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Position paper on the Corporate Sustainability Reporting Directive

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The Economy for the Common Good (ECG) is a social movement advocating for a future-fit economic model which is beneficial to all stakeholders of an organisation: employees, suppliers, customers, business partners, the local community and society at large, as well as the planet and future generations. It is a model which puts the Common Good, meaning the well-being of the people and the respect for all life, as its primary goal and purpose.

The ECG movement is constantly growing and gaining supporters across EU Member States. So far, close to 1000 organisations, mainly companies, but also schools, universities, municipalities and cities, have used our Common Good Balance sheet as a means to do their “non-financial” reporting, including to meet their obligations under the current Non-Financial Reporting Directive.

To promote easy and consistent reporting of the impact of companies on the outside world, Economy for the Common Good has developed the Common Good Matrix. The matrix lays the foundation for a unique reporting framework based on the most wide-spread democratic values, which covers a broad range of ESGs themes. The matrix builds on four ethical pillars: human dignity, solidarity and social justice, environmental sustainability, and transparency and co-determination. The Common Good Matrix could play a major role in the field of sustainability reporting.

In this position paper we explain why EU decision-makers should consider the Common Good framework in the context of the adoption of the **Corporate Sustainability Reporting Directive**.

In our view, the Commission proposal is a good basis, but must be improved by the Parliament and Member States to really make a significant contribution to better sustainability reporting:

1. Sustainability reporting should be extended to **all companies** which fall under the obligation of financial reporting.
2. **Social and ecological standards** need to be defined by co-legislators using the most ambitious existing frameworks, supported by a newly established ESRA with experts from social and natural sciences as well as representatives from NGOs and reporting framework developers.
3. The **ECG Matrix and reporting framework** should be used as a **template** for future mandatory reporting standards.
4. Sustainability reporting must lead to **quantified, comparable results** that are **made visible** to consumers, investors and the general public on products, websites and in company registers.
5. Sustainability reporting must lead to quantified, comparable results that are **externally audited with reasonable assurance**.
6. Policy-makers should consider linking **legal incentives** to corporate sustainability performance, in order to use market forces for promoting society’s goals and values, e.g. in the field of (public) procurement, economic promotion or taxes.

Detailed recommendations on the Corporate Sustainability Reporting Directive

1. Inclusion of all organisations, of all sizes, in the scope

Only an estimated 0.2% (49.000) of the EU's 25 million companies will be covered under the legislation. We call on EU decision-makers to expand the scope of the current NFRD, to include the full spectrum of EU companies, listed and non-listed, SMEs and larger companies. Given the sustainability challenges ahead of us, we do not see why any company would be required to do "financial" reporting but not sustainability reporting. SMEs create two thirds of EU employment and produce more than half of our GDP, and it would be a mistake to leave half of the EU's GDP, impact and supply chains out of the sustainability reporting framework.

We highly welcome the fact that the Commission intends to develop proportionate mandatory reporting requirements for smaller listed companies. Nonetheless, we do believe that the mandatory standards should not be limited to listed SMEs, but instead also apply to all companies which fall under the obligation of financial reporting. In this sense, the ECG model could serve as a prime example of how this can be done in a rather straightforward way, and at reasonable costs. Close to 1000 SMEs in different EU countries and overseas are already using the ECG model voluntarily as their non-financial reporting framework, because they recognize the benefit of its value-based approach. The ECG reporting framework is also frequently used outside of the commercial sector, by non-profit organisations, schools, universities, municipalities and cities, most of which tend to be covered by the EU's definition of SMEs in terms of organization size and turnover.

2. Social and ecological standards should be defined by co-legislators using the most ambitious reporting frameworks

According to the Commission proposal, the concrete standards for detailed reporting will be developed in a delegated act by private entities. We think this is a mistake and the co-legislators should take political ownership of this process – as ethical issues – from human rights to the protection of biodiversity to tax avoidance and lobbying - are not "technical" ones. In our view, these should not be defined by private standard setters. Instead, the Parliament and the Council should define the concrete reporting content, building on the most ambitious frameworks in all fields. Especially the social standards need to be much more ambitious and far-reaching, including the limitation of inequality, de-concentration of property, sanctions over tax avoidance and caps on political lobbying.

As an alternative, the EU Commission should consider to set up an "ESRAG" (European Sustainability Reporting Advisory Group)¹ that includes experts from diverse social and natural sciences as well as representatives from NGOs and sustainability framework developers such as ECG, GRI, Global Compact, B Corps and the Future Fit Foundation.

3. The ECG Matrix as a template of future mandatory sustainability reporting standards

The ECG Matrix (see Figure 1) could serve as a valuable model for defining the reporting standards in the context of the standard-setting process. It provides for the most significant reporting requirements organised around four thematic areas of human rights and dignity; social justice and solidarity; environmental sustainability; and co-determination and transparency. There are applied to five groups of stakeholders: suppliers, owners, employees, customers and society at large including

¹ See also Marcio Viegas's proposal: <https://sust4in.com/en/the-end-of-non-financial-reporting-and-the-quest-for-sustainability-standards/>

future generations. This values-based, holistic and complete model of looking at corporate sustainability performance is unique in the reporting world and radically breaks from the artificial financial/non-financial distinction and its related conflicts of interests (director's duties, double materiality) that have until now blocked genuine progress on corporate sustainability reporting. Any compromise to leave out certain indicators for political reasons would weaken the framework and create new incentives to externalise costs, distorting competition unsoundly and undermining democratic values enshrined in most constitutions.

The use of a reporting standard such as the ECG Matrix makes it easy and straightforward to assess a company's position, performance, development and impact on the people and the planet. In addition, the ECG framework is fully in line with the UNGPs and allows companies to measure and demonstrate how they reach the UN's Sustainable Development Goals, as all of these can be easily mapped to individual cells in the ECG Matrix² – an exercise acknowledged in the SDG Practitioner Manual for SMEs drafted by the University of Bremen³.

A full set of ten requirements for the future unified legal standard has been developed in a study commissioned by the Potsdam-based Institute for Advanced Sustainability Studies (IASS)⁴:

1. transparent development process
2. completeness
3. practicability for users
4. understandability of the target groups
5. measurability and comparability
6. effectiveness
7. auditability
8. legal obligation
9. incentives
10. visibility.

This study covers 14 of the most frequently used frameworks and defined the ECG Matrix as the one fulfilling the ten requirements best.

In an [own-initiative opinion about the ECG](#), drafted in September 2015, the **European Economic and Social Committee** acknowledged the role that the ECG model can play in the EU's legal framework given its ability to improve the market mechanism, and its compatibility with the market economy: The EESC "*considers that the Economy for the Common Good (ECG) model is conceived to be included both in the European and the domestic legal framework*".⁵

4. Quantification, Comparability and Visibility as key requirements

Only if sustainability performances of companies are comparable, reporting makes sense for consumers, investors and policy makers who want to base their decisions on comprehensive information. The ECG movement has developed a methodology, which quantifies ethical achievements in (common good) points and allows the comparability of sustainability reports. The results should appear visibly on products, websites and in company registers (including ESAP) so that consumers, investors and regulators can compare sustainability reports and make informed choices.

2 <https://gwoe.17plus.org/en/>

3 "*Die SGGs für und durch KMU. Ein Leitfaden für SME*", Renn. Nord, October 2018, p. 63, available at https://www.renn-netzwerk.de/fileadmin/user_upload/nord/docs/materialien/SDG_KMU_Leitfaden_Okt2018.pdf

4 <https://www.iass-potsdam.de/en/news/creating-global-standard-sustainability-reporting>

5 <https://www.eesc.europa.eu/our-work/opinions-information-reports/opinions/economy-common-good>

5. Sustainability information should be subject to comparable auditing and quality assurance as financial information

The ECG movement promotes the idea that transparency on sustainability information should be placed on an equal footing with financial information – as ethical information is at least of no less importance for all kinds of stakeholders and the general public in a liberal democracy than financial information. Auditing is an essential part of the Common Good framework and we have been able to clearly observe the positive results of mandatory quality assurance procedures. In order to avoid discrimination and two classes of information, we call for a substantive audit (reasonable assurance) rather than a formal audit (limited assurance) as proposed by the European Commission and EFRAG. Auditors of sustainability information must have experience in the field of social and ecological issues.

6. Economic incentives to internalise external costs

We believe that public policies should incentivise the externalisation of benefits (such as decent working conditions or sustainable business practices), and disincentivise the externalisation of costs (such as environmental pollution or bad labour conditions). This will invert today’s competitive disadvantage of ethically responsible businesses into a competitive advantage. Incentives can range (and already do in some regions) from public procurement decisions and economic promotion programmes to differentiated tax rates or financing conditions. For these instruments to take effect, a broad, harmonised, mandatory and comparable sustainability reporting framework is a necessary condition.

COMMON GOOD MATRIX 5.0

VALUE	HUMAN DIGNITY	SOLIDARITY AND SOCIAL JUSTICE	ENVIRONMENTAL SUSTAINABILITY	TRANSPARENCY AND CO-DETERMINATION
STAKEHOLDER				
A: SUPPLIERS	A1 Human dignity in the supply chain	A2 Solidarity and social justice in the supply chain	A3 Environmental sustainability in the supply chain	A4 Transparency and co-determination in the supply chain
B: OWNERS, EQUITY- AND FINANCIAL SERVICE PROVIDERS	B1 Ethical position in relation to financial resources	B2 Social position in relation to financial resources	B3 Use of funds in relation to social and environmental impacts	B4 Ownership and co-determination
C: EMPLOYEES, INCLUDING CO-WORKING EMPLOYERS	C1 Human dignity in the workplace and working environment	C2 Self-determined working arrangements	C3 Environmentally-friendly behaviour of staff	C4 Co-determination and transparency within the organisation
	D1 Human dignity in the customer relationship	D2 Cooperation and solidarity with other companies	D3 Impact on the environment of the use and disposal of products and services	D4 Customer participation and product transparency
	E1 Ethical position in relation to products and their society	E2 Contribution to the community	E3 Reduction of environmental impact	E4 Social co-determination and transparency

A1 Human dignity in the supply chain

All goods and services purchased by a company have an associated impact on society, which can be either positive or negative. Of these, one of the most important is the working conditions of all employees in the supply chain. A company is responsible for the well-being of all people – including its suppliers and subcontractors.

An ECG company ...

- purchases goods and services that are provided under ethical and fair conditions.
- is alert to risks in the supply chain where the violation of human dignity is a common occurrence.
- actively promotes behaviour in the supply chain that respects human dignity.

Figure 1: Common Good Matrix and a sample description of the indicators for one of the 20 themes