

# *Thresholds of Transformation*

## Sustainable Development Performance Indicators

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### Indicator Examples

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## Indicators and Information Systems for Sustainable Development

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**“People can’t respond to  
information they don’t have.”**

***Limits to Growth* Lead Author  
Dana Meadows, 1998**

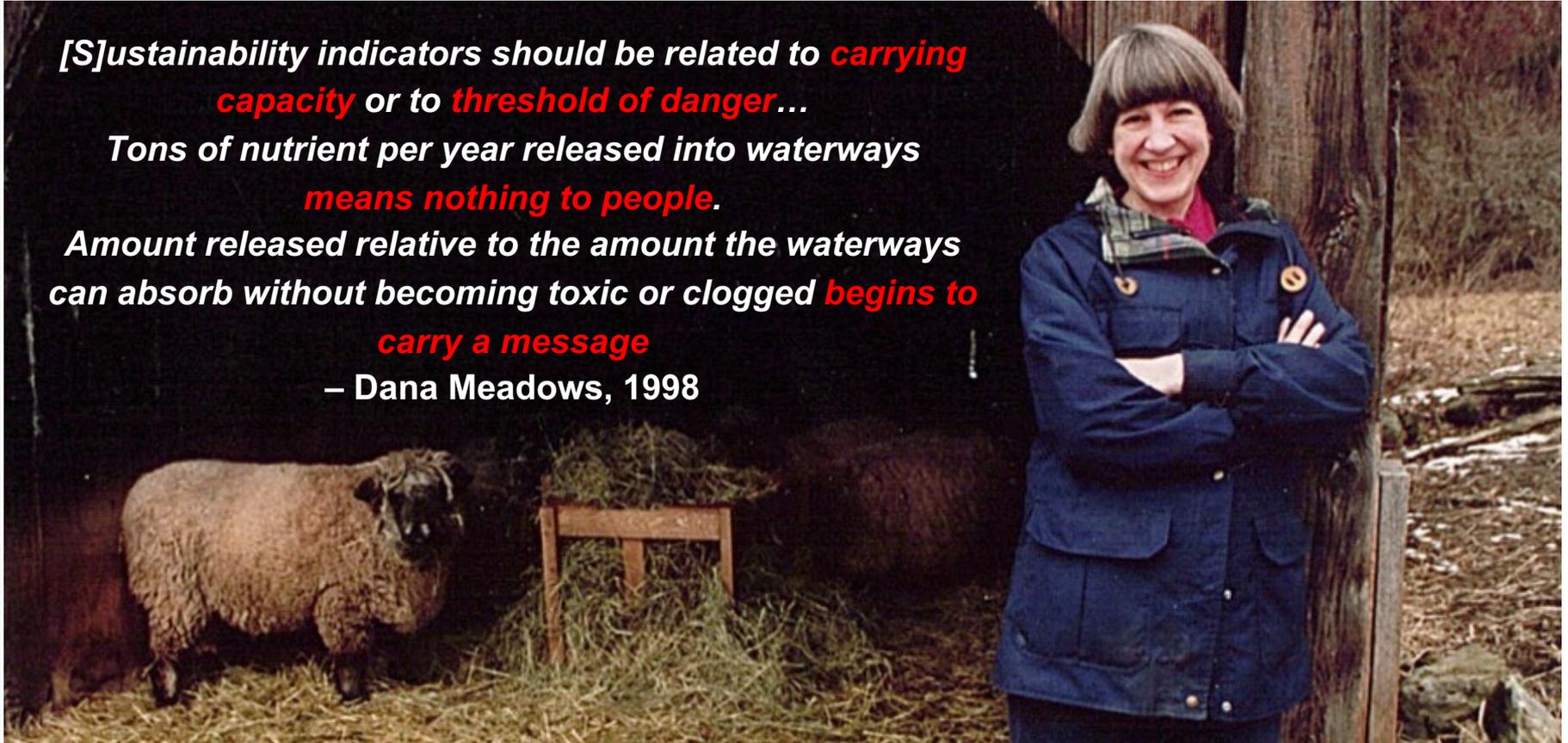
# Sustainability Indicators: *Mean Nothing / Carry a Message*

*[S]ustainability indicators should be related to **carrying capacity** or to **threshold of danger**...*

*Tons of nutrient per year released into waterways **means nothing to people.***

*Amount released relative to the amount the waterways can absorb without becoming toxic or clogged **begins to carry a message***

*– Dana Meadows, 1998*





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## Sustainable Development Performance Indicators

Project from: 2018 to 2022

In September 2018, UNRISD commenced a four-year project which aims to assess and improve methodologies and indicator systems that measure and evaluate the performance of a broad range of economic entities in relation to the vision and goals of the 2030 Agenda. Such entities include both private sector firms and myriad enterprises and organizations that make up the social and solidarity economy (SSE). Over several decades, the effectiveness of sustainability measurement and reporting has improved significantly due to numerous standard-setting initiatives, and revisions of existing tools and models. The question remains, however, whether current measurement and reporting models adequately address a set of 21st century conditions and challenges, key aspects of which include:

- the rise of SSE, blended value enterprises and impact investment that promote or prioritize social objectives;
- trends and imperatives associated with the Green, Sharing or Circular Economy, which aim to decouple negative environment impacts from the process of economic growth;
- technological and structural change associated with digitalization, industrial restructuring, financialization and labour market flexibilization;
- normative challenges associated with human rights, rising inequalities, climate change and resilience, as well as the broader goals of integrated and transformative change demanded by the 2030 Agenda.

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# Compared to What? Report Introduces 3-Tiered Typology (2019)



## 3-Tiered Typology: *Means Nothing* → *Carries a Message*



- **Tier One: *Incrementalist Numeration***

- *Numerator* indicators focus on actual impacts, including *absolute* indicators, as well as *relative* or *intensity* indicators that are non-normative, and therefore incrementalist by definition.

- **Tier Two: *Contextualized Denomination***

- *Denominator* indicators contextualize actual impacts against normative impacts. Also known as “Context-Based” indicators, denominator indicators take into account sustainability thresholds in ecological, social, and economic systems, as well as allocations of those thresholds to organizations and other entities.

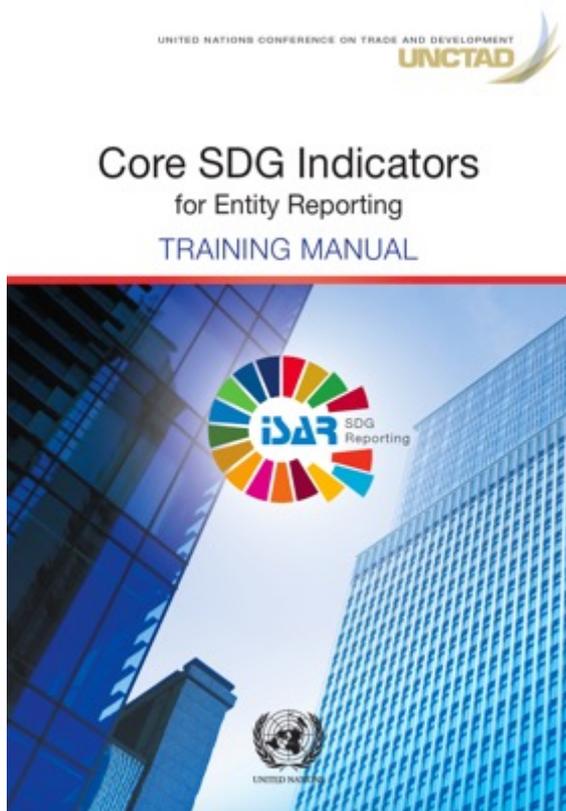
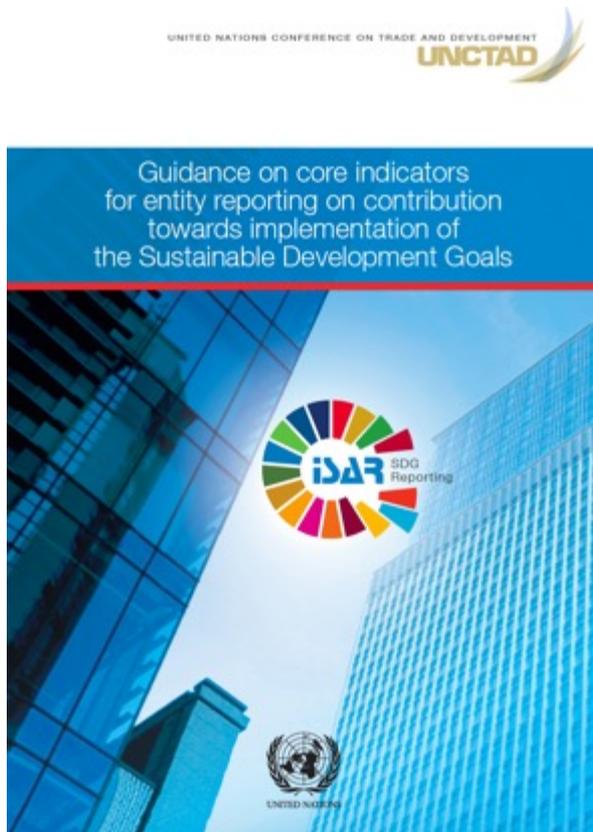
- **Tier Three: *Activating Transformation***

- *Transformative* indicators add the element of implementation and policy to normative *denominator* indicators to instantiate change within complex adaptive systems.

- **Global Reputation Enhancement**  
Partner in a ground-breaking UN initiative
- **Real-World Performance Measurement**  
Assess your performance against real-world limits (thermodynamic constraints) and demands (ethical imperatives)
- **Additive**  
Build on existing incrementalist indicators you already employ
- **Transcends “Convergence” Cacophony:**  
While standard setters clamour about “convergence” around incrementalism, these indicators are tethered to external reality
- **Safe Space for Learning:**  
Collaborate with a cohort of fellow pioneers piloting the indicators, enabling group learning, while performance results remain confidential; the data - and associated decision on whether to publicly disclose the data - belongs exclusively to you. Results will only be reported in aggregate.
- **Bang-for-Buck:**  
Strong return on modest investment

- **Assess Portfolio Sustainability**  
Apply the indicators to your portfolios to assess performance across the universe of your holdings
- **Manage Systemic & Existential Risk (Beta Activism)**  
Enterprise-level risks aggregate to the portfolio level and beyond to Systemic Risk – and even Existential Risk; these indicators discern these risks, and enable you to enable “Beta Activism by enhancing the resilience of the entire market.
- **Anticipate Transformations:**  
Real-world developments are shifting quickly, and markets are transforming; these indicators act as a radar of such transformation, enabling you to stay ahead of the game.
- **Avoid ESG Opportunity Costs:**  
Incrementalism comes at a cost, as expenditures on partial solutions are inefficient and open you up to additional (and costlier) future expenditures on sufficient solutions; better to invest in necessary solutions in the first place.

# Start Now! Tier One based on *available* UNCTAD Core Indicators



Manual for the UNRISD Indicators (all 3 Tiers) is forthcoming, to be completed before the piloting commences.

- **Hard Context**

These indicators apply “context” consistent with the Sustainability Context Principle and laid out in the UNRISD paper [\*Making Materiality Determinations: A Context-Based Approach\*](#), which calls for such hard contextualization when organizations have duties and obligations to manage impacts on vital capital resources that stakeholder (or rightsholders) rely on for their wellbeing.

- **Soft Context**

In instances where no such duties and obligations exist, “soft” contextualization is applied, for example by providing a longer-term perspective, looking at five-year trends to reveal performance over time.

# Tier One Indicators

## A. Economic area

- A1.1. Revenue (see example below)
- A1.2. Value added
- A1.3. Net value added
- A.2. Payments to the Government
- A.2.1. Taxes and other payments to the Government
- A.3. New Investment/expenditures
- A.3.1. Green investment
- A.3.2. Community investment
- A.3.3. Total expenditures on research and development
- A.4. Local supplier/purchasing programs
- A.4.1. Percentage of local procurement

## B. Environmental area

- B.1. Sustainable use of water
- B.1.1. Water recycling and reuse
- B.1.2. Water use efficiency
- B.1.3. Water stress
- B.2. Waste management
- B.2.1. Reduction of waste generation
- B.2.2. Waste reused, re-manufactured and recycled
- B.2.3. Hazardous waste
- B.3. Greenhouse gas emissions
- B.3.1. Greenhouse gas emissions (scope 1)
- B.3.2. Greenhouse gas emissions (scope 2)
- B.4. Ozone depleting substances and chemicals
- B.4.1. Ozone-depleting substances and chemicals
- B.5. Energy consumption
- B.5.1. Renewable energy
- B.5.2. Energy efficiency

## C. Social area

- C.1. Gender equality
- C.1.1. Proportion of women in managerial positions
- C.2. Human capital
- C.2.1. Average hours of training per year per employee
- C.2.2. Expenditure on employee training per year per employee
- C.2.3. Employee wages and benefits as a proportion of revenue, with breakdown by employment type and gender
- C.3. Employee health and safety
- C.3.1. Expenditures on employee health and safety as a proportion of revenue
- C.3.2. Frequency/incident of rates of occupational injuries
- C.4. Coverage by collective agreements
- C.4.1. Percentage of employees covered by collective agreements

## D. Institutional area

- D.1. Corporate governance disclosure
- D.1.1. Number of board meetings and attendance rate
- D.1.2. Number and percentage of women board members
- D.1.3. Board members by age range
- D.1.4. Number of meetings of audit committee and attendance rate
- D.1.5. Compensation: total compensation per board member (both executive and non-executive directors)
- D.2. Anti-corruption practices
- D.2.1. Amount of fines paid or payable due to settlements
- D.2.2. Average hours of training on anti-corruption issues per year per employee

# Tier One Example: Revenue

## Definition

Revenues should be defined and measured according to *IFRS 15 Revenue from Contracts with Customers*: “an entity recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

## Sustainability norm or threshold

Not applicable

## Measurement methodology

To recognize revenue, according to IFRS 15, “an entity applies the following five steps:

- identify the contract(s) with a customer.
- identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.
- determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
- allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
- recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.”

In case of an entity that is not applying IFRS 15 and using IFRS for SMEs, it should be clearly stated and explained.

## Potential sources of information

Revenues are to be found as the first line of the income statement. The information about the single transactions to calculate revenues in the reporting period are recorded within financial accounting systems (accounts receivable, revenue cycle). Management accounting systems / internal management reports usually present segment revenues with reference to different dimensions (segment reporting). Country specific data can be recovered from these systems.

## Relevance to the SDGs

SDG Indicator 8.2.1

# Tier Two Indicators

## A. Economic area

- A1.3-2. Net Value Added (corresponds with Revenue, Value Added and Net Value-Added indicators in Tier 1)
- A.2.1-2. 5-Year Tax Gap
- A.3.1-2. 5-year Trend of Green Investment
- A.3.2-2. 5-year Trend of Community Investment
- A.3.3-2. 5-year Trend and Sustainability Alignment of Relative Expenditure on Research and Development
- A.4.1-2. 5-year Trend of Percentage of Local Procurement

## B. Environmental area

- B.2.1/2-2 5-year trend on solid waste
- B.2.3-2. 5-year trend of hazardous waste treatment
- B.3.1/3.2/5.1/5.2-2. Greenhouse gas emissions (see example below)

## C. Social area

- C.1.1-2. 5-year average gender diversity: Entry-level hiring and promotion
- C.3.1-2/3.2-2. 5-year average incident Rates of Occupational Injuries
- C.4.1-2. 5-year union density and collective bargaining coverage

## D. Institutional area

- D.1.1-2 5-year trend for the number of board meetings and attendance rate
- D.1.2-2. 5-year average percentage of women board members
- D.1.3-2. 5-year trend on board members by age range
- D.1.4-2. 5-year trend for the number of meetings of audit committee and attendance rate
- D.1.5-2. 5-year trend on total compensation per board member (both executive and non-executive directors)
- D.2.1-2. 5-year trend in amount of corruption-related fines paid or payable due to settlements
- D.2.2-2. 5-year trend on average number of hours training on anti-corruption

# Tier Two Example: Greenhouse Gas Emissions

## Definition

A measure of an organization's direct (scope 1) and electricity-related indirect (scope 2) emissions that contribute to global warming.

## Contextualization

Hard – sustainability thresholds or norm: Greenhouse gas emissions by an organization shall be no more than nearly zero.

## Measurement methodology

This indicator calls for measurement and reporting of an organization's direct (scope 1) and indirect, electricity-related (scope 2) greenhouse gas emissions in accordance with the Greenhouse Gas Protocol.

### Equation(s):

- Annual greenhouse gas emissions (scopes 1 and 2) =  $\frac{AE_x}{NE_x}$

Where:

- AE = Actual GHG emissions (scopes 1 and 2)
- NE = Normative allowable emissions of nearly zero (as defined herein)
- x = A specific year

And where:

- Sustainability performance scores of  $\leq 1.0$  are sustainable
- Sustainability performance scores of  $> 1.0$  are unsustainable
- In cases where an organization's GHGs are not already zero or less, it shall use a science/context-based carbon emissions accounting tool to set interim annual targets for emissions and separately measure and report performance in those terms. Such targets shall be used in place of the NEx variable defined above in order to do so

## Potential sources of information

All GHG emissions data can be obtained from an organization's own facilities and operations management functions (for scope 1 GHGs), as well as from its providers of purchased electricity (for scope 2 GHGs). Its accounts payables function, too, can be helpful.

## Relevance to the SDGs

SDG indicators 12.4.2, 7.2.1, 7.3.1

# Tier Three Indicators

## A. Economic area

- A.1-3. Corporate Taxation
- A.1.1-3. Tax gap and fiscal disclosure

## B. Environmental area

- B.1-3. Environment
- B.1.1-3. Greenhouse gas emissions (scope 3)
- B.1.2-3. Water use
- B.1.3-3. Circular economy

## C. Social area

- C.1-3. Fair remuneration
- C.1.1-3. CEO-Worker pay ratio
- C.1.2-3. 5-Year living wage gap
- C.1.3-3. Distribution of surplus/profits
- C.2-3. Gender equality
- C.2.1-3. Gender pay gap - Equality of remuneration
- C.2.2-3. Gender diversity: Hiring and Promotion at different occupational levels
- C.2.3-3. Dependent care - caregiving support programmes
- C.4-3. Labour rights
- C.4.1-3. Union density and collective rights bargaining coverage
- C.4.2-3. Harassment and discrimination at the workplace
- C.4.3-3. Access to remedy
- C.4.4-3. Discrimination in hiring and promotion
- C.4.5-3. Worker empowerment
- C.4.6-3. Contingent and subcontracted workers

- C.5-3. Employment, training and work integration
- C.5.1-3. Hiring of vulnerable groups
- C.5.2-3. Long-term work contracts
- C.5.3-3. Employee turnover rate
- C.6-3. Responsible and ethical sourcing
- C.6.1-3. Responsible and ethical sourcing

## D. Institutional area

- D.1-3. Corporate political influence
- D.1.1-3. Corporate political influence: Policies, programme and practices
- D.2-3. Performance accounting
- D.2.1. Context-based triple bottom line accounting
- D.3-3. Fines and settlements
- D.3.1-3. Amount of Total Fines Paid or Payable Due to Settlements
- D.4-3. Information sharing
- D.4.1-3. Public Sharing of Information and Knowledge
- D.5-3. Democratic governance
- D.5.1-3. Term limits for Board of Directors
- D.5.2-3. Participative Decision-making (employees)
- D.6-3. Resilience
- D.6.1-3. Resilience

# Tier Three Example: Gender Pay Gap – Equality of Remuneration

## Definition

Disparities in the average remuneration of men and women in an organization.

## Sustainability norm or threshold

Hard - *sustainability norm or threshold*: The difference between the average remuneration of men and women in an organization shall not exceed 3%.

## Measurement methodology

Gender pay gaps shall be calculated in terms of women's pay as a percentage of men's, and in a way that includes not only base salary or wages, but also compensation associated with incentives and rewards.

All such calculations, too, shall *not* be adjusted in ways that take differences in other factors into account, such as hours worked, age, experience, or education. All calculations shall also include both full- and part-time employees, with all averages to be expressed in terms of the median rather than the mean.

## Equation(s)

- Annual gender pay gap =  $\frac{AWP_x}{AMP_x}$

Where:

- AWP = Average women's pay
- AMP = Average men's pay
- x = A specific year

And where:

- Sustainability performance scores of 1.0 +/- 0.03 are sustainable
- Sustainability performance scores of >1.03 or <0.97 are unsustainable

## Potential sources of information

All compensation-related data can be obtained from a company's own human resources, payroll, and accounting functions.

## Relevance to the SDGs

5.c.1



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