

# Corporate Sustainability Accounting

## WHAT CAN AND SHOULD CORPORATIONS BE DOING?



United Nations Research Institute for Social Development

# UNRISD

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The background of the entire page is a white canvas covered with a random distribution of small, colorful geometric shapes. These shapes include circles, triangles, squares, and lines in three primary colors: blue, yellow, and pink. Some shapes are solid, while others are outlines. The overall effect is a playful, modern, and abstract pattern.

OVERVIEW

# Corporate Sustainability Accounting

WHAT CAN AND SHOULD  
CORPORATIONS BE DOING?

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## Summing Up

# Towards 21<sup>st</sup> Century Sustainability Accounting?

In recent decades big business has become an important player in efforts to promote sustainable development. Measuring and assessing such efforts has been the remit of what is now a vast industry comprised of corporate sustainability managers and standard-setting organizations, as well as monitoring, certification and rating agencies. This industry is currently at a watershed. It had been assumed that corporate social responsibility (CSR), and so-called triple-bottom-line or ESG (environmental, social and governance) disclosure, would position companies on a pathway to sustainable development through gradual improvements in corporate sustainability performance. This optimistic view is now being questioned.

Many involved in sustainability disclosure and assessment have long recognized the mismatch between reporting practices and basic accounting principles that foster comparability, user-friendliness, relevance, credibility and so forth. A constant stream of adjustments and innovations in reporting guidance and practice have sought to address this issue. But this is only one part of the challenge. Today's global crises—financial, climate and health—as well as the Sustainable Development Goals (SDGs) have raised the bar in terms of expectations regarding corporate sustainability performance. They have also highlighted the need for sustainability policy and practices that address not only the symptoms of unsustainable development—or incremental reductions in harmful impacts—but also the underlying causes. These are associated with structural conditions that reproduce inequality, vulnerability and planetary degradation. In relation to the environmental dimension of sustainable development, attention is focusing, at least to some extent, on structural conditions

associated with production and consumption patterns and the dominant growth model. In relation to social and governance dimensions, however, structural conditions—for example, skewed patterns of income and wealth distribution, and gender and power relations—are often ignored. Furthermore, conventional approaches tend to obfuscate important contextual conditions that are needed to effectively assess progress. These include the use of sustainability norms or targets against which to measure progress. Without such context, it is impossible to know where a company is truly positioned on a sustainability pathway.

How, then, might corporate sustainability disclosure and reporting be repurposed to achieve these ends and, in so doing, measure and promote progress from the perspective of the “transformational vision” of the SDGs?

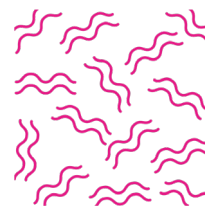
## What the Research Demonstrates

The report highlights:

- major achievements and challenges as seen from the perspective of some of the key players within the field of corporate sustainability disclosure and reporting;
- the inherent limits of mainstream approaches to sustainability accounting from the perspective of transformative change;
- issues, indicators and targets that need to be addressed if corporate sustainability performance and disclosure is to contribute in any meaningful way to realizing the SDGs.

With the aim of spurring discussion about how to repurpose the measurement and reporting of corporate sustainability performance for transformative change, the report presents a four-pronged argument.

First, generating and reproducing an economic system that is conducive to sustainable development through corporate responsibility will depend not only on making progress on the performance issues and indicators that are currently the main focus of conventional reporting. Such progress also depends crucially on addressing a set of issues and corresponding



indicators that relate directly to the structural underpinnings of (un)sustainable development. Particularly important are conditions associated with distributive (in)justice, inequality and skewed power relations, which are often neglected within the field of corporate sustainability reporting.

Second, while corporate environmental performance is often poor, at least there have been some notable innovations and improvements in environmental disclosure with the emergence of more meaningful indicators, as well as science-based targets. Such improvements need to be replicated in other dimensions of sustainability related to social development and democratic governance.

Third, conventional disclosure focuses heavily on qualitative indicators, notably elements of a management system deemed necessary for enhanced sustainability performance. Such indicators often serve as a proxy for concrete improvements in performance. Far more attention needs to be focused on quantitative metrics and indicators that measure actual levels and variations of impact. Also key are time series data that capture trends, as opposed to annual snapshots, and more granular reporting that can reveal significant variations in performance within corporate structures and value chains.

Fourth, progress associated with transformative change involves not only addressing the structural determinants of unsustainable development but also a journey towards certain thresholds and patterns of fair resource allocation. It is these thresholds and “fair allocations” that define sustainable development when understood in terms of intra- and intergenerational equity, thriving and regeneration, and not simply in terms of incremental reductions in negative impacts. Unless a company sets a target that reflects a sustainability norm, neither its management nor other stakeholders can know where that company is positioned in relation to sustainable development.<sup>1</sup>

The report is divided in two parts. Part 1 assesses the current state of play. It tracks the impressive expansion and ratcheting-up of sustainability indicators over three decades, but also identifies ongoing major weaknesses in reporting. These relate to their failure to conform to basic

accounting principles, as well as an “elephant in the room syndrome” whereby a number of issue areas and indicators that are absolutely key for assessing progress towards sustainable development are neglected.

Part 2 delves into the specifics of disclosure from the perspective of “transformative change” (see Box O.1) by focusing on five key performance issues—fair remuneration, gender equality, corporate taxation, labour rights, and corporate political influence.

#### Box O.1. What is transformative change?

As the international community takes stock of the magnitude of the social and environmental challenge facing humanity and the planet, terms like transformational or transformative change have gained currency. But what exactly does “transformative” mean? For some, it is simply a label used to embellish piecemeal reforms or incremental improvements in performance. In the report, transformative change refers to structural changes that are necessary to transform entrenched patterns of production and consumption, as well as social relations and governance arrangements, that underpin social exclusion, inequality and planetary destruction. Without such changes, neither countries nor corporations can claim to be on a sustainable development pathway.

The UNRISD Flagship Report, *Policy Innovations for Transformative Change*, showed how public policies intended to promote social development often focus on social protection—for example, safety nets and social floors such as minimum wage guarantees and basic health services (UNRISD 2016). Similarly, environmental policy often focuses on doing a bit less environmental harm, or a bit more conservation. The focus, then, is often on fairly minimalist aspects of decent work, “targeting the poor” or environmental protection, rather than a more ambitious agenda to promote simultaneously human well-being, intergenerational equity and planetary regeneration. Yet it is these objectives that define the concept of sustainable development.

More often than not, policy reforms tackle the symptoms rather than the causes of unsustainable development, leaving the structures that generate the problems in the first place largely intact. Yet it is the more comprehensive and ambitious approach that is required. A similar argument can be made both for corporations trying to improve their sustainability performance, and for much of the standards regime promoting corporate sustainability disclosure and reporting.

<sup>1</sup> This second aspect of thresholds and allocations draws on the work of Mark McElroy and Bill Baue, who are also members of the UNRISD project team. See McElroy 2019 and Baue 2019; see also Thomas and McElroy 2016, Thurm et al. 2018 and Raworth 2017.



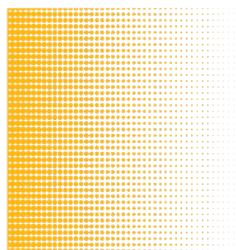
## PART 1

# Assessing the State of Play



Part 1 of the report takes stock of developments and ongoing challenges related to corporate social and environmental responsibility and sustainability disclosure. Divided into three chapters, it begins by looking at how the field of ESG disclosure has evolved during the past decades.

It then goes beyond incremental adjustment of corporate sustainability accounting practices, emphasizing four insights into the performance issues, indicators and targets that really matter from the perspective of sustainable development and transformative change.



## CHAPTER 1

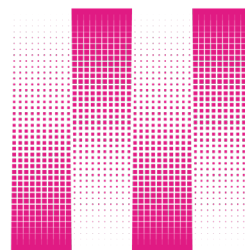
# A 30-Year Journey

Chapter 1 identifies key trends and developments—from the early phase of “cosmetic” disclosure to the significant ratcheting-up of standards, indicators and guidelines, as well as the development of a dense institutional ecosystem that promotes, supports and regulates disclosure and reporting. Five areas of progress are particularly evident.

- The early tendency to pick and choose what to measure and disclose has given way to a fairly comprehensive range of standards.
- A more encompassing approach is evident in the fact that additional industry sectors and types of business have coalesced under the corporate responsibility umbrella.
- Reporting and certification guidelines have been ratcheted up.
- Third-party verification and assurance is now commonplace.
- The institutionalization of corporate sustainability also involves rating or ranking the sustainability performance of companies and their comparative evaluation.

The evolution of disclosure and reporting suggests that there has been a significant change in corporate discourse and policy in recent decades. Over time, attitudes have shifted from outright denial of responsibility, through piecemeal self-regulation associated with bolstering corporate legitimacy and risk and reputation management, to a more comprehensive approach that is garnering considerable buy-in from transnational corporations and other companies.

<sup>2</sup> See IIRC 2013, Thomas and McElroy 2016.



## CHAPTER 2

# Where Do We Stand?

This overview of the evolution of corporate sustainability disclosure and reporting indicates a significant intensification of disclosure activity in the name of sustainability. It is likewise clear that many of the key problems in sustainability reporting identified years ago stubbornly remain. They include:

- a level of complexity that confuses, distracts from measuring impact and defies easy comprehension;
- a lack of data comparability and standardization to support useful evaluation;
- imprecise materiality determination leading to low-quality disclosure and uninformed stakeholders; and
- reliability and credibility problems undermining confidence in the sustainability reporting process itself.

Chapter 2 of the report takes a closer look at these accounting issues and describes several mainstream responses to enhance the quality of disclosure, including attempts to align reporting frameworks, simplify complex disclosure requirements, minimize cherry picking via “multi-capital” integrated reporting<sup>2</sup>, place a value on impacts via monetization, and better determine what is relevant and material from the perspective of sustainable development and the SDGs. Several recent initiatives are presented in Box O.2.



**Box 0.2. Some recent initiatives to improve corporate sustainability accounting**

- |      |   |
|------|---|
| 2015 | Science Based Targets Initiative (SBTi): Showcases companies setting science-based emission reduction targets and promotes best practices.                                    |
| 2015 | SDG Compass: Guides firms to align their business strategies with relevant SDGs and measure their impacts.  |
| 2016 | Net Positive Project: Develops guidelines to enable companies to transition from a “do no harm” approach to one that ensures a positive societal and environmental footprint. |
| 2016 | GRI Global Reporting Standards: Revision of GRI standards aimed at improving reporting relevancy, clarifying reporting requirements and content, and simplifying language.    |
| 2017 | Business Reporting on the SDGs Action Platform: Promotes alignment of reporting practices, and measurement and reporting of company impacts on the SDGs.                      |
| 2017 | European Commission Guidance on Non-Financial Reporting: Guidance for companies that must comply with the 2014 EU Directive on non-financial reporting.                       |
| 2018 | r3.0: Seeks to close gaps between current practice and sustainability norms through a series of Blueprints and a Global Thresholds and Allocations Council.                   |
| 2018 | World Benchmarking Alliance: Develops publicly available and free corporate benchmarks of companies' contributions to the SDGs.   |
| 2018 | UNCTAD's Guidance on Core Indicators: Recommends 33 indicators aimed at harmonizing disclosure and aligning company reporting with the SDGs.                                  |
| 2019 | IRIS+ system: Provides investors and companies with a common understanding of how to measure and manage their impact, as well as how to improve that impact over time.        |

## CHAPTER 3

# Thinking Forward



**[The Triple Bottom Line] 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.**

*John Elkington (2018).*

Can past and present innovations place corporate sustainability performance accounting on a track that is fit for the purpose of assessing progress towards sustainable development? The report suggests that much still needs to change if the corporate responsibility movement is to effectively contribute to sustainable development and the realization of the 2030 Agenda. Pursuing the trajectory of incremental change centred on a “do less harm” approach runs the risk of bypassing issues, indicators and targets that are key from the perspective of transformative change. These are key because they relate to the structures that reproduce and reinforce unsustainable and exclusionary patterns of development, including patterns of inequality and skewed power relations, as well as forms of growth and capital accumulation that generate social and environmental “externalities”. Such issues need to be put at the centre of the corporate sustainability agenda if we are to develop enterprise and finance models geared more explicitly towards human well-being and planetary health.

To chart a path forward, it is useful to think outside the box of mainstream innovations and dynamics that are constantly tweaking corporate sustainability accounting practices. Four avenues of inquiry are particularly insightful and worth pursuing.

- A set of cutting-edge innovations associated with integrated reporting and ambitious target-setting.
- Learning from other varieties of capitalism—for example the “Nordic” model, as well as other business or enterprise models—such as B Corps, cooperatives and other social and solidarity economy entities and organizations, that appear to be more conducive to inclusive and sustainable development.
- Replicating in the social arena the science-based approach that has gained currency in relation to environmental disclosure, by learning from social science theory and multiple disciplinary perspectives (see Box O.3).
- Learning from the perspectives not only of conventional stakeholders but also of social actors who are impacted directly or indirectly by corporate activities but may have quite different concerns, preferences and worldviews.

These avenues can provide important insights into performance issues, indicators and targets that are key from the perspective of sustainable development and transformative change. It is thus of particular concern for corporate sustainability accounting that they are often neglected within current disclosure and reporting practices and processes of materiality determination (McElroy 2019).

### Box O.3. What does social science theory tell us?

Just as climate science is informing environmental performance standards and target setting, social science should be informing other dimensions of sustainability. Theoretical and analytical insights associated with particular academic sub-disciplines and schools of thought within social science can provide important pointers as to the structural causes of unsustainable development, as well as the structural transformations that are needed to effectively position business on a sustainable development pathway. From there it is possible to draw out implications for corporate sustainability performance disclosure in terms of key issue areas, indicators and normative targets. Furthermore, this type of analysis suggests that the portfolio of key performance issues is not overwhelmingly broad; rather, a fairly concise set emerges. Yet it is precisely these issues that often fly under the radar within corporate sustainability disclosure. To illustrate the connections, the report highlights ecological economics, the capabilities approach, political philosophy/sociology, systems dynamics, and institutional economics—as well as the two bodies of thought presented below by way of example: heterodox economics and feminist theories.

**Heterodox economics**, particularly strands that emphasize the need for redistribution. The work of Thomas Piketty (2014), for example, highlights the crucial role that inequality plays in unsustainable development, as well as 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; labour productivity versus wage trends; profit-shifting; distribution of value among different actors and sectors in the value chain; concentration or market share; long-term versus short-term planning horizons and incentives; workplace democracy, and trade union organization. Attention to different varieties of capitalism and historical periods in the political economy of capitalism can also provide pointers as to normative targets related to fair allocations.

**Feminist economics and feminist philosophy** highlight how women’s role in social reproduction and unpaid care work is a key enabling condition for the market economy and underpins women’s subordination.\* Cultural traits and power relations associated with patriarchy foster discrimination in pay and promotion, and abusive practices in the workplace. The 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 their under-representation in management positions. From the perspective of corporate sustainability disclosure, this points to the need to pay far more attention to care 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.

\* See, for example, Fraser 2012, Molyneux and Razavi 2002 and UNRISD 2005.

# Indicators and Targets for Transformative Change



**ESG does not, by nature, carry a true sustainability gene. A company may rate very highly on an ESG score, but to say this company is an excellent sustainability performer is a very fundamentally different statement. [A] company [should be] positioned to prosper for the long term in a way that respects limits, thresholds, and norms that are externally defined, not simply defined by peer group comparison or internal targets and goals.**

GRI co-founder Allen White,  
cited in Baue and Thurm (2018)

What might disclosure for transformative change look like? The report makes the case for a reconfiguration of key performance issues, where areas of transformative impact associated with distributive justice, equality and democratic governance receive higher priority. This will involve raising the bar above minimalist disclosure or the low-hanging fruit—moving, for example:

- beyond compliance with minimum wage standards to measuring how equitable or skewed the distribution of income is within the enterprise;
- beyond equal pay for equal work to addressing the gender pay gap, as well as its key determinants related to the gender (im)balance in different occupational categories and (lack of) support for caregiving;
- beyond the amount of corporate taxes paid, to focusing on the size of the tax gap (effective tax rate as a percentage of the statutory rate) and the extent of profit shifting;
- beyond occupational health and safety, or working conditions, to addressing labour rights, notably collective bargaining coverage and trade union density; and
- beyond qualitative statements of principle related to corporate political spending and lobbying to providing quantitative data on multiple forms of political influence.

Context-based accounting is also critical at this juncture. The term “context-based” applies specifically to the need to assess performance in relation to thresholds and targets, notably those associated with carrying capacity and sustainability norms related to carbon emissions and water use.<sup>3</sup> The problem of “de-contextualization” in sustainability reporting, however, is broader. Failing to make the connections between one indicator and another related variable can provide a misleading picture. Contextualization also refers to the need to be able to detect, where they exist, significant variations in performance, whether through

time, via trend analysis, or within corporate structures, the value chain and jurisdictions where a company operates. Such variations require more granular disclosure because they can be masked by the presentation of aggregate data for the company as a whole (see Box O.4).

#### Box O.4. Granularity

Corporate sustainability reports often present company- or group-wide data, for example, on the gender pay gap, corporate income tax, or collective bargaining coverage. Presentation of aggregated data, however, may mask wide variations in performance within the structure of the corporation. The issue of both granularity and transparency also extends to areas of the value chain that may not be controlled directly by the corporation, but still fall within its sphere of influence: suppliers, distributors and consumers.

Regarding collective bargaining coverage, PUMA, for example, provides a breakdown by country and region where its top suppliers are located. As the company itself notes, the extreme variations reveal geographical areas where it needs to focus efforts to enhance performance related to labour rights.\*

Similarly, company-wide data indicating a reasonable gender balance may mask the fact that women employees are concentrated in lower paid, lower quality jobs. Data related to gender balance and the gender pay gap are far more useful when also disaggregated by occupational category.

Particularly problematic are company-wide data on taxation and profits that can mask the scale of profit shifting to low-tax jurisdictions. Publicly disclosed country-by-country reporting that also includes data related to revenues, assets and employment, is required in order to gauge whether taxation is aligned with real economic activity.

\* PUMA. 2016. *Momentum*. Business and Sustainability Report. Accessed 30 September 2019. <http://report2016.puma-annual-report.com/en/company-overview/sustainability/>

<sup>3</sup> This is the case for the Sustainability Context Principle introduced by the Global Reporting Initiative in 2002.

## CHAPTER 4

# Learning from the Environmental Dimension

While the environmental performance of large corporations generally leaves much to be desired, there have, nevertheless, been some significant developments in relation to guidelines for environmental disclosure. Four developments, in particular, provide pointers for needed improvements in aspects of accounting related to social and governance dimensions of sustainable development.

First, efforts are under way to address what, until recently, was a blind spot within environmental reporting—namely, the tendency to focus on metrics associated with resource or emissions intensity rather than absolute reductions in resource use, waste and emissions. Whereas a focus on resource intensity diverts the gaze from structures of production and consumption that fuel planetary degradation, a focus on “absolute decoupling” redirects attention to structural change (Jackson 2009).

Second, the leap forward in environmental accounting is reflected in the shift from a focus on performance within the sphere of activities directly controlled by the company in question towards the broader sphere of influence associated with the global value chain. Regarding greenhouse gas emissions, corporations are now being called upon to report not only on Scope 1 emissions related to the direct operations of the facilities they own, but also Scope 2—the energy

services they rely on—and, more significantly, Scope 3—emissions associated with suppliers, distributors and consumers, which often account for the vast bulk of all emissions associated with a particular product or service.

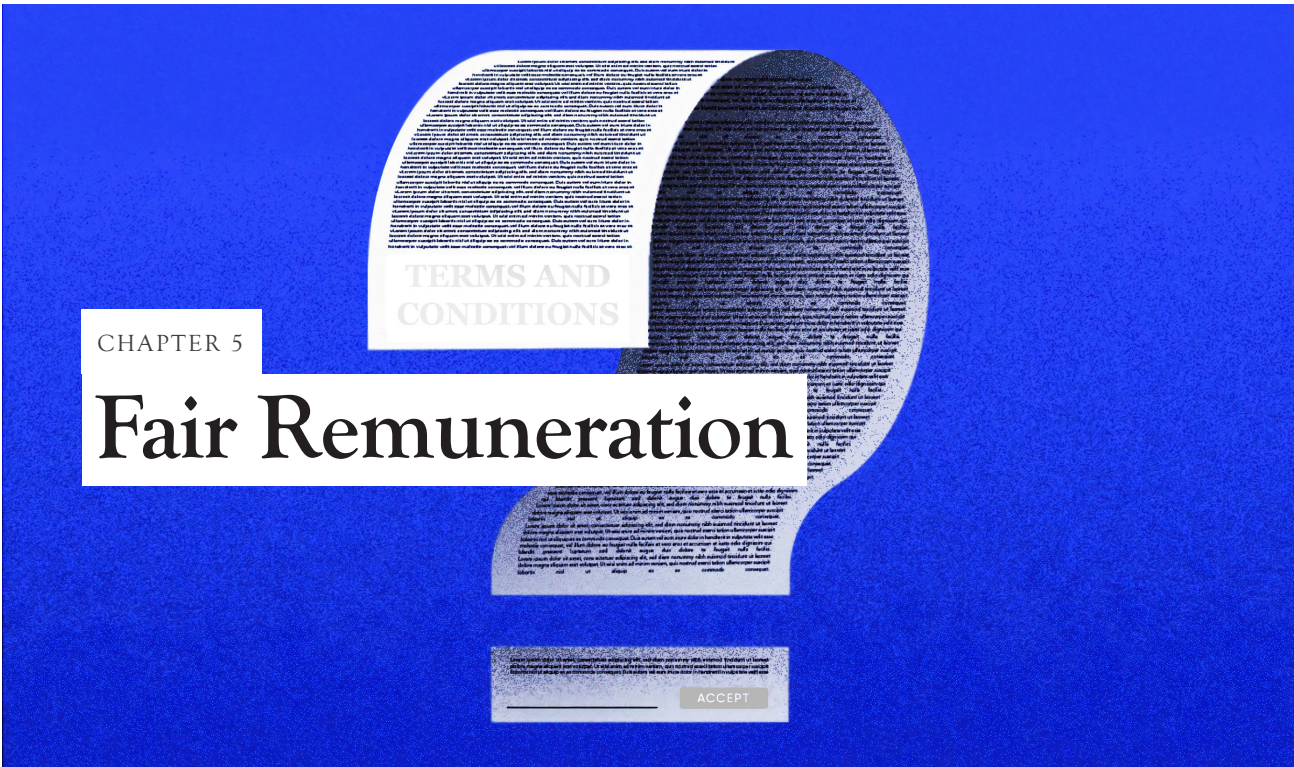
Third, companies engaged in environmental accounting have generally aimed to reduce levels of harm without any reference to meaningful longer term quantitative targets. In this way corporations could project an image of responsible environmental action without ever assessing whether that action was meaningful from the perspective of sustainable development. Today, companies are being urged to assess progress in relation to time-bound science-based targets.

Fourth, cutting-edge approaches to environmental performance accounting have transformed the process of materiality determination. It is no longer dependent simply on the opinions, preferences, priorities and decision-making power of management and selected stakeholders (such as standard-setting and certification agencies). Rather, it is increasingly informed by science, with scientific evidence and analysis determining not only key performance issues and indicators but also medium- and long-term targets. As discussed in Chapters 5 through 9 in the report, these four innovations in environmental accounting need to be applied to social and governance dimensions.

**“Organizations should describe their key climate-related targets... including the following: whether the target is absolute or intensity based, time frames over which the target applies, base year from which progress is measured, and key performance indicators used to assess progress against targets.”**

*Task Force on Climate-Related Disclosures (2017)*





Since the turn of the millennium, the concern of the international development community for social development has broadened beyond issues such as health, education, poverty and social exclusion, and now includes income and wealth inequality. More recently, the SDGs, through SDG 10 in particular, have further reinforced the notion that combating vertical inequality in the distribution of economic resources must figure centrally in efforts to promote sustainable development.

What can corporations do to effectively measure sustainability performance related to income inequality within the firm? This requires going beyond conventional metrics associated with unequal pay for equal work, or indicators that compare wage levels to the minimum wage or industry norms. Additionally, it is important to measure and assess “fair remuneration” along two dimensions: the gap between highest and lowest paid employees within the corporation, and how wage levels compare to the “living wage”.

As regards intra-firm inequality, the CEO-employee pay ratio is a convenient indicator. While standard-setting organizations are giving greater attention to such disclosure, there are considerable variations in the methodology and metrics used. Such inconsistencies need to be addressed to ensure, for example, that the reference wage reflects the prevailing wages of

typical workers, and that CEO pay factors in the multiple sources of income that make up the CEO remuneration package. In cases where the remuneration of the median employee is not particularly representative of that of non-supervisory workers, it would be more appropriate to compare CEO remuneration to the median of that of non-supervisory workers or the lowest income quartile.<sup>4</sup>

**Table 0.1. CEO pay to average income\* ratio**  
(Selected countries, 2015-2016)

South Africa	541
India	483
US	299
UK	229
Canada	203
Switzerland	179
Germany	176
Spain	172
Netherlands	172
Norway	101
Denmark	82
Sweden	75
Finland	61
Hong Kong	66
Malaysia	66
Singapore	65
Japan	62

Source: Based on Lu and Melin 2016.  
\* “average income” refers to per capita gross domestic product adjusted for purchasing power parity.

<sup>4</sup> For methodological guidance see Sabadish and Mishel 2013 and the work of the Economic Policy Institute.



What might be a fair CEO-worker pay ratio? Various reference points could be adopted. These include varieties of capitalism or enterprise models associated with equity and social inclusion, such as the Nordic countries (see Table O.1) or so-called B Corps and large cooperatives. There are progressive public policy measures and proposals in the United States that suggest a threshold of about 50 to 1, but from other vantage points this still seems excessive. From the more ambitious perspective of distributive justice associated with sustainable development and transformative change, a ratio in the range of 10-30 to 1 might be considered fair.

## The Living Wage



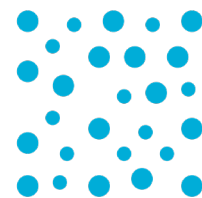
**[D]ata show that although the average worker in FLA affiliate factories in Vietnam earns more than double the minimum wage, a worker would need a pay increase of almost 25 percent to adequately provide for themselves and their family according to the Global Living Wage Coalition benchmark. Those workers who earn an adequate wage can do so only through long hours and excessive days of work without rest, in clear violation of international standards.**

*Fair Labor Association (FLA) (2019)*

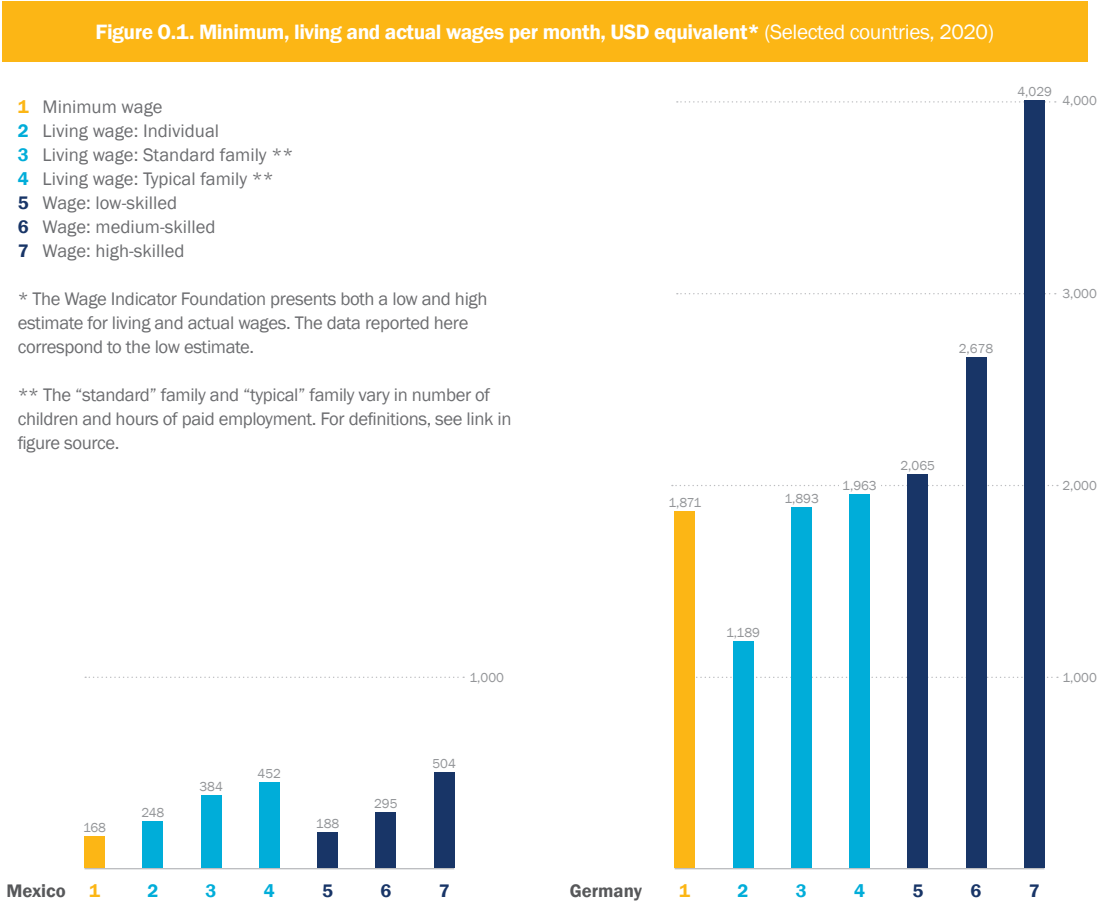
While disclosure related to wage levels is commonplace within corporate sustainability reporting, the information provided often tells us little about the adequacy of wages from the perspective of sustainable development. The annual percentage change in wage levels, comparisons with the minimum wage or industry norms themselves can be rather meaningless. Wage data need to be contextualized in relation to a threshold that is indicative of an adequate standard of living, or in relation to a company's economic performance. Other key performance indicators related to fair remuneration could include real, as opposed to nominal, wage trends, and comparison of wage trends with those of profits and labour productivity.

The living wage is a convenient reference point for gauging a company's contribution to sustainable development in relation to fair remuneration. The concept refers to wage levels that allow a full-time worker, working normal hours, to provide for his or her family via a wage that covers basic food, housing, transportation, health, education and some other costs, as well as a small percentage for discretionary expenditure and savings. Calculations of living wages are site specific—that is, they refer to geographical areas (countries, provinces, urban/rural areas, etc.) where costs of living are fairly similar. Furthermore, they must be periodically adjusted to factor in price changes.<sup>5</sup>

Despite having a long pedigree, the concept has remained under the radar within labour market policy, international labour standards and corporate sustainability accounting. While methods for calculating the living wage vary and need to be harmonized, the comparison of actual wages with living wages has highlighted the inadequacy of minimum wage compliance as a sustainability indicator. It also reveals that in many countries and supply chains, it is only through excessive overtime that workers can earn enough to meet basic needs.



<sup>5</sup> For definitions of the living wage and how it should be calculated, see Anker and Anker 2017 and Asia Floor Wage Alliance 2017.



Source: Based on data from the WageIndicator Foundation. *Wages in Context*. <https://wageindicator.org/salary/wages-in-context>. Accessed 10 August 2020.

Data for numerous countries presented by the WageIndicator Foundation compare the living wage with the minimum wage as well as with the prevailing wage of different types of worker categorized by skill level (low, medium and high). Companies could adapt the WageIndicator method by comparing the median wage of each quartile of wage/salary earners with the living wage. Another useful indicator would be the percentage of employees within a company that earn below the living wage.

Figure O.1 shows how data on the minimum wage, the living wage and the actual wage of different skill categories of worker can reveal significant variations in wage relationships by country. In the case of Mexico, low-skilled workers earn just above the minimum wage but neither they nor medium-skilled workers earn anywhere near the living wage for a family. This contrasts with the situation in Germany where

the minimum wage approximates the living wage for a standard family and even low-skilled workers earn above the living wage.

Achieving progress related to fair remuneration and living wages often requires a sectoral or regional approach so that responsive companies do not lose competitive advantage. It also requires far greater attention to labour rights and enhancing the capacity of workers to bargain for improved pay and conditions.

From an accounting perspective, where consistency and comparability are important principles, variations in methodology suggest the need for different organizations and stakeholders to come together to harmonize methods. Given its long association with the principle of a living wage,<sup>6</sup> its global regulatory and normative stature, and its convening power, the International Labour Organization would be well placed to play a facilitation role.

<sup>6</sup> See Reynaud 2017

## CHAPTER 6

# Gender Equality



**Gender inequality in unpaid care work is the missing link in the analysis of gender gaps in labour outcomes, such as labour force participation, wages and job quality.**

*Ferrant et al. (2014)*

The recognition that gender diversity, inclusion and pay equity are important dimensions of corporate sustainability performance has grown in recent years due not only to rights-based expectations<sup>7</sup> and pressures, but also to economic analysis confirming that gender equality within corporate structures is good for the “bottom line”, competitive advantage and GDP growth. Women’s disadvantage in the world of paid work (see Box O.5) is not so much a blind spot within corporate sustainability disclosure and reporting as it is one where structural dimensions have been marginalized and where meaningful quantitative performance metrics are lacking, as are normative targets against which to measure progress through time.

## Box O.5. Stark facts about gender inequality in paid employment

- Labour force participation rate for women aged 25-54 is 63 percent compared to 94 percent for men.
- Women are proportionately over-represented in low-wage jobs.
- In many countries, women are more highly educated than men in the same occupational categories but earn lower wages.
- Globally, there is a gender wage gap of 22 percent when calculated on the basis of median monthly wages.
- Across the world, the proportion of women declines, sometimes sharply, in the transition from lower to higher hourly wages.
- Women tend to spend around 2.5 times more time on unpaid care and domestic work than men. The amount of time devoted to unpaid care work is negatively correlated with female labour force participation.
- Women are constrained from achieving the highest leadership positions. In 2019, only 6.6 percent of Fortune 500 CEOs were women.

Source: Based primarily on ILO 2018, UN Women 2018.

<sup>7</sup> See, for example, the Women’s Empowerment Principles established by the UN Global Compact and UN Women in 2010.

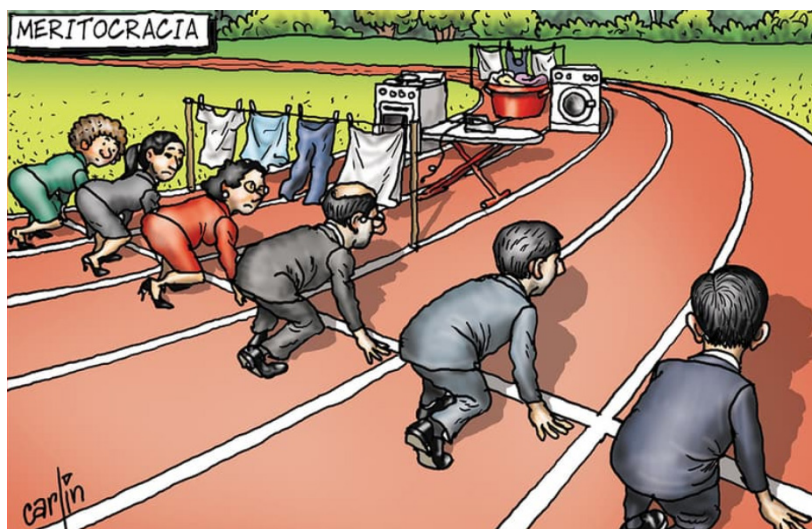


Image source: [larepublica.pe/carlinatura/](http://larepublica.pe/carlinatura/).  
Reproduced with permission from Carlos Tovar "Carlin".

From a structural perspective, what is the core issue underpinning gender inequality in the workplace? Essentially, it relates to segmented labour markets, cultural bias and the gender division of labour associated with caregiving.<sup>8</sup> Women's paid work is often concentrated in low-paid, low-quality jobs. Advancement within the workplace and career structures remains heavily constrained by cultural norms and bias that disadvantage women. These constraints reinforce the so-called double burden: even as women increasingly take up paid work, they continue to assume the primary responsibility for non-paid care provision.

From the perspective of gender justice and transformative change, it is important to re-think priorities and metrics within corporate sustainability accounting related to gender equality in the workplace. Chapter 6 of the report focuses on three specific key performance issues and related indicators: (i) the gender pay gap; (ii) gender balance within corporate structures, and (iii) corporate support for caregiving.

While corporate sustainability reporting may address these issues, the indicators used often do not allow management and other stakeholders to effectively gauge performance related to gender equality in any comprehensive sense. The measurement of the gender pay gap—the average remuneration of women as a percentage of that of men,

measured in terms of monthly or hourly earnings—is clouded by methodological issues, underreporting, or the tendency to provide one company-wide figure rather than a breakdown by occupational or income categories. In the case of gender balance, attention focuses heavily on women's representation at the highest executive levels, or on company boards, rather than diversity within different occupational and hierarchical categories. In the case of care, attention often focuses narrowly on one aspect—maternity or paternity leave associated with pre- and post-natal care or adoption—rather than care as a multi-faceted and long-term lifecycle issue.

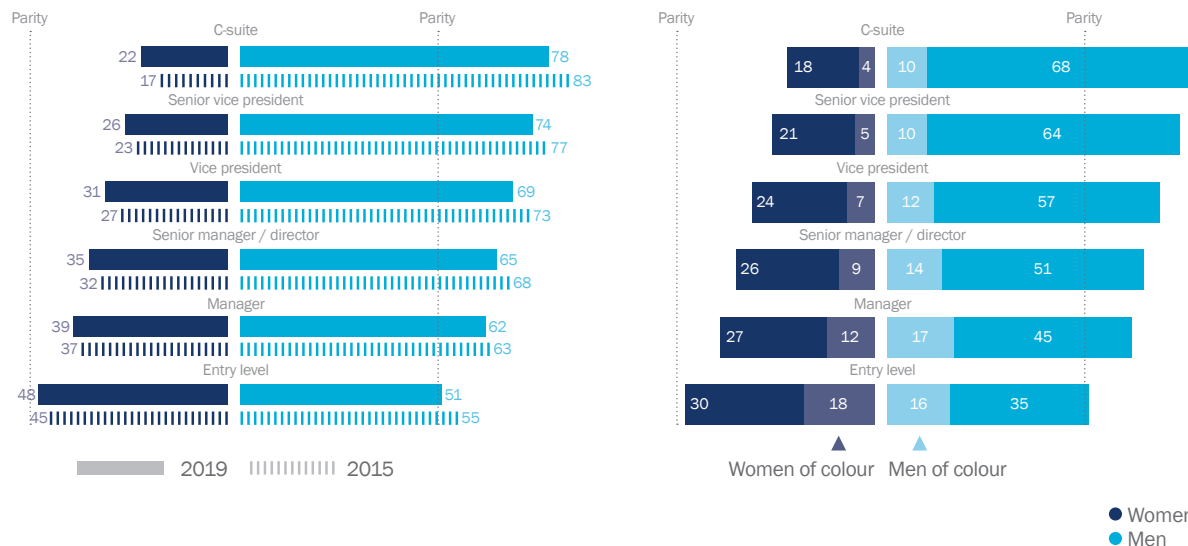
The gender pay gap is an indicator that factors in structural determinants associated with the "sticky floor", the "glass ceiling" and the "double burden". In other words, it takes account of the determinants of gender disadvantage linked to sectoral or occupational gender segregation or polarization, as well as the suppression of women's remuneration and possibilities for full-time work and promotion linked to educational disadvantage, care responsibilities, and cultural norms and bias.

Conventional disclosure and reporting related to these aspects suffer from two major limitations. First, the metrics and indicators do not necessarily tell us very much about whether the structural conditions related to segmented labour markets and segregated occupational categories, as well as cultural norms, bias and the care burden, are being addressed. Second, conventional indicators often relate to very partial aspects of gender inequality and disadvantage in the workplace that miss the bigger picture.

Metrics and targets related to gender balance need to extend beyond company-wide averages, and the boardroom or the C-suite, to a diverse range of occupational, hierarchical and remuneration categories. Figure O.2 suggests a data presentation format that reveals gender balance within different occupational categories, how it has changed over time and how it relates to gender parity. A similar format can be used to reveal the state of play regarding representation of ethnic or racial groups.

<sup>8</sup> See ILO 2019, UNRISD 2005, Barrientos 2019.



**Figure 0.2. Representation (%) of men and women in the corporate pipeline in relation to gender parity** (United States and Canada, 2015 and 2019)

● Women  
● Men

Figure source:  
McKinsey & Co. and LeanIn.  
Org. 2018, 2019.

Presenting data by occupational category provides a window onto how women are faring in relation to four transitions: (i) from the home or the informal economy into the formalized workforce; (ii) from operational to managerial roles; (iii) from junior to senior management, and (iv) through the glass ceiling to the C-suite and the boardroom.

The report identifies normative targets that have been proposed or applied, which provide a benchmark against which to measure progress. Targets within the range of 30 percent to 50 percent, and the specific goal of 40 percent, constitute markers for gender diversity that are gaining currency. Normative targets noted for the gender pay gap range from less than 3 percent to parity, with annual reductions of 3 percent or more sometimes cited as best practice.

While sustainability accounting related to gender diversity and the pay gap has shown signs of improvement in recent years, the same does not apply to the issue of care. Conventional sustainability disclosure and reporting appear to have missed a key point about care as a material issue: it is not simply a short-term issue related to maternity or paternity leave associated with pre- and post-natal care or adoption, but a long-term lifecycle issue. It is imperative for standard-setting bodies to develop more effective reporting guidelines and targets related to care.

While public policy must play a key role, there are numerous ways for companies themselves

to support and facilitate care. Emerging best practice suggests six types of support that are key: (i) paid maternity/paternity leave beyond legal norms; (ii) on-site provision of care services or subsidies to access off-site facilities; (iii) emergency back-up care, which allows employees access to child and elderly care services for a set number of days per year; (iv) flexitime or compressed work weeks; (v) teleworking; and (vi) programmes to smooth transition to and from extended leave.<sup>9</sup>

Given that caregiving is a lifecycle issue, it is important that companies have in place a policy that addresses this fact and recognizes the need for some level of support for an employee's caregiving needs associated with pre-kindergarten, pre-teen and elder care.

But disclosure needs to extend beyond descriptions of company principles, policies and programmes. Standard-setting bodies and companies should identify quantitative indicators to measure corporate sustainability performance related to care along various dimensions: (i) how many of the possible forms of support noted above are provided; (ii) levels of financial support; and (iii) potential as well as actual beneficiaries. Potential beneficiaries would include employees with significant care responsibilities, and those entitled to care support. Actual beneficiaries include those who actually take advantage of various forms of care support to which they are entitled.

<sup>9</sup> McKinsey & Co. and LeanIn.Org. 2018.

## CHAPTER 7

# Corporate Taxation

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WEALTH ▲



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**[T]he core of public and government concern over corporate tax behaviour is fairly straightforward, i.e. the perception that some corporate taxpayers may be taking steps to ensure that taxable income, profits or gains do not arise in jurisdictions where business operations are actually located, but elsewhere, particularly in jurisdictions where they will be subject to low or no tax.**

Christian Aid, Oxfam and ActionAid (2015)

The issue of income inequality involves not only patterns of distribution within corporate structures and value chains, but also distribution involving other stakeholders, not least governments and citizens affected by taxation. A secular trend under globalization has been the shift from progressive to regressive forms of taxation, reflected, for example, in lower rates of corporate tax and income tax paid by the rich, as well as higher rates of consumption (including value-added) tax. Corporations often engage in so-called aggressive tax strategies and planning, which foster tax dodging. Global profit shifting to affiliates outside of headquarter countries was estimated to involve nearly 40 percent of transnational corporations' profits in 2015 (55 percent in the case of affiliates of US TNCs), accounting for some USD 600 billion being shifted from relatively high to very low tax destinations.<sup>10</sup>

<sup>10</sup> Tørsløv, Wier and Zucman (2018)



Another concern relates to the “tax gap” between the rate of tax actually paid and the statutory rate. Research carried out by MSCI ESG Research on 2,160 companies compared each company’s reported tax payments between 2011 and 2015 with the average corporate tax rate of the countries in which it generated revenues. According to the findings, about a quarter, 531 companies, were found to have a “high tax gap” of 10 percent or more below the average statutory rate. Their average effective tax rate was 14.3 percent, less than half of the average “expected” statutory rate of 31.8 percent (Sayani 2017).

While the international development community has long been concerned about corporate strategies to minimize tax revenues via such means as transfer pricing and the use of tax havens, the issue has often flown under the radar within corporate sustainability accounting.

The SDGs, notably SDG 17, have reinforced interest and concerns related to corporate taxation, which is seen as a key mechanism for achieving the level of domestic resource mobilization required to implement the SDGs via, for example, investment in public infrastructure and services. Clearly, it is also relevant for achieving SDG 10—reducing inequality within and between countries.

Chapter 7 of the report suggests a number of key performance indicators and reporting formats for assessing whether corporate tax behavior is consistent with sustainability norms. The first step must be transparent country-by-country reporting that (i) shows whether taxes paid reflect real business activity and (ii) is publicly disclosed. Within the field of voluntary reporting, Vodafone has taken the lead in disclosing such data (see Table O.2).<sup>11</sup> According to Faccio and Fitzgerald:

The...data...clearly shows the misalignment between the current taxable profit allocation and indicators of the Group’s real economic activities (sales, employees and assets) in the countries where Vodafone operates and thus the potential for [base erosion and profit shifting] activities by the Group through the use of low-tax ‘conduit’ countries (2018:75).

Nevertheless, with such data in the public domain the company’s stakeholders can assess far more accurately the nature of the sustainability challenge the company faces in this area. As with other types of cutting-edge disclosure—for example, when companies calculate their Scope 3 carbon emissions—the data may reveal a wide gap between actual performance and sustainability

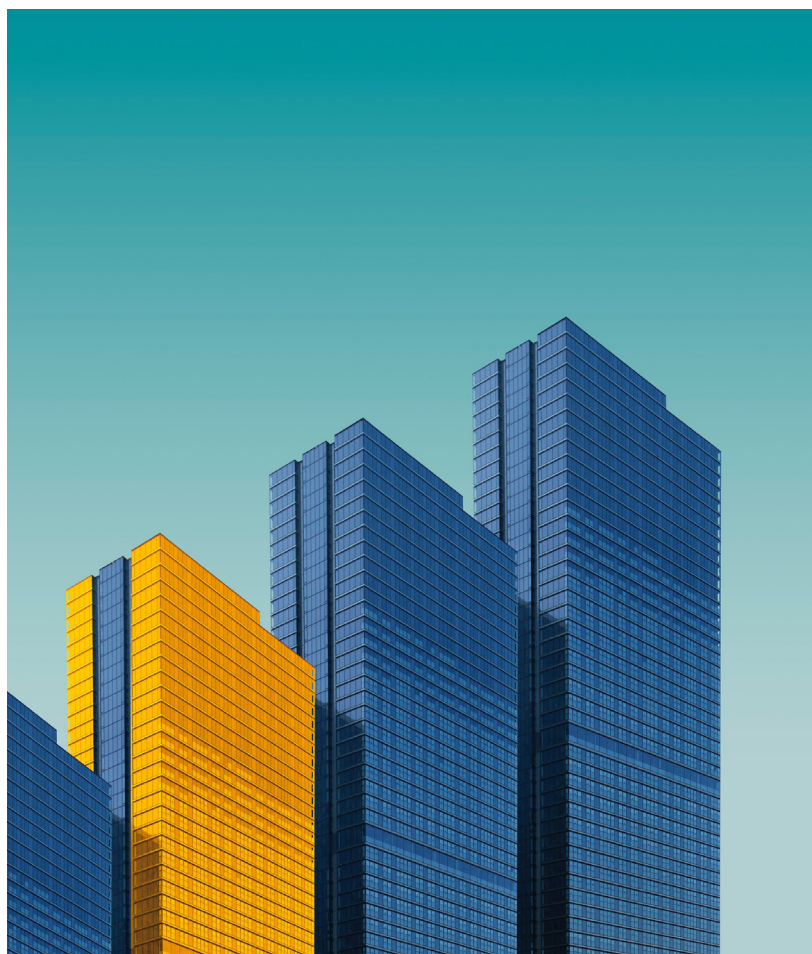
**Table O.2. Vodafone Group countries of operations**  
(Top three countries by economic activity and by profits, millions of euros, 2016-2017)

	Revenues	Profits*	Employees	Assets	Corporation Tax
<b>Countries with most economic activity</b>					
Germany	10,619	-636	15,714	1,925	89
UK	7,536	-504	17,951	1,491	-89
India	6,847	-338	23,836	1,313	340
<b>Countries with most profits</b>					
Luxembourg	187	1,450	325	17	5
South Africa	4,187	1,077	5,213	544	359
Italy	6,249	686	7,339	881	87

\*Profits before tax

Source: Derived from Faccio and Fitzgerald 2018:75-76, 88-89, based on Vodafone 2018.

<sup>11</sup> Vodafone Group Plc. *Taxation and our total economic contribution to public finances 2016-2017*. Accessed 30 November 2019. [https://www.vodafone.com/content/dam/sustainability/pdfs/vodafone\\_2017\\_tax.pdf](https://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2017_tax.pdf)



norms, but at least the companies taking on this challenge are among a small group that are being upfront about the state of play.

From the perspective of transformative change, the key question is: “Does the company provide qualitative and quantitative data that might support the commitment to avoiding artificial corporate structures?” (PRI 2018) Of particular interest in this chapter of the report is the quantitative dimension of the question. Useful data include:

- effective tax as a percentage of pre-tax profits by group, affiliate and country;
- pre-tax profit as a percentage of revenues (three-year average, given possible wide fluctuations in annual figures);
- profit attributed to recognized tax havens and low-tax jurisdictions; volume and percentage of group profits;

- tax gap: effective tax rate as a percentage of statutory tax rate;
- effective tax rate as a percentage of the industry rate; and
- ratio of pre-tax profits to wages, by affiliate.

Tax justice and the transformative challenge related to taxation involves transitioning from a regressive and aggressive tax system to one that is progressive.

Establishing thresholds and targets to assess good or bad corporate tax performance over time is difficult not only because of differing opinions as to what is legitimate in terms of commercial practice and “tax planning”<sup>12</sup> but also because so much depends on public policy and regulation. What should corporations on their own be expected to do? At a general level, it seems clear that they should be facilitating, rather than resisting, reforms aiming for tax justice and enhanced disclosure and transparency. From the perspective of sustainability accounting and transformative change, corporations can no longer be part and parcel of an aggressive and regressive international taxation agenda, where their practices fuel a headwind against people-centred and equitable development (Brock and Pogge 2014).

Benchmarks could be used for certain indicators. In relation to the tax gap, for example, a range of 0 to 5 percent might be considered legitimate. An alternative approach to benchmarking, adopted by the Fair Tax Monitor to assess government performance, scores the trend rather than setting a fixed time-bound benchmark.<sup>13</sup> Progressivity, then, would be reflected in convergence of effective tax rates with statutory and industry norms; regressivity/aggressivity would be reflected in divergence. For corporations operating in multiple countries, fairness would be reflected in trends showing a reduction of misalignment between taxes paid and economic activity by country.

<sup>12</sup> See Faccio and Fitzgerald 2018:76, in relation to Vodafone.

<sup>13</sup> Make Tax Fair, Oxfam Novib, Tax Justice Network-Africa. *FTM Methodology and Results*. 2015. <https://maketaxfair.net/ftm/about-fair-tax-monitor/>





## CHAPTER 8

# Labour Rights



**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)*

An underlying cause of inequalities that disadvantage many workers, women and other social groups has to do with highly skewed power relations. Through the lens of labour rights and corporate political influence (addressed in Chapter 9), the report examines how corporate sustainability disclosure can reveal both the scale of the problem and how corporations might take steps to reconfigure power relations in ways conducive to sustainable development.

Attention to labour rights often figures prominently within discourse and policy objectives associated with social development and corporate social responsibility. Real world trends, however, have tended to move in the opposite direction, notably in the context of public policy agendas and management strategies favouring labour market flexibilization and outsourcing. The two conventional indicators associated with core labour rights, namely, trade union density (percentage of workers belonging to a trade union) and collective bargaining coverage (percentage of workers covered by collective bargaining agreements) reveal a declining trend over several decades.



There is ample room for corporations to act within their sphere of influence to alter the current trajectory of labour rights erosion. Corporations have the chance to modify this trend, most directly when collective bargaining occurs at the enterprise level but also sectorally—in particular when the corporation in question is a dominant industry player—and nationally, through participation and influence in employers' associations.

Chapter 8 of the report examines indicators that can demonstrate whether corporations are facilitating the necessary reconfiguration of power relations in corporate governance

through actions that strengthen core labour rights. It outlines several concerns related to underreporting on labour rights and inconsistency in the type of data disclosed, and goes on to emphasize the need for transnational corporations to provide disaggregated data that reveal variations in labour rights by country where major affiliates and suppliers are located, rather than a general group-wide figure. This in turn requires transparency regarding the location of suppliers. The chapter ends by calling attention to blind spots in reporting that are key for assessing corporate sustainability performance in relation to labour standards and labour rights. They include the scale of reliance on temporary labour and subcontracting via labour brokers, and the extent to which a company's pricing and procurement policy or practices contradict—or align with—the sustainability objectives of both lead corporations and suppliers.

While reporting frameworks, such as those of the Global Reporting Initiative and Sustainability Accounting Standards Board, generally call on companies to disclose the percentage of employees covered by collective bargaining agreements, few appear to do so. The paucity of disclosure relates not only to organization-wide percentage metrics but also to (i) data disaggregated by region or country where a corporation operates, (ii) supply chain mapping, and (iii) the tendency to provide annual snapshots as opposed to extended time-series data.

A critical first step within sustainability accounting is to reassert the importance of labour rights by correcting a bias that often characterizes disclosure related to labour standards. Both public policy and corporate policy suffer from the same problem: the tendency to focus more on management systems and performance related to social protection or working conditions, rather than the realization of labour rights. But even companies that emphasize labour rights in their social responsibility agenda often fail to comply with the minimum guidance of the GRI and other standard-setters regarding quantitative data on collective bargaining coverage.



Annual data snapshots of company-wide collective bargaining coverage can do more to obfuscate than clarify. It is important that data be presented in a way that facilitates trend analysis, for example via time series that span a minimum of five years. Data from Total and Electrolux in Table O.3 show why this is so from the perspective of sustainability accounting. Simply knowing that 71.5 percent of Total's employees, or 58 percent in the case of Electrolux, were covered by collective bargaining in 2018 and 2017, respectively, tells us nothing about their different performance trends, which in one case is trending upwards, and in the other downwards.

It is also crucial to provide country-by-country data to reflect and detect variations in countries where key affiliates and major suppliers operate, as noted in the case of PUMA (see Box O.4). A number of corporations are also attempting to extend the collection and disclosure of information beyond top-tier suppliers to others in the supply chain, including raw material suppliers.

High sustainability performance would be assessed not only on the basis of high rates of unionization and collective bargaining coverage, but also ongoing improvements through time and the extent to which significant regional or country deficits are corrected. It should be noted that certain legal contexts may limit both workers and companies in their ability to enable unionization. The same need not apply for collective bargaining, however, given the possibility of diverse forms of worker participation and representation in governance within the enterprise which do not necessarily require a trade union.

Given the importance in some countries of sectoral and national-level bargaining, there may be limits as to what should be expected of corporations in terms of quantitative improvements in collective bargaining coverage at the enterprise level. Nonetheless, this suggests that corporate responsibility should extend beyond enterprise-level efforts to facilitate freedom of association and collective bargaining

**Table O.3. Collective bargaining coverage at Total and Electrolux**

	2013	2014	2015	2016	2017	2018
<b>Total*</b>						
% of employees	...	67.8	65.5	68.9	73.1	71.5
<b>Electrolux**</b>						
% of employees	63	63	59	57	58	...

\* See <https://www.sustainable-performance.total.com/en/social-indicators>; <https://database.globalreporting.org/reports/57652/>

\*\* See <https://www.electroluxgroup.com/en/electrolux-sustainability-report-2017-24501/>

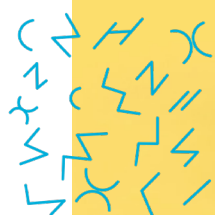
to encompass corporate lobbying and other forms of political influence that promote rather than resist progressive labour market policy reforms (as discussed in Chapter 9 of the report).

It is important to contextualize data on labour rights. Positive trends in freedom of association and collective bargaining coverage may mask regressive trends, such as significant decline in permanent or fixed-term employment and/or increased reliance on subcontracted labour, both of which are often associated with weak labour rights. It is useful, therefore, to (i) provide and compare time-series data on permanent and fixed-term employment with that on revenues and profits, and (ii) disclose data on the percentage of the workforce of affiliates or top-tier suppliers that are subcontracted.

The efforts of corporations to support labour rights within their supply chain are often contradicted by aggressive commercial policy and purchasing practices that constrain the capacity of suppliers to respond to enhanced sustainability norms through upgrading in the areas of labour rights and working conditions. To assess the prevalence of such situations, it would be useful for corporations to disclose the scale of financial support and incentives provided for suppliers engaged in social or sustainability upgrading.

## CHAPTER 9

# Corporate Political Influence



**[I]ncreasing market concentration in leading sectors of the global economy and the growing market and lobbying powers of dominant corporations are creating a new form of global rentier capitalism to the detriment of balanced and inclusive growth for the many.**

UNCTAD (2017:119)

The challenge of reconfiguring power relations involves not only enhancing the capacity of stakeholders negatively impacted by inequality and unsustainable development to exert claims on corporations and governments, but also restricting the capacity of corporate interests to shape public policy in ways that reproduce and reinforce inequitable patterns of development (see Box O.6).

Corporate political influence (CPI) has risen dramatically in recent decades. This reflects both the volume of financial and human resources allocated by corporations to electoral politics, lobbying and other forms of policy advocacy, as well as the relative decline of countervailing ideological and political forces associated historically with developmental or welfare states, trade unionism and other forms



**Box O.6. Why should corporate political influence be of concern?**

- Policy making, which should be in the public interest, ends up favouring narrower private or vested interests.
- CPI supports or fosters policies associated with economic liberalization and aggressive growth strategies—"free trade", tax cuts, environmental and labour market flexibilization or deregulation, etc.—that can undermine human and labour rights, social policy, environmental protection and development strategies in the Global South.
- There can be considerable misalignment between a company's lobbying objectives and its CSR or ESG principles and goals.
- CPI is opaque and largely hidden from view.
- The volume of resources dedicated to corporate lobbying is not only vast but far exceeds what can be mobilized by other stakeholders and interest groups.
- Corporations often support protectionist measures, subsidies and other incentives that may undermine the capacity of small- and medium-sized enterprises to access markets and compete on a level playing field.

After decades in which CPI was a quasi-taboo topic or one that was reduced to issues of corruption and bribery, a broader coalition of interests is now paying more attention to this issue, promoting a three-pronged agenda for action: (i) transparency, in order to expose and measure the spending and relationships associated with CPI; (ii) a management system to control for good and bad practice; and (iii) narrative reporting on lobbying positions. Particularly important from the perspective of sustainability accounting is to demonstrate when and how ESG principles and goals are supported rather than undermined by CPI.

Chapter 9 of the report addresses the challenge of measuring the sustainability performance of corporations as it relates to CPI and identifying appropriate indicators. Beyond transparency and qualitative indicators the chapter also considers possible quantitative indicators and targets.

Some standard-setting or ratings organizations are ratcheting up their guidance, insisting on more granular disclosure that captures forms of CPI that are often neglected, notably lobbying—both direct and indirect via, for example, trade associations (see Box O.7). Various advocacy organizations are also calling for disclosure related to the so-called revolving door—that is, the two-way flow of technical and managerial personnel between the public and private sectors under conditions that can create conflicts of interest.

of active citizenship. Systemic and structural changes associated with financialization and the scaling-up and concentration of market power underpin these developments. As UNCTAD explains, corporate financial performance is increasingly determined by "rents"—that is, "income derived solely from the ownership and control of assets, rather than from innovative entrepreneurial activity and the productive use of labour". Through CPI, corporations seek to craft the institutional arrangements, including property rights and regulations, that are needed to secure privileged access to and control of particular assets (UNCTAD 2017:120).

The current drive towards greater transparency and granular disclosure is an important first step in improving corporate sustainability performance accounting related to CPI. Relevant indicators include:

- forms of direct expenditure disaggregated by recipient (lobbying organization, political campaign);
- forms of indirect expenditure channeled through third party organizations (trade associations, not-for-profits);
- group-wide and subsidiary expenditures;

### Box 0.7. Ratcheting up CPI disclosure guidelines at RobecoSAM

In 2017 RobecoSAM introduced a new criterion for its annual global survey of company ESG performance, the Corporate Sustainability Assessment (CSA), to gauge the volume of political spending by company. Specifically, the criterion asked companies to (i) disclose their total spending on policy influence efforts over the last four fiscal years; and (ii) specify the top five recipients of those contributions grouped into organizations, candidates or issues. It soon became apparent, however, that more granular data would be required for any meaningful assessment.

According to the 2017 CSA:

- many companies only reported political contributions and very few companies “broadly and liberally disclose their spending in the various policy influence areas” (RobecoSAM 2018a);
- most did not publicly disclose expenditures beyond what is legally mandated, nor trade association memberships;
- contributions to trade associations far exceed more direct spending on lobbying, campaigns, and other explicitly political organizations;
- disclosure of issues or topics is rare (RobecoSAM 2018b);
- positive engagement on issues such as climate change or green building are far outweighed by the negative.

To address several of these issues, the two indicators were updated in 2018:

- separating the various types of spending into distinct categories;
- specifying the percentage of operations covered, where spending data is only available for specific regions; and
- specifying two major issues/topics for which a company spent money (directly or indirectly) to influence policy, the company's position in support or opposition, and the three largest contributions to organizations, candidates or associations.

Sources: RobecoSAM. 2018a. “The Good, the Bad, and the Ugly: Corporate Policy Influence under scrutiny in the age of SDGs”. In *The Sustainability Yearbook 2018*, edited by RobecoSAM. Accessed 30 September 2019. <https://www.goldfields.com/pdf/sustainability/sustainability-reporting/awards-achievements/robecosam-yearbook-2018.pdf>; RobecoSAM. 2018b. *2018 RobecoSAM Corporate Sustainability Assessment (CSA): Methodology Changes*. Accessed 30 September 2019. <https://es.slideshare.net/RobertDornau/2018-robecosam-csa-methodology-changes>

- percentage of operations covered, where spending data are only available for specific regions;
- country-by-country expenditures;
- expenditure by in-country jurisdiction (local, state/provincial, central/federal levels) in countries where headquarters and major affiliates are located;
- total and disaggregated spending over the last four fiscal years;
- spending by top five recipients; and
- three largest recipients per major policy issue or topic for which a company advocated and spent money.

From an aspirational perspective, however, transparency needs to go beyond data on corporate political spending and narrative reporting on policy positions. It also needs to address other dimensions of political influence such as knowledge transfer and the revolving door. Possible indicators here include:

- number of technical and managerial staff seconded to and from the public sector during the reporting year;
- number of new technical and managerial staff that worked in the public sector during the previous two years; and
- number of days that technical and managerial staff participated in expert group meetings organized by public sector entities.

The report proposes three possible approaches regarding sustainability targets related to corporate political influence. The first is zero tolerance: setting targets to cut political spending or eliminate it altogether. The second involves setting annual limits—in the range of USD 200,000 to 500,000 for large corporations, for example. The third involves setting targets for the amount of spending directly in support of issues and policies globally recognized as essential to the SDGs. Additionally, companies could indicate clearly the degree to which their overall lobbying is aligned with the SDGs.

# Summing Up

Part 2 of the report focuses on a concise set of key performance issues that relate to the structural determinants of (un)sustainable development. None of the issue areas is entirely new and yet, while key from the perspective of transformative change, they have been poorly treated within the field of corporate sustainability assessment. Within the portfolio of reporting guidelines of several standard-setting and ratings organizations can be found metrics and indicators that relate to each of the five areas. The report argues, however, that the disclosure bar needs to be raised in various respects.

It is also important to note that while the normative targets identified in the report may appear highly ambitious, they should not simply be dismissed as unrealistic or unhelpful. As noted in relation to carbon emissions, for example, several companies committed to sustainable development objectives are calculating their impacts along the entire value chain within their sphere of influence. In so doing, they recognize the daunting challenge posed by science-based emissions targets. They also realize, however, that such measurement and disclosure is critical for alerting management and other stakeholders to the scale of the challenge ahead and for developing a long-term strategy. Such measurement and reporting, in itself, can be an indicator of whether a corporation truly comprehends the meaning of sustainable development, its position on a sustainability pathway, and where it needs to travel to transform fundamentally.

## Raising the bar

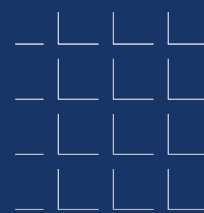
The bottom line is that it is only possible to gauge whether a company is on a sustainability pathway if it discloses data that are structurally oriented, quantified, contextualized and user friendly.

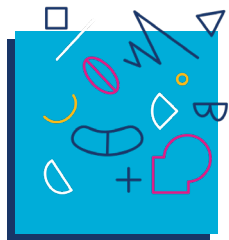
The starting point is to prioritize issue areas that relate to the structures that reproduce inequality and injustice. The report argues that the emerging shift within environmental

disclosure—from a narrow concern for resource intensity to the more ambitious goal of absolute decoupling—serves this purpose, as it directs attention to the need for transformative change associated with production and consumption patterns. The five issue areas that are the focus of Part 2 of the report would accomplish a similar purpose for aspects of sustainability associated with distributional justice, gender equality and democratic governance.

Throughout, the report also insists on the need to pay more attention to quantitative indicators and to guard against reading too much into many of the qualitative indicators that are often held up as a proxy for improved performance. Another major concern is that conventional disclosure and reporting tend to be de-contextualized, that is, disconnected from certain background, related or normative conditions which, when added to the equation, enable users of data to gain a far clearer picture regarding corporate sustainability performance. Company-wide averages, for example, may mask major variations in performance by region, country or affiliate. A focus on activities directly controlled by the corporation may mask what is happening within a company's sphere of influence in relation to the supply chain and distribution. Highlighting positive performance in one issue area or indicator may mask negative performance in another related area. Particularly worrisome is the fact that conventional sustainability reporting generally focuses on current performance without contextualizing the present in relation to either the past or the future. It is impossible to assess current performance without knowing whence we came (past performance) and where we want to get to in terms of normative targets.

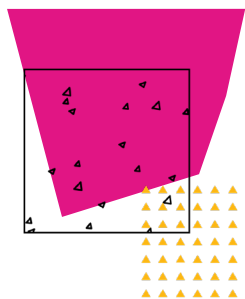
The report's main findings related to (i) how issues and indicators could be reconfigured, (ii) the need for more granular and transparent disclosure, and (iii) normative targets that define performance in relation to sustainable development are summarized below.





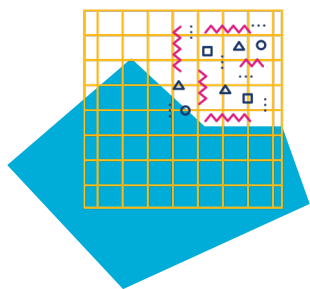
## Main findings: Issues and indicators

Fair remuneration	When considering whether remuneration is fair, it is essential to examine not only wage levels at the bottom of the income pyramid but also at the top. When calculating pay ratios based on CEO remuneration, it is important to move beyond comparing CEO remuneration with the average remuneration of all other employees by calculating the <b>CEO-worker pay ratio</b> . There is also the possibility of comparing CEO pay with that of employees in the lowest income quartile.
	Compare actual wages not only with the minimum wage or industry norms, but also with the <b>living wage</b> . Compare the percentage increase in wages with that of management and CEO remuneration, as well as profits. A useful quantitative indicator is the percentage of employees earning below the living wage.
Gender equality	Broaden the focus on maternity or parental leave associated with childbirth and adoption to encompass <b>care support</b> provided or required throughout the lifecycle. In relation to the portfolio of possible support programmes, disclose which forms of support are provided. Disclose the percentage share of employees requiring care support with those entitled to care support and those who actually receive such support.
Corporate taxation	Disclose not only the amount of corporate taxes paid but also the <b>tax gap</b> (effective tax rate as a percentage of the statutory rate), the effective tax rate as a percentage of pre-tax profits and the industry norm, and the volume and percentage of global profits attributed to recognized tax havens and low-tax jurisdictions.
Labour rights	Focus not only on working conditions but also on labour rights, in particular <b>trade union density and collective bargaining coverage</b> . Include data on the volume and percentage of total employees in affiliates, factories and top-tier suppliers engaged via subcontracting and temporary contracts.
Corporate political influence	Move beyond disclosure related to corporate political spending to include forms of influence associated with <b>lobbying and the revolving door</b> .



## Main findings: Transparency and granular disclosure

Gender equality	Go beyond company-wide metrics by disaggregating both <b>gender representation and the gender pay gap by occupational category</b> .
	Fully disclose and quantify lifecycle care needs and levels of support, <b>disaggregate company support for caregiving</b> by different types of support in terms of expenditure and number of beneficiaries.
Corporate taxation	<b>Publicly report country-by-country tax disclosure</b> that includes metrics related to revenues, assets, employment, pre-tax profits, taxes paid and the effective tax rate.
Labour rights	Reveal <b>collective bargaining coverage and trade union density</b> by main <b>countries of operation, and by affiliate and main suppliers</b> ; and <b>publicly disclose supply chain factories</b> , enterprises and producers, including employment and labour rights data.
Corporate political influence	Move beyond partial to <b>full disclosure related to multiple forms of corporate political influence</b> by providing data on both direct and indirect political and lobbying expenditures (including via trade associations), as well as by different levels of policy making (international, national, state/provincial and municipal), countries of operation, major affiliates, major recipients, and major issue areas and SDGs.

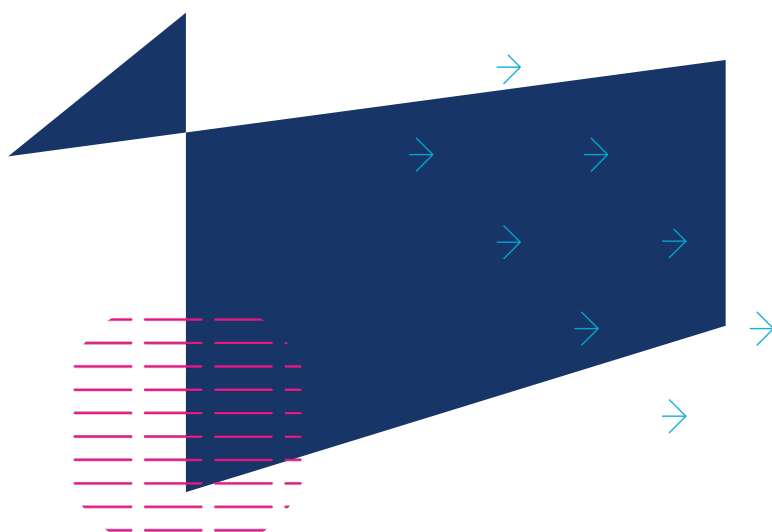


## Main findings: Normative goals, targets or target ranges

- CEO-worker pay ratios in the region of 10-50 to 1 depending on sectors and institutional settings
- Wage levels that meet the living wage
- Decreases in the gender pay gap of 3 percent or more per annum, and a gender pay gap of less than 3 percent
- Equal representation of women and men in the workforce; women's representation above 40 percent at board and executive levels
- A corporate tax gap within the 0 to 5 percent range
- An increasing as opposed to declining trend in collective bargaining coverage, with the aim of achieving full coverage
- Zero corporate political spending, or spending not exceeding USD 200,000 to 500,000 per year in the case of large corporations
- Regarding the revolving door, zero movement of personnel from the public to the private sectors during a two-year cooling off period

The discussion in Part 2 also insists on the need to enhance user-friendly disclosure through **time series data** that reveal trends over time. A five-, 10- or even 20-year time horizon for several of the above indicators is far more revealing than an annual or two to three year snapshot. Time series data are important for revealing instances of **contradictory performance** or **red flags**. Such data allow stakeholders to better assess the validity of the seemingly positive developments in corporate sustainability metrics and indicators associated with fair remuneration, labour rights/employment and corporate political influence, as noted below.

Fair remuneration	Does compliance with minimum wage regulations and industry norms mask the fact that increases in nominal wages fall far short of increases in labour productivity and profits, or do not translate into increased real wages when adjusted for inflation?
Labour rights	Do increasing rates of collective bargaining coverage among full-time employees occur in a context where the percentage share of full-time employees is declining in relation to subcontracted (non-unionized) labour? How do changing levels of full-time employment compare with those of revenues and profits? Such data reveal whether economic growth supports or undermines growth in full-time employment.
Corporate political influence	Long-term trends that indicate growing market share may signal a context conducive to increased corporate political activity and influence.



## Future work

At various points the report refers to ongoing challenges of designing and promoting indicators for transformative change. It is hoped that the structural and contextualized approach presented in the report provides a foundation for future work to ensure that corporate sustainability accounting serves to effectively measure impacts and assess progress.

The UNRISD research behind the report is complementary to cutting-edge civil society and private sector initiatives in this field. It highlights not only the need for multi-stakeholder collaboration, but also the useful role of United Nations-led and inter-agency inquiry in advancing the practice of corporate sustainability measurement and performance. It is vital that organizations like UNRISD, the ILO, UNCTAD, UN Women, OHCHR, UNEP, and specific initiatives such as the UN Global Compact, among others, come together in a more structured way to address ongoing blind spots, reprioritize issues, refine indicators, harmonize methods, promote user-friendly disclosure formats and identify normative targets.

Such a group could usefully engage in the following areas of work.

- **Forging a consensus on the relevance of the approach** to sustainability disclosure and the five issue areas and related indicators highlighted in this research.
- **Examining other transformative blind spots** that are flagged in the research but not examined in depth, such as the fair distribution of income and value added throughout the global commodity or value chain, and whether a company's commercial policy and purchasing practices facilitate or undermine its upgrading efforts in the supply chain.
- **Promoting granular and transparent disclosure**, identifying those indicators where this is particularly important, such as country-by-country tax disclosure, pay and promotion by occupational category, and supply chain performance.
- **Promoting user-friendly disclosure through time series data** that allow stakeholders to view trends as opposed to annual snapshots.
- **Highlighting the need for disclosure and data related to contradictory performance** trends or "red flags".
- **Raising the bar and promoting greater consistency and harmonization of the methods for calculating specific indicators**, such as CEO pay and CEO-worker pay ratios, the living wage, the gender pay gap, care support and corporate political spending.
- **Identifying normative targets or target ranges related to thresholds and fair allocations** consistent with a transformative notion of sustainable development.
- **Examining the possibilities of time-bound targets** that set a certain date for compliance, as is beginning to occur in the case of carbon emissions or as seen in the 2030 horizon for the SDGs.



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# Acronyms

CPI	corporate political influence
CSR	corporate social responsibility
ESG	environmental, social and governance
EU	European Union
FLA	Fair Labor Association
GRI	Global Reporting Initiative
ILO	International Labour Organization
IRIS	Impact Reporting and Investment Standards
OHCHR	Office of the High Commissioner for Human Rights
SDG	Sustainable Development Goal
SBTi	Science Based Targets Initiative
SSE	social and solidarity economy
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme

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## **Corporate Sustainability Accounting WHAT CAN AND SHOULD CORPORATIONS BE DOING?**

Today's global crises—financial, climate and health—as well as the Sustainable Development Goals have raised the bar in terms of expectations regarding corporate sustainability performance. They have also highlighted the need for sustainability policy and practices that address not only the symptoms of unsustainable development, but also the underlying causes associated with structural conditions that reproduce inequality, vulnerability and planetary degradation.

How, then, might corporate sustainability disclosure and reporting be repurposed to achieve these ends and, in so doing, measure and promote progress from the perspective of the transformational vision of the SDGs?

Part 1 of the report assesses the current state of play, tracking the impressive expansion and ratcheting up of sustainability indicators over three decades. But it also identifies ongoing major weaknesses: the failure of disclosure and reporting to conform to basic accounting principles, as well as the neglect of a number of issue areas and indicators that are absolutely key for assessing progress towards sustainable development.

Part 2 delves into the specifics of disclosure from the perspective of transformative change, focusing on five key performance issues—fair remuneration, gender equality, corporate taxation, labour rights, and corporate political influence—and unpacking the approaches, quantitative indicators and normative targets that need to be adopted if corporate sustainability performance and disclosure is to contribute in any meaningful way to a sustainable future.