INDICATORS AND TARGETS FOR TRANSFORMATIVE CHANGE: MEASURING THE SOCIAL PERFORMANCE OF ORGANIZATIONS

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The research issue & focus

Over 30 years, more and more organizations are measuring and assessing their ‘sustainability performance’

But reading sustainability reports often leaves us none the wiser as to how that organization is doing in relation to social and sustainable development and transformative change (TC)

TC: defined as change that 1) addresses the structural dimensions that reproduce unsustainable development, and 2) a journey towards thresholds or benchmarks that characterize conditions we associate with sustainable development.

Main focus of my research has been on the for-profit sector and large corporations but the limitations of reporting for this sector have important implications for SSE.
What’s the problem with sustainability reporting?

• Current reforms often focus on 2 main issues: overload and lack of standardization

• Other limitations receive far less attention:
  – **Blind spots**: key issues are still ignored
  – **Data is presented out of context**: we can’t see the forest for the trees, i.e. the bigger picture related to SD.
  – **Progress is assessed incrementally** (change from one year to another); not in relation to a normative end goal (**sustainability norm**).
Blind spots

• Issues that are fundamental from the perspective of sustainable development are often ignored:
• They are ‘fundamental’ because they relate to structural conditions that reproduce social and environmental injustice:
  – Inequality, distributive injustice (income & wealth distribution) and skewed power relations.
• My research with Kelly O’Neill for the SDPI Project focused on:
  1. Fair remuneration: income inequality & living wages
  2. Gender equality in the workplace (pay, promotion and support for care giving)
  3. Corporate taxation
  4. Labour rights (CB & FA)
  5. Corporate political influence
Blind spots: Income distribution

The Share of Tax Havens in US Corporate Profits

Figure 1: The Share of Tax Havens in US Corporate Profits

- Source: Gabriel Zucman
Blind spots: Power relations

Ties that bind
As union membership decreases, middle class income shrinks

- Source: see Derek Thompson, The Atlantic

Corporate PACs increasingly outspend Labor PACs in congressional elections

- Source: See Curtlyn Kramer, Brookings
Raising the bar

• The bar for assessing progress is set too low:

  – Minimum wage; not the living wage
  – Disclosing CEO-employee pay ratio; not reducing it
  – Equal pay for equal work; not the gender pay gap
  – Maternity leave; not support for care giving throughout the life cycle
  – Taxes paid; not the tax gap or profit shifting
  – Working conditions (OHS); not labour rights
  – Corporate political spending; not corporate political influence via lobbying
The importance of context – Carbon emissions

Comparing conventional disclosure (CD) versus sustainability disclosure (SD)

- CD: company A reduced its carbon emissions per unit of revenue or output by 5% between 2015 and 2020.

- SD: while Company A reduced its levels of ‘emissions intensity’, absolute levels of emissions increased by 10% due to 20% growth in manufacturing output. It also failed to align with science-based climate change mitigation targets.
The importance of context – Fair remuneration

- **CD:** company C met its *fair remuneration* target by ensuring that all entry level employees earned above the minimum wage.

- **SD:** while Company C achieved its fair remuneration targets, average workers’ wages were still:
  - 30% below the living wage,
  - the CEO-worker pay gap had increased from 100 to 1 to 300 to 1 over the last 10 years, and
  - the ‘unadjusted’ gender pay gap was in over 20%.
The importance of context – Gender equality

CD: Company D met its target of equal pay for equal work (men & women performing similar jobs were paid the same). The company also achieved 50% representation of women.

SD: But because men occupy higher management positions while women are concentrated in lower positions, the ‘unadjusted’ gender pay gap was 20% (women’s average remuneration as a % of men’s). And women only account for 10 per cent of senior management positions.
Company X: 70% of employees were covered by collective bargaining agreements. While significant, over 5 years this has declined from 85% to 70%. Furthermore, the data only relates to full-time regular employees. During this period the company reduced the proportion of full-time employees and relied more on sub-contracted or part-time labour that were denied core labour rights. Additionally, the company-wide figure of 70% masks wide variations in coverage by affiliate or region where the company operates.
The importance of context - Taxation

- CD: company Y pays 5 million dollars in **corporate taxation**.
- CD: while the company provides millions in taxes to local and federal government authorities, it also engages in tax avoidance strategies. 50% of profits are recorded in tax havens.
The importance of context – Political spending

- CD: Company Z disclosed that it contributed 1 million dollars to political campaigns.

- SD: Transparency, however, was limited. The company failed to disclose that 1) another million was channelled through third party lobbying organizations, such as trade associations, and 2) that the causes it lobbied for (environmental, fiscal & labour market de-regulation) contradicted the SDGs.
What is left out of conventional reporting?

1. **Time series data and trend analysis**: Providing an annual snapshot tells us very little. We need to know how performance is changing over, say, 5 or 10 years (e.g. collective bargaining coverage).

2. **Granular disclosure to detect variations in performance within large organizations**: providing a company-wide average may hide areas where performance is extremely poor (e.g. women’s representation by occupational category).

3. **Contradictions**: focusing narrowly on one indicator may divert attention from other areas of negative performance (e.g. improved labour rights for full-time employees in context of increased reliance on sub-contracted labour).
4. Sustainability norms or targets

• How can we assess progress in relation to SD if we don´t have a benchmark or end goal to aim for that is consistent with the concept of SD?

• What is the boundary or threshold that indicates a condition consistent with SD?

• In the environment field, we see some progress in setting such benchmarks, e.g. emissions reduction consistent with 1.5 degrees warming.

• But thresholds related to social and governance dimensions are lagging.
Sustainability norms – the living wage

MINIMUM WAGE VS LIVING WAGE

The difference between the minimum wage\(^1\) and a living wage. To say instead - The Living Wage is based on the Asia Floor Wage 2013 figure of PPP$725.

**CHINA\(^2\)**

- **MINIMUM WAGE**: €174.60
- **LIVING WAGE**: €376.07

**INDIA\(^1\)**

- **MINIMUM WAGE**: €51.70
- **LIVING WAGE**: €195.30

**SRI LANKA\(^4\)**

- **MINIMUM WAGE**: €50.31
- **LIVING WAGE**: €259.46

**CAMBODIA\(^4\)**

- **MINIMUM WAGE**: €72.64
- **LIVING WAGE**: €285.83

**MALAYSIA\(^5\)**

- **MINIMUM WAGE**: €196.06
- **LIVING WAGE**: €361.21

**BANGLADESH\(^7\)**

- **MINIMUM WAGE**: €49.56
- **LIVING WAGE**: €259.80

**INDONESIA\(^1\)**

- **MINIMUM WAGE**: €82.14
- **LIVING WAGE**: €266.85

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\(^1\) Exchange rate as of 09.10.2013 as.com
\(^2\) Average of the two most important production areas: Jiaxing, and Shanghai
\(^3\) Average of all provinces
\(^4\) In July 2013 the Malaysian government announced that workers in Malaysia would receive minimum wages of RM900 (USD249) for Peninsular Malaysia and RM650 (USD200) for Sabah and Sarawak
\(^5\) Lowest entrance wage for the wage grade N and without any bonuses
\(^7\) Updated in include revised min-wage on 24.08.2014, exchange rate as.com

Asia Floor Wage Alliance
Sustainability norms – living wage, not minimum wage

Minimum, living and actual wages per month, USD equivalent*

1. Minimum wage
2. Living wage: Individual
3. Living wage: Standard family **
4. Living wage: Typical family **
5. Wage: low-skilled
6. Wage: medium-skilled
7. Wage: high-skilled

* The Wage Indicator Foundation presents both a low and high estimate for living and actual wages. The data reported here correspond to the low estimate.

** The “standard” family and “typical” family vary in number of children and hours of paid employment. For definitions, see link in figure source.

Source: Based on data from the WageIndicator Foundation. Wages in Context.
Gender inequality in the workplace: Sustainability norms

- Disadvantage in the career structure: gender balance by occupational category
  - Norm: parity
- Disadvantage in pay: gender pay gap
  - Norm: parity
- Disadvantage in the workplace & the home: the ‘double burden’
  - Norm: multiple forms of lifecycle support
How are sustainability norms established?

• My views on what is fair or sustainable may be very different from yours.

• So there needs to be some level of consensus.

• Some norms are already widely accepted: e.g. pay for work; zero bribery.

• Some are recent: e.g. SBTs to reduce carbon emissions to prevent warming above 1.5 - 2 degrees C.

• Some are emerging: e.g. the living wage; gender representation targets in senior management.

• Some are pending: e.g. it is recognized that extreme income inequality needs to be reduced but what is a fair CEO-worker pay ratio to aim for?
What to do when there is no existing consensus?

• Consider a number of reference points:
  – Recognized best practices among organizations
  – Compare what happens in models of capitalism (e.g. the Nordic countries) or models of enterprise (e.g. coops) generally considered fairer;
  – Look at periods in recent history considered fairer, e.g. 1960, 70s for income distribution and labour rights.
  – Look at the benchmarks set by ratings organizations
  – Look at public policy norms, including policy proposals, that address these issues.

UNRISD recommendation: to set up a UN-led group to explore and promote **context-based reporting**.
The importance of measurement and reporting related to distributive justice

The SDPI project emphasizes the importance of ‘transformative indicators’ to measure performance related to structural dimensions of sustainable development, notably the fair distribution of resources:

- Fair distribution within the organization: pay ratio between high and low paid employees, the gender pay gap, and payment of living wages;
- Fair distribution vis-à-vis society: corporate taxation
- Equitable social & power relations, including
  - responsibility for care giving (which impacts gender equality in the workplace)
  - worker’s empowerment through labour rights, &
  - corporate political influence.
Implications for SSE

If structural aspects (linked to growth/accumulation, concentration of market power and forms of domination) heavily condition the possibility of progress towards SD, then a key objective or challenge related to SSE is to demonstrate how alternative forms of economic organization facilitate progress through very different modes of production, exchange and democratic governance, which involve alternative forms of income & asset distribution, gender & power relations.

Yet it seems it is these attributes of SSE that are often ignored when SSE organizations are called upon to report on their performance.
For more information see:

- Utting with O’Neill. 2020. *Accounting for Sustainability: What can and should corporations be doing?* – Overview
  - Full report due end 2020.

- Thank you!
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