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Reconfiguring Power Relations

THE MISSING LINK IN SUSTAINABILITY REPORTING

While corporations are being urged to shift to a more inclusive model of "stakeholder capitalism", the reality is that power relations have become highly skewed in favour of particular interests, not least those of corporate or managerial elites. Lack of attention to power relations and how they need to be reconfigured is the elephant in the room when assessing how corporations perform in relation to sustainable development.

It is often assumed that it is sufficient to have the right principles, policies, programmes and regulations in place—whether adopted by governments, companies or other organizations—in order to determine whether resources are converted into ends consistent with human well-being and planetary health. Often ignored is how power relations shape patterns of resource mobilization and distribution—and indeed the principles, policies, programmes and regulations themselves. This same short-sightedness limits the effectiveness of efforts to assess the sustainability performance of corporations.

Over several decades there has been a fundamental shift in the power relations that shape both policy making and the distribution of income and profits (see Figure 1). The most obvious imbalance involves the decline in the role played in the past by organized labour in improving pay and working conditions. Similarly, the bargaining power of small producers and other suppliers within global value chains often pales in comparison to that of lead corporations. And when it comes to the capacity of different interests to shape public policy and the regulatory environment, corporate elites exert a degree of influence that can eclipse that of others. Such imbalances will have to be corrected if the transformational vision of the Sustainable Development Goals (SDGs) is to be realized.

Box 1. Sustainable Development Performance Indicators Project (SDPI)

UNRISD's SDPI project (2018-2022) aims to contribute to the measurement and evaluation of the performance of economic entities—both in the for-profit sector and in the social and solidarity economy—in relation to the vision and goals of the 2030 Agenda for Sustainable Development. The project will assess the adequacy of existing methods and data associated with sustainability accounting; expand the scope of sustainability measurement, disclosure and reporting beyond for-profit enterprises to encompass enterprise models in the social and solidarity economy (SSE); identify and test a set of indicators that can effectively measure impacts, while ensuring that the economic behaviour of enterprises and other organizations contributes to maintaining environmental and social resources at the thresholds required for sustainable development. Phase 1 of the project, comprising both a state-of-the-art review and preliminary guidance on key performance issues, indicators and targets, was completed at the end of 2019, in view of a testing phase in 2020-2021. For more information, visit **www.unrisd.org/sdpi**.

CSES | Center for Social value Enhancement Studies

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Current efforts to measure and assess the sustainability performance of corporations, and improve existing disclosure and reporting practices, need to address the issue of power head on (see Box 2). This Brief highlights three sets of findings from the report *Accounting for Sustainability: What Can and Should Corporations Be Doing?* (Utting with O'Neill, 2020), prepared under UNRISD's Sustainable Development Performance Indicators project (see Box 1):

- the quality of **stakeholder engagement** in determining materiality, that is, what type of issues and data are important for decision making and assessment;
- inherent weaknesses in disclosure and reporting related to **labour rights**; and
- how to address blind spots related to **corporate political influence** (CPI).

Rethinking stakeholder dialogues

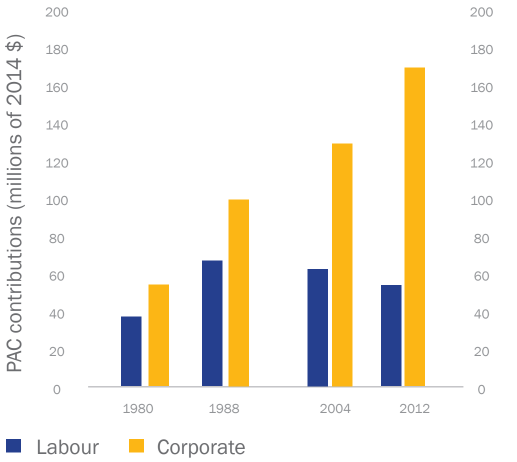
A first step in assessing sustainability performance is to determine which of the myriad impacts—direct and indirect—that a company's activities may have on both people and the planet are relevant and material. In this process of "materiality determination" (McElroy 2019), key stakeholders or "rightsholders" not only have to be identified but also consulted.* This process, however, is often reduced to fairly cosmetic or sanitized forms of consultation.

Stakeholder engagement typically involves a number of filters which serve to (i) limit the range and type of stakeholders actually consulted, (ii) narrow the knowledge base or disciplinary perspectives and worldviews that inform the process, and (iii) filter out certain preferences and recommendations in the process of designing a set of actionable issue areas.

Even stakeholders one might expect to be on the same side of the table may have very different perspectives, which underscores the importance of casting the net wide. Oxfam's ranking of the performance of the top ten agro-food corporations in relation to social responsibility and sustainability in their supply chains places Danone, for example, near the bottom of the performance ladder. Meanwhile, the global union federation IUF, which is particularly concerned with labour rights, tends to highlight the positive

* To overcome the vagueness inherent in the concept of "stakeholders", as well as the scope for cherry picking of who might be taken into account, the term "rightsholders" has been used. Potentially, it allows a company to identify more systematically those to whom it has legal duties and ethical obligations due to the multiple direct and indirect impacts of its activities on social, economic and ecological resources (Thurm and Baue 2018).

Figure 1. Corporate and trade union spending on campaign funding (US Congress, selected years)



Source: Based on Kramer 2017. Figure reproduced with permission. Note: PACs are political action committees in the United States that donate funds from their members to political candidates or legislative initiatives.

performance of Danone, as do some proponents of social business, such as founder of Grameen Bank and 2006 Nobel Prize winner Muhammad Yunus.

There is a need not only for greater diversity in stakeholder representation but also far greater diversity of the knowledge base and perspectives that inform materiality determination. A review of various academic subdisciplines and schools of thought concerned with the fundamental causes of (un)sustainable development and social in/exclusion (see Utting with O'Neill, 2020) reveals the importance of issues that are often treated poorly within corporate sustainability reporting and assessment, notably power relations between management and labour, as well as the capacity of corporate elites to influence public policy.

Labour rights

The decline in the power and influence of organized labour over several decades has fostered a harsh environment for social progress not only within corporations and their supply chains but also in the public policy arena. Repurposing corporate sustainability disclosure in the area of labour rights is crucial for revealing whether company practices and impacts are undermining or facilitating sustainable and fair development.

Of all the issue areas associated with disclosure related to decent work, reporting on freedom of association and collective bargaining is particularly weak. Core labour rights may receive considerable lip service within standard setting and guidance on corporate sustainability reporting, but disclosure and actual performance often leave much to be desired. Beyond the need to comply with basic reporting standards and the guidance of standard-setting organizations like the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), which call on companies to report the percentage of workers covered by collective bargaining agreements, disclosure needs to be contextualized. Let's take a look at what this means.

The reporting that does take place often tells us very little about actual performance. Take, for example, the statement that "60 percent of a company's employees are covered by a collective bargaining agreement". If the goal is to assess the sustainability performance of a company, we also need to know: (i) whether collective bargaining coverage has been trending upwards or downwards; (ii) if those 60 percent are evenly spread across the company's operations, or if they are concentrated in one or two countries while in other locations (or among top tier suppliers) there is little, if any, collective bargaining coverage; (iii) if the data only apply to regular or full-time employees, while other more precarious categories of employees are excluded; and (iv) what a normative, perhaps long-term target would be that a company should aim for if it truly wants to be on a sustainable development pathway. This type of contextualization is needed for disclosure on labour rights, but also for other issues identified in UNRISD research (Utting with O'Neill, 2020). The following takes the example of labour rights to show how time series data, granular reporting, identifying instances of contradictory performance, and normative target setting can improve measurement of corporate sustainability.

Recommendations for contextualizing data on labour rights

Trend analysis

Data snapshots of one or two years need to be replaced by time series data of, say, 5 or 10 years, as illustrated by the two company examples in Table 1.

Table 1. Total and Electrolux: Collective bargaining coverage (% of employees)

Total	2014	2015	2016	2017	2018
	67.8	65.5	68.9	73.1	71.5
Electrolux	2013	2014	2015	2016	2017
	63	63	59	57	58

Source: Company Integrated or Sustainability Reports, 2018, 2019. See here and here.

Granular and transparent reporting

Beyond company-wide metrics, PUMA, for example, provides a breakdown by country and region where its top suppliers are located. As noted in its narrative reporting, this assessment has drawn the company's attention to "a clear need to promote collective bargaining on the Indian subcontinent and some additional countries" (PUMA 2016).

Contradictory performance

Disclosure needs to be able to shed light on contradictory performance related to labour rights. Do improvements in collective bargaining coverage among regular employees occur, for example, in a context where subcontracting or reliance on temporary and part-time labour is increasing? This requires time series data that reveal changes in the relative proportion of full-time, part-time and subcontracted

Box 2. Why is CPI a 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, regressive fiscal policy and aggressive growth strategies that can undermine sustainable development.
- There can be considerable misalignment between a company's lobbying objectives and its own ESG (environmental, social and governance) principles and goals, as well as the SDGs.
- CPI is opaque and largely hidden from view.
- The volume of resources dedicated to corporate lobbying is not only vast but far exceeds that available to other stakeholders and interest groups. For every dollar spent on lobbying by trade unions and public interest groups in the United States, large corporations and their associations spend USD 34 (Drutman 2015).

labour. The issue of aggressive purchasing practices of lead corporations—practices that can constrain the capacity of the suppliers in their value chains to engage in social (and environmental) upgrading—also needs to feature far more centrally in the reporting landscape (Blasi and Bair 2019).

Setting normative targets

Strong sustainability performance can be assessed not only in relation to the target of full collective bargaining coverage, but also ongoing improvements through time; the extent to which significant regional, country and supply chain deficits are corrected; and improved performance related to the formalization of labour relations, for example, a decline in subcontracted labour as a percentage of the total workforce.

Corporate political influence

Growing market power tends to correlate positively with growing political power, as manifested in the ability of corporate elites to influence not only politicians, public policy and the public purse, but also to shift common sense understanding of what is appropriate or "normal". From the perspective of sustainable development, this process can be contradictory as it often promotes public policies that marginalize or undermine social and environmental objectives (see Table 2). It can also run counter to the pluralist conception of politics and democracy: all stakeholders (including corporate elites) have a right to a voice within the policy process but there must be some degree of equivalency in the volume of that voice. Realizing the transformational vision of the SDGs requires structural or systemic change (Baue 2019). As currently constituted CPI undermines that possibility (see Box 2).

Table 2. Lobbying Congress: Top 70 US corporations, 2017, millions of USD per issue area

Climate change	1.5
Diversity/inclusion	11
Taxation	44
Total expenditure (3031 issues)	281.5

Source: Oxfam America 2018

If and when CPI does feature among corporate reporting and performance standards, the focus tends to be on bribery and corruption or very specific types of political spending such as campaign contributions. Disclosure on other key aspects related to lobbying and the so-called revolving door—the two-way flow of technical and managerial personnel between the corporate and public sectors—tends to lag well behind. In an assessment of 104 large United Kingdom-based companies for the 2018 Corporate Political Engagement Index:

- companies scored better for their controls on political donations than other aspects;
- 76 ranked either fairly poorly, poorly or very poorly for their overall political engagement transparency;
- nearly 4 out of 5 companies ranked poorly for their lobbying transparency; and
- 97 out of 104 companies ranked poorly for their controls against the revolving door (Transparency International UK 2018).

New directions in standard setting and reporting

After decades in which CPI was a quasi-taboo topic, a broad coalition of interests is promoting greater transparency to reveal multiple forms of spending and influence, as well as a management system to control for good and bad practices via policies, training and so forth. As a result, lobbying is gaining more attention within sustainability reporting.

The GRI reporting standards now include a "Public Policy" standard (GRI 415), which became effective for reports or other materials published on or after 1 July 2018. In addition to recommending that an organization report "significant issues that are the focus of its participation in public policy development and lobbying" and "its stance on these issues, and any differences between its lobbying positions and any stated policies, goals, or other public positions", the GRI requires reporting organizations to disclose: (i) total monetary value of financial and in-kind political contributions made directly and indirectly by the organization by country and recipient/beneficiary; and (ii) if applicable, how the monetary value of in-kind contributions was estimated (GRI 2016).

Also gaining traction are calls for narrative reporting on lobbying positions and their alignment with ESG objectives and the SDGs. In 2017 RobecoSAM introduced a new criterion for its annual global survey of company ESG performance, requiring companies to disclose multiple types of direct and indirect political and lobbying expenditures (Gaffuri 2019). It soon became apparent, however, that more granular data was required for any meaningful assessment. Accordingly, the two indicators were updated in 2018 to include:

- separating 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, whether the company supported or opposed the issue, and the three largest contributions to organizations, candidates or associations (RobecoSAM 2018).

Disclosure related to political or lobbying expenditures and revolving door practices, as well as company policy constitutes an important first step in getting corporations to report on a "new" issue area. In the future, however, more attention needs to be focused on measuring progress in relation to quantifiable normative targets. Zero spending related to certain types of political donations, for example, is a criterion already adopted by some ratings or monitoring organizations. Other limits could also be considered as suggested in the following examples:

- A benchmarking study of seven large United States banks judged responsible practice related to CPI partly on whether the bank made less than USD 500,000 in political contributions

"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), co-author of "The Limits to Growth" 1972

In an assessment of how 119 companies in three high-risk sectors are responding to norms and regulations aimed at eliminating the use of forced labour in their supply chains, the KnowTheChain (2019) initiative notes that of seven actionable areas, the weakest responses related to recruitment practices and "worker voice".

"... increasing 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

in the last three years, which would amount to an average of less than USD 200,000 per annum (ICCR and Sustainalytics 2012).

- The lobbying tax proposal announced by Elizabeth Warren as part of her 2020 electoral platform for the US presidency set USD 500,000 per annum as a threshold, above which corporations would incur significant taxes.
- In relation to the revolving door, companies could adopt standards contained in some government regulations which demand a "cooling off" period of two years to avoid potential conflicts of interest.

Main takeaways

Moving out of the comfort zone: Stakeholder dialogues aiming to identify key performance issues need to incorporate a broader range of stakeholders, ideological perspectives and bodies of knowledge. Such a process would likely reveal issue areas—such as those addressed in this Brief—that currently constitute blind spots within corporate sustainability assessment.

Broadening the focus: Taking power relations seriously requires far more attention to both labour rights and corporate political influence. Reporting related to these areas needs to broaden its focus: not just working conditions, but also collective bargaining and freedom of association; and not just corruption or political donations, but also lobbying and the revolving door.

Transparency and granularity: Data on collective bargaining coverage and trade union density should be disclosed by main countries of operation, and by affiliate and main suppliers. Assessing and regulating corporate political influence requires far more disclosure related to 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, main recipients, and issue areas or SDGs.

Context matters: In order to assess progress, users of data need to know (i) the trajectory of change, (ii) how performance varies within corporate structures and the supply chain, (iii) whether instances of positive performance co-exist with impacts that are contradictory, and (iv) whether progress is significant or insignificant when compared to a benchmark that is meaningful from the perspective of sustainable development.

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This Research and Policy Brief was prepared by Peter Utting. The opinions expressed do not necessarily reflect the views of UNRISD.

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