GRI’s Reporting 2025 project looks ahead at what thought leaders expect to be the main issues on companies’ agendas – and in their reports – ten years from now. Through a series of in-depth interviews with thought leaders in various fields, GRI is building an open dialogue that will form the basis for meaningful future corporate disclosures.

Edited highlights of these interviews will be posted every month on the Reporting 2025 webpage, along with related references that enrich the discussion. GRI will update and publish an analysis of the main trends identified in these interviews every quarter. In January 2016 the final publication will present a roadmap for the future of reporting.

Externalities will be measured, managed and reported

Economist Pavan Sukhdev, founder and CEO of the sustainability consultancy GIST Advisory, is a thought leader and expert in measuring and valuing impacts on natural and human capital. He is the author of the book and campaign Corporation 2020, and has been the head of the United Nations Environment Programme’s (UNEP’s) Green Economy Initiative and study leader for The Economics of Ecosystems and Biodiversity (TEEB) global initiative.

This article reflects Sukhdev’s contribution to the discussion on the future of reporting, with edited highlights from his full one-hour interview. He believes that we need a fresh perspective when it comes to assigning value: in the next ten years, companies will need to assess, measure and report on all externalities, in order for us to live in a successful society.

Society: a phase shift in nature could affect our ability to thrive

For Sukhdev, the natural world holds tremendous value. Continuing to ignore what he describe as its ‘phase shifts’ could have severe consequences for humanity.

“Phase shifts happen in nature: nature will shift to a different phase, it will move to another equilibrium. The thing is, I don’t know whether we are going to be comfortable in that new equilibrium. I have children, and they will have children, so I think we need to be responsible citizens in our biosphere and keep the natural world in a condition where people – humanity – can live and thrive.”

Companies: time for a new perception of value

To become more resilient, companies will have to learn to deal with a more complex business context, where a better understanding of value and external business impacts are critical. So how do you move from the current, purely financial, perception of value to a wider understanding of value creation, which takes business externalities into account?

The answer, says Sukhdev, starts with understanding what is really valuable to a company. It’s not just about injecting shareholder capital, but also about creating natural, human and social capital. Realizing that the profit line is not the sole reason for a company’s existence is key, he says.
“As a human being, I breathe. Without breathing I cannot live, but the purpose of my life is not simply to breathe. In the same way, every company has to make a profit to survive, but the purpose of a corporation should not be just to make a profit. We have to think out of the – very narrow – box, and view the bigger landscape.”

“This is the kind of thinking that I would encourage today’s young executives to engage in. We are just beginning to develop a toolkit, which enables us to measure value in this comprehensive kind of way. Understanding this fabric of capitals, this fabric of value is really about sustainability,” explains Sukhdev.

Get ready: the ‘Value of Externalities Report’ is coming

Considering Sukhdev’s opinion that companies and society need a new way to perceive and measure value creation – and destruction – are we moving in the right direction?

“In terms of measuring what matters – measuring externalities and reporting them – I think we’re moving in the right direction, albeit slowly; we need to speed up. Resistance is caused by vested interests where it is okay to make private profits and public losses. But we have to counter that resistance. Also, to some extent it is the diffidence and the reluctance of institutional players to actually engage others – society and governments – and get with corporations to move faster, because time is running out. We seem to be rushing towards – in some cases even rushing past – our planetary boundaries.”

For corporate reporting to take this perception and measurement into account, a multi-dimensional view is required: not just financial profit and loss, but also human, social and natural capital gains and losses. We will have to learn how to assign value to all these dimensions.

“How do you attribute values to externalities – monetary or otherwise? One of the main things we need is enough data, in order for companies in different parts of the world engaged in various businesses to understand the impacts which their own particular business models, factories, and technologies are having on nature, society and human beings. Having said that, I think we are even now moving towards more data availability – we are already living in a Big Data world.

For Sukhdev, it is also critical to prepare young minds for this shift.

“What I would say to young executives is, firstly, understand the externalities involved. Understand that your company or departments within your company are not systems in isolation but part of a bigger whole. Understand that you have impacts which not only have financial effects for shareholders, but also economic and social consequences for the whole of society, and indeed the planet. Understand these impacts, and then you will be able to understand that, actually, your externalities are measurable.

“In my opinion there are three ways in which to internalize externalities: by default, design or by disaster. ‘By default’ is when regulators realize that it’s not okay to have carbon emissions, that it’s not okay to destroy a social fabric whenever you do business and it’s not okay to create chemical pollutants and poisons. Only then will the internalization of externalities become a default procedure and regulation introduced.”