Sustainability Measurement and Reporting
The Corporate Dimension

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"Measuring and Reporting Sustainability Performance: Are corporations and SSE organizations meeting the SDG challenge?"

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What is the state of corporate sustainability accounting (CSA)?

Assessing progress over 30 years

- Constant scaling-up & ratcheting up of measurement & reporting
  - Additional issues and standards (e.g. HR, WEE, emissions, supply chain risks)
  - Less ‘picking and choosing’ (comprehensive frameworks: e.g. UNGC, ISO 26000)
  - Additional sectors and types of business (e.g. financial services, investors, SMEs & suppliers)
  - More rigorous reporting frameworks (e.g. regular GRI revisions; IRIS, SASB. WFE)
  - Integrated reporting; third party verification, assurance, ratings and rankings
- Institutionalization
  - Within the corporation: C suite engagement, management systems, training etc.
  - **Comprehensive institutional eco-system** of norms, rules & organizations engaged in standard setting, promotion, technical assistance, best practice learning, monitoring, assurance, advocacy and multistakeholder & gov. regulation

Where do we stand?

Ongoing accounting issues

- *Complexity & comparability*
  - *need for simplification, standardization & harmonization*
- *Reliability and Credibility*
  - Selective disclosure and biased reporting
  - Non user-friendly
  - Cherry picking
  - Policy versus performance (policy as a weak, albeit sometimes necessary, proxy for performance)
- *Relevance and Materiality*
  - Immaterial clutter
  - Ongoing issue & implementation gaps (HR, women's empowerment, taxation, corruption, etc.)
  - Limits of stakeholder dialogue (who decides? managers, mainstream stakeholders or 'rightsholders'?)
  - The broader sustainability context

Mainstream responses

- *Impact Investing & Reporting Standards (IRIS)*
- *GRI Sustainability Reporting Standards*
- *International Integrated Reporting Committee (IIRC)*
- *Action Platform Reporting on the SDGs*
- *SDG Compass*
- *World Benchmarking Alliance*
- *Corporate Reporting Dialogue*
- *UNCTAD & International Standards of Accounting and Reporting (ISAR)*
- *Science-Based Targets Initiative*
- *CDP & Climate Disclosures Standards Board*
- *Task Force on Climate-related Financial Disclosures*
- *World Federation of Exchanges ESG Guidance and Metrics*
- *Sustainability Accounting Standards Board (SASB)*
- *EU NFR Directive*

A lot is going on but there are still some blind spots related to key issue areas and indicators

Towards ‘transformative change’ ?

Will the transformational vision of the SDGs be realized if we continue along the same path of ‘do less harm’ and incrementalism?

What is transformative change (TC)? (UNRISD 2016)

1. It is not just social or environmental protection: It means addressing the structural conditions that reproduce the complex ‘wicked problems’ of climate change, poverty and social exclusion & building capabilities and enabling policy & institutional environments for wellbeing and planetary health: Key issues:

   i) decoupling environment and growth & rethinking growth (including forms of enterprise & varieties of capitalism),

   ii) inequalities, and iii) power relations

2. A journey towards goals and targets associated with sustainability thresholds and fair allocation

The UNRISD project is trying to marry these 2 aspects of TC

Learning from the environmental dimension

The environmental dimension of Corporate Sustainability Accounting (CSA) shows signs of getting to grips with the challenge of transformative change

Four key developments:

- Overcoming the blind spot of ‘absolute decoupling’ – by shifting the emphasis from resource intensity (‘relative decoupling’) to absolute reductions in emissions, waste etc.
- Quantifying supply chain performance (Beyond Scope 1 & 2 to Scope 3) – which can account for 90% of emissions
- Setting long-term goals and targets – e.g. UNEP’s 3% reduction a year in emissions (2020 – 2050)
- Emphasizing the role of science in materiality determination and target-setting – not just conventional processes of stakeholder dialogue

The social dimension of CSA is lagging behind

- The innovations and level of rigour and ambition emerging within Env. Accounting have **not been replicated** in the social domain.

- The social field is interpreted narrowly as **social protection** (OHS, min. wage compliance, pay violations, overtime, sexual harassment, maternity leave, community support/giving, etc.)

- Several key social and structural issues constitute blind spots with CSA

- Growing acceptance of climate and natural science in materiality determination but not Social Science. Social science theory and analysis is important for determining what is relevant and material. It points us towards key issue areas related to causes and solutions, and the prioritization of issues and indicators.

Avenues of inquiry to identify blind spots, key performance issues, indicators and targets

- Gap analysis (i.e. weak issue areas and indicators identified within current practice): e.g. corruption risks, taxation, CEO-worker pay ratio, living wages, HRs, gender equality in the supply chain
- Learning from the ‘best in class’ (corporations and ratings)
- Learning from cutting edge innovations, e.g.
  - Net Positive
  - The Multi-Capital Approach
  - Reporting 3.0
- Learning from other business models (SSE/B Corps) & varieties of capitalism
- Learning from history (e.g. periods of fair allocation)
- Learning from accepted or emerging societal norms & regulatory initiatives
- Learning from social science theory and multidisciplinarity

…. And transdisciplinarity (not just mainstream stakeholders but also actors with very different perspectives and worldviews)

Connecting Social Science theory with indicators

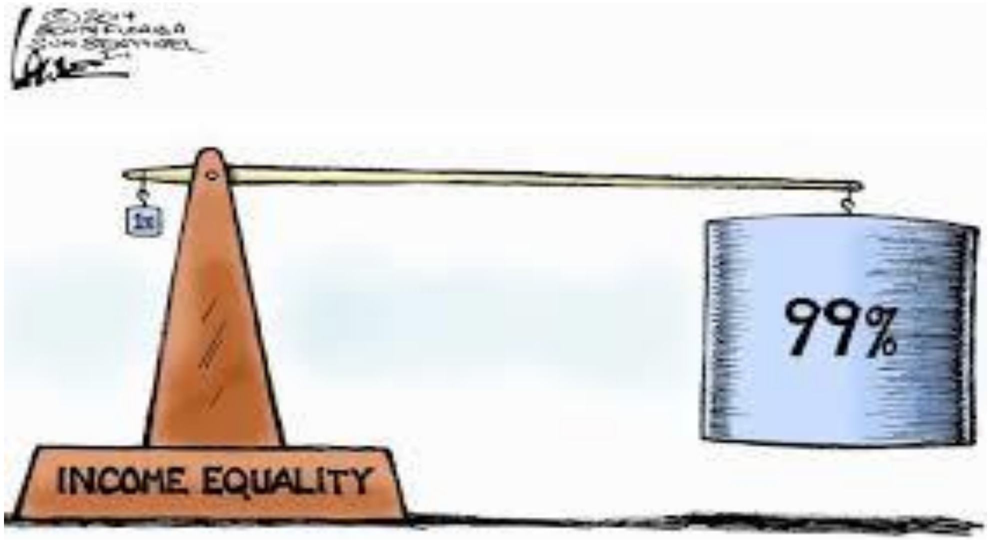
Heterodox ‘redistributive’ economics

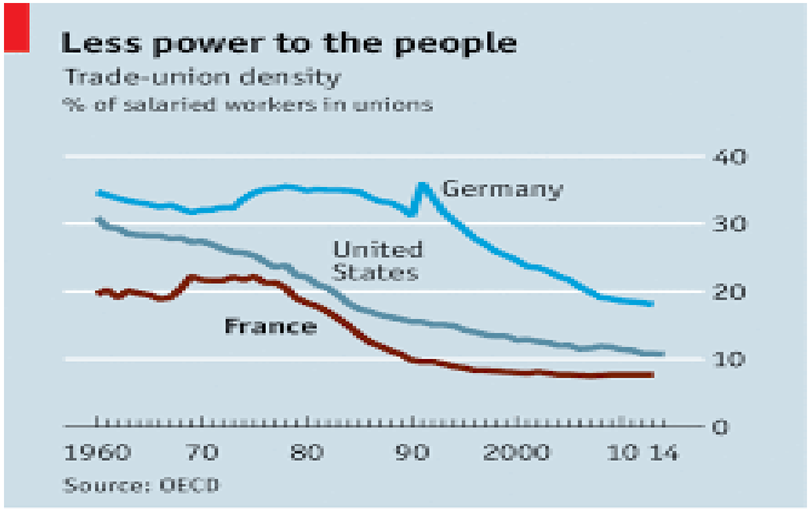
- **Piketty/Stiglitz**
- **The issue: distributive (in)justice**
- **Features/causes**: skewed distribution of income & wealth, skewed functional distribution of income, productivity & real wages out of sinc; ‘supermanagers’; corporate power, concentration and political influence
- **Solutions**: redistributive/progressive fiscal policies; workplace democracy and bargaining; competition policy
- **KP Issues & Indicators**: corporate/wealth taxation, labour rights/collective bargaining; responsible lobbying, CEO-worker pay differentials, labour productivity versus real wage trends.

Ecological economics

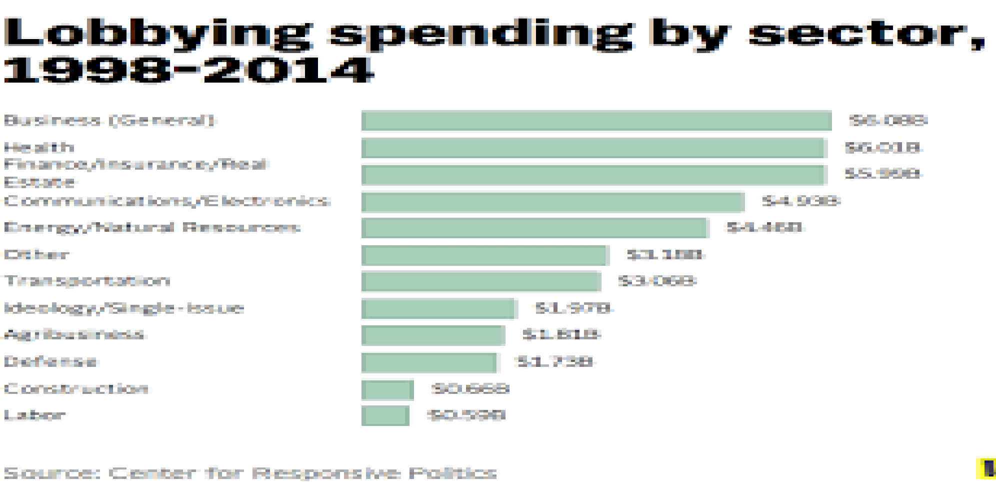
- **Tim Jackson: “Prosperity without Growth”**
- **The issue**: contradiction between growth/ consumption patterns AND Sust. Dev. & prosperity
- **Features/causes**: ‘growthmania’, opulence
- **Solutions**: capabilities, service-led employment, decent work & labour market policy, SSE, absolute decoupling, voluntary simplicity
- **KP Issues & Indicators**: absolute decline in emissions & throughput; impact investment, shortened trade circuits, fair trade, employment protection and decent work, advertising, responsible lobbying

Structural blind spots
Income, gender and political inequality





Economist.com



The elephants in the room ?

Distributive justice: income & wealth distribution within corporate structures and global value chains

Power:

The ‘forbidden numeraire,’ whose stocks, flows, and distribution could lend itself to indicators, is power…. I don’t think many of us [know how to measure power]. I suspect that is not so much because it is unmeasurable as because it is not politically acceptable to raise the topic (especially among those who have accumulated large quantities of power). All the more reason to try to measure it.” ***Donella Meadows*** *(Indicators and Information Systems for Sustainable Development – 1998)*

Key performance issues for transformative change

UNRISD research on corporate sustainability accounting is examining the following:

- **Intra-firm income inequality**
- **Fair remuneration & living wages**
- **Corporate taxation**
- Gender equality
- Labour rights (freedom of association, collective bargaining & outsourcing)
- Corporate lobbying & political influence

Note: issues highlighted in bold are referred to in this presentation; the others are to be researched during the remainder of 2019**.**

Vertical inequality within the firm – possible indicators & targets

- CEO-worker/employee pay ratio
- Profit – wage distribution trend
- % increase in executive pay versus % increase in worker pay

- Long-term targets
  - What would a fair ratio look like?
    - Reference points:
      - Fair VoCs?
      - Historical norms?
      - Ratings (e.g. KLD)
      - Public policy norms & regulations

      - **50 to 100 to 1 ?**

CEO pay versus per capita GDP (PPP)

• South Africa	541
• India	483
• US	299
• UK	229
• Canada	203
• …………………………	
• **Norway**	**101**
• **Denmark**	**82**
• **Sweden**	**75**
• **Finland**	**61**

Bloomberg

Fair remuneration

- Current focus within conventional sustainability accounting:
  - actual wages versus minimum wages
- But we also need data on trends in real wages, actual wage trend versus trend in labour productivity, and the living wage.

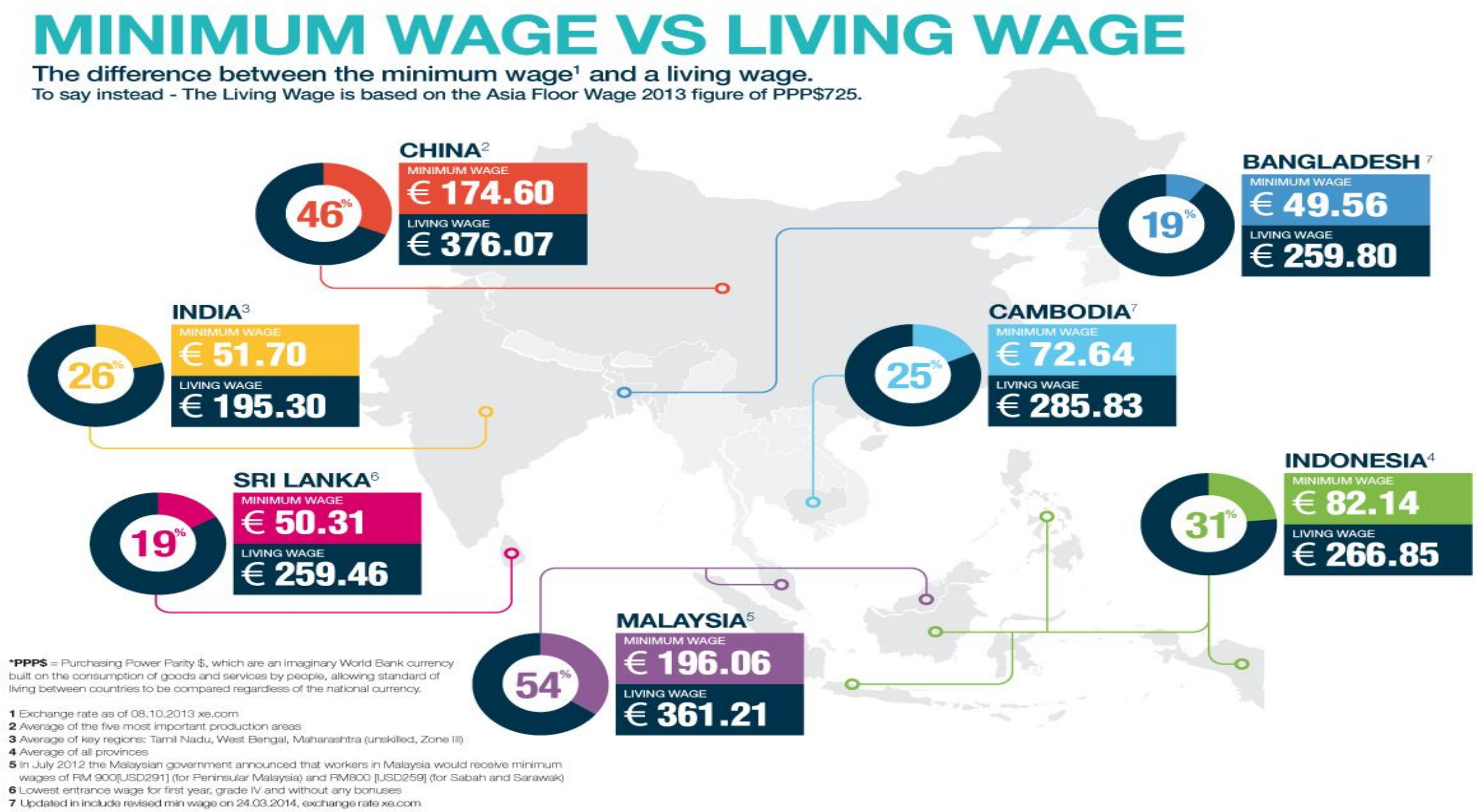
The living wage can be a sustainability target

- *GLWC*: "*Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family.*"
- Elements include food, water, housing, health care, transport, clothing & other essential needs, including something for discretionary income and saving

It is important to compare:

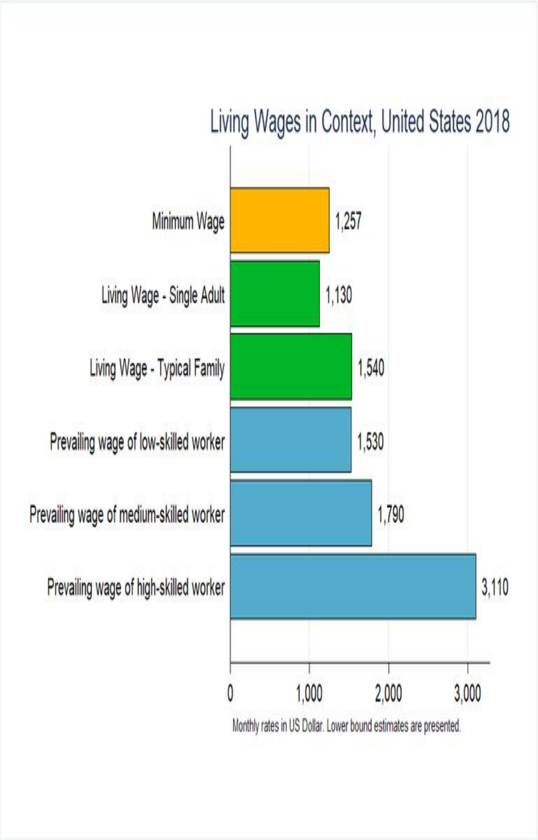
- Minimum wage versus living wage
- Actual wage versus living wage
- Living wage versus actual wage by category of worker (e.g. skill or income level)

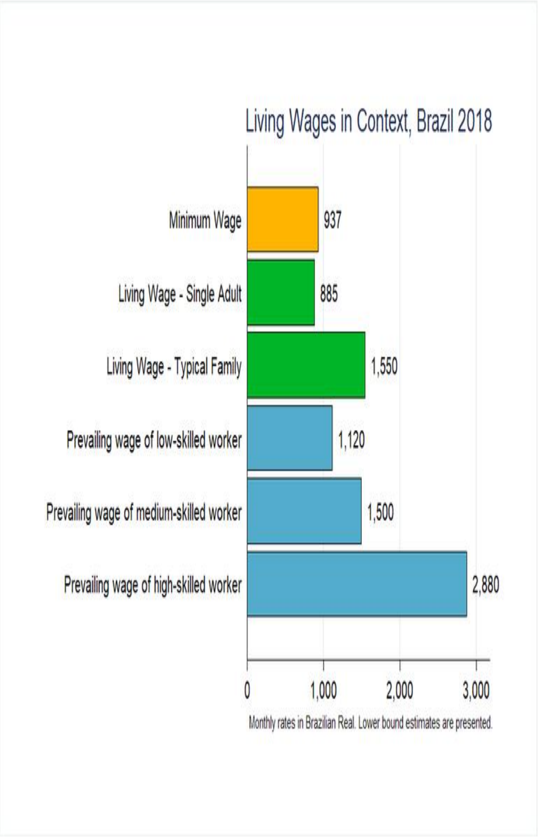
Country targets

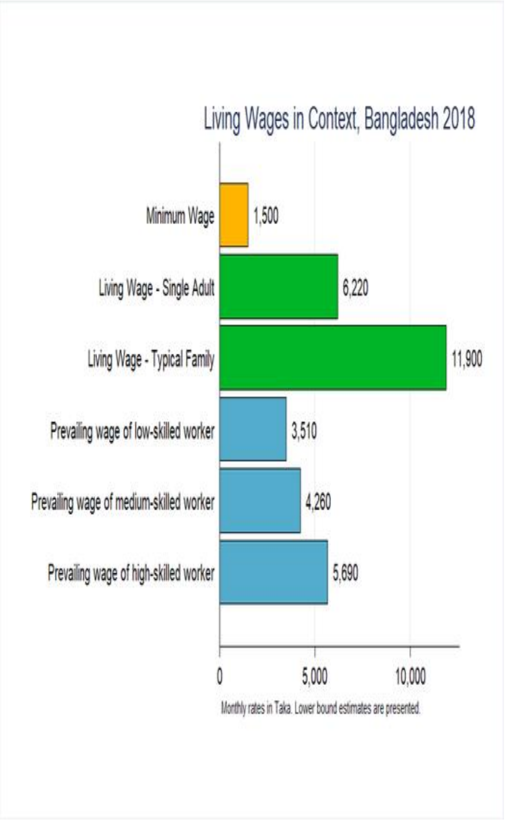


Asia Floor Wage Alliance

Comparing minimum, living and actual wages
WageIndicator Foundation database







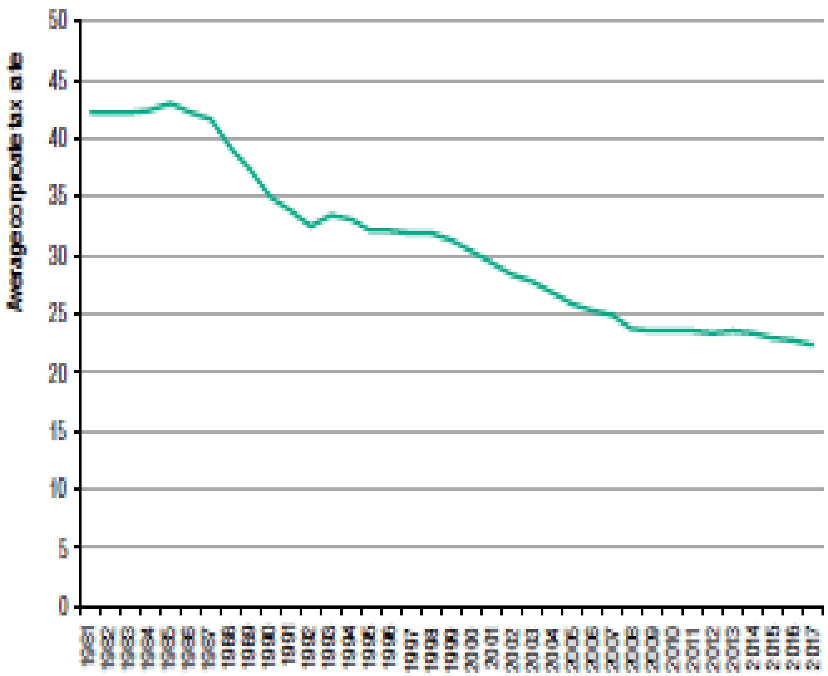
Corporate taxation

We need distributive justice not only within the firm and Global Value Chains but also vis-à-vis other stakeholders, e.g. **governments and citizens**

- **The ‘transformative’ challenge is how to shift from a regressive and aggressive tax regime to a progressive one?**

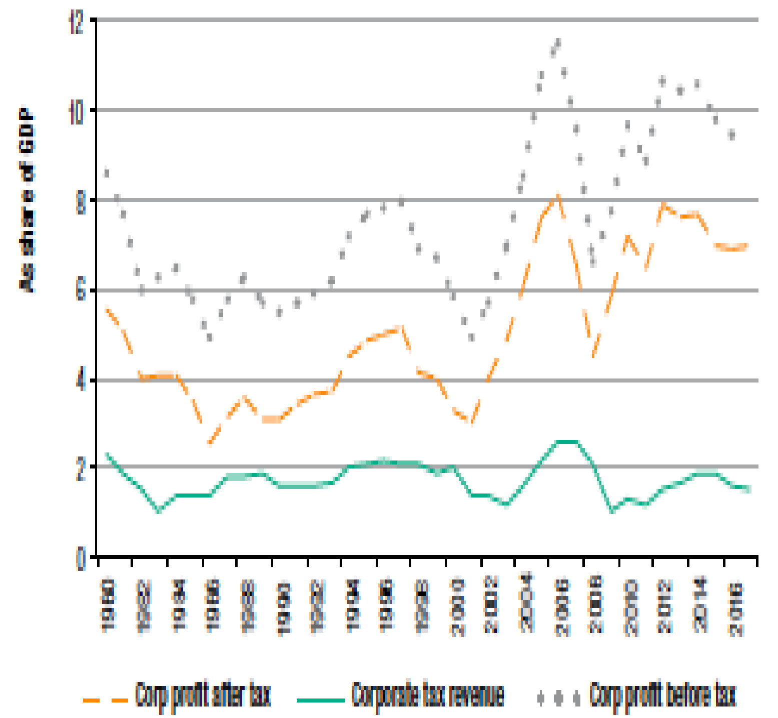
Aggressive tax competition

Figure 1. Average statutory corporate tax rate, OECD countries, 1981–2017
(Per cent)



Note: The figure shows the average OECD country corporate tax rate at the central government level. Data are from OECD Statistics.

Figure 2. U.S. corporate profits and corporate tax revenues, as a share of GDP, 1980-2017 (Per cent)



Note: Tax revenue data relative to GDP are from the U.S. Congressional Budget Office. Corporate profits data are from the U.S. Federal Reserve FRED database.

Figures from Clausing 2018

Estimates of the fiscal effects of Base Erosion & Profit Shifting (BEPS)

Author, fiscal estimate approach (date)	Range US$ billions	Year (level)
• UNCTAD, offshore investment matrix (2015)	200*	2012
• OECD, aggregate tax rate differential (2015)	100–240	2014
• Crivelli et al., tax haven spillover (2016)	647	2013 long-term
• Cobham and Janský, tax haven spillover (2018)	500	2013 long-term

*Includes only FDI related BEPS;

Source: Adapted from Bradbury et al. in **JTC** 2018: 101

- **Base erosion = efforts to reduce the size of taxable profits in a country through tax planning & financial measures**
- **Profit shifting = intra-group payments that move profits from high-tax to low-tax jurisdictions**

The first step - transparency
Country by Country Reporting
Source: Faccio and Fitzgerald 2018

Table 1. Vodafone Group countries of operations, top 10 countries ranked by revenues, 2016–2017 (€ millions)

	Country	Revenue	Profit before tax	Employees	Assets	Corporation tax
1	Germany	10619	-636	15714	1925	89
2	United Kingdom	7536	-504	17951	1491	-89
3	India	6847	-338	23836	1313	340
4	Italy	6249	686	7339	881	87
5	Spain	4983	-74	5188	748	0
6	South Africa	4187	1077	5213	544	359
7	Turkey	3053	-59	3410	336	61
8	Netherlands	1867	-7	3601	303	-15
9	Egypt	1334	268	8381	208	110
10	New Zealand	1311	47	2965	144	19

Source: Appendix.

Table 2. Vodafone Group countries of operations, top 10 countries ranked by profits, 2016–2017 (€ millions)

	Country	Revenue	Profit before tax	Employees	Assets	Corporation tax	Effective tax rate (%)
1	Luxembourg	187	1450	325	17	5	0.3
2	South Africa	4187	1077	5213	544	359	33.3
3	Italy	6249	686	7339	881	87	12.7
4	Kenya	810	293	1729	126	118	40.3
5	Egypt	1334	268	8381	208	110	41.0
6	Malta	86	124	347	14	9	7.3
7	New Zealand	1311	47	2965	144	19	40.4
8	Romania	774	39	4197	146	6	15.4
9	Czech Republic	507	32	1694	92	4	12.5
10	Tanzania	386	29	556	62	23	79.3

Source: Appendix.

Corporate taxation indicators

- Effective tax as a percentage of pre-tax profits by group, affiliate and country
- Pre-tax profit as a percentage of revenues
- Effective tax rate versus statutory rate (MSCI)
- Effective tax rate versus industry peers (RobecoSAM)
- Profit attributed to recognized tax havens and low tax jurisdictions; volume and percentage of group profits
- The ratio of pre-tax profits to wages by affiliate

Measurement issues to be resolved

- CEO-worker or employee pay ratio:
  - median employee or ‘worker’ (EPI-’production and non-supervisory worker’)?
  - How to measure CEO remuneration: multiple components: base salary, bonus, incentives, stock options?
  - PPP adjustments
- Living wages
  - % share of food etc. in the total basket ?
  - % for discretionary income & savings ?
  - Household composition; # of income earners & dependents?
- Corporate taxation
  - Pricing of intangibles & risk ?
  - Revenues, assets or employees as a basis for assessing fairness?

Possible role for a UN task force on enterprise sustainabilty accounting?

What is the value added of this approach to corporate sustainability accounting?

1. **It builds on recent efforts** to address basic accounting issues and connect corporate sustainability accounting (CSA) with the SDGs
2. It is geared towards ‘**transformative change**’ & ‘do what’s needed!’, not just ‘do less harm’
3. It aims to address key **blind spots within CSA** linked to structural issues
4. It seeks to combine structural change with long-term sustainability goals & **targets**
5. It extends the need for **quantitative & ambitious targets** beyond the environmental to the social arena
6. It broadens the definition of ‘the social dimension’ – beyond social protection towards **distributive and socio-political dimensions**
7. It brings **inequality & power** more explicitly into multicapital analysis
8. It seeks to infuse the process **materiality determination** with a greater emphasis on social scientific evidence and the preferences of ‘rightsholders’ & future generations.

- Thank you!

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