CHAPTER 3

Thinking Forward

> **...we must realize the very system of financial capitalism that created the problems we seek to address may not be easily modified on the edges merely to accommodate our conscience, but must be reassessed at a fundamentally more profound level.**
>
> *Jed Emerson (2018:17)*

The spate of innovations reviewed above suggests that the CR industry is at a crossroads on the journey to ensure that companies are part of the solution rather than part of the problem vis-à-vis social and environmental justice. Heightened awareness of the climate crisis, fallout from the global financial crisis, coupled with international development frameworks like the MDGs and SDGs, have placed in sharp relief the limits of conventional CR reporting. Selective tinkering that claimed to improve the quality of disclosure shows some signs of being replaced by a more systematic approach. This has not only raised the profile of key issue areas that had been neglected but also aimed to enhance the quality of disclosure in terms of basic principles of accounting related to reliability, credibility, ease of comprehension, comparability, relevance and materiality.

Nevertheless, there are serious concerns that this approach, albeit far more comprehensive than earlier, is unlikely to do much to transform the macro conditions related to human well-being and planetary health (Thomas and McElroy 2016; Baue 2019). CR initiatives are still heavily geared towards reducing the incidence of harm related to selected impacts (Baue and Thurm 2016). Furthermore, they often do so through the proxy of management systems reform rather than concrete changes in performance and impact. This approach has not factored in what a sustainable future might actually look like regarding key social, environmental, economic and governance conditions, nor does it measure progress towards such goals and targets. Moreover, it does not consider key structural determinants of unsustainable development or of well-being, in particular those associated with inequality and power relations. This represents a critical weakness because both aspects—the normative dimension associated with time-bound targets, and the structural dimension—are what fundamentally define "transformative change". Viewed from this perspective, transformative change involves not only a journey towards a sustainable future but also one that is only possible if the structures that underpin and reproduce unsustainable development are transformed.

The idea that the field of CR assessment and sustainability accounting might be able to promote such structural change is, of course, a tall order. Policies and practices related to CR tend to work very much within the rules of the game, not questioning structural dimensions of capitalism—that is, the broader institutions within which corporations are embedded. Referring to the GRI, Levy and Brown note:

> The impact of [non-financial reporting (NFR)] is constrained due to its nesting within the broader institutions of capitalism, particularly financial markets and legal structures of corporate governance. GRI would never have made any progress had it directly challenged the primacy of profit maximization, the legal rights of shareholders or the autonomy of corporate management. These considerations led the GRI entrepreneurs to shape the reporting guidelines as complementary to corporate and financial market needs. The strategic risk, of course, is that GRI would be co-opted and assimilated within these structures rather than transforming them. This does appear to be the emerging outcome. NFR does not appear to be affecting core product or market strategies, or the fundamentals of corporate governance (Levy and Brown 2012:119).

Nevertheless, as noted below, spaces already exist and can be cultivated, not least politically, for structural change to occur. Furthermore, the set of issues examined in Part 2 of this report suggest a number of entry points for forging a movement for transformative change within the CR field.

It is important to note that focusing on such issues, related indicators and normative targets is a means for both assessing performance regarding the SDGs and transformative change, and understanding what sustainability is really about. As suggested by Bell and Morse:

> Hence, it is not solely a case of [Sustainability Indicators (SIs)] being created as an operational output after an understanding of sustainability and resilience has been arrived at, but SIs as a catalytic precursor to help facilitate such an understanding (2018:6).

A transformative approach fundamentally questions the normative hierarchy of sustainable development goals. In its comprehensive analysis of policy innovations for transformative change, UNRISD (2016) asserts that what needs to change is the prioritization of economic, social and environmental objectives. Mainstream CR disclosure as currently practised—no matter how refined—continues to uphold a normative hierarchy whereby the economic/financial dimension prevails. As Elkington observes:

> Fundamentally, we have a hard-wired cultural problem in business, finance and markets. Whereas CEOs, CFOs, and other corporate leaders move heaven and earth to ensure that they hit their profit targets, the same is very rarely true of their people and planet targets. Clearly, the Triple Bottom Line has failed to bury the single bottom line paradigm (2018).

After some three decades of tinkering and incrementalism, there is growing recognition of the need for a profound rethink of what corporate sustainability is in relation to the major contemporary development challenges, and how sustainability impacts should be measured. It is noteworthy that John Elkington, who coined the triple bottom line concept, has himself called for a "product recall" for what has become a defective concept given the somewhat myopic way it has been applied to date. As he further notes:

> ...the TBL wasn't designed to be just an accounting tool. It was supposed to provoke deeper thinking about capitalism and its future, but many early adopters understood the concept as a balancing act, adopting a trade-off mentality (2018).

According to Ralph Thurm (2014), corporate sustainability policies and practices need to overcome a minimalist "do no harm" strategy and transition to one that is "net positive":[72]

> Those dealing with sustainability have often forgotten the true meaning of sustainability, especially using 'intergenerational equity' as one of the most important guidelines... Overall, the majority of those corporations that have a certain focus on sustainability...are happy with a 'show less bad' attitude, simply because they think becoming net positive is impossible to reach (Thurm 2014).

Following years of monitoring and analysing progress, particularly in the agro-food and beverage sector, Oxfam (2016), too, has called for a shift from an incremental to a transformative approach, along four dimensions: lobbying to reverse public policies involving a "race to the bottom"; countering the growing economic power of corporations associated with the concentration of capital; redistribution of value within the value chain; and new patterns of business ownership, issues to which we return below.

In the context of transitions associated with a carbon-neutral and digital future, the Global Commission on the Future of Work (2019) emphasizes, inter alia, the need to focus on long-term "transformative" investments in areas of decent and sustainable work. These investments would require not only an enabling public policy environment but also:

> Reshaping business incentive structures for longer term investment approaches and exploring supplementary indicators of human development and well-being. These actions can include fair fiscal policies, revised corporate accounting standards, enhanced stakeholder representation and changes in reporting practices. New measures of country progress also need to be developed to account for the distributional dimensions of growth, the value of unpaid work performed in the service of households and communities, and the externalities of economic activity, such as environmental degradation (GCFW, Executive Summary:4).

From a transformative perspective, the notion of risk shifts beyond that of the corporation (such as risks to reputation, risks to supply chain coordination, risks related to liability, risks associated with resource depletion and natural disasters) to risks to the sufficiency and health of multiple capitals and the well-being of the stakeholders dependent on them (Thomas and McElroy 2016). Moreover, the notion of what is relevant and material shifts beyond basic aspects of social protection (for example, minimum wages, occupational health and safety, non-discrimination in the workplace) and the elimination of environmental "bads" (such as pollution and waste) to structural conditions. These include:

- power asymmetries within corporate structures and value chains that marginalize the voice and bargaining power of certain stakeholders;
- globalized value chain formation and lengthening trade circuits that mask irresponsibility and unsustainable impacts both upstream and downstream;
- aspects of corporate culture that reinforce business-as-usual and downplay or marginalize social and environmental ethics;
- incentive structures within corporations and financial institutions that privilege conventional priorities such as short-term financial results, aggressive tax planning and the ongoing externalization of social and environmental costs;

[72] The term "net positive" refers to "putting more back into the environment or society than a company takes out, with a resulting positive corporate footprint" (Forum for the Future et al. 2014:6).

- ownership and governance structures that privilege (i) shareholder primacy and returns to senior management over more equitable patterns of distribution of income and value added, and (ii) the hierarchical power of managerial elites that imposes limits on workplace democracy;
- financialization, which reinforces the imperative of short-term financial results over long-term integrated planning, and enhances the power within value chains of companies that control trading networks, finance and insurance;[73]
- processes of disempowerment associated with the flexibilization of labour markets and constraints on unionization and collective action involving workers and producers; and processes of empowerment that can enhance the capabilities and influence of disadvantaged stakeholders;
- gender disadvantage in pay and promotion that is related to time use demands and cultural assumptions associated with caregiving; and
- disabling public policy environments, shaped in part by regressive forms of corporate political influence, that not only fail to facilitate and encourage corporate responsibility and sustainability but may actually enable inaction, irresponsible behaviour and the so-called "race to the bottom".

As the report of the IPPR Commission on Economic Justice (in the United Kingdom) notes:

> Economic justice needs to be 'hard-wired' into the way the economy works. [Injustices and inequalities] need to be tackled at source, in the structures of the economy in which they arise. These include the labour market and wage bargaining, the ownership of capital and wealth, the governance of firms, the operation of the financial system and the rules that govern markets (IPPR 2018:4).

Furthermore, the process for determining "structural materiality" and sustainability targets needs to extend beyond the worldviews and bodies of knowledge that typically inform mainstream disclosure and reporting. It is important to think outside the box, or at least far more holistically than is generally the case. The remainder of this chapter points to four avenues of inquiry that can yield important insights in this regard: (i) cutting edge innovations that have focused on so-called context-based disclosure; (ii) alternative business and enterprise models and varieties of capitalism—ones that have legal, governance and cultural arrangements that align the DNA of business and enterprise with environmental and social objectives and democratic governance; (iii) social science theory and multidisciplinarity—that is, conceptual and analytical insights associated with a variety of academic sub-disciplines and schools of thought; and (iv) transdisciplinarity—that is, worldviews, knowledge and perspectives associated with a broad range of different societal actors.

Learning from cutting-edge innovations

An important avenue for rethinking indicators is to examine the objectives and targets adopted by initiatives that attempt to go beyond conventional approaches to disclosure and reporting. The following seem particularly pertinent in this regard.

Net Positive

The Net Positive Project

Launched in 2016, the Net Positive Project aims to develop analysis, awareness, guidelines, tools and other resources to enable companies to go beyond a "do no harm" approach and transition to one that proactively replenishes the environment and ensures that companies leave a positive societal and environmental footprint.[74] The 12 key principles underlying this approach convey a level of ambition and scope of materiality that far exceeds conventional disclosure and reporting (see Box 3.1).

> The world's most innovative organisations recognise this, and are acting on it. We're seeing businesses being entirely powered by renewable energy, reusing expensive materials and slashing their carbon emissions and enhancing society.

[73] For an analysis of the effects of financialization on the copper value chain, see Kesselring et al. 2019.

[74] Members of the Net Positive Group include BT, Capgemini, Dell, Greater Manchester Fire and Rescue, Ikea, Kingfisher, Pepsico, SKF, The Crown Estate and TUI Group.

Box 3.1. Net Positive Principles

1. The organisation aims to make a positive impact in its key material areas.
2. The positive impact is clearly demonstrable if not measurable.
3. As well as aiming to have a positive impact in its key material areas, the organisation also shows best practice in corporate responsibility and sustainability across the spectrum of social, environmental and economic impact areas, in line with globally accepted standards.
4. The organisation invests in innovation in products and services, enters new markets, works across the value chain, and in some cases, challenges the very business model it relies on.
5. A Net Positive impact often requires a big shift in approach and outcomes, and cannot be achieved by business-as-usual.
6. Reporting on progress is transparent, consistent, authentic and independently verified where possible. Boundaries and scope are clearly defined and take account of both positive and negative impacts. Any trade-offs are explained.
7. Net Positive is delivered in a robust way and no aspect of a Net Positive approach compensates for unacceptable or irreplaceable natural losses, or ill treatment of individuals and communities.
8. Organisations enter into wider partnerships and networks to create bigger positive impacts.
9. Every opportunity is used to deliver positive impacts across value chains, sectors, systems, and throughput to the natural world and society.
10. Organisations publicly engage in influencing policy for positive change.
11. Where key material areas are ecological, robust environmentally restorative and socially inclusive methods are applied.
12. An inclusive approach is adopted at every opportunity, ensuring affected communities are involved in the process of creating positive social and/or environmental impacts.

Source: Forum for the Future et al. 2014:9

Companies have an important role to play in creating an abundant environment and a better society. They must go beyond committing to 'doing no harm'. Instead they must actively commit to doing more good (Forum for the Future and the Climate Group 2016:2).

> **"'Net Positive' is not a new way of doing CSR. It's a new way of doing business. That's because an organization that aspires to be Net Positive doesn't just want to minimise harm, or do 'less bad'. It wants to actively create good. It aims to have a positive impact which reaches far beyond traditional business boundaries. This means it considers the whole value chain, the natural world and society too. A Net Positive approach creates value in both the short and long term. It makes for better business.**
>
> *Forum for the Future et al. 2014:9*

While material issues may vary for different companies and industry sectors, the Net Positive measurement guide defines what being Net Positive means in relation to issues commonly considered the most significant. According to Forum for the Future and The Climate Group (2016), being Net Positive means taking the following actions in the following areas:

- "Carbon: removing or avoiding the generation of more carbon than you create in your operations and/or across your value chain.
- Water: helping to create more accessible water and better quality water than you consume across your operations or your value chain.

- Social: not destroying social value and creating social value across your value chain. Social value is a term interpreted in different ways—we take it to mean adding to human and social capital. Human Capital consists of people's health, knowledge, skills, motivation and well-being. Social Capital concerns the institutions that help us maintain and develop human capital in partnership with others; e.g. families, communities, businesses, trade unions, schools, and voluntary organisations.
- Material use: renewing more resources than you consume across your value chain and sourcing them in a responsible way.
- Ecological: enhancing more Natural Capital in what you do (e.g. farming in a way that adds to the productivity of the land and builds the biodiversity of insect life) than you consume across your value chain."

Net-Zero 2050 Team

The B Team initiative referred to in Chapter 2, that encourages companies to commit to science-based targets (SBTs), has been taken further by the Net-Zero 2050 Team.[75] This group of CEOs which, at the time of writing, represents Kering, Unilever, Broad Group, Safaricom and Natura, has pledged to phase out greenhouse gas emissions by 2050, as well as to be proactive in policy advocacy associated with the net-zero GHG objective.[76]

The Net-Zero team collaborates with the Science Based Targets initiative (SBTi), and the 2050 pledge is recognized as part of the We Mean Business Coalition's Take Action campaign.

The B Team website sets out what companies joining this initiative must do:

- Commit to set a science-based target, and submit this target to the Science Based Targets initiative for verification within two years.
- Produce a roadmap demonstrating how they will implement their SBT in line with the level of ambition required to keep global temperature rise below 1.5°C and to reach net-zero emissions (in Scopes 1, 2 and 3) by 2050.
- Engage in comprehensive, consistent and transparent annual reporting.
- Commit to using their influence and advocating for policy that supports an economy-wide transition to net-zero greenhouse gas emissions by 2050.
- Commit to ensuring their transition plans account for the positive and negative impacts on workers and communities, and work in partnership with stakeholders to ensure the transition is just and fair.

The MultiCapital approach

As noted in Chapter 2 when discussing "integrated reporting", increasing attention is being focused on measuring not only specific aspects of a company's environmental, social and financial performance but performance related to a comprehensive set of assets or "capitals" whose stocks and flows have a bearing on sustainable development. This approach recognizes multiple capitals: natural, human, social and relationship, constructed (also referred to as manufactured or built), financial and intellectual, which may be added to or depleted (Thomas and McElroy 2016). It also recognizes the linkages, interdependencies and trade-offs between different capitals.

Thomas and McElroy extend this integrated reporting approach in their work on the Multi-Capital Scorecard, referring not only to multiple vital assets and factoring in inter-capital relations, but by also establishing interim and long-term targets related to thresholds or a sustainability norm (that is, an ideal standard that would have to be attained for an organization to be truly sustainable) that allow a company to measure progress towards a sustainable future. They state:

> [M]easuring shortfalls and surpluses across multiple capitals is an entirely new concept, and it offers an entirely new way to manage performance. The very act of providing routine scorecards and establishing not only an ideal end goal but also interim or 'trajectory' targets will initiate paradigm shifts in most of the organizations that adopt it (Thomas and McElroy 2016:2).

[75] See http://www.bteam.org/plan-b/net-zero-by-2050/

[76] The B Team also works with a number of other companies, including Virgin Group, Econet, Salesforce and Tiffany & Co, that have committed to the net-zero principle but have not yet set a science-based target.

Figure 3.1. Sample MultiCapital Scorecard

Vital capitals* N: Natural H: Human S: Social and Relationship C: Constructed IF: Internal Economic-Financial IN: Internal Economic-Non-Financial EF: External Economic-Financial EN: External Economic-Non-Financial			A	B	C	D			
Bottom line	**Areas of impact**	**Capital impacts**	Progression score	Weight	Weighted score (AxB)	Fully sustainable score (Bx3)	Gap to fully sustainable (D-C)	Area of Impact (AOI) bottom line (C/D)	**Triple bottom line scores**
Social	Product safety	H	3	5	15	15	0	100%	43%
	Workplace safety	H S C	-1	5	-5	15	20	-33%	
	Gender equity	H	2	4	8	12	4	67%	
Economic	Living wages	EF	1	1	1	3	2	33%	79%
	Equity	IF	2	5	10	15	5	67%	
	Debt	EF	3	5	15	15	0	100%	
Environmental	Climate system	N	-2	4	-8	12	16	-66%	0%
	Water	N	2	3	6	9	3	67%	
	Solid waste	N	1	2	2	6	4	33%	
		Overall performance			44	102			43%

Note: Areas of impact shown here are purely illustrative and are always organization-specific.
* Intellectual capital is typically embedded in most of the others.
Source: Based on Thomas and McElroy 2016:57, modified by Thomas and McElroy LLC. Reproduced with permission.

Underpinning this approach is the belief that it can be a powerful long-term learning tool for organizations, quite distinct from conventional disclosure and reporting processes that generate information that tends to be geared towards financial investors (Thomas and McElroy 2016:18). Incentive structures would need to adapt to ensure that progress towards sustainability is rewarded.

Applying the MultiCapital Scorecard involves (i) identifying material areas of impact (AOI) relevant to an organization's stakeholders[77] and weighting these areas according to what is perceived to be their relative importance; (ii) establishing sustainability norms and interim trajectory targets for specific areas, and corresponding measurement indicators or "data collection protocols"; and (iii) applying a scoring system (progression performance score) from -3 (a three-or-more-year regression) to +3 (meeting or exceeding the sustainability norm).[78]

While aiming to allocate a specific score to grade a company's triple bottom line performance, this approach is seen as an alternative to monetization associated, for example, with environmental profit and loss (EP&L) and social return on investment (SROI). McElroy (2017) points out that such efforts can serve a purpose in terms of placing a valuation on impacts but, generally, are not suitable for assessing the sustainability performance of an organization. This is because they do not take account of social thresholds and environmental limits captured by the sustainability context principle referred to in Chapters 1 and 2; in addition, they incorrectly assume that different kinds of resources or capitals can be freely substituted for one another.

r3.0

Formerly known as Reporting 3.0, r3.0 is an initiative that has produced various Blueprints related to data, accounting, reporting, new business models and the "transformation

[77] For example, material areas of impact related to environmental dimensions may include water supplies, solid waste and the climate system.

[78] Using progression performance scores, each year's performance is scored relative to the preceding years as well as sustainability norms and trajectory targets for each area of impact. Performance that matches an immediately preceding year is represented by 0, limited progress towards achieving an interim target in subsequent years by a score of 1, more significant annual progress by 2 and meeting the target by 3 (Thomas and McElroy 2016:58). A significant decline in performance is reflected in a negative score. As noted in Figure 3.1, progression scores per impact area (column A) are multiplied by their weighting (column B) to give a weighted score (column C), which in turn is measured in relation to the "fully sustainable score" (Bx3, column D). Comparing the weighted score with the fully sustainable score indicates the size of the performance gap, if any. This is the basis for calculating, in percentage terms, actual performance relative to the sustainability norm. Using the same method allows for calculating progress (as a percentage) in relation to (i) each of the three bottom lines (economic, social and environmental), and (ii) the organization as a whole.

journey",[79] aimed at designing and scaling-up next generation reporting practices.[80] It blends diverse innovations associated with "integrated reporting, contextualization, monetization and internalization, as well as new integrated statements such as alternative [profit and loss] accounts and balance sheets" (2016:1).

The r3.0 Data Blueprint focuses less on the data itself and more on (i) "getting a core, harmonised set of principles in place, highlighting also different interpretations of shared principles and normative gaps that need to be filled", and (ii) "the nature and structure of the metrics...to accurately measure progress toward financial, economic, social and environmental sustainability via dynamic interlinkages between the individual company (micro), industry (meso), and systems (macro) levels".[81]

While recognizing the debate and concerns regarding monetization, the measurement of performance partly centres on "New Accounting", which involves cost and benefit accounting in economic and monetary terms as a means of tracking impacts associated with multiple capitals and externalities (van der Lugt 2018). New Accounting is explicitly linked to the SDGs:

> The SDGs can be seen as an intermediate point of reference between the micro and macro levels of target-setting and performance measurement. A new accounting system built on revised principles and standards can turn this interface into a window of opportunity and lever for scaling up what decision-makers in both the private and public sphere agree are important areas of value creation in the medium and longer term (Reporting 3.0 2016:1).

Key elements of New Accounting include (van der Lugt 2018:5-6):

- **annual multilayered income statements** (profit and loss accounts);
- **expanded balance sheets,** namely the Comprehensive Statement of Financial Position, which refers to other capitals;
- the **Statement of Long-term Risks and Estimated Value of Assets and Liabilities,** which indicates what the balance sheet and risk position may look like in the future; and
- an **explanatory narrative text.**

The r3.0 approach emphasizes not only the appreciation and depreciation of different capitals but also the GRI sustainability context principle of "placing performance information in the broader biophysical, social, and economic context" (GRI 2002:28). As noted by r3.0, "for companies to contribute to the fulfillment of the SDGs, they will need to translate [the trajectories identified in Agenda 2030]...into business-relevant thresholds and set fair, just and proportionate allocations for their responsibilities" (Reporting 3.0 2018:2).

Like the MultiCapital Scorecard, r3.0 aims to assess progress in relation to different stages of sustainability performance and business rationales, from "Business-as-usual" (associated with profit maximization), through "Improving" (associated with compliance), to "Sustaining" (repair), on to "Net Positive" (regenerative) and finally, to "Gross Positive" (thriving).

Ethical leadership and internal psychological factors are also emphasized by r3.0: "the internal psychological integration needed at the individual and collective level to instigate the transformations necessary to scale up a green and inclusive, regenerative economy" (Thurm 2016). Following the fourth generation of the King Code on Corporate Governance in South Africa, ethical leadership "is exemplified by integrity, competence, responsibility, accountability, fairness and transparency" (Thurm et al. 2018:46).

Under the r3.0 approach, the materiality question involves new interpretations of materiality, related to thresholds and appropriate timeframes in decision making (Reporting 3.0 2016). And it moves beyond the realm of the micro-level firm to meso-level industries and macro-level economic, social and environmental systems (Baue 2019). Defining what is material requires companies to identify three elements (Thurm and Baue 2018:26):

- **Rightsholders**[82] to whom companies owe legal duties and ethical obligations due to direct impacts on their well-being or indirect impacts on vital capital resources that these rightsholders rely on for their well-being.
- **Impacts**, both negative and positive, on the stocks and flows of vital capital resources that rightsholders rely on for their well-being.

[79] See r3-0.org. At the time of writing, forthcoming Blueprints relate to (i) sustainable finance, (ii) the value cycle, and (iii) governments, multilaterals and foundations.

[80] See https://www.r3-0.org/

[81] See Blueprint 3: Data at https://www.r3-0.org/wp-content/uploads/2019/07/R3-BP3.pdf

[82] Under this approach the term "rightsholders" (as opposed to "stakeholders"—those who affect or are affected by a company's behaviour), is used, as it "more clearly aligns to companies' accountability for direct and indirect impacts on social, economic, and ecological resources" (Thurm and Baue 2018).

- **Thresholds** that differentiate sustainable levels of these vital capital resources from unsustainable levels—also known as the carrying capacities of capitals; as well as **allocations** of companies' fair, just and proportionate shares of these resources.

The r3.0 Platform was instrumental in the formation of the multistakeholder Global Thresholds & Allocations Council (GTAC) tasked with "assessing and validating methodologies for allocating fair shares of responsibility to organizations for their impacts on the stocks and flows of capitals—natural, human, social and other resources—within their carrying capacities".[83]

Learning from different enterprise models and varieties of capitalism

A second avenue of inquiry for determining what is key from the perspective of transformative change is to identify business models, enterprise cultures, patterns of investment and varieties of capitalism that are inherently more conducive to inclusive and sustainable development. Particularly relevant are: (i) for-profit companies that are embedded in local economies via so-called linkages; (ii) for-profits that can reduce pressures associated with shareholder primacy by remaining in private hands (for example, family owned) or where non-profits (such as foundations) have a significant stake;[84] and (iii) non-profit, "less-for-profit" or "for purpose"[85] enterprises that follow a qualitatively different normative hierarchy in relation to triple bottom line objectives, as in the case of the social and solidarity economy (SSE), which is also the focus of the UNRISD programme under which this report has been prepared. Also considered in this section are particular varieties of capitalism associated with governance arrangements and normative perspectives more conducive to fairness, equality and social protection.

Linkages

As development economists and organizations like UNCTAD have long argued, an important variable that differentiates a corporation's impact vis-à-vis local social and economic development is the scale, depth and quality of backward and forward linkages with host country communities, enterprises, producers and distributors, as well as governments, society and the economy more generally via, for example, taxation and "spillovers" such as know-how and technology.

In contrast to most extractive or export-processing industries, so-called fast-moving consumer goods corporations, for example, are better positioned structurally to develop such linkages (Clay 2005). Furthermore, as implied in several of the company examples noted in Chapter 1, their strategic proximity to "green" or "ethical" consumers can act as an important driver of ESG performance.

As observed in a comprehensive study by Oxfam and Unilever Indonesia of the company's local impacts, realizing the positive potential of linkages requires not only the design and application of conventional social and environmental standards, but also measures and conditions that facilitate stronger negotiating power regarding products and services through cooperative organization and marketing associations; other social institutions such as insurance, credit and saving schemes; and diversification of income streams to reduce dependency (Clay 2005:86). Other linkages relate to taxation and profit flows, where it is important to capture differences in relation to tax avoidance/evasion versus fiscal responsibility, as well as profit repatriation versus local reinvestment. More recently, attention has centred on the implications for decent work of firms and sectors that are rapidly automating versus those involved in more labour-intensive forms of service provisioning (Borzaga et al. 2017).

Private, multistakeholder and multipurpose companies

Another category of for-profits that may have a freer rein to push the CR envelope are those that are privately owned or where a non-profit foundation or cooperative owns a significant share. Several companies referred to above in relation to "best practices" fall into this category, including the confectionary firm Mars, and the pharmaceutical company Novo Nordisk.

[83] See https://reporting3.org/gtac/

[84] While not addressed in this report, state-owned enterprises would constitute another category of for-profits that may prioritize social objectives.

[85] See McCulloch and Ridley 2019.

Some others are "Benefit Corporations" (B Corps), which are legally constituted as companies that must balance profit and social and/or environmental purpose. Examples are Patagonia and Natura, referred to earlier, and Divine Chocolate, which is 45 percent owned by the Ghanaian women farmers cooperative, Kuapa Kokoo, which supplies the cocoa. The NGO Christian Aid and the ethical finance institution, Oikocredit, also have a stake.[86]

In a context where conventional "C" corporations can claim B Corp status relatively easily, third party verification and certification have become important to gauge compliance with social and environmental norms. For instance, the B Impact Assessment tool—which is part of the B Corp Certification process administered by the non-profit B Lab—assesses performance in relation to 18 impact areas and scores companies, setting a lower limit score to indicate a minimum standard.[87] Sustainability accounting related to B Corps and the broader universe of social and solidarity economy, mentioned briefly below, are the focus of a paper by Salathé-Beaulieu et al. (2019) published for the same UNRISD project as the present report.

Cooperatives and other social and solidarity economy enterprises and organizations

A variety of enterprise models and financing mechanisms have gone much further in crafting structural conditions conducive to inclusive and sustainable development. Organizations and enterprises that make up the SSE lean towards principles and practices associated with the fair distribution of income, democratization of capital ownership, the internalization of social and environmental costs, and workplace democracy.

Examining the case of employee-owned enterprises, Hoffmann and Shipper (2018:16) note that "beyond sharing ownership, most of these firms possess a strong corporate culture based on a strong set of core values". Key values identified include both core foundational values—honesty, autonomy, empowerment and egalitarianism—and four organizational values: accountability, transparency, community and sustainability. They further note that the case study firms also appear to have developed management practices and policies that reinforce these values. The authors conclude by stating:

> The implication of this study for practice is that firms desiring top performance need to find ways to empower or energize their employees. A set of values such as those discussed here may provide that basis. It is also clear that firms must constantly work to find ways to make the values part of the way the firm does business. Here again empowered employees can help in this regard (Hoffmann and Shipper 2018:18).

Much of this alternative economy comprises not-for-profit entities (such as self-help groups, community enterprises, NGOs) or less-for-profits (such as social enterprises) or profit mutualization organizations (cooperatives, mutual associations). It also includes alternative arrangements for providing finance, including many collaborative credit systems and complementary currency schemes such as WIR in Switzerland, Banco Palmas in Brazil, or Bangla-Pesa in Kenya. These aim to democratize access to affordable, interest-free credit in ways that contrast dramatically with the interest-bearing loans associated with conventional financial institutions and micro-credit. Furthermore, they can enhance resilience in economic downturns (Bendell et al. 2015).

Such entities and schemes have a much freer rein in pushing the transformative envelope, given that they are less constrained by imperatives associated with shareholder primacy, short-termism, profit maximization and the externalization of social and environmental costs (Millstone 2012).

Varieties of capitalism

Beyond legal determinants and related incentives, as well as ownership patterns at the micro level of the firm, is the question of how different varieties of capitalism (VoC) structure corporate strategy and culture. The literature on this topic reveals how so-called "liberal" or "Anglo Saxon" market economies (for example, US and UK), or "coordinated" (such as in northern Europe) and "hierarchical" ones (as in Latin America), shape labour-capital relations and unionization, with implications for labour protection, workplace democracy and workers' empowerment (Hall and Soskice 2001; Schneider 2009). VoC also have implications for corporate culture and questions of income inequality and hierarchy. As the then-CEO of Novo Nordisk noted in 2014:[88]

[86] See Inside Divine, www.divinechocolate.com

[87] See www.bcorporation.net

[88] See interview with Lars Sørensen in Ignatius and McGinn 2015.

> I saw that in last year's list of best-performing CEOs, I was one of the lowest paid. My pay is a reflection of our company's desire to have internal cohesion. When we make decisions, the employees should be part of the journey and should know they're not just filling my pockets. And even though I'm one of the lowest-paid people in your whole cohort, I still earn more in a year than a blue-collar worker makes in his lifetime...I have a Scandinavian leadership style, which is consensus-oriented. That principle is enshrined in our management procedures. I'm obliged to reach consensus with my colleagues on all decisions, and if we can't, any objection needs to be reported to the board.

A strand of management theory identifies equality and "the common good" as key values that inform Scandinavian management. Extreme pay differentials are seen as unfair. According to Shuter (2014): "The aim of Scandinavian management is to nurture a climate of company loyalty, group spirit, and open dialogue where individuals are not primarily motivated by the expectation of reward or punishment but rather the belief that what they are doing is in the best interests of their colleagues and the company".

Learning from social science theory and multidisciplinarity

While it is increasingly recognized that science-based thinking and evidence must inform corporate sustainability disclosure and reporting, this tends to apply more to the environmental than the social dimension and involve primarily the natural sciences, notably climate science. As noted in the following examples, social science theory and knowledge drawn from multiple sub-disciplines and schools of thought can play an important role in identifying issue areas and indicators that are key from the perspective of transformative change and corporate sustainability performance.

Here we provide just a few examples drawn from the sub-disciplines and selected works presented in Annex 6. Our examples relate to ecological economics, the capabilities approach, heterodox "redistributive" economics, political philosophy/sociology, systems dynamics, institutional economics and feminist theory.[89] The selection of sub-disciplinary perspectives found in Annex 6 is certainly not meant to be exhaustive; the purpose is rather to illustrate how theoretical and disciplinary windows are useful for pinpointing key underlying causes of unsustainable development, and possible solutions. And from there it is possible to draw out implications for corporate sustainability performance disclosure in terms of key issue areas and indicators. Furthermore, this type of analysis suggests that the portfolio of key performance issues is not overwhelmingly broad; rather, a fairly concise set of issue areas emerges. Of concern is the fact that it is precisely these issues that often fly under the radar within corporate sustainability disclosure.

Strands of **ecological economics** found, for example, in the work of Herman Daly (2013) and Tim Jackson (2009) emphasize the relationship between economic growth and the quality of the ecosystem, as well as the issue of distributive justice. Such analysis informs us that the solution to global warming and environmental decline requires deep changes in patterns of investment, production, consumption and economic growth. For sustainability performance accounting, this calls attention to the need for a fundamental shift towards a circular economy and "absolute decoupling" of environmental impacts from growth. In other words, carbon emissions and other environmental "bads" need to decline in absolute terms. The goal should not simply be improvements in resource intensity in contexts of ongoing accumulation and growth, which has been the focus of corporate sustainability disclosure.[90] Such perspectives also point to the need to factor thresholds into sustainability strategies (Raworth 2017); and to measure impacts associated with the global value chain, including Scope 3 emissions or whether corporations are supporting their suppliers through fair trade. They also suggest the importance of enterprise models and more labour-intensive service activities associated with well-being and green transitions.

The **capabilities approach**, associated in particular with Amartya Sen (1999) and Martha Nussbaum (2003), highlights the multidimen-

[89] It should be noted, however, that the "findings" that are yielded by these different perspectives may not always be complementary or synergistic. Tensions may exist. Piketty (associated with heterodox redistributive economics), for example, assumes that economic growth is essential to avoid rising inequality; Jackson and Victor (2014) (associated with ecological economics) insist that it is not.

[90] See, for example, Jackson 2009.

sional nature of poverty and well-being, and the role of people's opportunities to do and to be what they have reason to value. It also draws attention to a range of structural and political conditions that are often bypassed within the field of CR disclosure. From the perspective of corporate sustainability accounting, it calls attention to performance across multiple issue areas related to well-being and, by implication, integrated reporting. More specifically, it suggests the importance of tackling horizontal inequalities in the workplace; payment of a living wage; effective participation in decision making; and incentives, training and so forth to foster a culture of ethics and ESG performance.

Heterodox or "redistributive" economics highlights the crucial role that inequality plays in unsustainable development, and the acceleration of inequalities related to (i) income and wealth disparities within society in general and corporations in particular, and (ii) the functional distribution of income, that is, the ratio of profits to wages. Within corporate sustainability accounting this calls attention to: CEO-worker pay differentials; the profit/wage ratio; labour productivity versus real wage trends; the balance between profit and revenues retained in the host country and outflows abroad; extent of reliance on tax havens; distribution of value within the value chain among different actors and sectors; concentration or market share; long-term versus short-term planning horizons and incentives; workplace democracy; and trade union organization.

Political philosophy and **political sociology** highlight, inter alia, the role of power relations in shaping patterns of distribution and inequality. At a time when the term "capital" has become synonymous with multiple asset classes (natural, human, social, financial, and so on), it is useful to revisit branches of classical political philosophy, in particular, the Marxist concept of capital. This reveals that the economic process associated with the capitalist firm necessarily generates social, environmental, democratic and competitive contradictions or "externalities", which derive from forms of accumulation, concentration and domination that are part and parcel of the DNA of the profit-maximizing firm (Harvey 2014). While corporate sustainability disclosure has focused on harm reduction associated with certain externalities, it has paid scant attention to the implications and impacts of concentration and monopoly power, as well as corporate hierarchy.

Some contemporary strands of political philosophy and political sociology suggest the need for effective participation and deliberation in standard setting and corporate sustainability (Habermas 1996; Beck 2005). In relation to the field of corporate sustainability assessment, these perspectives call attention to such issues as: collective bargaining; worker and gender representation on company boards and remuneration committees; facilitation of and engagement with associations that can enhance the bargaining power of farmers and other suppliers; and diversity and representativeness of stakeholders involved in dialogues, partnerships and decision making.

Institutional economics, *à la* Elinor Ostrom and **systems dynamics** *à la* Jay Forrester (2009) and Donella Meadows (1998) provide additional insights. Concepts such as polycentricity and nested institutions point to the importance of a variety of institutions, interacting and operating at multiple scales, for understanding the trajectory and scope for change. Concepts such as feedback loops, complexity, unintended consequences and tipping points reveal not only the limits to growth[91] (Meadows et al. 1972) but also the limits of linear thinking which characterizes much of corporate sustainability disclosure. How corporations influence public policy, the importance of value chain analysis, and the need to factor thresholds into sustainability accounting are just some of the implications of this perspective. Furthermore, the concept of "path dependence" suggests that historically ingrained structural and cultural elements act as powerful headwinds against progressive change and need focused attention.

Strands of **economic anthropology** associated, for example, with Karl Polanyi, also highlight the role of institutions, such as redistribution, reciprocity and regulation, in shaping "market society" and social protection. Relevant sustainability issues and indicators include: structural weakening of the labour relation through

[91] Analysis associated with systems dynamics formed the basis of the inquiry called for by the Club of Rome, which culminated in the landmark report, *The Limits to Growth*, published in 1972 (Meadows et al. 1972).

contracting out employment; scale and type of interaction with enabling financial circuits, alternative ownership/legal structures; lobbying practices; and policy coherence in terms of company ESG objectives being aligned with national and international development goals. Similarly, learning from other business and investment models associated with SSE, B Corps and impact investing provides additional pointers as to what really matters.

Feminist theory has played a key role in addressing blind spots within both academic analysis and policy making related to gender inequality. Feminist economics and feminist philosophy not only highlight the role of women in social reproduction and unpaid care work, but how this role is a key enabling condition for the market economy and underpins women's subordination.[92] Cultural traits and power relations associated with patriarchy foster discrimination in pay and promotion, and abusive practices in the workplace. Demands and time use associated with care, in turn, reinforce women's subordination in the workplace, as evidenced in their positioning in lower paid, lower quality jobs and under-representation in management positions. From the perspective of corporate sustainability disclosure, this analysis points to the need to pay far more attention to unpaid care responsibilities as an impediment to decent work, and to indicators that capture the structural conditions that underpin women's disadvantage in the workplace and career structures, notably segmented labour roles and the gender pay gap. It also points to the key role of women's collective action through collective bargaining and other mechanisms as a means to women's economic and political empowerment.

Transdisciplinarity

Several of these academic perspectives point to the need for effective participation in standard setting and the process of determining what is material. But such participation is often associated with a fairly limited range of stakeholders. Current forms of stakeholder dialogue may involve CR "experts" and others cut from a fairly similar cloth.

The cumbersome term "transdisciplinarity" is a concept used to describe a process of knowledge design and production geared towards complex problem solving which is informed by drawing on and integrating both different disciplinary perspectives and those of multiple societal actors.[93] Lang et al. (2012) define transdisciplinarity as a reflexive principle "… aiming at the solution or transition of societal problems…by differentiating and integrating knowledge from various scientific and societal bodies of knowledge" (cited in Mauser et al. 2013). The multiple actors can include businesses, practitioners, policy makers, regulators, NGOs, trade unions, experts and academics. And as Jed Emerson reminds us when warning about top-down approaches driven by "experts" and "changemakers": "Maybe we need to create greater space to hear from those whose lives we seek to impact" (2018:4). This, in turn, implies greater space not only for NGOs and trade unions, but also social movement and community organizers and activists. Accordingly, the r3.0 approach reviewed above emphasizes the role of multiple "rightsholders" within materiality determination.

Factoring in other stakeholders means not only that a broader range of impacts, concerns and preferences can inform decision making, but also different worldviews. In the discourse and practice of sustainability, it is possible to identify disparate pathways that are informed by very different worldviews.[94]

In their content analysis of 108 GRI reports and 122 non-GRI reports, Landrum and Ohsowski (2017) note that the uptake of corporate sustainability is driven by the business benefits that accrue to the company—in other words, it represents an idea of sustainability that is anchored in "weak sustainability". Pelenc et al. (2015) explain that a weak sustainability world-view assumes that natural and manufactured or other capitals can be substituted for each other, and that the principle of intergenerational equity requires maintaining or increasing the total value of the aggregate stock of capitals for future generations. Furthermore, this position places great store in technical solutions and monetary compensation for dealing with environmental problems.

[92] See, for example, Fraser 2012, Molyneux and Razavi 2002, Razavi 2007, and UNRISD 2005.

[93] For more on the relationship between multidisciplinarity, transdisciplinarity and complexity, see Clarke and Crane (2018); Hackmann and St. Clair (2012); ISSC/UNESCO (2013); Mauser et al. (2013) and Tulder et al. (2014).

[94] See, for example, Clapp and Dauvergne 2005, Utting 2013.

Strong sustainability elevates the status of natural capital. Rather than simply being a stock of resources, it is a set of complex ecosystems that are directly and indirectly crucial for both planetary health and human well-being. For this and other reasons, its substitutability is highly constrained. Intergenerational equity demands conserving and regenerating key stocks and ecosystems associated with natural capital (Pelenc et al. 2015). As Roome (2012) notes, "[w]eak and strong sustainability are differentiated by their approach to integration, the ambition of the vision of change, the complexity of the innovation and the extent of collaboration among social, political and economic actors" (cited in Landrum and Ohsowski 2017:6).

Epistemological blind spots partly explain why the field of corporate sustainability accounting is embedded within the weak sustainability paradigm. Interviews by Springett (2003) with middle and senior corporate managers led her to conclude that the "failure to question the growth mandate of neoclassical sustainability is at the heart of the managers' yoke to weak sustainability, which allows them to continue reliance on traditional approaches and language" (quoted in Landrum and Ohsowski 2017:19). And as Herman Daly (1974) pointed out several decades ago, "growthmania" inhibits meaningful change from within business circles.[95] Some go further, suggesting that processes of institutional capture ensure that this perspective infuses the broader CR industry or ecosystem. Bolton and Landells (2015:615), for example, argue that "capitalist management has taken over the sustainable development discourse...in its attempts to control business agendas from a top-down power position".

When other worldviews and development pathways are considered, a clearer picture can emerge concerning contradictions associated with the dominant market-centric pathway that large corporations tend to pursue, and structural dimensions that need to be addressed within both CR policy and public policy. Transdisciplinarity can also shed light on the potential and limits of alternative institutional and public policy arrangements and business models, as well as the scope for hybrid models that contain elements associated with different pathways.

Transdisciplinarity, then, is important for enhancing the relevance and credibility of corporate sustainability disclosure. It can serve as a tool to both call out and modify weak sustainability pathways and top-down approaches that often divert attention from fundamental structural and systemic issues. It can facilitate problem framing, and issue identification and prioritization through a more in-depth and comprehensive understanding of sustainability, as well as enhancing mutual understanding and mutual responsibility (ISSC 2013).

Participation, power relations and the politics of change

> **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 it is not so much because it is unmeasurable as because it is not politically acceptable to raise the topic. ...All the more reason to try to measure it.**
>
> *Donella Meadows (1998:63)*

A common issue in several of the conceptual and sub-disciplinary perspectives mentioned above relates to the need to reconfigure power relations. In previous decades, influential thinkers associated with ecological economics and systems dynamics called attention to the issue of power and political dynamics as a crucial element for determining whether or not means translated into ends associated with well-being (Daly 1974b; Meadows 1998). While such thinkers have certainly influenced the field of sustainability disclosure and reporting, this particular dimension has generally been sidelined.

[95] Weak sustainability also has implications for investment policy and discounting. Elevating the needs and interests of future generations in determining what is relevant and material requires revisiting the issue of discounting associated with discounted cash flow analysis to ensure that calculations to determine the viability of investments and project financing do not apply an excessively high discount rate that favours the short-term interests of investors, stockholders and bondholders over those of future generations. As Doganova (2018:4) points out, through this mechanism "we tend to *discount* the future rather than make it count". The scale of discounting—the "discount rate"—often runs counter to the recommendation of the Stern Review (2006) that very low rates should be applied in order to protect future generations.

Often "the political" is reduced to aspects of governance associated with "participation", understood mainly as stakeholder consultation for determining materiality.

This narrow approach, however, raises several concerns. First, it dilutes the meaning of participation. "Dialogue", when understood as consultation, is not the political concept that emerged in the 1970s within certain quarters of the UN system and academia, when participation referred to "organized efforts of the hitherto excluded to increase their control over resources and regulative institutions" (UNRISD 2003:69). This definition implied the need to transform power relations, as suggested in the previous discussion about transformative change for sustainable development.

Second, when applying the concept of participation or stakeholder dialogue within the field of sustainability disclosure and reporting, particularly in relation to determining materiality, it is often a fairly limited range of stakeholders who are consulted. In the process key stakeholders, not least those who are critical of mainstream approaches and with quite different worldviews, may be excluded. The formal definition of "stakeholder" (anyone affected by or who affects the operations of an organization—Freeman 1984) is encompassing enough to include disadvantaged or subaltern groups and communities whose livelihoods and environments are impacted by a company. In practice, however, the identification of stakeholders to be consulted often passes through a management filter that restricts the range of actors and interests involved and whose views influence decision making. An ambitious and socially oriented sustainability agenda must ensure that such voices are present and influential in the stakeholder dialogue process. For this reason, r3.0 distinguishes between "stakeholders" and "rightsholders", a term that "more clearly aligns to companies' accountability for direct and indirect impacts on social, economic, and ecological resources" (Thurm and Baue 2018). The term rightsholders can also remind us of the principle of intergenerational equity and the needs of future generations—which, while central to the concept of sustainable development, often get lost in discussions on materiality.

Third, once a range of opinions are heard, it is generally management or "experts" who filter these opinions and decide which are useful and actionable. This approach sidelines other political features of participation related to the role of negotiation and bargaining in decision making. These aspects of governance can ensure that stakeholders who are seated at the table not only have "voice" (which may or may not be heard), but also that they are "players" who can effectively shape outcomes.

Fourth, a political interpretation of participation suggests certain issue areas and indicators that should be considered essential to corporate sustainability accounting. These include labour rights (see Chapter 8) such as collective bargaining and freedom of association, which are crucial in efforts to secure decent wages and working conditions, and are a core element of the ILO's definition of decent work. More generally, the concept of political empowerment is given short shrift within mainstream sustainability disclosure as well as in recent innovations. As noted in the earlier discussion related to value chains, empowerment extends well beyond labour in the workplace to producers, suppliers and communities. "Organized efforts", or collective action, are crucial to getting a fairer share of the pie.

Fifth, whereas the combination of collaboration and confrontation has been central to ratcheting up standards associated with disclosure and reporting, a cosmetic version of participation downplays the role of contestation and advocacy associated with "strong sustainability" or alternative worldviews (Utting 2012).

Sixth, given that empowerment is essential to social justice and transformative change, the question arises as to whether it should be considered a key asset (or capital), on a par with natural, social, financial and other physical and relational capitals identified within the integrated reporting approach discussed above. Not only is its appreciation—as in the empowerment of disadvantaged or subaltern groups—key for inclusive development and transformative change, its depreciation (as evidenced in disempowerment) lies at the heart of trends associated with exclusionary and unsustainable development. This would not be an issue if our understanding of "the social" dimension of capital or sustainable development included such aspects as social organization and collective action. In practice, however, "the social" tends to be reduced to aspects of social protection (such as minimum or living wages, the social wage, occupational health and safety, gender diversity in the workplace).

Seventh, factoring in the issue of power relations involves not only a consideration of how to empower the disadvantaged, but also how to control and restrict the concentration of elite power and corporate political influence (see Chapter 9). Clearly public regulation and policy (fiscal, competition, anti-trust, labour market and so on) have a crucial role in this regard. But the CR industry can also play a role in establishing principles and standards related to such aspects as lobbying, political campaign contributions, the revolving door, corruption and conflict of interest. It can also demand that companies disclose data that reveal the concentration of power, whether it relates to market share, the distribution of value added within global value chains, or labour-management relations.