

Redefining Value: The Future of Corporate Sustainability Ratings

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Corporate sustainability ratings are a potentially powerful but still underused tool for building a competitive, socially purposeful, and financially sound enterprise. Allen White discusses the purpose, methodologies, strengths and limitations, and future architecture of sustainability ratings.

Foreword

Allen White is a visionary. In collaboration with Robert K. Massie, he started the Global Reporting Initiative (GRI) in 1997 as an initiative by Ceres and Tellus Institute. The idea was a breathtaking one and ahead of its time. It was breathtaking due to its ambition—to create a global set of measurement and reporting standards for companies to report on their environmental and social performance, called by such names as corporate social responsibility and, the more common term today, sustainability. Allen and Bob recognized that stakeholders had equal rights to information about dimensions of a company's performance of interest to them, yet no forum existed to provide them with this information. They were ahead of their time in that sustainability was still a frontier issue. In 1997, the stock market was still going up rapidly, fueled by the Internet boom, only to dramatically crash three years later.

Roughly 15 years later, Allen has developed another visionary idea but in a very different context. Recognition of the fundamental role that companies can and must play in creating a sustainable society, with the GRI playing an important role in making this happen, has grown to become commonplace. Yet practice lags behind recognition, and so various mechanisms have been created to get companies' (and investors') actions to match their rhetoric.



Global Corporate Governance Forum



The Global Corporate Governance Forum supports corporate governance reforms in emerging markets and developing countries. The Forum develops advanced knowledge and training products promoting good practices in corporate governance and facilitates capacity building of director training organizations engaged in implementing corporate governance reforms.

The Forum partners widely with international, regional and local institutions, and draws on the guidance of its global network of private sector advisors and academic research network.

The Forum is part of the IFC Corporate Governance Group, located in the Environment, Social and Governance Department. It is a donor-supported facility, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

An important mechanism is sustainability ratings, and there are a plethora of them. In this sense, the context is very different from 1997 when Allen and Bob were working on (no pun intended) a “green field” site.

This proliferation of ratings is good news because it shows that there is a demand by investors, stakeholders, governments, and others for sustainability ratings of companies, based on underlying metrics, such as those of the GRI, which are subject to some type of analysis. Yet this proliferation is also causing confusion. Ratings can vary tremendously for a single company from one year to the next, which is somewhat ironic for a topic that is long term by definition. There is also little correlation among ratings, even if they are intended to cover similar issues.

Allen’s goal is to help provide rigor, consistency, and transparency through the Global Initiative for Sustainability Ratings (GISR) (www.ratesustainability.org). GISR addresses issues of inconsistency, lack of transparency, backward focus, and challenges to integrity. I think of GISR as a kind of “meta-standard,” one that establishes the standards for those who do ratings based on standards for sustainability information. One big difference between GRI and GISR is that the latter is not dealing with a “green field” site. Whereas GRI is about getting companies to report on sustainability to stakeholders when they are doing nothing in this regard, GISR is about getting existing sustainability rating organizations to adopt the GISR standards. In order to do so, GISR must establish its credibility with both the rating organizations, as well as their users. If GISR is able to do so, it will dramatically improve the quality of these ratings and substantially enhance their benefits. This is a tall order, but if anyone can pull this off, it’s Allen. The world needs GISR, and so I wish Allen and his team all the best for success.

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Redefining Value: The Future of Corporate Sustainability Ratings

Allen L. White¹

In a globalizing world replete with business opportunities and risk, corporate boards continually need to reappraise what constitutes good governance. Traditional board duties pertaining to strategic oversight, executive compensation, and financial auditing will remain integral for the foreseeable future. But these alone will not suffice in a time when the prosperity of companies is inextricably linked to issues such as reputation, brands, supply-chain management, quality and quantity of human and intellectual capital, protection of human and labor rights, and climate change.

Such emergent issues are part of a historical moment in which the role of companies in fostering societal and ecological well-being at the global, national, and local levels is under increasing scrutiny. These are conditions that fuel intensifying public discourse concerning corporate social responsibility, sustainable capitalism, shared value creation, and other linked concepts that challenge the conventional wisdom that positions shareholder value as the paramount measure of company success. Indeed, sustainability is not new to the two common definitions of corporate governance: (1) the actual behavioral patterns of corporations in terms of efficiency, growth, financial structure, and other attributes; and (2) the normative framework within which firms operate in terms of legal systems, financial markets, and labor markets.²

Slowly but steadily, a new paradigm is emerging: stakeholders are holding companies accountable for their impacts on the preservation and enrichment of natural capital, human capital, and social capital. These “vital capitals” play a critical role building resilient, prosperous organizations in the long term. In this framework, finance capital is positioned as a means, not an end, to advance the prospects for building what is commonly called a “sustainable corporation.” That is, board stewardship of these vital capitals is critical to long-term financial success, and, conversely, financial success helps enable responsible stewardship of vital capitals.³ It is this virtuous circle that contemporary corporate directors should seek to optimize.

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¹ Dr. Allen L. White is vice president and senior fellow at the Tellus Institute, Boston, Massachusetts, United States, and directs the institute's Program on Corporate Redesign. In 1997, he cofounded the Global Reporting Initiative (www.globalreporting.org) and served as its acting CEO until 2002. More details on the back cover.

² Stijn Claessens and Burcin Yurtoglu, *Corporate Governance and Development—An Update* (Washington D.C.: Global Corporate Governance Forum Focus 10, 2011).

³ Allen L. White, “The Five Capitals of Integrated Reporting: Toward a Holistic Architecture for Corporate Disclosure”; Robert G. Eccles, Beiting Chen, and Daniela Saltzman, “The Landscape of Integrated Reporting: Reflections and next Steps.”

http://hbswk.hbs.edu/pdf/The_Landscape_of_Integrated_Reporting.pdf

The imperative of adopting a broader view of corporate purpose and accountability is not limited to publicly listed firms in developed countries. The interdependencies associated with global supply chains implicate such firms in the conduct and practices of thousands of suppliers spread across the developing nations. News of missteps in the form of unsafe or abusive labor practices, acute environmental events, and corrupt practices appears within hours via global media outlets and social networks.

Consider recent media coverage involving the links between Western apparel brands and the Ali Enterprises factory fire in Karachi, Pakistan and allegations of abuses in the Rosita and Megatex factories (both owned by the Hong Kong conglomerate South Ocean) in Bangladesh, as well as accusations of substandard working conditions in the Foxconn electronics factories in China. All these firms, like the majority in South and East Asia and Latin America, are controlled by founders or families. Yet all pose risks both to themselves and to the brands they supply when directors/owners fail to manage operations according to principles of good governance.

To respond to this reality, boards must elevate their awareness and knowledge to inform priority setting, decision making, and monitoring and evaluation of company performance. One such instrument for doing so is by deepening their understanding of corporate sustainability ratings, a potentially powerful but still underused tool for building a competitive, socially purposeful, and financially sound enterprise. The purpose, methodologies, strengths and limitations, and future architecture of sustainability ratings are the focus of the discussion that follows.

THE RATINGS LANDSCAPE

Corporate directors and executives alike face an escalating demand for and supply of sustainability information. At least three major forces are driving this surge:

- **Institutional Investors and Pension Funds.** Evidenced by the 915-plus signatories to the *UN Principles for Responsible Investing* (UN PRI) representing more than \$30 trillion in assets, these institutions are calling on investors worldwide to integrate sustainability considerations into investment decisions. This is fueling a growing demand for credible and timely disclosures material to such decisions. As the UN PRI signatories move from commitment to implementation, they are seeking high-quality research and trustworthy ratings to assess the merits of including sustainability leaders in their portfolios and excluding sustainability laggards. Fiduciary duty requires that corporate directors be cognizant of this trend and establish appropriate monitoring, evaluation, and compensation mechanisms.

- **Sustainability Reporting.** Sustainability reporting within the last decade has moved from the extraordinary to the exceptional to the expected. Today, thousands of companies worldwide—including publicly listed, foundation, founder and family controlled, cooperatives, and employee-owned—regularly publish sustainability reports, a significant fraction of which use the guidelines designed by the Global Reporting Initiative (GRI).⁴ Governments such as Sweden, France, South Africa, and Brazil, as well as numerous stock exchanges, now require or recommend some form of sustainability reporting through their respective policy, legal, and regulatory mechanisms. Further, in the aftermath of Rio+20, the “Friends of Paragraph 47,” led by the governments of Brazil, Denmark, France, and South Africa in collaboration with GRI, have committed to the advancement of sustainability reporting worldwide.⁵
- **Executive Performance and Compensation.** A March 2012 study of hundreds of companies by Ernst & Young and the newsletter *Greenbiz* concluded that sustainability ratings and rankings are increasingly important to the top executives and, moreover, are often a factor in performance reviews and compensation decisions.⁶ The significance and scrutiny of these ratings was listed as one of six key findings from the study. Although “companies privately complain about the time and expense of fulfilling these [ESG survey] requests, the value is clear: Fifty-five percent of respondents say that actively responding to sustainability ratings questionnaires is a primary means of communicating with investors about their sustainability performance and initiatives.”

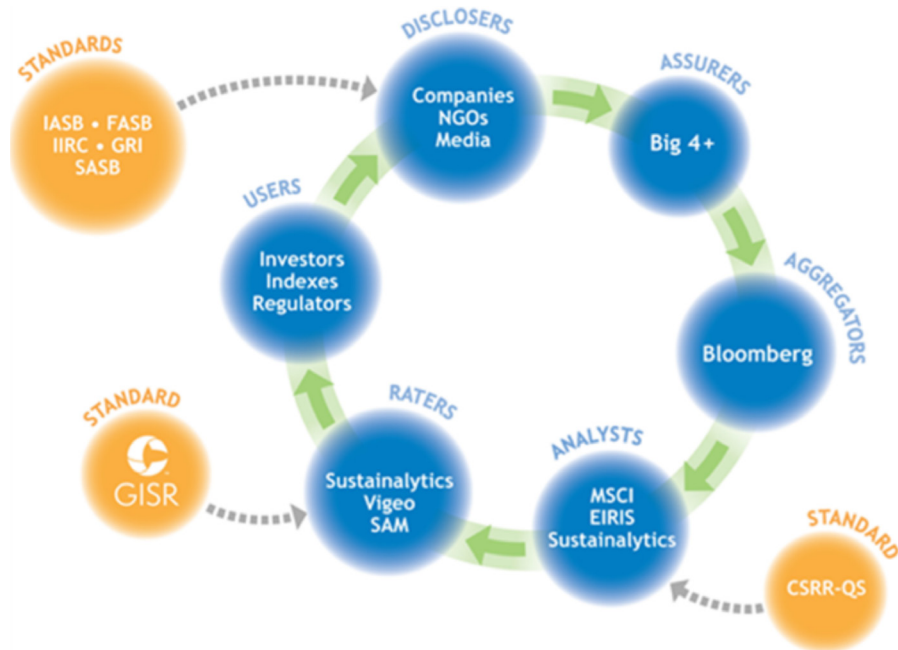
As the market for sustainability information evolves, so too has confusion as to roles and interrelationships among various players in the information value chain. Figure 1 depicts how this emerging landscape functions as a system of illustrative players and roles.

⁴ www.globalreporting.org

⁵ <http://www.triplepundit.com/2012/06/rio20-update-friends-of-paragraph-47-integrated-reporting-brazil-denmark-france-south-africa/>

⁶ <http://www.greenbiz.com/blog/2012/06/25/momentum-builds-link-ceo-salaries-sustainable-measures?page=0%2C1>

Figure 1: Sustainability Information Landscape⁷



Source: Global Initiative for Sustainability Ratings, www.ratesustainability.org.

Disclosers—for example, companies, media, nongovernmental organizations (NGOs)—deliver information to the market, often in a form aligned with various external standards such as the GRI and the newly launched Sustainability Accounting Standards Board (SASB). Next, assurers quality control this flow through various verification activities, akin to the role of auditors of financial statements. Aggregators, such as Bloomberg and Thomson Reuters, compile data from various sources and offer such data to various client groups. For example, through its global network of more than 300,000 terminals, Bloomberg provides clients with over 200 sustainability performance indicators for thousands of companies that report such information.

Analysts, the next link in the chain, evaluate sustainability trends over time, within sectors and across regions. Linked to such research is the Corporate Sustainability and Responsibility Research Quality Standard (CSSR-QS) quality standard for socially responsible investment (SRI). Raters, some of whom also are analysts, apply their (mostly proprietary) methodologies to evaluate the performance of one or more aspects of sustainability. As in the case of disclosers and analysts, the Global Initiative for Sustainability Ratings (GISR), described in detail below, is developing a normative framework encompassing both process and performance indicators to drive convergence, transparency, and dynamism among ratings methodologies.

⁷ Abbreviations: IASB- International Accounting Standards Board; FASB-Federal Accounting Standards Board; IIRC-International Integrated Reporting Council; GRI-Global Reporting Initiative; SASB-Sustainability Accounting Standards Board; Big 4-Deloitte, Ernst&Young, KPMG, PriceWaterhouseCoopers; CSRR-QS-Corporate Sustainability and Responsibility Research Quality Standard; GISR-Global Initiative for Sustainability Ratings.

Finally, investors apply ratings to portfolio management, NGOs to design campaigns and business partnerships, and regulators to monitoring compliance with securities rules. Of course, companies themselves may be users of ratings, not just disclosers. With progress toward greater quality and comparability of information, boards, executives, and managers benefit from data that enable benchmarking and learning about best practices, a process which itself can drive a race to the top in terms of the organization's sustainability performance. Boards stand to benefit as well with enriched, comparable data to support assessment of executive performance as well as to give incentives to and reward executives for out-performing peers in terms of social and environmental innovation.

This system of data disclosers, assurers, aggregators, analysts, raters, and users creates positive feedback loops. A change in any one component sends ripple effects to other components through the creation of a virtuous circle of learning and innovation and synergy. For example, as the GISR sustainability ratings standard sets a new benchmark of ratings excellence, it will help elevate the uptake of sustainability information among investors, which to date has been highly uneven. As this continues, it behooves directors to familiarize themselves with the opportunities and risks associated with reduced carbon emissions, stronger enforcement of workplace labor and safety standards, and enhanced anticorruption practices.

WHO ARE THE RATERS?

Sustainability raters date to the early 1990s, a short time after the seminal *Brundtland Report* introduced “sustainable development” as the core concept for achieving global development that reconciles “. . . human affairs with natural law.”⁸ Although a small number of organizations already were analyzing the social and environmental aspects of company performance in support of the social investment community, another decade would pass before the sustainability ratings evolved into the diverse and competitive market that is now in place.

SustainAbility, a leading consultancy in tracking the evolution of the field, estimates that more than 100 raters are now active.⁹ Both independent ratings agencies and those associated with media enterprises, such as *Newsweek* and *CRO Magazine*, are in the mix. Raters include those that cover the full range of sustainability issues as well as those that narrowly focus on specific topics such as climate, access to medicines, or governance. In the first category are organizations such as FTSE4Good, Dow Jones Sustainability Index, and Oekem. In the issue-specific group are the Carbon Disclosure

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⁸ The World Commission on Environment and Development, *Our Common Future*, 1987, <http://www.un-documents.net/wced-ocf.htm>

⁹ <http://www.sustainability.com/library/rate-the-raters-phase-four#.UF3s8o1lQYE>

Project, Access to Medicines Index, and GovernanceMetrics International (GMI). GMI is familiar to many boards as a source of information used by institutional investors, credit rating agencies, and other sustainability raters to assess corporate governance risk and leaders in good governance practices. GMI covers more than 5,000 companies worldwide. Its methodology covers traditional governance attributes such as board diversity, board independence, and executive compensation as well as environmental and social aspects of the company.

A sample of raters appears in Table 1. All but two date to post-2000. Coverage ranges from a few dozen to a few thousand. Most focus on medium and large cap companies, while Global Impact Investment Rating System (GIIRS) specializes in social enterprises in emerging economies. Investors in the form of asset owners and asset managers are the focus for almost all raters, while a few raters target companies that themselves use the ranking as a tool for benchmarking performance. Virtually all raters are comprehensive in scope, although Ethisphere is an exception with its focus on ethics governance and reputation.

Table 1. Sample of Sustainable Raters

Name	Year of Inception	Number of Companies Rated	Type of Companies Rated	Principal Audience	Topical Coverage
Ethisphere's World's Most Ethical Companies	2007	Varies; 145 in 2012	All	Companies	Ethics, Governance, Reputation
GIIRS	2011	266	All, but best suited for for-profits with annual revenues of \$1B or less.	Investors, advisors, funds, and companies	Social and Environmental
MSCI KLD 400 Social Index	1990	400	Large, mid, and small cap	Investors	Comprehensive
GS Sustain	2007	44	Publicly listed, all cap	Investors	Comprehensive
Newsweek Green Rankings	2009	500 (2 lists with 500 each: US and Global)	Large cap	Companies	Environmental
DJSI World Index (based on Sustainable Asset Management/ SAM ratings)	1999	250	All	Investors	Economic, environmental, social
Vigeo	2003	Not publicly available	Public and fixed income issuers	Investors and asset managers	Comprehensive
EIRIS	2012	"Around 3,000"	Not specified on website	Asset managers	Comprehensive

Source: Compiled by the Global Initiative for Sustainability Ratings, www.ratesustainability.org.

The growth of the sustainability ratings industry merits the attention of corporate directors. The phenomenon reflects an increasing, albeit still limited, recognition among investors that a company's long-term financial performance cannot be fully understood by sole reliance on conventional financial metrics such as the price-earnings ratio and return on equity. In a complex global economy, the capacity to anticipate, tap, and manage opportunities and risks rests with the company's intangible assets such as human capital, intellectual capital, and social capital. Sustainability ratings are a key instrument for assessing the organization's ability to build and preserve these capitals. The challenge for boards is, first, to recognize what constitutes excellence in ratings and, second, to understand how to use them to advance the long-term competitiveness and prosperity of the company for which they serve as fiduciaries.

RAISING THE BAR

A number of barriers stand in the way of sustainability ratings achieving their full potential as drivers of responsible company behavior. On the positive side, the proliferation of ratings represents a rich store of intellectual capital in terms of methodological advancements in performance assessment. However, proliferation has come at a cost. Users of ratings—particularly capital markets but also consumers, employees, communities, and other stakeholders—are hard pressed to discern which ratings merit their attention and meet their decision-making needs. Absent any form of standardization, comparability and consistency are in short supply. No generally accepted methodology comprising principles and performance indicators exists in a form analogous to what the GRI has brought to sustainability reporting, the International Accounting Standards Board is bringing to financial accounting and reporting, or the International Labour Organization brings to decent work. For corporate directors charged with oversight of a company's long-term well-being, sustainability ratings typically offer a mixed message in terms of the firm's absolute and relative performance vis-à-vis its peers.

Specifically, a number of shortcomings demand attention:

Inconsistency. Rankings by multiple agencies for a single company in a specific year may range from a score indicative of sustainability leadership to sustainability laggard. As Table 2 indicates, the rating for the same company may swing widely year to year according to the same rater; and, in the same vein, that same company may be judged a leader one year and a laggard the next or, in some cases, simply disappear from the list of rated firms. Firms like Coca-Cola and Nike change dramatically year to year as scored by the same rater and differ substantially for the same period according to two different raters. These outcomes, of course, are traceable to different methodologies and different scopes of raters. But why exactly such variations occur is typically unclear owing to the opacity of such methodologies.

Table 2. Comparison of Ratings over Time and across Raters

	Newsweek Green Rankings					CR's Best Corporate Citizens (US)				DJSI
Ranking	US–500	US–500	Global–100	US–500	Global–500	Top 100	Top 100	Top 100	Top 100	Index
Year	2009	2010	2010	2011	2011	2009	2010	2011	2012	2011
Pepsi Co.	119	135	87	182	296	85	13	25	22	YES
Coca-Cola	58	141	NO	289	399	56	90	14	14	NO
Haliburton	169	222	NO	277	389	NO	NO	NO	NO	YES
PG&E	66	20	NO	330	NO	28	25	22	38	YES
Nike	7	10	NO	243	355	26	23	10	9	YES
BP	N/A	N/A	92	N/A	376	N/A	N/A	N/A	N/A	NO

Source: <http://www.thedailybeast.com/newsweek/galleries> (2009, 2010, 2011); <http://www.thecro.com> (2009-20012)

Lack of Transparency. Most raters develop and maintain proprietary methodologies in order to protect commercial interests. “Black box” serves such a purpose but presents user groups—investors, corporate directors, customers—with an incomplete understanding of how companies are performing along many or all dimensions of sustainability. This gap is problematic in different ways for different users. For investors that regularly engage companies in efforts to elevate their environmental, social, or governance performance, opacity is a serious obstacle to efficient and effective dialogue. For corporate directors, widely variable scores impair the execution of fiduciary duties to oversee the firm’s strategy and performance. For governments that might use ratings as a basis for procurement decisions, incomplete information is an obstacle to designing policies geared to screening in or screening out companies that are, respectively, leading and lagging performers in areas such as human rights and climate.

Looking Backward. Most ratings methodologies rely heavily on backward-looking indicators; for example, water and energy efficiency, workplace accidents, and allegations of labor or human rights violations, all during the last year or two. Yet, sustainability by definition is about the long term. When ratings over-rely on past performance and underrepresent indicators that predict future company performance, investors and other users are left with a deficit on insight as critical questions remain unanswered. What will be the company's capacity to innovate sustainable products and services? Will its environmental footprint be such that it adheres to future norms, regulations, and societal expectations? Is a sustainability culture sufficiently embedded in its governance structure to remain vibrant and enduring for the next decade? To be sure, the design of forward-looking indicators of this nature is a serious challenge. But, without such indicators, directors and executives are ill-equipped to develop and instill behavior, innovation, and cultures that align with long-term sustainable outcomes.

Challenges to Integrity. When raters receive compensation from companies to perform ratings and/or advise companies on how to improve their score, real or perceived conflicts of interest arise. The business model of credit raters is under scrutiny for exactly this reason: whether the rater is compensated by the issuer of an IPO, bond, or other instrument that is the subject of ratings. Sustainability ratings, still a young field, should evolve in a way that avoids such conflicts. As SustainAbility observes, "Sound governance and transparency underpin strong and credible sustainability ratings. Users and rated companies are more likely to pay attention to ratings when they understand how ratings work, [the] conflicts that may exist and how they are managed, how ratings change over time, and how external stakeholders are involved."

All of the above issues—inconsistency, little or no transparency, looking backward, challenges to integrity—are neither unexpected nor insurmountable. Like other areas associated with the sustainability field, knowledge and practice are evolutionary, works in progress. Ratings are akin to a multitude of initiatives aimed at advancing the sustainability agenda, such as the UN Global Compact, the UN PRI, the Forest Stewardship Council, and the SA8000 standard for decent work, in addition to the aforementioned GRI and SASB.

From concept to infancy to adolescence to maturity, all such programs evolve through a life cycle of increasing profile, legitimacy, and technical excellence. As this occurs, the need for convergence around norms of content and practice emerges, enabling companies, investors, and other stakeholders to speak to each other in a shared language and build shared expectation as to what constitutes "excellence."

It is time to convene stakeholders into a process to help drive convergence around a common set of principles and performance indicators such that investors, companies, NGOs, and other stakeholders share a basic understanding of what constitutes “excellence” in corporate sustainability performance.

Sustainability ratings have reached that crossroad. It is time to draw together stakeholders into a process to help drive convergence around a common set of principles and performance indicators such that investors, companies, NGOs, and other stakeholders—whether in Brazil, Russia, China, India, or South Africa—share a basic understanding of what constitutes “excellence” in corporate sustainability performance. Such a process should not displace existing rating methodologies but, instead, complement the field with a transparent, public good that serves as a global

benchmark of excellence and that encourages alignment with generally accepted principles and performance indicators.

TOWARD A PUBLIC GOOD

GISR, launched in mid-2011, seeks to play the role of an independent, noncommercial standard setter in the field of sustainability ratings.¹⁰ For corporate directors, the creation of such a ratings standard promises multiple benefits in terms of strengthening governance practices. First, it will provide an unbiased perspective on how a company is performing in comparison to historical trajectory and in relation to peers within a specific country and industry sector. Second, the standard will provide an instrument for directors to assess their own performance as fiduciaries of the organizations they govern. Third, the GISR will provide an invaluable instrument to directors for structuring rewards and incentive systems to encourage a deeper and broader commitment to the global and national sustainability agenda on the part of senior executives.

The case for a generally accepted ratings framework was spawned in 2007 with the release of “Strategic Corporation Initiative,” a paper prepared by a diverse coalition of NGOs seeking to channel capital to socially responsible businesses. After presentation of this paper at the 2007 Corporation 20/20 Summit,¹¹ a Ratings Working Group (RWG) convened to develop a “gold standard” ratings framework for use by all stakeholders worldwide, including but not limited to the investment community.

In 2008, more than 40 RWG members representing diverse stakeholder groups became engaged in e-dialogue and workshops aimed at setting in motion a new ratings initiative. These individuals were drawn to RWG for a wide range of reasons: deepening social purpose in capital markets; reducing confusion linked to competing ratings schemes; the desire to assess sustainability performance of suppliers; and, targeting civil society campaigns more effectively. Although motives varied, all viewed the absence of a generally

¹⁰ www.ratesustainability.org

¹¹ www.corporation2020.org

accepted sustainability ratings framework and standards as a major obstacle to accelerating the movement of organizations toward sustainable practices to serve the long-term public interest.

In 2009, the RWG morphed into the GISR. In April 2010, a group of asset owners, asset managers, NGOs, raters, and foundations convened for a meeting hosted by the Rockefeller Brothers Fund for a GISR organizing meeting. As GISR has taken shape, perspectives of investors and other stakeholders have come to light in ways that are informing GISR strategy and the design of a generally accepted framework.

Ceres and Tellus Institute, the two organizations that launched the Global Reporting Initiative (GRI), are the principal conveners of GISR, working in cooperation with Founding Partners, Strategic Sponsors, Collaborating Organizations, and other allies committed to building a world-class sustainability ratings standard. The GISR is designed to

The GISR is designed to take its place among contemporary standards aimed at accelerating progress toward realizing the global sustainable development agenda.

take its place among contemporary standards aimed at accelerating progress toward the global sustainability agenda. By analogy, GRI guidelines are a de facto reporting standard focusing on sustainability information disclosure; the ISO 14000 is an environmental management systems standard; and FASB and IASB create financial accounting standards for, respectively, U.S. and international application. In the same mode, the GISR will be a standard setter for entities that rate sustainability performance of companies worldwide.

Standards, of course, come in many flavors. They may be voluntary, quasi-mandatory, or mandatory; they may be principles-focused, process-focused, performance-focused, or comprehensive; and they may be single-issue-focused (human rights, carbon) or integrated (across all major sustainability issues). The GISR falls into the category of a voluntary, comprehensive, and integrated standard.

The GISR will not directly rate companies. Just as the GRI itself does not produce sustainability reports (companies do), the ISO does not certify companies (qualified independent certifiers do), and FASB/IASB do not produce financial reports (companies do, with audits performed by accounting firms), the GISR will not directly rate companies. GISR's standard will be implemented by a wide range of organizations that may include current rating agencies. Separating the standard setter from the standard implementers will help the GISR avoid "mission creep" and help ensure its integrity and legitimacy.

As part of its strategic plan, GISR will certify organizations as qualified implementers of its methodology. The GISR will pursue a two-pronged approach to its overarching goal of bringing convergence, rigor, and transparency to the sustainability ratings field via—

- (1) A stand-alone standard in the form of a public good for rating sustainability performance, comprising principles performance indicators.
- (2) Certification of non-GISR rating methodologies as “GISR-compliant” based on their overall adherence to most core aspects of the stand-alone standard, while allowing for customization according to raters’ expertise, emphasis, and user base.

The combination of (1) and (2) balances the demand for a generally accepted, high credibility, world-class standard with the diversity and intellectual capital that more than a decade of sustainability ratings has produced.

The GISR standard will cover economic, social, environmental, and governance performance indicators, with a special emphasis on outcomes. The standard will cover both cross-sectoral and sector-specific content. Cross-sectoral signifies sustainability content that is material to all companies regardless of line of business, geography, or scale. Sector-specific content signifies content that is material to specific business sectors. Cross-sectoral work will begin first, followed soon by sector-specific work. Materiality will be a key principle undergirding the GISR standard. That is, the quality of indicators in terms of their clear relevance to stakeholder decision making is the lead design criterion, as opposed to quantity for quantity’s sake. A strong, balanced, transparent consultative process will enable wise application of the materiality principle.

A successful GISR will impact raters by becoming a generally recognized benchmark of excellence, the core elements of which, over time will be shared across the ratings community.

Collectively, raters have contributed a rich knowledge base and years of innovation to the development of the sustainability field. The GISR development process will include a range of systematic interactions with this community. A successful GISR will affect all raters by becoming a generally recognized benchmark of excellence the core elements of which, over time, will be shared across

the ratings community. Raters will make their own choices as to whether they adopt the GISR stand-alone standard, qualify their approaches as GISR-compliant, or continue in a business-as-usual mode. In all scenarios, the focus for the GISR will remain on excellence, transparency, and independence.

ROAD AHEAD

This year marks the 20th anniversary of the seminal 1992 World Conference on Environment and Development. Many of the Earth's vital signs—environmental, social, and economic—are perilously fragile. Ecosystems destruction continues with minimal abatement. Climate volatility is intensifying. Human and labor rights are under assault in many parts of the world. At the same time that technological advances promise to reduce or reverse these ominous trends, the political will to undertake systemic changes is in woefully short supply.

The future of sustainability in the 21st century hinges in part on rethinking the definition of well-being and progress among all parties whose actions drive change. Among the most pivotal of these actors is the corporation, the purpose and mission, strategies and practices, and goods and services of which are indispensable to transformational change.

Yet change in business behavior has been slow in coming relative to the multiple perils confronting society in the coming decades. Such change has been decidedly uneven across companies, sectors, and geographies; hostage to expectations that foster short-termism; and impaired by a myopic view of wealth creation that is dominated by a focus on financial capital to the exclusion of other “capitals” indispensable to long-term, inclusive wealth creation—namely, natural, human, social, and intellectual capital.

Moving companies from incremental to transformational change requires new forms of disclosure and performance assessment. Both must align with the core tenets of sustainability, including integration across environmental, economic, and social dimensions; long-term horizons in designing and implementing corporate strategy and practices; and measurable commitments to preserving and expanding the stock of all forms of capital.

If sustainability leaders are to be rewarded properly and sustainability laggards are to be motivated to change, corporate directors, corporate executives, investors, and other stakeholders themselves must access and utilize rigorous, credible, and transparent tools for judging progress across all aspects of performance. Achieving such an outcome in the next three to five years is a matter of urgency, and business is indispensable to realizing such a reality. Sustainability ratings built on technical excellence, transparency, and integrity can play a pivotal role in this historical moment.

Change in business behavior has been slow in coming, relative to the multiple perils confronting the planet in the coming decades. Moving companies from incremental to transformational change requires new forms of disclosure and performance assessment.

About the author

Dr. Allen L. White is vice president and senior fellow at the Tellus Institute, Boston, Massachusetts, United States, and directs the institute's Program on Corporate Redesign. In 1997, he cofounded the Global Reporting Initiative (www.globalreporting.org) and served as its acting CEO until 2002. In 2004, he cofounded and is now director of Corporation 2020 (www.corporation2020.org), an initiative focused on designing future corporations to create and sustain social mission. For his expertise in sustainability strategy, policy, tools and standards, he has been engaged by multilateral organizations such as the World Bank and Inter-American Development bank; foundations such as the Pew Charitable Trusts and the UN Foundation; numerous Fortune 500 companies; US EPA; and NGOs such as Oxfam and People4Earth. Dr. White has held faculty and research positions at the University of Connecticut, Clark University and Battelle Laboratories, and is a former Fulbright Scholar in Peru. He was founding chair of GAN-Net/iScale and has served on boards, advisory groups, and committees of the International Corporate Governance Network, Civic Capital, Instituto Ethos (Brazil), the New Economy Network, New Earth/Earthster, and the Initiative for Responsible Investment at the JFK School, Harvard University. Since 2005, Dr. White has served as senior advisor to Business for Social Responsibility and to CERES as a principal architect of the first standardized environmental reporting framework in the years following launch of the organization in 1990. He is coauthor of *Corporate Environmentalism in a Global Economy* and has published and spoken widely on corporate design, sustainability, accountability, and governance.

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