Carrots & Sticks

Recognizing the role of transparency to accelerate the SDGs

Annual Report 2024

GRI

King's College London

The University of Edinburgh

Stellenbosch Business School
Stellenbosch University

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Foreword

During the presentation of the Sustainable Development Goals (SDGs) Report 2024, UN Secretary-General António Guterres spoke with brutal honesty about the lack of progress regarding the implementation of the SDGs and what is at stake when this doesn't change: "The takeaway is simple: our failure to secure peace, to confront climate change and to boost international finance is undermining development. We must accelerate action for the Sustainable Development Goals — and we don't have a moment to lose."

Fortunately, he also clearly signals that which gives him hope, ranging from girls in most regions now achieving parity with boys in education, women breaking more glass ceilings, increased internet access, HIV infections being down, and the fact that renewables are booming — and already make up 30% of the world's electricity supply. With those examples in mind, he urged governments and businesses to become more active.

From our side we have indeed observed an increased focus by governments and companies on programs dealing with the global challenges, but also on the need for increased corporate transparency and supply chain impacts to inform better decision making and ensure progress is maintained. Around the world, there is a clear move towards mandatory reporting requirements as this latest edition of the Carrots & Sticks report shows.

However, simply requiring reporting by companies will not lead to the ambitious step changes needed to meet the SDGs. For that we need concrete policy actions by jurisdictions around the world and strategic choices by businesses. For that reason, starting with the 2023 report, we have extended to scope of the Carrots & Sticks study to also include broad sustainability legislation beyond reporting.

Just as Mr. Guterres, we also see hopeful signs. Not only is there a significant increase in sustainability and reporting related legislative initiatives, but there is also a notable increase in countries using these legislative tools to create a sustainable future for all.

As the global standard setter for impact reporting, GRI also commits to making the SDGs a success. We realize that the increasing number and variety of policies can also pose challenges for organizations and other stakeholders. Alignment and harmonization must be a key goal for governments, market regulators, stock exchanges, industry associations, standard setters and all those responsible for developing reporting instruments and sustainability policies. GRI is therefore actively engaged with all these stakeholders to achieve interoperability and create a global comprehensive baseline for corporate reporting to enable globally comparable data.

Peter Paul van de Wijs
Chief Policy Officer, Global Reporting Initiative (GRI)

Setting the stage

As we continue to further develop Carrots & Sticks (C&S), four important features are noteworthy this year:

Policy mixes: Over the last twenty years we have seen how well over half of reporting policies and disclosure requirements tend to be voluntary. As more mature issues increasingly see mandatory requirements introduced, it was always clear that we are tracking policy mixes, improved combinations of 'carrots and sticks'. In addition, disruptive events like a pandemic or new technology cause standard setters and regulators to revise established requirements. An example is our evolving understanding of work, with developments in the digital economy leading both the GRI and European reporting standard setters to introduce new standards for disclosure on labour practices.

Strategic narrative: Amid all the excitement about data management today, analysis on the European Sustainability Reporting Standards (ESRS) has shown that only up to 30% of its reporting datapoints are numerical. The rest is fully or semi-narrative. This highlights the limits of assuming all performance information can easily be captured in quantitative terms, as well as the importance of reporting narrative in conveying strategic information. It also underscores the value of Natural Language Processing (NLP) methods in assessing qualitative information and translating narrative content into numbers for the purposes of interpretation. C&S continues to explore the frontiers of new analytical capabilities in this domain.

Stakeholder information needs: Debates around stakeholder focus and the ideal-type report will continue. While the double materiality focus of the ESRS implies a more inclusive coverage of stakeholder concerns, it shares with the IFRS Sustainability Standards agreement on the disclosure vehicle, namely the annual report. This implies targeting the same priority user audience, namely the providers of financial capital. Non-financial stakeholders will continue to ask for more detailed information on various sustainability topics. This implies that expanded sustainability reporting separate of the annual report will continue to exist. Here remains the critical role of the GRI Standards. C&S will continue to track referencing of the GRI Standards, its different aspects and indicators.

Aggregate development goals: Considering the role of the GRI Standards in driving impact reporting, C&S is well positioned to track progress with reporting by business on the SDGs. Our 2024 stock-take provides food for thought regarding the referencing of the SDGs. Focused on business, it is perhaps to be expected that policies covered in C&S more typically refer to SDGs formulated to explicitly address topics such as economic growth, work, production and consumption. We will continue to monitor how this cross referencing with public policy goals evolves. The new capabilities and industries categorization of C&S are exciting developments in this path of what remains a dynamic platform.

Dr Cornis van der Lugt,
Senior Lecturer Extraordinaire, Stellenbosch Business School

Executive summary

The 2024 Carrots & Sticks (C&S) report marks a milestone in the ongoing evolution of ESG and sustainability policy analysis. Building on the foundations established in previous C&S reports, this year's edition introduces enhanced methodologies, particularly analyzing policies in terms of their categorization as Disclosure Policies or Other Sustainability Policies, whether policies mandate, encourage, or otherwise mention the use of GRI Standards, a new measure of the industry focus of policies based on the Global Industry Classification Standard (GICS) classification scheme, and a filter for policies' alignment with the 17 SDGs. Notably, the report builds on our use of advanced natural language processing (NLP) and machine learning (ML) techniques already introduced in the 2023 report.

Since the 2023 report, the C&S database has expanded with the addition of 214 new policies, reflecting the continued global emphasis on transparency and accountability in corporate governance. Through these updates, the 2024 C&S report reaffirms its role as a crucial resource for policymakers, researchers, and stakeholders striving to navigate and influence the complex landscape of ESG and sustainability policies.

Key trends in the 2024 report:

- **SDG engagement:** SDG 8: Decent Work and Economic Growth and SDG 16: Peace Justice and Strong Institutions are the most frequently discussed goals in the policies. In contrast, SDG 1: No Poverty, SDG 4: Quality Education, SDG 5: Gender Equality, and SDG 14: Life Below Water, have little to no policy engagement.
- **Mandatory vs voluntary:** The majority (58%) of policies in the C&S database are voluntary, reinforcing the ongoing prevalence of non-compulsory frameworks.
- **Sectoral focus:** The most targeted industries for sustainability disclosures using both GICS and NAICS frameworks for calculating business sector focus include the finance and insurance sectors, as well as manufacturing-related industries. However, we also found differences in results using the two frameworks. GICS also highlights more specific industries like capital markets, insurance, and specialized REITs, while NAICS focuses on broader categories such as finance & insurance, manufacturing, and professional services.
- **GRI use:** GRI Standards are referenced in 18% of the policies in the C&S database, with six policies explicitly mandating their use as a legal requirement.

Dr Adam William Chalmers, University of Edinburgh
Dr Robyn Klingler-Vidra, King's College London

Introduction

The 2024 C&S report builds on the foundational work laid out in the 2023 report (Chalmers et al. 2023), marking the further expansion of the C&S database as well as the further functionality of the C&S website. This year, we are pleased to present a series of updates that reflect our continued commitment to enhancing the accuracy, comprehensiveness, and utility of the world's largest repository of ESG and sustainability policies.

The 2024 C&S database now includes 2,677 distinct ESG and sustainability policies, representing a 9% increase from the 2023 database. This growth is attributed to the addition of 214 new policies. Figure 1 illustrates the growth trajectory of the C&S database, which has been punctuated by the publication of our various reports over time. This consistent expansion reflects our dedication to rigorous data collection, careful coding, and advanced methods.

In the 2024 report, we have also introduced further refinements to our use of NLP and ML techniques. These tools continue to play a crucial role in our analysis as well as C&S users' to use the resource for their own research.

A key feature of this year's report is the introduction of a new indicator related to the GRI Standards. This indicator categorizes policies based on whether they mandate, encourage, or simply mention the use of GRI Standards.

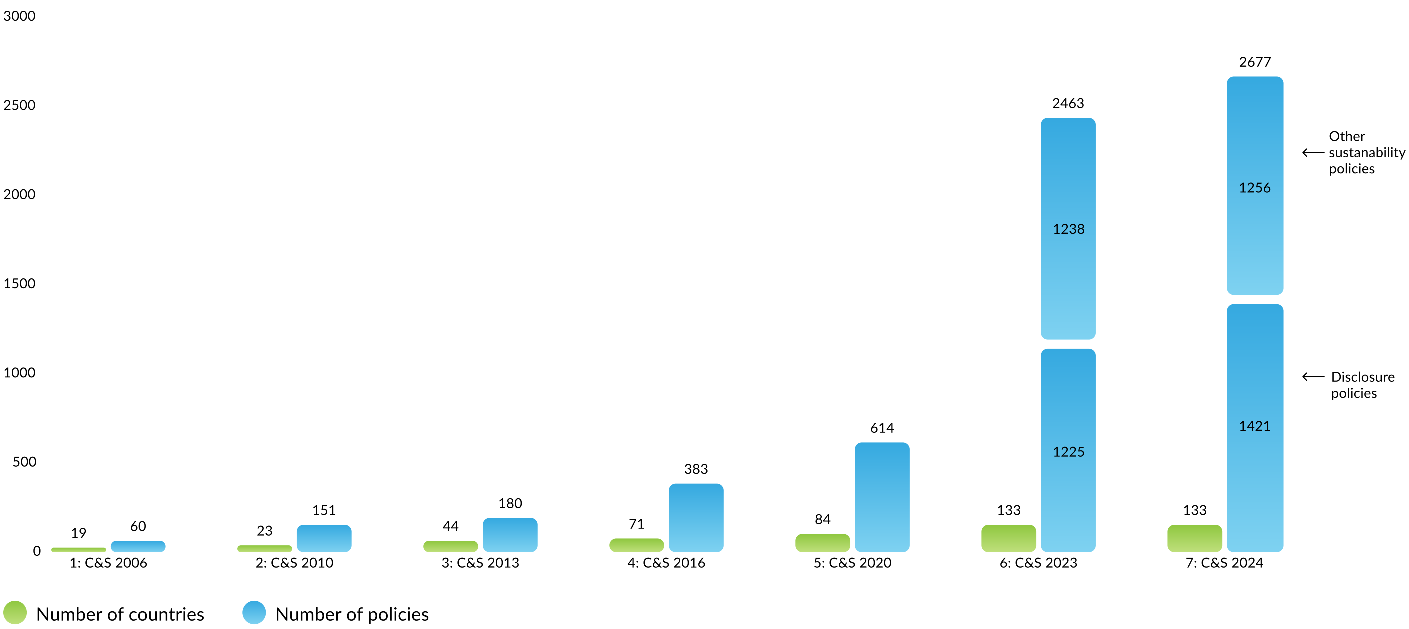
This measure combines NLP techniques with careful hand-coding boost accuracy. Also accompanying the 2024 report is the addition of two further filters on the C&S website. The first allows users to categorize policies into two main types: Disclosure Policies and Other Sustainability Policies. The second identifies the how policies in the C&S database align with the 17 SDGs. Finally, we have introduced a new approach to measuring the industry focus of policies using the Global Industry Classification Standard (GICS) classification scheme.

As we continue to enhance the C&S database, our goal remains the same: to provide a robust, reliable resource for businesses, policymakers, researchers, and stakeholders worldwide, offering insights that drive better decision-making and foster a more sustainable future.

Explanation

ESG & sustainability policy refers to a set of rules and regulations created by governments, regulators, international bodies, multi- stakeholder initiatives, professional bodies, or industry associations to encourage or require companies to adopt sustainable and ethical business practices. Importantly, this includes disclosure requirements, as well as the broader suit of ESG & sustainability policy initiatives, including guidelines and legislation (Chalmers et al. 2023, 15)

Figure 1. Growth of C&S coverage (2006 to 2024)



Updates to the C&S website

The 2024 report introduces several enhancements to the C&S website, designed to expand the platform's functionality and therefore improve user experience. These updates include a revamped interface, new filtering options, and additional features.

A key update is the ability for users to download the entire dataset as an Excel file, providing comprehensive access to the full list of policies included in the C&S database along with all associated indicators. This enhancement underscores our commitment to transparency and accessibility, enabling researchers, policymakers, and other stakeholders to interact with the data in more flexible and customized ways.

Recognizing the critical role of C&S as a document repository, we have also reinforced the website's security by adding anti-scraping measures. Users can continue to download policy documents in their original languages, with English translations provided where applicable, ensuring that the repository remains a valuable resource for global audiences.

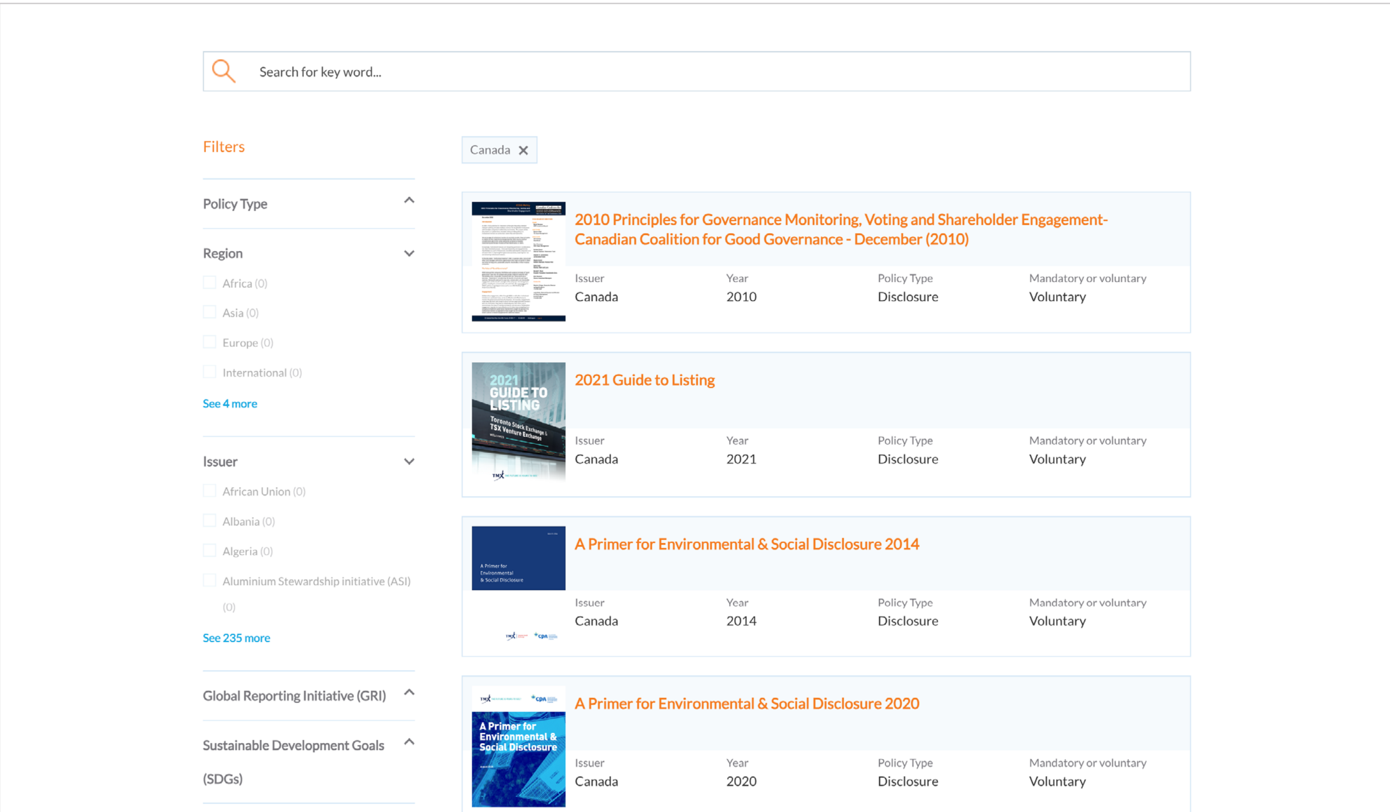
We have further enhanced the website's usability by introducing thumbnails for each policy document (see Figure 2). These visual previews display the cover page of each policy, facilitating quicker identification and navigation.

In addition to these functional improvements, we have introduced new filtering options that allow for more granular exploration of the database. Users can now:

- distinguish between Disclosure Policies and Other Sustainability Policies, reflecting the broader categorization within the database.
- filter to differentiate policies that mandate, encourage, or otherwise mention the use of GRI Standards.
- filter for the 17 SDGs, enabling users to easily locate policies relevant to specific SDGs.

These updates are part of our ongoing efforts to ensure that the C&S website remains at the forefront of ESG and sustainability policy research, providing users with the tools and resources they need to navigate the complex and evolving policy landscape.

Figure 2. C&S's new look policy search page



Analysing ESG and sustainability policies in 2024

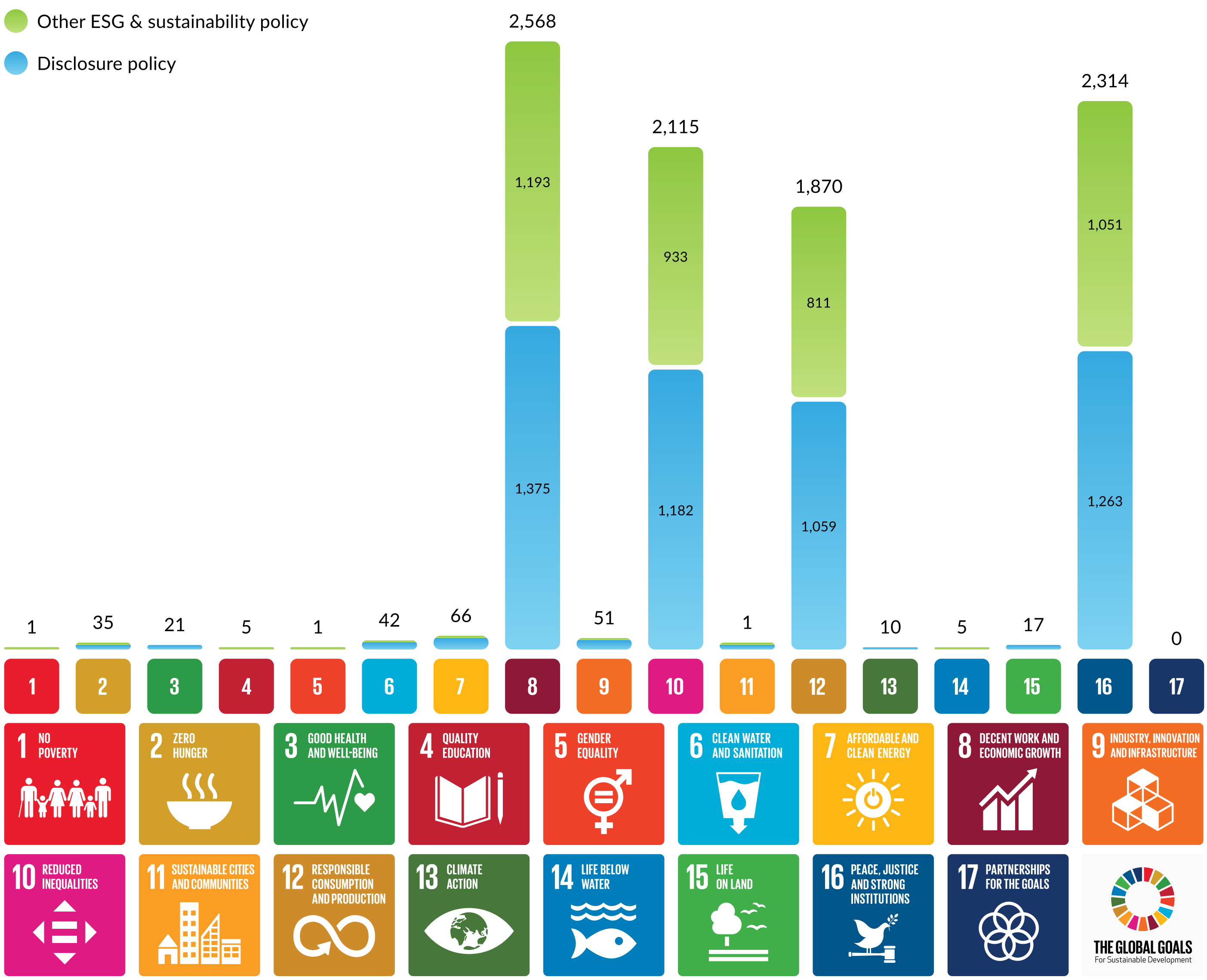
Sustainable Development Goals (SDG) focus

C&S refined its approach to analysing Environmental, Social, and Governance (ESG) and sustainability policies, incorporating advanced methodologies to enhance the precision and depth of our assessments. A key innovation in this year's report is the updated NLP techniques for measuring the SDG focus within sustainability policies.

We have moved from a seeded topic modelling approach to a more advanced method using weighted terms, aligned with the Elsevier SDG Mapping Initiative methodology[2]. This updated approach starts by loading a list of SDG-related key phrases, each weighted by its importance. These phrases are then searched within policy documents, with occurrences counted and weighted accordingly. Weighted counts are normalized by the total word count for each document, resulting in average SDG scores. A 50th percentile threshold is then applied to identify which SDGs are significantly represented in each policy.

This enhanced method provides a more granular and reliable understanding of how sustainability policies align with each of the SDGs, considering both the frequency and the weighted significance of key terms. The results are presented in Figure 3[3].

Figure 3: SDG focus (1990 to 2023)



[2] elsevier.com/en-gb/about/sustainability/sdg-research-mapping-initiative

[3] Elsevier currently does not include SDG 17 in its mapping initiative.

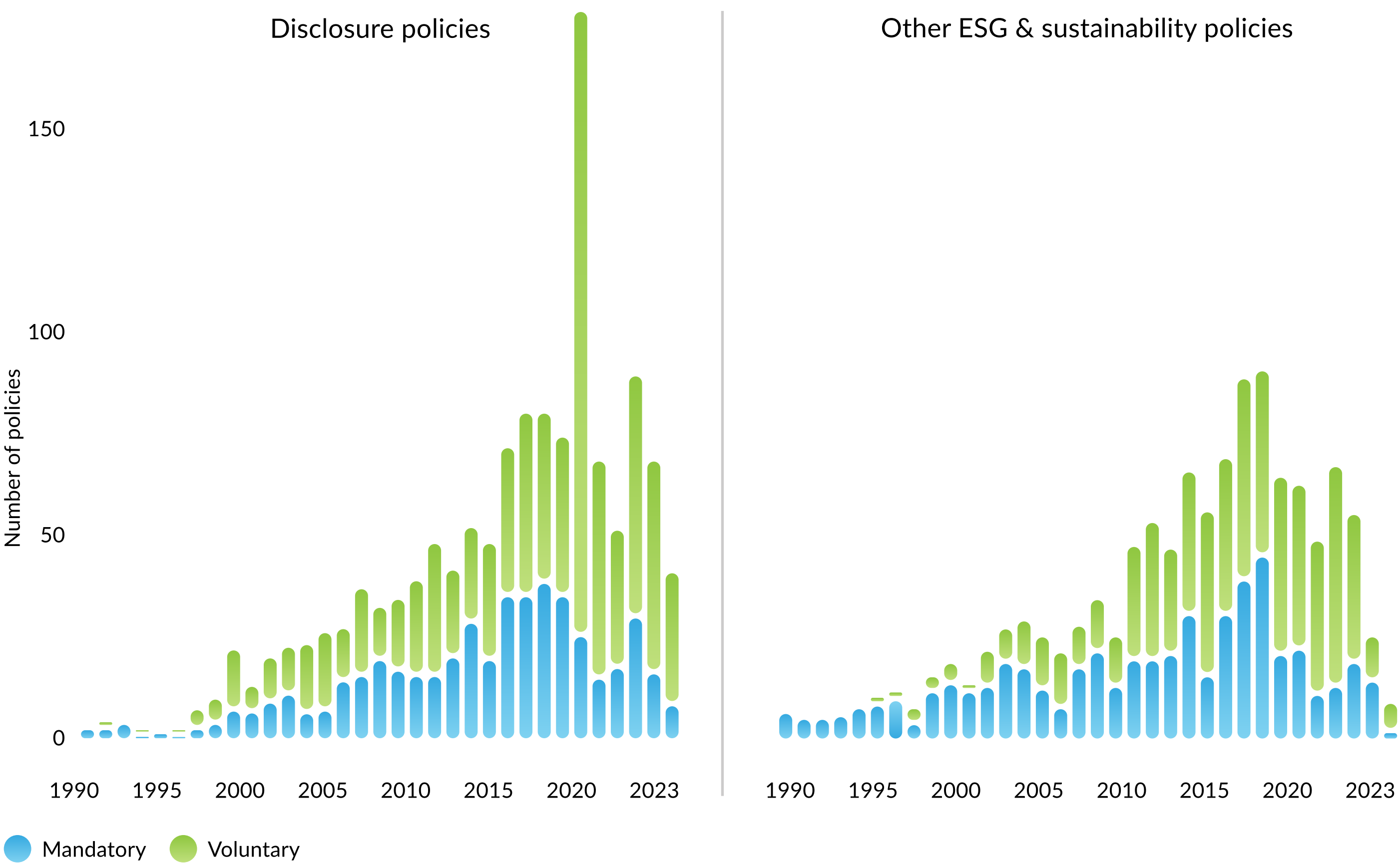
Mandatory versus voluntary policy

Consistent with the 2023 report, a key area of focus remains whether ESG and sustainability policies are mandatory or voluntary—essentially, whether these policies have the "teeth" to compel compliance. Mandatory policies legally require businesses to adhere to specific actions, as seen in many laws and regulations, whereas voluntary policies typically consist of blueprints, codes, and guidelines that businesses may choose to follow.

To assess this, we employed hand-coding to classify each policy as either mandatory or voluntary, resulting in a clear binary measure. The findings, illustrated in Figure 4, reveal that the trend observed in previous years continues: most policies remain voluntary.

Data analysed for the 2023 report showed that 44.8% of policies were classified as mandatory, while 55.2% were voluntary. In 2024, the proportion of mandatory policies slightly decreased to 42%, while voluntary policies increased to 58%. This shift highlights a modest but noticeable trend towards a greater prevalence of voluntary policies year-over-year. Specifically, we see a 2.8 percentage point decrease in mandatory policies, accompanied by a corresponding 2.8 percentage point increase in voluntary policies. Despite ongoing regulatory developments, the voluntary adoption of sustainability policies continues to dominate the landscape.

Figure 4: Mandatory versus voluntary policies (1990 to 2023)



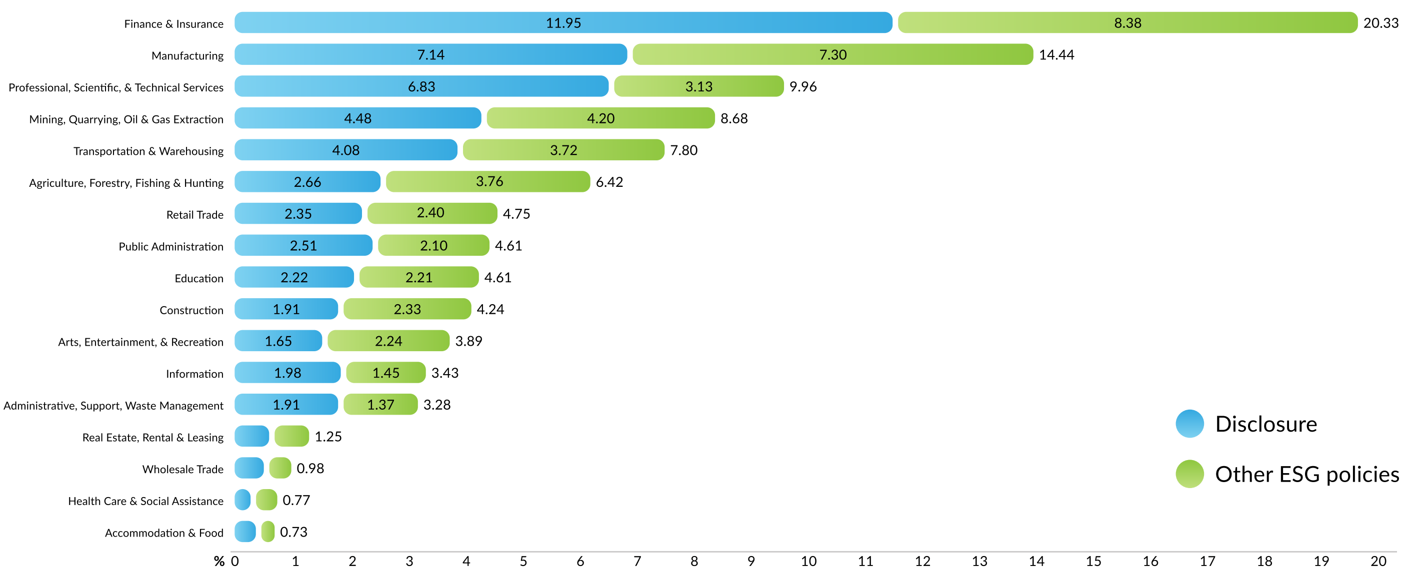
Focus on business sectors

A central objective of many ESG and sustainability policies is to influence the activities of businesses and the sectors in which they operate. Understanding which specific business sectors are targeted by these policies, and how this focus has evolved over time, is crucial for assessing the industrial thrust of the impact of these policies.

As in the 2023 report, our analysis continues to utilize the North American Industry Classification System (NAICS). NAICS is a widely adopted system that aligns with other classification frameworks such as the United Nations' ISIC typology and the European Union's Nomenclature of Economic Activities (NACE). These systems facilitate consistent and comparable analysis across different regions and industries.

One significant change in this year's report is the exclusion of the "Management of Companies" category. Previously, this category was the most prevalent in our 2023 report, primarily because it represents a horizontal sector rather than a vertical one. This characteristic led to its disproportionate representation, potentially skewing the overall analysis. To ensure more accurate results, we have removed this category from our coding scheme. The updated analysis results are presented in Figure 5. This methodology reveals that the most-targeted sectors are: Finance & Insurance, Manufacturing, and Professional, Scientific, & Technical Services. In contrast, Wholesale Trade, Real Estate, Rental & Leasing, and Accommodation and Food receive the least attention in policies.

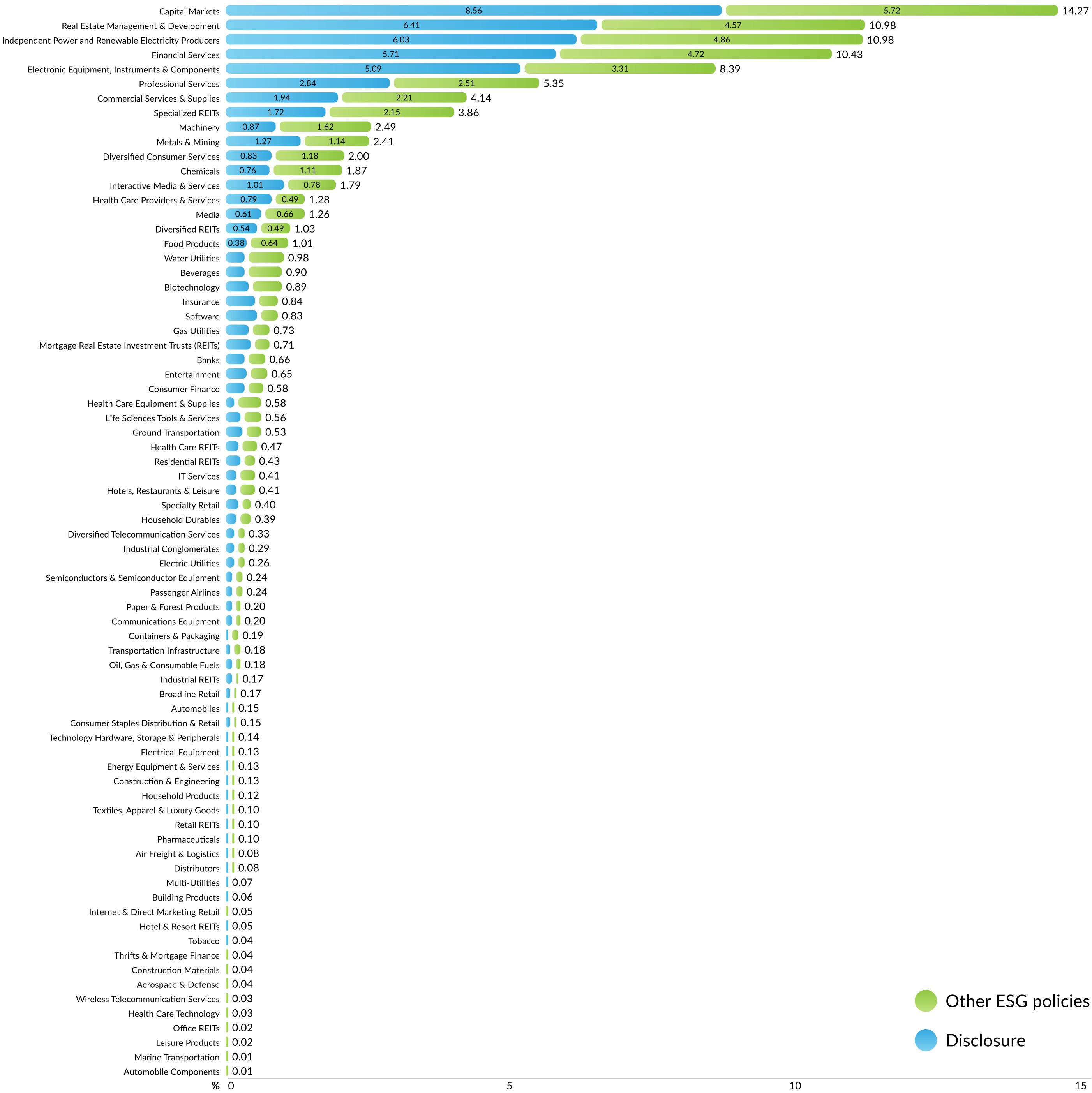
Figure 5: Business sector focus (NAICS) 1990 to 2023 (%)



In addition to refining our existing classification approach, we have introduced a new classification system, the Global Industry Classification Standard (GICS). Developed by MSCI and Standard & Poor's, GICS is a globally recognized framework that categorizes companies based on their primary business activities.

This system is widely used by investors, analysts, and financial institutions to structure portfolios, track market trends, and conduct comprehensive industry research. GICS enhances the consistency of our analysis and is particularly valuable for developing investment strategies and benchmarking within the global market context. The results using the GICS system are presented in Figure 6.

Figure 6: Business sector focus (GICS) 1990 to 2023 (%)



The comparison of policies' business sector engagement based upon GICS and the NAICS frameworks reveals both similarities and differences, which reflect the distinct ways these frameworks categorize industries and how the language used by policymakers matters in corresponding to industrial activities.

In terms of similarities, both GICS and NAICS identify certain industries targeted in sustainability disclosure policies. For example, the "Finance & Insurance" sector under NAICS, which is targeted in a total of 12.8% of disclosures, is consistent with the high levels in similar GICS industries like "Capital Markets" (14.27%) and "Insurance" (8.38%).

Another area of consistency is in manufacturing-related industries. For instance, the NAICS category "Manufacturing" accounts for 10.26% of total disclosures, which aligns with GICS sectors like "Chemicals" (1.87%) and "Metals & Mining" (2.4%). Both frameworks reflect a strong presence of sustainability policies in manufacturing sectors, driven by attention given to the industry's potential environmental impact and the need for resource efficiency.

However, significant differences arise when we look at how these frameworks categorize and disaggregate data. GICS provides a more granular breakdown of industries, as seen in the detailed listing of industries like "Specialized REITs" and "Electronic Equipment, Instruments & Components." For example, "Specialized REITs" in GICS account for 3.86% of disclosures, while the broader NAICS category "Real Estate, Rental & Leasing" shows a total of 1.17%. This suggests that GICS may capture more specific industry activities that NAICS might aggregate into broader categories.

Moreover, the results for some industries appear with notable discrepancies between the two systems. For example, the "Professional, Scientific, & Technical Services" industry in NAICS shows a significant total of 9.11% in disclosures, while GICS industries that might align with this category, such as "IT Services" (4.33%) and "Professional Services" (5.34%), are somewhat lower. This indicates that NAICS might be grouping more diverse activities under one umbrella, whereas GICS segments these into more distinct categories, potentially leading to different perceptions of sustainability performance.

The differences between the frameworks can be attributed to their structural focus. GICS is more market-driven, tailored to financial markets and investor needs, which leads to more detailed industry segments. NAICS, designed for economic analysis, aggregates industries more broadly, which might result in less specificity in certain areas. These differences suggest that while both frameworks provide valuable insights, the choice of classification can significantly impact the interpretation of sustainability data. GICS might be more suitable for detailed, sector-specific analysis, whereas NAICS offers a broader economic perspective, making it essential to consider the framework's design when conducting industry comparisons.

Use of Global Reporting Initiative Standards in ESG and sustainability policy

A key enhancement to the C&S webpage this year is the introduction of a filter that allows users to assess the integration of GRI Standards within ESG and sustainability policies. This filter enables a detailed exploration of whether such policies legally mandate the use of GRI Standards, encourage their voluntary adoption, or otherwise mention GRI Standards.

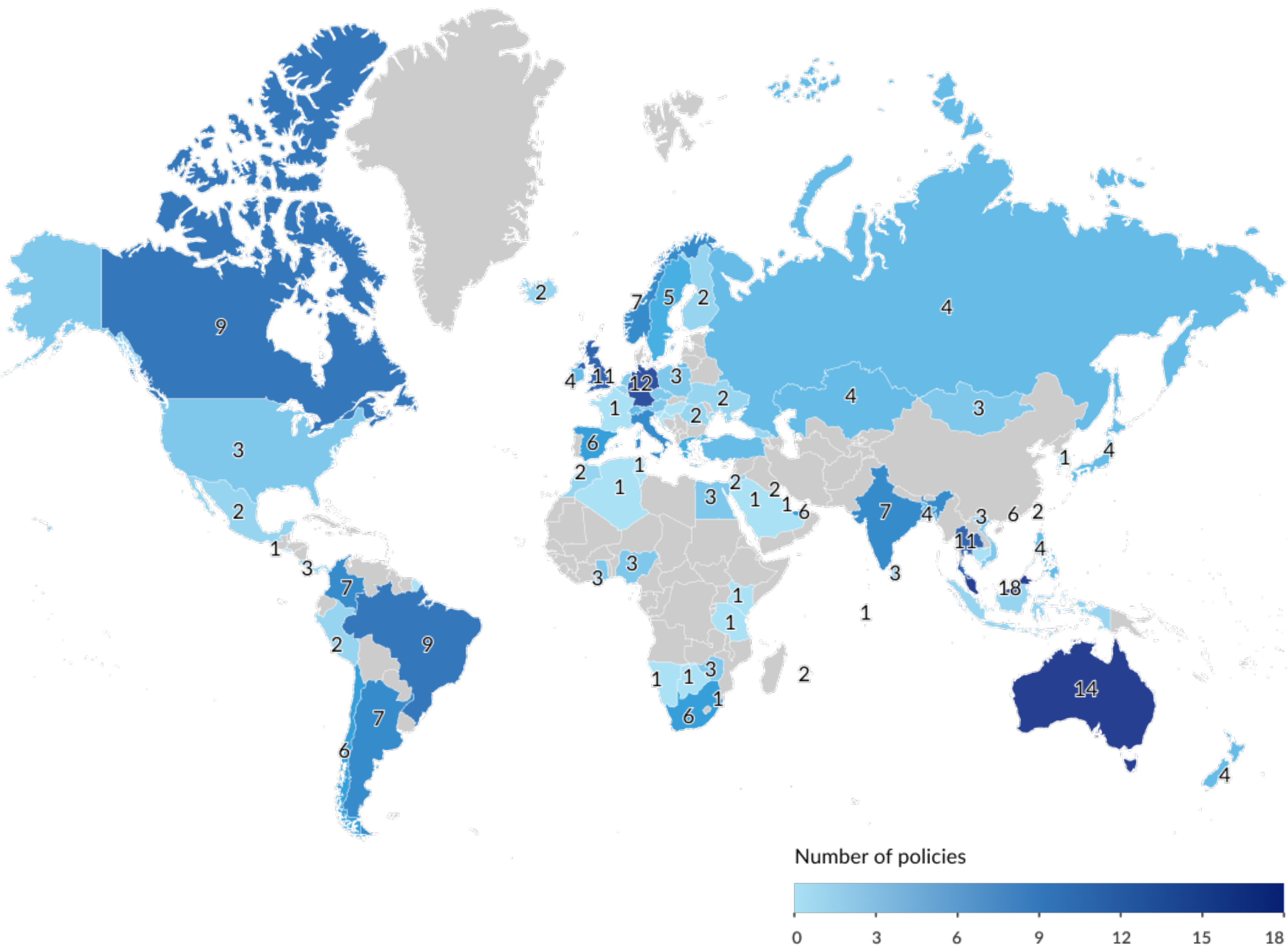
GRI Standards are referenced in 477 policies within the C&S database, representing 18% of the total policies analysed. Among these, six policies explicitly mandate the use of GRI Standards, setting a legal requirement for companies to adhere to these guidelines. For example, in Brazil, the 2017 State-owned Enterprise Governance Program mandates that state-owned enterprises must disclose an annual Integrated Report or Sustainability Report in accordance with GRI Standards. Similarly, in Sweden, a 2014 regulation requires state-owned companies to report their sustainability efforts based on GRI guidelines as part of their accountability framework. Taiwan's 2015 regulation, governing the preparation and filing of Corporate Social Responsibility Reports by listed companies, mandates that these reports must meet at least the core option of the GRI Standards, ensuring comprehensive disclosure on economic, environmental, and social topics.

In addition to these mandatory uses, 127 policies encourage the voluntary adoption of GRI Standards, reflecting broad recognition of GRI as a benchmark for transparency in sustainability reporting. This voluntary encouragement is issued by 20 international organizations and 107 country-specific issuers.

As illustrated in Figure 7, GRI Standards are integrated into policies in no less than 80 countries around the globe. The data reveal distinct regional patterns. In the Asia-Pacific, countries like Malaysia (18), Australia (14), Thailand (11), and Singapore (11) lead in the integration of GRI Standards, with other nations like India, Japan, and New Zealand showing moderate integration.

In Europe, Germany (12) and the United Kingdom (11) stand out, while France, Belgium, and Finland have fewer policies. Latin America shows strong integration of GRI Standards from Brazil (9), Argentina (7), Chile (6), and Colombia (7), while North America sees Canada (9) more engaged than the United States (3). The Middle East and North Africa have lower integration overall, with Bahrain (3), United Arab Emirates (6), and Egypt (3) leading. In Sub-Saharan Africa, South Africa (6) shows the most amount of integration, with limited integration from Ghana (3), Nigeria (3), and Kenya (1). This data suggests, on balance, that GRI Standards are more prominently integration into the policies of developed economies and regions, while emerging markets show potential for growth in this respect.

Figure 7. Use of the GRI Standards in policies around the world



Conclusion

This year's report introduces methodological advancements, including the incorporation of weighted terms to more accurately assess the SDG, GRI, and sectoral focus within policies. Findings reveal that voluntary policies continue to outnumber mandatory ones. An increasing number of policies targeting specific business sectors and aligning with international standards, such as GRI's, suggest that there is a greater move towards interoperability and accountability.

As we move forward, we hope that the insights gained from the 2024 report underscore the role that robust ESG and sustainability policies play in shaping the global business landscape. C&S data is used by businesses, governments and researchers. If you have a question about the dataset or would like to share how you have utilized the resource, please contact the C&S team. We keep track of how C&S data is used in published research and feature C&S-enabled studies on our website.

Overall, our hope is that this resource underscores the importance of continued innovation and collaboration in developing policies that drive meaningful progress toward sustainability goals, ultimately fostering a more just and sustainable future.

Works cited

Chalmers, Adam William, Robyn Klingler-Vidra, Cornis T. Van der Lugt, Peter Paul van de Wijs & Tabitha Bailey (2023). *Carrots & Sticks: Beyond Disclosure in ESG and Sustainability Policy. Annual Report*. University of Edinburgh, King's College London, Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB).

Disclaimer

This report does not claim to be an in-depth scientific study or analysis. It also does not aim to provide complete and consistent coverage of mandatory and voluntary reporting provisions. The report does not include an assessment of the impact of the reporting provisions identified. This document does not constitute legal advice—it is a general research report prepared for the purpose of informing discussion. The report is based largely on desk research and may contain inaccuracies. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or any other entity, including governments or governmental representatives, should initiate actions based solely on the contents of this report. Readers are encouraged to inform the project partners about any inaccuracies or to provide additional information for future editions.

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About the project partners

Global Reporting Initiative

GRI is an independent international organization that has pioneered sustainability reporting since 1997. GRI helps businesses and governments worldwide understand and communicate their impacts on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Standards, the world's most widely used for sustainability reporting, are developed with multistakeholder contributions and are rooted in the public interest.

University of Edinburgh

Established in 1582, the University of Edinburgh in Scotland is a distinguished institution renowned for its academic excellence and rich history. As a member of the prestigious Russell Group, an association of 24 leading research-intensive universities in the United Kingdom, the university upholds a commitment to excellence that is evident in its consistent placement within the top 20 universities worldwide. Its strong performance in global rankings further highlights its dedication to providing world-class education and conducting impactful research.

King's College London

Established in 1829, King's College London is a renowned institution with a legacy of academic excellence and innovation. As a proud member of the prestigious Russell Group, a distinguished association of 24 leading research-intensive universities in the United Kingdom, King's College London upholds the highest standards of education and research. The university's commitment to excellence is evident in its consistent presence among the top-ranking institutions globally. King's Business School is triple crown accredited (AACSB, EQUIS, and AMBA) and a thought leader in sustainable and responsible business.

Stellenbosch Business School

Established in 1964, Stellenbosch Business School at Stellenbosch University in South Africa was the first school from an African university to hold all three international accreditations: AACSB, EQUIS and AMBA. Stellenbosch Business School's mission is to develop responsible leaders who can help to create value for a better world. The school's areas of expertise include Responsible Leadership, Futures Studies and Foresight, Finance and Growth, Equality and Diversity, Conflict and Collaboration. Leadership Coaching, Corporate Governance, Entrepreneurship and Innovation.

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