A New Institution for Long-Term Sustainability Impact: The Global Reporting Initiative

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ABSTRACT

Can yet another global institution really do anything to help the sustainability of our planet? It can if it is rooted in finding solutions that are acceptable to a wide range of stakeholders – business, environmental and social interest groups, labour and government. And if it addresses one of today's key sustainability issues – holding organisations accountable for their environmental, economic and social performance.

INCREASING CALLS FOR TRANSPARENCY

Companies and other organisations are facing rapidly rising expectations for non-financial performance in areas such as environmental protection and human rights. Increasingly, their stakeholders expect business to be explicit, transparent and accountable in these areas.

These expectations have emerged as business undergoes a worldwide transformation, globalising its financing, supply chains, trade relationships and information technology. Multinational companies see globalisation as the path to wealth creation, shareholder value and social prosperity. But a broad range of critics question globalisation's effect on the environment, society, communities and the distribution of wealth.

In the absence of strong global governance mechanisms, environmentalists, human rights activists, labour groups and customers are demanding greater accountability and transparency for corporate performance. At the same time, investors and accountants are recognising that traditional financial measures do not capture critical but often intangible assets, and therefore lead to imperfect valuation in the marketplace. From the corporate perspective, there is growing recognition that the social "licence to operate" requires greater transparency. Leading companies such as Royal Dutch/Shell, Monsanto, Bridgestone/Firestone, Ford Motor Company, Nike and ABB have experienced the powerful threat of a global performance spotlight, with its impact on core assets such as reputation, brand, shareholder value and ability to attract top talent. A growing number of corporate leaders have come to recognise that improved environmental and social performance leads to improved stakeholder relations, shareholder value and competitive advantage.

A UNITED RESPONSE

Today, at least 2,000 companies around the world voluntarily report information on their economic, environmental, and social policies, practices and performance. Yet, despite its escalating volume, such information is generally inconsistent, incomplete and unverified. Measurement and reporting practices vary widely according to industry, location and regulatory requirements. Consequently, external organisations such as investors or non-governmental corporate watchdogs are unable to assess and compare the environmental and social performance of corporations fairly.

The Global Reporting Initiative (GRI) was established to remedy this situation. Convened in late 1997 and administered jointly by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP), the GRI is an international, multi-stakeholder effort that is creating a common framework for economic, environmental and social reporting by corporations worldwide. The GRI is a model of collaboration – a diverse group of hundreds of environmental, accounting, scientific research, social change, labour and industry organisations, along with major corporations and financial service industry representatives, from more than 50 countries. This collaboration has evolved from an untested, bold vision to a worldwide movement that is advancing a promising new form of governance for the 21st century.

Specifically, the GRI's goals are to:

- Elevate sustainability reporting practices worldwide to a level equivalent to financial reporting in terms of comparability, rigour and verifiability;
- Design, disseminate and promote standardised reporting practices, core measurements and customised, sector-specific measurements;
- Ensure a permanent and effective institutional host to support such reporting practises worldwide.

From the beginning, GRI has embraced a multistakeholder process. GRI works with all relevant stakeholders, but is dominated by no single one. This inclusive and independent approach gives GRI its legitimacy. The GRI is working to help solve a problem – corporate accountability – that no single constituency can, or should, manage.

After months of multi-stakeholder collaboration, the GRI's *Sustainability Reporting Guidelines* were released in exposure draft form in London in March 1999. Twenty-one pilot test companies, numerous other companies and a diverse array of non-corporate stakeholders commented on the draft *Guidelines* during a pilot test period during 1999–2000. In June 2000, the GRI marked a major milestone with the release of its groundbreaking *Sustainability Reporting Guidelines* – a powerful tool for standardising the way business reports their impact on society and the environment.

The *Guidelines* represent the first global framework for comprehensive sustainability reporting, encompassing the "triple bottom line" of economic, environmental and social issues. In keeping with the GRI's continual improvement approach, the *Guidelines* are currently undergoing a comprehensive enhancement based on corporate pilot testing and a revision process that involves the active participation of more than 100 measurement and reporting experts from all stakeholder groups with an interest in strengthening corporate accountability.

CAN REPORTING AFFECT SUSTAINABILITY?

Can something as simple as the measurement and disclosure of information really cause fundamental changes in behaviour?

Timely, credible and consistent information on an organisation's economic, environmental and social performance is a key element in building sustainable societies. Communities, investors, governments and businesses need reliable information to make informed decisions and effectively address the development challenges of the 21st century. Improved disclosure of sustainability information is an essential ingredient in the mix of approaches needed to meet the governance challenges in the globalising economy. It is a critical "enabler" for directing decisions and resources – especially capital markets – towards practices supportive of sustainable development.

GRI is not solely an external communications instrument. Through GRI, companies have a management tool that allows them to improve their operations and respond to vigilant stakeholders. Stakeholders, in turn, have a powerful mechanism to ensure disclosure of key impacts of companies, backed up in time by a network of internal and external auditors and verifiers. This system, when applied to the financial world, has allowed for the creation of dynamic capital markets that have improved the economic health of many communities. Now is the time to use similar mechanisms to improve the social and environmental health of the planet.

GRI'S IMPACT

The GRI has already had a significant impact on corporate sustainability reporting practices. Diverse stakeholders demonstrate their support for GRI through their very actions.

Companies

A rapidly expanding number of companies, in a wide range of industries, from all over the world, have stated that their sustainability reports are based on the *Guidelines*. Currently, more than 100 companies reference the *Guidelines* in their reports. As well, 31 companies committed to participate in this year's Structured Feedback Process to provide input on improving the June 2000 *Guidelines*, and to consider releasing sustainability reports.

NGOs

Representatives from non-governmental organisations have been involved with developing and improving GRI since its inception. NGO representatives constitute almost half of the GRI Steering Committee. The Measurement Working Group, the primary body in the *Guidelines* revision process, has 30 representatives from social and environmental NGOs.

Investors

In November 2000, thirty-nine leading financial investors, managing combined assets in excess of $140 billion, issued a letter urging the CEOs of the 500 largest US companies to undertake standardised sustainability reporting based on the GRI *Guidelines*. The letter's signatories included Calvert Group and Domini Social Investments, and investment advisors for institutional pension funds for the City of New York and the United Church of Christ.

Governments

The European Commission and governments in Australia, Denmark, France, Japan, Netherlands and UK are using the *Guidelines* in their voluntary and mandatory reporting initiatives, guidelines and legislation. The US Environmental Protection Agency, in designing their voluntary programme known as Performance Track, modelled their disclosure requirements on the environmental component of the *Guidelines*.

Other organisations – Several public and private initiatives have incorporated the *Guidelines* into their work. The Association of Chartered Certified Accountants in the UK has adopted the *Guidelines* as a framework for their annual Sustainability Reporting Awards. Numerous benchmarking and data management services in Europe and North America have arisen to take advantage of the comparability and consistency in reporting that the GRI has helped to create. And the International Organization for Standardization (ISO) has invited GRI's participation in developing its new work item on environmental communications and reporting.

THE NEED FOR INSTITUTIONALISATION

While these initial signs of acceptance for a common sustainability reporting framework are encouraging, GRI must be embraced on a much wider scale – by report makers and report users – to ensure the comparability and consistency it seeks to achieve.

To date, the GRI can claim two principal achievements: (1) creating a multi-stakeholder, global consultation process based on the principles of transparency and inclusiveness; and (2) developing and disseminating a common framework for sustainability disclosure, the *Guidelines*. Underlying this success is a continued and pressing need to ensure that the GRI has the resources, legitimacy and global standing to achieve its long-term mission.

As expectations of GRI have risen dramatically, it has become clear that GRI must become a new, independent, global and permanent institution while maintaining its commitment to the principles it has embodied since conception: inclusiveness, balance, transparency and technical excellence. The reasons for institutionalisation include:

Legitimacy

General acceptance of the *Guidelines* will be a direct result of both the technical excellence of the *Guidelines* and legitimacy of the process by which the *Guidelines* are developed and revised. Central to the legitimacy of the GRI is independence of the decision-making process from the undue influence of any one stakeholder group. Moving the GRI from its status as an ad hoc project of other organisations to a legal status of full independence will help achieve this objective.

Long-term stability and viability

To manage and expand the GRI process to its full potential will require substantial financial and infrastructure resources. A permanent institution will enable the GRI to develop a long-term funding mechanism to extend its global network and continually improve its *Guidelines* development process.

Rising expectations worldwide

The success of the GRI to date has increased expectations globally for sustainability reporting, especially regarding the scope of reporting and the reach of the GRI consultative process. To move beyond the current moderate global and stakeholder reach, the GRI needs to develop a much more robust infrastructure to support expanded, long-term outreach.

Overall success of mission

The creation of a GRI institution would ensure stewardship of the *Guidelines*. In addition, with a multitude of reporting initiatives worldwide, incompatibility and inefficiency will intensify without a harmonising force like GRI.

AN INDEPENDENT GRI

A permanent, independent GRI will emerge in 2002 as a major international institution built on a multi-stakeholder process and world-class technical excellence to advance sustainability reporting. The target date for the launch of the permanent GRI is mid-2002, shortly before the World Summit on Sustainable Development.

The establishment of the permanent GRI is under way. Currently managed by CERES and UNEP under the guidance of an international Steering Committee, the GRI will evolve into a new structure with an international Stakeholder Council, a Technical Advisory Committee, an independent Board of Directors and an open membership of Registered Stakeholders. A final piece of the puzzle is the creation of a "Charter Group" of civil society organisations, companies, UN agencies, investor and accountancy groups, and others who will step forward to support the formation of the permanent organisation.

ACCOUNTABILITY IN THE 21ST CENTURY

Many who have studied the evolution of financial accounting and reporting standards over the course of the 20th century believe that the GRI will follow a similar, though accelerated, drive towards harmonisation in the 21st century. After three years of development, and rapid expansion in recognition and impact, GRI has arrived at a crossroads. It is on the brink of becoming a leading force in corporate accountability in the 21st century. Its experience to date, and its proposed structure, provide a glimpse of an innovative form of governance capable of addressing critical societal problems by combining the efforts of business, government, and civil society into highly effective partnerships. This grand experiment warrants careful attention by those seeking solutions to the sustainability challenges of the 21st century.

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