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On the effectiveness of private transnational governance regimes—Evaluating corporate sustainability reporting according to the Global Reporting Initiative

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ABSTRACT

The increasing involvement of multinational enterprises (MNEs) in global governance has been both applauded for its potential to make governance more effective and criticized for lacking democratic legitimization. Hence we investigate the effectiveness of one transnational governance regime, corporate sustainability reporting according to the Global Reporting Initiative (GRI). We found that the GRI has been successful in terms of output effectiveness by promoting the dissemination of sustainability reporting, in particular among Asian and South American companies. However, the outcome effectiveness of the GRI is limited as reporting showed a rather uniform content across countries and sectors which does not reflect materiality considerations. As GRI reporting does not seem to have facilitated greater company–stakeholder interaction, its impact effectiveness is likely to be limited too.

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1. Introduction

The global political economy has until recently been characterized by a state-centric order, where cooperation between sovereign nation states led to the emergence of stable institutions to govern international economic activity (Cutler, 2001; Held, McGrew, Goldblatt, & Perraton, 1999). However, in the wake of globalization, state-level governance mechanisms have lost some of their regulatory powers to a polycentric system of overlapping centres, each having incomplete political authority (Kobrin, 1998; Strange, 1996). These emerging transnational governance systems are not only confronted with new challenges, such as climate change (Levy & Egan, 2000); moreover, their very nature is changing as alternative actors emerge, such as non-governmental organizations (NGOs) or multinationals (MNEs) (Kobrin, 1998; Rosenau & Czempiel, 1992; Teegen, Doh, & Vachani, 2004). In particular, MNEs have emerged as actors with significant political clout and authority as they push for a substitution of institutional arrangements by forms of 'soft' regulation (Kobrin, 2009). In addition to MNEs from developed economies, non-Western MNEs clamour to influence the international institutional environment too (van Tulder, 2010).

These developments have the potential to generate more effective governance regimes (Haas, 2004; Scholte, 2002). At the same time, corporate involvement in shaping governance structures is increasingly becoming detached from the democratically legitimated structure of state law (Scherer, Baumann-Pauly, & Schneider, 2013). As the financial crisis has shown, many governments in developed countries struggle to fully control corporate activities (Crotty, 2009), not to mention states where the enforcement of legal rules is weak or where there are no proper legal frameworks in place (Fukuyama, 2004). Many observers thus point to a "democratic deficit that emerges when private corporations engage in public policy" (Scherer et al., 2013, p. 473). A key issue for the literature on international relations – and neighbouring subjects, such as corporate political activity and corporate social responsibility – then concerns the effectiveness of these emerging institutional arrangements.

We investigate the effectiveness of private transnational regulatory regimes by building on contributions from the

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international relations literature, in particular the distinction between output, outcome and impact effectiveness as originally proposed by Easton (1965) and developed by Underdal and Young (2004). The subject of our study is one private transnational governance regime that is rapidly becoming standard practice among developed and developing country firms, namely sustainability reporting according to the guidelines of the Global Reporting Initiative (GRI). The aim of the GRI is to promote the dissemination and improve the quality of sustainability reporting (GRI, 2006). Focusing on the effectiveness of this particular private transnational governance regime, the GRI should therefore contribute to an increased uptake of corporate sustainability reporting (output effectiveness), allowing internal and external company stakeholders to more meaningfully interact with the respective company on the basis of this information (outcome effectiveness). Ultimately, these interactions should result in measurable contributions towards problem solving in the areas the company reports on (impact effectiveness).

Our study is based on an analysis of 933 GRI reports by companies from 30 countries, representing seven industries. It captures differences in the engagement with this transnational governance regime not only between companies from different industries but also between firms from industrialized and emerging economies. As sustainability is context-specific, we would expect that companies report on those issues that are most material for their operations and their stakeholders. Hence, we expected industry and country-level differences between companies to lead to significant differences in approaches to sustainability reporting. However, whilst we did find some industry-level and country-level differences in reporting, these do not appear to be linked to materiality considerations. Instead, the dominant pattern emerging from our analysis is that coverage levels across GRI indicator categories are very uniform. As report content reflects neither the geographical context nor the stakeholder networks companies are embedded in, we have to conclude that the GRI – although influential – is fundamentally flawed.

This paper makes several contributions to the development of the literature. First, as a contribution to the international relations and international business literatures, we go beyond a dominant focus on North American, European and Japanese firms (Yang, Wang, & Su, 2006) and offer robust quantitative data for a relatively large sample (n = 933) covering a genuinely global range of countries. Not least, we provide evidence of the significant level of engagement with private global governance by emerging economy firms, in particular by those from South and East Asia as well as South America. Second, and more importantly, our findings have implications for discussions of the effectiveness of private transnational governance. Companies are clearly under pressure to report on their social and environmental impacts, but these pressures, by and large, have not translated into differences in terms of what they report on. Put differently, the GRI can be considered highly successful in terms of *output effectiveness*. However, the largely uniform content of sustainability reports across the sample casts serious doubt on the *outcome effectiveness* of the GRI. Impaired outcome effectiveness, in turn, makes *impact effectiveness* unlikely too.

The remainder of this paper is structured as follows. The next section provides an overview of the recent emergence of private transnational governance regimes. Subsequently, we introduce a model to evaluate the effectiveness of such regimes, building on the distinction between output, outcome and impact effectiveness (Easton, 1965; Underdal & Young, 2004). The following section reviews the prior literature on corporate sustainability reporting, with a focus on country- and sector-level differences in reporting as well as the role of the GRI. We then describe and justify the research method, followed by the presentation of findings from our empirical analysis. Before we conclude, we discuss the relevance of our findings for future research into private governance regimes as well as their managerial relevance with regard to the future of corporate sustainability reporting.

2. Theoretical background and development of hypotheses

2.1. Transnational governance and corporate nonmarket strategy

Economic activity, both at national and at international levels, requires well-functioning institutions. Until recently, this was provided by the sovereign state, which enjoyed a monopoly of force within its territory (Cutler, 2001; Held et al., 1999). Holding the undisputed right to design rules within its territory (Held & McGrew, 1993), the sovereign state can provide the institutions to guide economic activities domestically. The sovereign state is also authorized to define its relations with other states through international agreements (Krasner, 1988); thus being able to bring about institutions to govern economic activity internationally. However, such state-level governance structures have been challenged by globalization. In the words of Strange (1996, p. 4): "Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of the states." The traditional dominance of the state has increasingly given way to the emergence of multiple authorities, in particular in the transnational arena, as well as a blurring of responsibilities between public and private sectors (Held & McGrew, 1998; Kobrin, 2009; Scherer & Palazzo, 2011). The result is a world that is more fragmented politically. At the same time, economic interdependence is greater than ever before, as "the dramatic increases in the cost, risk and complexity of technology in many industries render even the largest national markets too small to serve as meaningful economic units" (Kobrin, 1998, p. 361).

It is a key feature of the emerging polycentric system of governance (Kobrin, 2009) that it is significantly shaped by "the apparent assumption by MNEs and global business associations of roles traditionally associated with public authorities" (Ruggie, 2004, p. 502). Such private forms of regulation operate through non-state, market-based frameworks to address a wide range of externalities of corporate activity, from environmental degradation through labour practices in supply chains to violations of human rights (Vogel, 2010). In a similar fashion, authors like Scherer, Palazzo, and Matten (2014) stress that by providing welfare and other benefits that go beyond their narrow economic role corporations not only directly contribute to the production of public goods but also have become political actors (see also Matten & Crane, 2005). These developments apply not only to MNEs from developed nations; rather non-Western MNEs increasingly seek influence over the international institutional environment too (van Tulder, 2010).

Private sector involvement in global governance regimes highlights the importance of companies' nonmarket strategies. Here Baron (1997) stressed that, since the business environment is composed of both a market and a nonmarket environment, companies need to develop a strategy that combines market and nonmarket components to generate synergies and thus superior overall performance. A key part of nonmarket strategy is business political behaviour (Boddewyn & Brewer, 1994) or corporate political activity (Hillman, Keim, & Schuler, 2004; Lawton, McGuire, & Rajwani, 2013), which has been defined as corporate activities to "influence electoral and legislative/regulatory processes so that the outcomes of those processes better reflect the internal goals of the organization" (Baysinger, 1984, p. 249). However, following Baron and Diermeier (2007, p. 540) we propose that nonmarket strategy should go beyond its traditional

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