The path to lasting institutional reform: winning the economic argument before the moral one

How the Global Reporting Initiative's innovative use of analogy helped to revolutionize the corporate world's approach to sustainability reporting.



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Not so long ago, the reporting of non-financial issues was a practice few companies bothered

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with. Over the past decade, however, the sustainability report has become common practice, as much a part of the corporate environment as the annual financial report.

Much of the credit for this change must go to the Global Reporting Initiative (GRI), a nonprofit organization founded in 1997. Its guidelines for "triple bottom line" reporting of financial, environmental and social concerns have since become the de facto industry standard.

In their article, "The Role of Analogy in the Institutionalization of Sustainability Reporting," published in *Organization Science*, IESE's Fabrizio Ferraro and Dror Etzion explore how the GRI used an analogy with financial reporting to establish widespread corporate commitment to sustainability reporting.

New dawn for sustainability reporting

During the 1990s, companies become increasingly aware of the risks of association with environmentally damaging practices, especially in the wake of unprecedented environmental disasters such as the Exxon Valdez oil spill in 1998.

But how could companies develop strategies to address sustainability, as well as measure their effectiveness, when they were operating in as yet uncharted territory? A person can only manage what can be measured, and corporations did not systematically report data on the environmental impact of their practices.

The first tentative answer came in 1997, when the Boston-based nonprofit CERES joined with the United Nations Environment Program to establish the Global Reporting Initiative (GRI).

The new organization, made up of stakeholders from industry, government and civil society, declared that its mission would go far beyond environmental reporting to include social and economic performance; in other words, the whole gamut of sustainability concerns.

A tactical analogy

Unsurprisingly, such a goal risked provoking a corporate backlash. After all, companies' acceptance of environmental reporting in the late '90s was still grudging. They were motivated more by reputation and risk-management needs than by a genuine concern about sustainability issues.

The GRI thus downplayed values, pushing sustainability reporting as a means of identifying

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issues before they turned into costly crises. Rationales for reporting emphasized the business case for reporting rather than the moral one.

In developing its sustainability reporting guidelines, the GRI drew a close analogy with long-established financial reporting practices.

The first two sets of guidelines, released in 2000 and 2002, borrowed and adapted many of the financial reporting principles developed by the International Accounting Standards Committee, such as relevance, timeliness and neutrality.

However, by 2002, the GRI was also using analogical reasoning to highlight differences, such as the wider variety of user groups and contexts for sustainability reports.

Success and refresh

By 2004, the GRI's implementation of sustainability reporting was a clear success, and their guidelines were widely lauded as the "only game in town."

In 2005, a KPMG survey of the top 250 companies in the Fortune Global 500 revealed that 40% of firms used their guidelines.

Yet with success came criticism and not just from environmental pressure groups skeptical about corporate commitment to sustainability.

Some GRI stakeholders argued that the pragmatic approach downplayed values while emphasizing irrelevant data, encouraging minimum standards and mere compliance, and obscuring the true picture of an organization's sustainability.

The GRI's response was to introduce a new set of guidelines, released in 2006 after a high-profile feedback exercise involving hundreds of GRI stakeholders. This revealed a clear shift away from the financial reporting analogy.

The new guidelines were simpler and included fewer references to financial reporting. What's more, the emphasis shifted from practical instructions for report preparation to the importance of reporting principles.

The 2006 guidelines explicitly identified civil society as a key stakeholder in the sustainability process, alongside companies and investors.

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In 2008, a follow-up KPMG survey showed that 77% of the top 250 Fortune 500 companies were using the guidelines. By 2010, the number of organizations releasing sustainability reports grew to 1,973.

Making change sustainable

The authors' research uses the GRI experience to illustrate the tricky path that pioneers must navigate to achieve lasting institutional reform.

First, the GRI used analogies with long-established financial reporting practices to help break down barriers and gain overall acceptance of the concept of sustainability reporting, and then gradually moved away from these models to create their own original reporting guidelines.

However, the authors caution against regarding the GRI's success as a guarantee of the analogical approach. After all, the GRI was formed at a time when the need for sustainability reporting could no longer be ignored.

They also warn that continued corporate commitment to sustainability should not be taken for granted, especially as new economic cycles present companies with new challenges and opportunities.

Still, the experience of the GRI underscores the value of a subtle analogical approach, one that is pragmatic from the outset, but always open to modification.

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