



## SUSTAINABILITY: STANDARDIZED, QUESTIONED, MEASURED

by Kathy Graham

If corporations are to continue to provide the jobs and profits to sustain all the admirable UN Sustainable Development (SD) goals<sup>1</sup> and incorporate The Business Roundtable's newest Statement on the Purpose of a Corporation, **consensus on four critical elements that are currently missing needs to be developed**, namely:

1. **Suitable Standards**, defined as "something used as a measure, norm, or model in comparative evaluations."<sup>2</sup>
2. **Appropriate Institution(s) to Develop and Disseminate the Suitable Standards.**
3. **The Questions and their Answers** regarding **Acceptable Implementation of those Standards.**
4. **Conventional Agreement as to Whom and How the Sustainability Information Is Distributed.**

Currently, consensus doesn't exist on these four elements, which is causing much corporate CEO frustration.

***"Companies want harmonized metrics for the [17] UN [Sustainable Development] goals so we don't have to argue with everybody,"*** says Bank of America's CEO Brian Moynihan. ***"Right now, you can hit something [a UN SD goal] and then somebody else has something else they want to measure."***<sup>3</sup>

Below are the details on what's causing confusion along with possible solutions to achieve consensus.

### **Suitable Standards and Institutions to Develop and Disseminate those Standards**

Choices include:

1. The UN-backed PRI, an NGO informing shareholders who invest in companies, admits that the "ESG factors are numerous and ever-shifting."<sup>4</sup>
2. ISS, a private equity-owned proxy advisory company representing investors and often voting their shares. ISS owns >61% of the proxy business, which is in alignment with its private equity owner's goal "to transform its portfolio companies into industry-leading businesses." ISS has eight businesses: governance, ESG, market intelligence, fund services, security class action services, media, economic value added, and ISS corporate solutions.<sup>5</sup>
3. NASDAQ, a for-profit corporation that owns numerous exchanges and products, such as OneReport.<sup>6</sup>
4. The various credit rating agencies, all with different methods of valuing the credit ratings for securities, based upon debt instruments.
5. Sustainable Accounting Standards Board (SASB), Financial Accounting Standards Board (FASB), and International Accounting Standards Board (IASB) are the three nonprofit financial reporting organizations that try to coordinate their standards.

Bank of America's **Moynihan**, who is also the chairman of Davos World Economic Forum's International Business Council, is **championing that the Big Four accounting firms create standard metrics, a rating system that incorporates the existing work done by SASB (#5 above).**

His choice appears the most appropriate as it is the accounting firms who work for corporations; understand and apply standards to their tax, audit, and accounting work; and provide consulting to make companies run more efficiently, etc. Furthermore, it's SASB, FASB, and IASB that have as their main purpose the vetting and establishment of financial and accounting standards for corporations.

### **Acceptable Implementation and Distribution of Information Covered by those Standards**

The questions that need to be asked—How will success be defined? Who will be responsible within a company for which stakeholder group? What data will need to be reviewed and how often? How will it be measured?...and many more covered in my article "[For Best 'Statement on the Purpose of a Corporation' Results](#)"—well, these questions have not been widely asked yet, much less answered.

How can a corporation develop metrics and tools to value the new Business Roundtable corporate stakeholders—customers, employees, suppliers, communities, and the environment—let alone the additional UN SD goals, IF the conversations leading to answer these questions have not yet fully occurred...because the standards to answer these questions haven't yet been agreed upon.

Regarding the metrics and tools for valuing customers and other stakeholders: there are a lot of really great products/services being offered but consensus on what should be measured OR disclosed AND to whom has not yet occurred. Two of numerous current examples are:

- Amazon has millions of Prime subscribers but its executives do not disclose that number, whereas Netflix does disclose their subscriber counts because disclosure of customer metrics is voluntary. There's also little consensus about which customer metrics are most informative, how they should be calculated, reported and to whom—all investors or select investors.<sup>7</sup>
- SHRM's "A New Era in Corporate Responsibility" by Brian O'Connell on 1/4/20 provides an excellent 10 pages of possible ways that The Business Roundtable's new Statement could be applied to employees, local communities, suppliers, etc.<sup>8</sup>

***"If you want to measure something, you have to define what you measure,"*** stated Klaus Schwab, Davos World Economic Forum's founder and chairman, regarding his support of Moynihan's campaign to enlist the four large global accounting firms ***"to standardize how companies measure their contributions to the UN's sustainable development goals."***<sup>9</sup>

***"A prudent question is one-half of wisdom,"*** said Sir Francis Bacon nearly half a millennium ago. Crafting the questions, standards, and appropriate institutions to develop those standards is the other half of wisdom that helps corporations continue to provide the jobs and revenue streams supporting all these other admirable goals.

<sup>1</sup> 1. No poverty. 2. Zero hunger. 3. Good health and well-being. 4. Quality education. 5. Gender equality. 6. Clean water and sanitation. 7. Affordable and clean energy. 8. Decent work and economic growth. 9. Industry, innovation, and infrastructure. 10. Reducing inequality. 11. Sustainable cities and communities. 12. Responsible consumption and production. 13. Climate action. 14. Life below water. 15. Life on land. 16. Peace, justice, and strong institutions. 17. Partnerships for the goals.

<sup>2</sup> Lexico, powered by Oxford [dictionary].

<sup>3</sup> "BoFA chief leads new effort to tame unruly ESG metrics" by Billy Nauman and Patrick Temple-West, Bloomberg, 1/14/20.

<sup>4</sup> "Principles for Responsible Investment; <https://www.unpri.org>

<sup>5</sup> [www.gencap.com](http://www.gencap.com) and <https://en.wikipedia.org> and <https://www.issgovernance.com>

<sup>6</sup> "Nasdaq launches ESG reporting suite with acquisition of OneReport, online news report, 2/4/20.

<sup>7</sup> Harvard Business Review, January-February 2020 articles: "Are You Undervaluing Your Customers" by Rob Markey; How to Value a Company by Analyzing Its Customers" by Daniel McCarthy and Peter Fader; and "Over Time, The Market Will Demand This Information," a conversation with Vanguard chairman emeritus Jack Brennan.

<sup>8</sup> "A New Era in Corporate Responsibility" by Brian O'Connell, SHRM, 1/20/20.

<sup>9</sup> "BoFA chief leads new effort to tame unruly ESG metrics" by Billy Nauman and Patrick Temple-West, Bloomberg, 1/14/20.