, progress in terms of a more comprehensive approach is evident in the fact that additional industry sectors and types of business have coalesced under the CR umbrella. Particularly relevant in this regard is the financial services sector, which was engaged through initiatives such as the Equator Principles related to managing risk associated with project finance. Initially launched in 2003, the Equator Principles were based on the International Finance Corporation’s (IFC) Performance Standards on Environmental and Social Sustainability. The Principles for Responsible Investment (PRI), launched in 2006, engaged a far broader range of financial institutions. The PRI has approximately 1,500 reporting signatories from the financial services industry. The 2017 KPMG Survey of Corporate Responsibility Reporting found that for the first time in the history of the survey every industry sector had a reporting rate of 60 percent or greater. The GRI and the SASB have also developed comprehensive industry and sectoral guidelines and tools.

37 SASB Sustainability Accounting Standards are comprised of disclosure guidance and accounting standards on sustainability topics for use by United States and foreign public companies in their annual filings with the United States Securities and Exchange Commission (SEC). The SASB Standards aim to help companies ensure that disclosure is standardized and therefore “decision-useful”, relevant, comparable and comprehensive (SASB 2017a).

38 PRI Signatories are required to report annually. Those that do not are delisted.


40 In March 2016, SASB released provisional standards for 79 industries (SASB 2017b).
The financial services sector and investment community have become major players in promoting sustainability disclosure and reporting. According to the 2018 Responsible Investing Survey, “…institutional investors and consultants have shifted decisively from asking whether to adopt ESG principles, to looking at how to implement them” (Brown 2018). And their methods have evolved considerably, shifting from an early focus on negative screening which would shun companies associated with sectors such as tobacco, gambling and alcohol, to positive ESG performance as a determinant of risk (RBC GAM 2018; Beal et al. 2017).

The growing interest in impact investing has spurred the development of a far more comprehensive range of metrics to guide organizations in reporting on their social, environmental and economic impacts, and to assist investors interested in sustainability to decide with whom to invest. Over 5,000 organizations employ the Impact Reporting and Investment Standards (IRIS) to analyse, manage and report their environmental and social performance.

The CR field also expanded as the focus of interest broadened beyond the corporation and its subsidiaries to the suppliers in its value chain. Value chain analysis had highlighted the complexity and depth of contemporary industrial structures and production systems (Gereffi and Kaplinsky 2001). Corporations realized that risk management required far more rigorous systems to monitor and certify enterprises in their supply chain. As demands for sustainability reporting grew, the net expanded beyond large corporations and their affiliates to capture their supply chains and small and medium-sized enterprises (SMEs) more generally.

Often supply chain disclosure has remained confined to top tier suppliers and not been extended to enterprises and raw material suppliers further down the supply chain. Pressures are building, however, for a more encompassing approach.

In the current context of heightened awareness of global warming and poverty, some large corporations are announcing what on paper are ambitious policies and targets that factor in the supply chain. Shell, for example, committed in 2017 to link its carbon reduction strategy to science-based targets (SBTs) and to cut carbon emissions by 20 percent by 2035 and by half by 2050. At the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), or COP 24, held in 2018, Shell announced it would extend the reduction strategy beyond more direct emissions (Scope 1 and 2) to upstream and downstream segments of the value chain (Scope 3), and link executive pay to compliance with carbon reduction targets. The Spanish oil group Repsol has gone further by setting a net-zero CO₂ emissions target for 2050 which, inter alia, takes into account emissions associated with its customers.42

Box 1.1. Impact Reporting and Investment Standards (IRIS)

Since 2009 IRIS has been managed and developed by the non-profit Global Impact Investing Network (GIIN) with a mission to support impact investment measurements and therefore credibility, transparency and accountability to stakeholders. IRIS is a free public good enabling organizations (investors, foundations, funds and other impact entities) to track investment performance. Users select those IRIS metrics most germane to their activities. IRIS metrics work with major standards regarding impact measurement, including those of the ILO and GRI as well as International Financial Reporting Standards.

Using an open process encompassing existing third party standards, expert working group feedback and public feedback, metrics are developed for the IRIS catalogue. The IRIS catalogue includes both qualitative and quantitative metrics for the following areas: financial performance (current assets and financial liabilities); operational performance (metrics to assess investees’ governance policies and employment practices); product performance; sector performance; and social and environmental objective performance.


social initiatives to more direct and tangible economic benefits for the company’s nearly 180,000 cocoa producers. Under the plan Mars aims to have 100 percent of its cocoa from the Responsible Cocoa programme responsibly sourced globally, and traceable by 2025. Additionally it will attempt to raise farmers’ incomes by extending the current focus on fair trade, protecting children and preserving forests to raising productivity, diversifying incomes and empowering women and communities. This strategy complements existing ambitious goals related to emissions:

When we established a formal, global sustainability team in 2007, we decided that we would rely on science to guide our GHG emissions reductions. At that time, we only had good data for Scope 1 and 2 emissions, so we set an initial goal for our direct operations—recognizing that was where we had the most control and influence. Anticipating that working beyond our factories and offices would likely be more challenging than our own operations, we decided to over-deliver against what the science said was necessary in our direct operations—leading to our goal of 100 percent renewable emissions by 2040 (Kevin Rabinovitch, Global Vice President of Sustainability, Mars).

While generally viewed in a positive light, the ratcheting up of standards reinforced concerns about the growing complexity and cost of ESG disclosure and reporting. Issues of fairness also arose where SMEs, particularly in developing countries, not only confronted additional costs and non-tariff barriers to trade but also found themselves in a situation where transnational corporations were finding ways to transfer the costs of disclosure downstream. Furthermore, lead corporations in global value chains often insisted that suppliers raise standards in an ongoing context of aggressive commercial policy that implied tight margins and short lead times for suppliers (Blasi and Bair 2019; Utting 2012).

Third, reporting and certification guidelines have been ratcheted up. As examined more fully in Chapter 2, the field of disclosure has been mired in concerns regarding the quality of data and the lack of adherence to basic accounting principles. Consequently, reporting and certification guidelines are periodically revised. Criteria noted by the SASB, for example, are listed in Annex 2.

The world’s most commonly used reporting tool, the GRI framework, has been modified (see Box 1.2) to emphasize new issues and to improve aspects related to accounting principles such as user-friendliness and materiality.

“Integrated reporting” constitutes another significant development in CR disclosure and reporting. This form of reporting manifests itself, however, in very different guises. A minimalist version simply calls for ESG and financial disclosure to be combined in one report. This format is supposed to signal a commitment to principles of full disclosure and materiality, suggesting that ESG is not merely an add-on to the financial dimension. Some 78 percent of the world’s largest 250 corporations included CR information in their annual financial reports in 2017, up from 44 percent in 2011 (KPMG 2017).

A more rigorous interpretation is promoted by the International Integrated Reporting Council (IIRC) and sees integrated reporting as key to the process of assessing current and future value creation and “market value”, as opposed to “book value”. The frame of reference for determining materiality is an organization’s “value creation process”. This process is affected by the organization’s use of multiple factors (or “capitals”)—financial, social and relationship, human, manufactured, intellectual and natural. It is also impacted by the creation of opportunities and risks as well as favourable and unfavourable performance (or prospects), as ascertained by the financial provider (Barman 2018:295-296).

According to the IIRC, an integrated report differs from conventional financial reporting not only in its inclusion of non-financial information, but also in its focus on the ability of a firm to create value in the short, medium and long term, emphasizing simultaneously the need for strategic focus, conciseness, future orientation, connectivity of information and multiple capitals and their interdependencies. It is underpinned by the concept of “integrated thinking”, which accounts for connectivity...
between capitals the firm uses or impacts, the ability to respond to stakeholders, how the business model responds to its external environment and the risks and opportunities before it, and the firm’s performance—financial and otherwise—and outcomes regarding past, present and future capitals.46

The International Integrated Reporting—or <IR>—Framework is employed to expedite the adoption of integrated reporting across the globe. Developed by the broad coalition of regulators, investors, companies, standard setters, accounting professionals and NGOs that make up the IIRC, the <IR> Framework

<table>
<thead>
<tr>
<th>Box 1.2. GRI Sustainability Reporting Guidelines: What has changed over time?</th>
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<tbody>
<tr>
<td><strong>G2 (2002)</strong></td>
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<tr>
<td><strong>G3.0 (2006)</strong></td>
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<tr>
<td><strong>G4 (2013)</strong></td>
</tr>
<tr>
<td><strong>Sustainability Reporting Standards (2016)</strong></td>
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Sources: GRI: www.globalreporting.org
https://corporate.citizenship.com/2013/05/23/global-reporting-initiative-g4-guidelines-a-five-minute-guide/
Bloom 2016
Epstein and Rejas Buhovac 2014

46 This section draws on material posted at integratedreporting.org
sets Guiding Principles and Content Elements to govern the general content of an integrated report and explains their underpinning concepts. Material matters are those that could substantively impact the organization’s ability to create value. Reporters using the framework must also provide feedback on the quality of stakeholder engagement.

Recent thinking on integrated reporting adds another dimension whereby “integration” refers to measuring performance (and value creation or destruction) in relation to not only multiple capitals (economic, social, natural, human and so forth) but also the sustainability context. Accordingly, “a genuinely integrative performance measurement process [is one where] all areas of impact are subjected to the establishment of sustainability norms” manifested in concrete long-term targets, an approach discussed in Chapter 3 below (Thomas and McElroy 2016:155).

Some initiatives are under way that emphasize impact valuation in terms of monetization (Epstein and Buhovac 2014). This focus extends cost-benefit accounting beyond conventional financial metrics with the aim of tracking impacts associated with multiple capitals and externalities, as well as enhancing transparency and accountability in decisions governing the use of resources (van der Lugt 2018).

The first analysis to determine the net costs of a firm’s environmental impacts along the whole supply chain was done by Trucost and PwC for sportswear company PUMA’s 2011 Environmental Profit and Loss Account (EP&L) (Kareiva et al. 2014). Trucost helps firms quantify and price natural capital dependency so that they can better understand environmental risks. According to Trucost’s CEO, “natural capital accounting can be used by companies to assess natural capital risk and opportunity embedded within their operations and supply chains” (Elkington and Zeitz 2014:65). PUMA’s EP&L assessment revealed that the company’s environmental impacts should have been priced at EUR 145 million in 2010—about half of that year’s profits. PUMA also learned that the supply chain was behind 94 percent of the company’s environmental impacts, and that over half of these were connected to the production of raw materials (Elkington and Zeitz 2014:66). Following this revelatory analysis, PUMA’s parent company, Kering, went on to develop EP&L accounts for its other brands such as Gucci.

Fourth, a major aspect of institutionalization relates to third-party verification and assurance, which has been a key aspect of the shift from the “tell me” to the “prove it” approach mentioned above. At the core of this development are numerous certification and assurance processes associated with the four major accounting firms (Deloitte, Ernst and Young, KPMG and PwC), think tanks and multistakeholder initiatives (see Table 1.1). These include the AA1000 Assurance Standard and certification schemes associated with ISO 14001 (environmental management), SA8000 (labour standards), FSC (forestry), MSC (fisheries), GlobalGap (food industry), fair trade certification, the Gold Standard (carbon emissions), the Kimberly Process (diamonds) and the various commodity Roundtables (Sustainable Palm Oil, Biofuels, Soy, Aquaculture).

Among the global top 250 companies, assurance of CR reporting increased from 30 percent to 67 percent between 2005 and 2017, “indicating that the largest companies see value in promoting the reliability of this information” (KPMG 2017:4).

Fifth, the institutionalization of corporate sustainability also involves rating or ranking companies’ sustainability performance in order to evaluate companies comparatively. The Global Initiative for Sustainability Ratings identifies over 600 ESG ratings products globally (SustainAbility 2018). Prominent ratings schemes include, for example, the Dow Jones Sustainability Index (DJSI), FTSE4Good, Sustainalytics ESG Ratings, RobecoSAM’s Corporate Sustainability Assessment, CDP environmental performance scores, MSCI ESG Ratings, issue-oriented ratings like CDP Water, EcoVadis sustainability scorecards, Corporate Knights Global 100 Most Sustainable Corporations in the World, and the Corporate Human Rights Benchmark. Sector-oriented ratings, sometimes operated by NGOs, also assess progress—the case, for example, of the Centre for Science and Environment Green Rating Project in India or Oxfam’s Behind the Brands Scorecard (see Box 1.3 and Annex 3).
“What are the top 10 food and beverage companies doing to clean up their supply chains?”

By developing a scorecard, this initiative seeks to provide people who buy their products with the information they need to hold the Big 10 accountable for what happens in their supply chains.

Performance is assessed in relation to seven themes:

- Transparency at a corporate level
- Women farm workers and small-scale producers in the supply chain
- Workers on farms in the supply chain
- Farmers (small-scale) growing the commodities
- Land, both rights and access to land and sustainable use of it
- Water, both rights and access to water resources and sustainable use of it
- Climate, both relating to reducing greenhouse gas emissions and helping farmers adapt to climate change

Except for transparency, all themes are grouped into four indicator categories (each worth one quarter of the score available for that theme). These indicator categories rely on publicly available documents to address the following questions:

- Awareness: Does the company demonstrate general awareness of key issues relating to that theme and does it conduct projects to understand and address these key issues?
- Knowledge: Does the company demonstrate that it measures, assesses and reports key issues and facts specifically in its supply chains that relate to that theme?
- Commitments: Does the company commit to addressing key issues relating to that theme in its supply chains?
- Supply chain management: Does the company require its suppliers to meet relevant standards related to that theme?

The transparency theme is structured differently. It has a broader focus and rewards companies for disclosure on cross-cutting and corporate-level issues.

Companies are ranked from 0 to 10 in relation to each of the seven themes. The thematic scores for each company are then tallied to provide an overall company score.

Oxfam points out that various policies and practices of companies are not assessed, including critical issues such as nutrition. Other issues that could not be assessed include actual practices on farms, and exactly how the Big 10, in practice, use their power to shape the behaviour of their suppliers. Such issues were not included because: (i) a particular issue was not linked closely enough to the lives of small-scale farmers, farm workers and communities in the supply chains of the Big 10; (ii) of the inability to find indicators that could assess the issue adequately through use of publicly available information; or (iii) public information available was not of adequate quality and accuracy for Oxfam to assess companies.

Source: https://www.behindthebrands.org/about/
Best practice learning

Much of the impetus for ratcheting up CR comes from a relatively small group of corporations that are seen as leaders in this field. The intense networking and peer pressure that is part of the CR ecosystem ensures that firm-specific innovations can quickly gain kudos and serve as a source of inspiration and peer pressure for others. These best practices provide proof that key emerging issues are not only relevant and material but also actionable. The CR literature frequently identifies the same companies and initiatives as examples of best practice. These include:

- **Danone** (food products): engagement with the social business initiatives associated with the micro-credit bank Grameen; pioneer in relation to international framework agreements (labour rights).
- **Google** (Internet-related products and services): has already reached its 100 percent renewable energy target; now pursuing a strategy to adopt technologies to power its operations and data centres with renewable energy on a 24/7 basis.
- **Interface** (carpet manufacturing): proactive application of circular economy principles and practices and zero footprint, renewable energy and recycling goals.
- **Levi Strauss** (apparel): one of the first companies to set science-based targets in the supply chain, with a target of a 90 percent reduction in greenhouse gas emissions in all its facilities using onsite renewable energy and efficiency improvements and a 40 percent GHG reduction in the supply chain by 2025.
- **Natura & Co.** (cosmetics and personal care): has pushed boundaries related to its lifecycle business approach across the value chain, promoting sustainable practices related to raw materials extraction, manufacturing, distribution, use and disposal of its products.
- **Novo Nordisk** (pharmaceuticals): pay equity within the firm.
- **Patagonia** (apparel): a leader not only in sustainable design and marketing but also environmental activism.
- **PUMA** (sportswear): ambitious net-zero emissions strategy and targets extending to the supply chain, and application of rigorous sustainability accounting methods.
- **Unilever** (household consumer products): Responsible Sourcing Policy; commitment to make all of the company’s plastic packaging fully reusable, recyclable, or compostable by 2025 and to increase the use of recycled plastic content in its packaging to at least 25 percent by 2025 (Beal et al. 2017:26).

Relatively few companies, however, consistently rank at the top of ratings. The DJSI, for example, reported in 2015 that of the many assessed, only 16 companies had consistently remained in the Index. The GlobeScan/Sustainability 2018 survey of experts positions Unilever, Patagonia and Interface in the top three slots followed by IKEA, Marks & Spencer, Tesla, Nestlé, Natura, Danone, Apple and Walmart. This outline of the evolution of disclosure and reporting suggests a significant change in corporate discourse and policy in recent decades. Over time, attitudes have shifted from outright denial of responsibility, through piecemeal self-regulation associated with bolstering corporate legitimacy and aspects of risk and reputation management, to a more comprehensive approach that is garnering considerable buy-in from transnational corporations and other companies and is being actively promoted by an ever-expanding network of organizations engaged in standard-setting, promotional and oversight activities.

As examined in Chapter 2, this evolution continues into the present with attempts to strengthen not only the breadth of disclosure but also its depth. Numerous adjustments and innovations are taking place to address various limitations in the quality of reporting which contradict basic accounting principles associated with reliability, credibility, comparability, user-friendliness, relevance and materiality.

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49 This is not to suggest that these companies are acting ethically or sustainably on all fronts. Indeed, several have been criticized for poor performance or embellishing accomplishments in specific issue areas. See, for example, Oxfam (2016) Behind the Brands ranking of Danone, or the New Internationalist report on Unilever (Dupont-Nivet et al. 2017).


51 Respondents were asked to determine how well leading companies perform against each of five key leadership attributes—Purpose, Plan, Culture, Collaboration and Advocacy. See GlobeScan and Sustainability (2018).