

# CONTEXT-BASED METRICS: TAKING SUSTAINABILITY LITERALLY

Mark W. McElroy, PhD

Sustainable Business Metrics Event  
The Wharton School, University of Pennsylvania  
Philadelphia, PA

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# My Agenda

- To call attention to the presence of an intellectual crisis in sustainability measurement, management and reporting
- To describe a solution to the crisis: context-based metrics (CBMs) and some examples of how they work
- To use recent events in my own interactions with GRI as a way of explaining the situation further and what should be done about it

# First, the crisis...

- Mainstream sustainability measurement and reporting (SMR) practice fails to accomplish the one thing it sets out to do
  - Which is make it possible to measure and report the sustainability performance of organizations
- It fails because it does not measure performance against norms, standards or thresholds for what performance would have to be in order to be sustainable
  - Standards of performance are missing!
- Worse yet, the leading international standard for SMR (GRI) strongly advocates for an approach to SMR that measures and reports performance against such things, but fails to enforce it!

# Sustainability Context

- Norms, standards or thresholds for what sustainability performance would have to be in order to be sustainable is known as ‘sustainability context’ in the language of SMR
- Global Reporting Initiative (GRI):
  - Performance information should be placed in context.
  - The underlying question of sustainability reporting is how an organization contributes to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, or global level.
  - Simply reporting on trends in individual performance (or the efficiency of the organization) will fail to respond to this underlying question.
  - Reporting organizations should therefore seek ways to express their individual performance in relation to broader environmental and social sustainability.

Sustainability context can be determined by, among other things, expressing performance in terms of:

“Organizational performance in relation to information about economic, environmental, and social conditions in relevant locations, e.g., discussing water consumption in relation to available supply in a particular location”

GRI G3.1, Technical Protocol

# Sticking With Water...

- Most organizations report water use in terms of volumes consumed, but not in context
- Measures of renewable supplies in locations where they do business are usually omitted...
- As are allocations of available renewable supplies to specific organizations or facilities
- But isn't this the kind of information a sustainability report should include in order to be meaningful?
  - Question is: Are an organization's impacts on vital resources in the world sustainable relative to some locally relevant threshold?
  - How can we possibly know, if their measurements and reports exclude such basic information about the resources being impacted?

# Context-Based Metrics (CBMs)

## Sustainability Quotients

$$S = \frac{A}{N}$$

(*Actual* impacts on vital resources)

(*Normative* impacts on vital resources)

All scores plot to a quantitative sustainability performance scale and are mathematically manipulable as such

# A Water-Related CBM, e.g.

## Sustainability Quotients

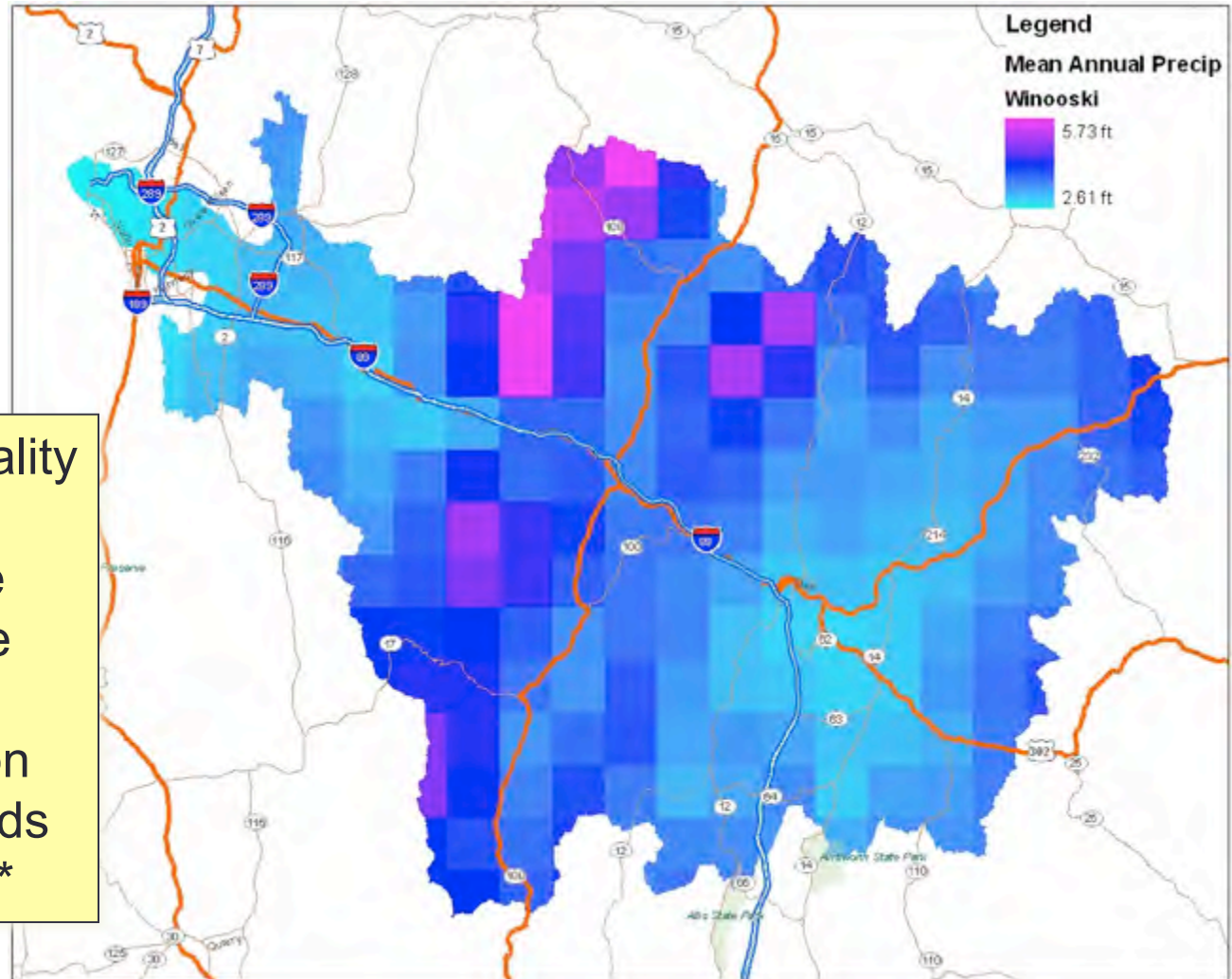
$$S = \frac{A}{N}$$

(*Actual* water consumed in a watershed)

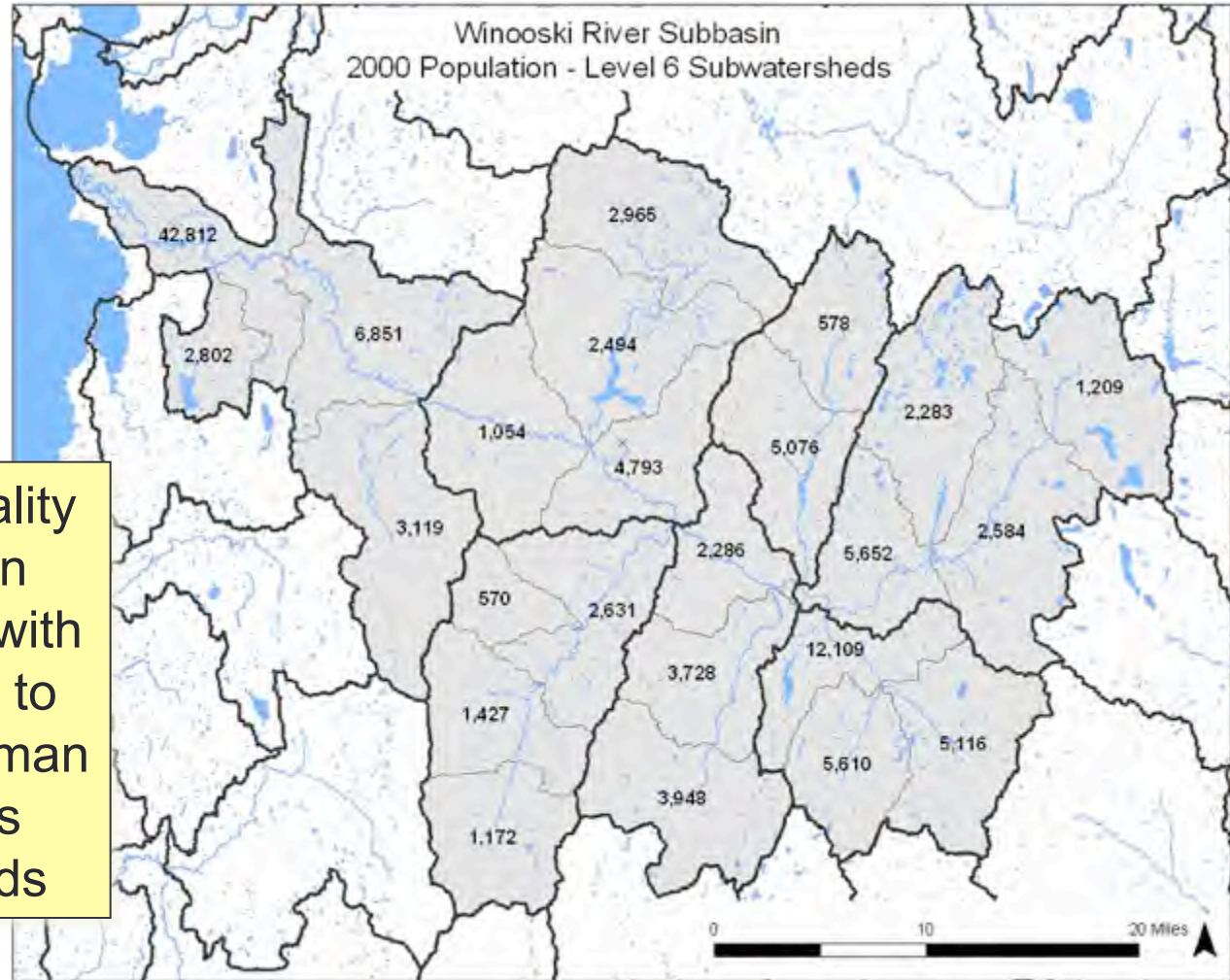
(*An allocation of available renewable water resources in the same watershed, i.e., a threshold tied to supplies*)

Any quotient score of  $\leq 1.0$  = Sustainable  
Any quotient score of  $> 1.0$  = Unsustainable

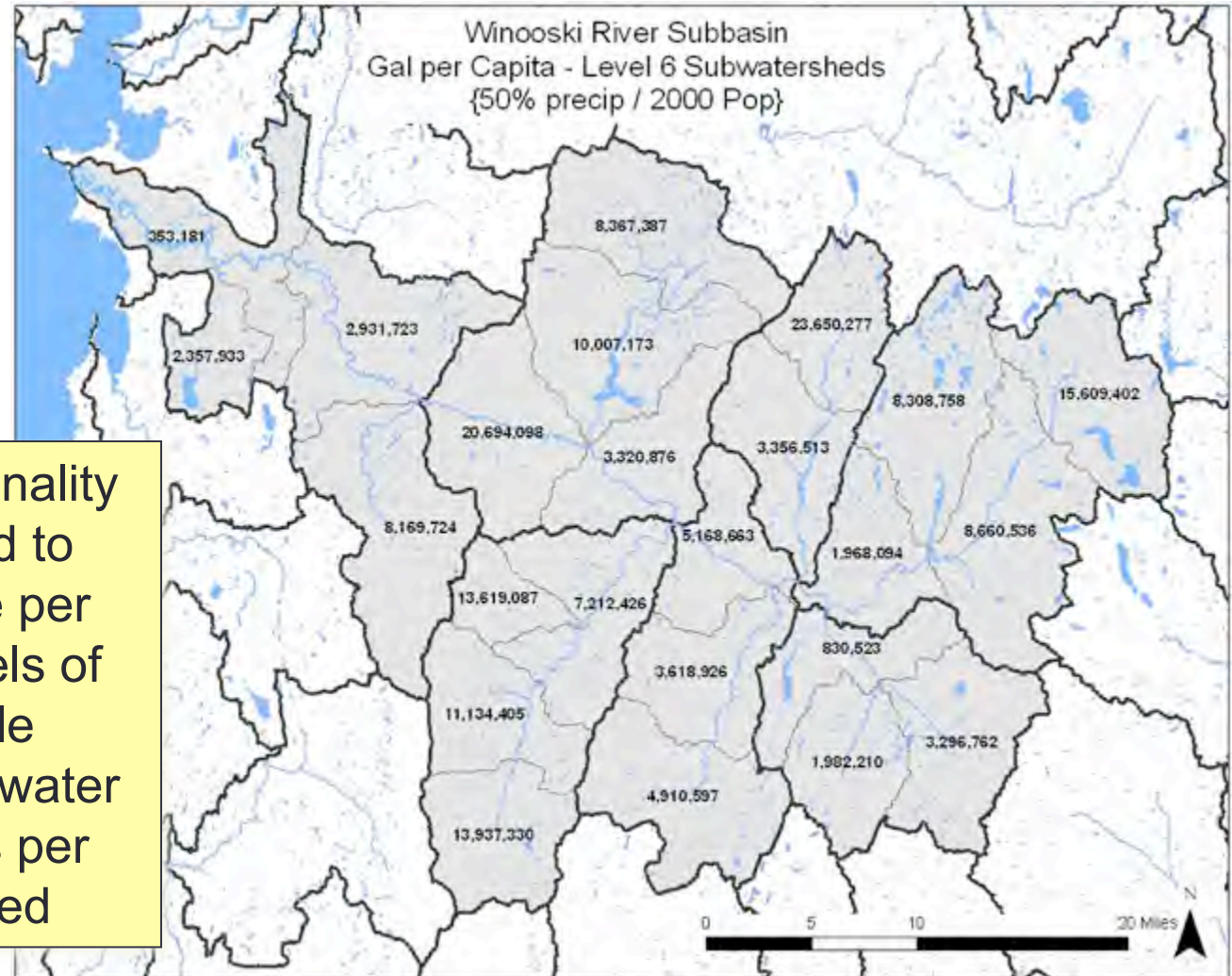




GIS functionality  
 used to  
 determine  
 renewable  
 levels of  
 precipitation  
 in watersheds  
 of interest\*



GIS functionality also used in combination with census data to determine human populations in watersheds



GIS functionality  
then used to  
determine per  
capita levels of  
available  
renewable water  
resources per  
watershed



Context-  
Based  
Metrics

Eco-Eff.  
Metric

## Quotient Scores

ANALYSES AT SUBBASIN LEVEL 4

Score

### Economic

$$\frac{\text{Numerator}}{\text{Denominator}} = \frac{15,647,823}{3,004,982,852} = \mathbf{0.005} = \text{Sustainable}$$

### Per Capita

$$\frac{\text{Numerator}}{\text{Denominator}} = \frac{15,647,823}{137,074,421} = \mathbf{0.114} = \text{Sustainable}$$

### Intensity

$$\frac{\text{Numerator}}{\text{Denominator}} = \frac{15,647,823}{119,140,691} = \mathbf{0.131} \text{ gallons per lb}$$

Level 4 Subbasin - Winooski River

# What I Mean by Context

Sustainability context consists of (a) who an organization's stakeholders are, (b) the resources they rely on to meet their basic needs, and (c) norms, standards or thresholds for what an organization's proportionate impacts on such resources ought to be in order to ensure stakeholder well-being (i.e., to be sustainable).

# GRI's 'Report or Explain' Campaign



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## Report or Explain

### Welcome to the Report or Explain Campaign Forum



**The Report or Explain Campaign Forum is a convening space for everyone who wants to drive sustainability disclosure as a mainstream management and accountability tool. The Forum is open to all who believe that sustainability reporting is necessary and beneficial – that companies should reveal their performance or the reasons why they don't.**

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CSR PRESS RELEASES VERMONT NGO CALLS ON GRI TO ENFORCE OR EXPLAIN

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### Vermont NGO Calls on GRI to Enforce or Explain

Submitted by: **Center for Sustainable Organizations**

Categories: **Corporate Social Responsibility, Sustainability**

Posted: **Sep 06, 2011 – 07:59 AM EST**



**CENTER FOR SUSTAINABLE ORGANIZATIONS**  
University for Corporate Sustainability Management

THETFORD CENTER, Vt., Sep. 06 /CSRwire/ - The **Center for Sustainable Organizations (CSO)** launched a campaign today in which it calls upon the Global Reporting Initiative (GRI), the world's leading corporate sustainability reporting standard, to either enforce the 'sustainability context' principle in its guidelines or explain why it doesn't.

Motivated in part by GRI's own recent **Report or Explain Campaign**, which exhorts companies to reveal their own sustainability performance or else publicly explain why they don't, CSO's call for GRI to explain why it doesn't enforce its own sustainability reporting guidelines is intended to address a major flaw in mainstream reporting: the absence of sustainability context in related efforts.

# Our *Enforce or Explain* Campaign (cont.)



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## 2011

### GRI response statement to the Center for Sustainable Organizations

This month, the Center for Sustainable Organizations (CSO) announced:

*"CSO is calling upon GRI to enforce this most basic principle of sustainability measurement and reporting by (a) specifying procedures for how to measure and report performance in context, (b) modifying its rating guidelines so as to withhold superior ratings for reports that fail to include context, and (c) setting the proper example itself by including context in its own reports from now on."*

GRI believes that sustainability context is vital in all reporting. This is emphasized by the Principle of Sustainability Context in GRI's Sustainability Reporting Framework. GRI is committed to the continuous improvement of its Guidelines, including the Principles that underpin reporting.

Since GRI provides the Guidelines for organizations to follow, it should not judge the quality of resulting reports. The purpose of the GRI Guidelines is to ensure transparency so that different stakeholders can take on this role - civil society, academics and analysts.

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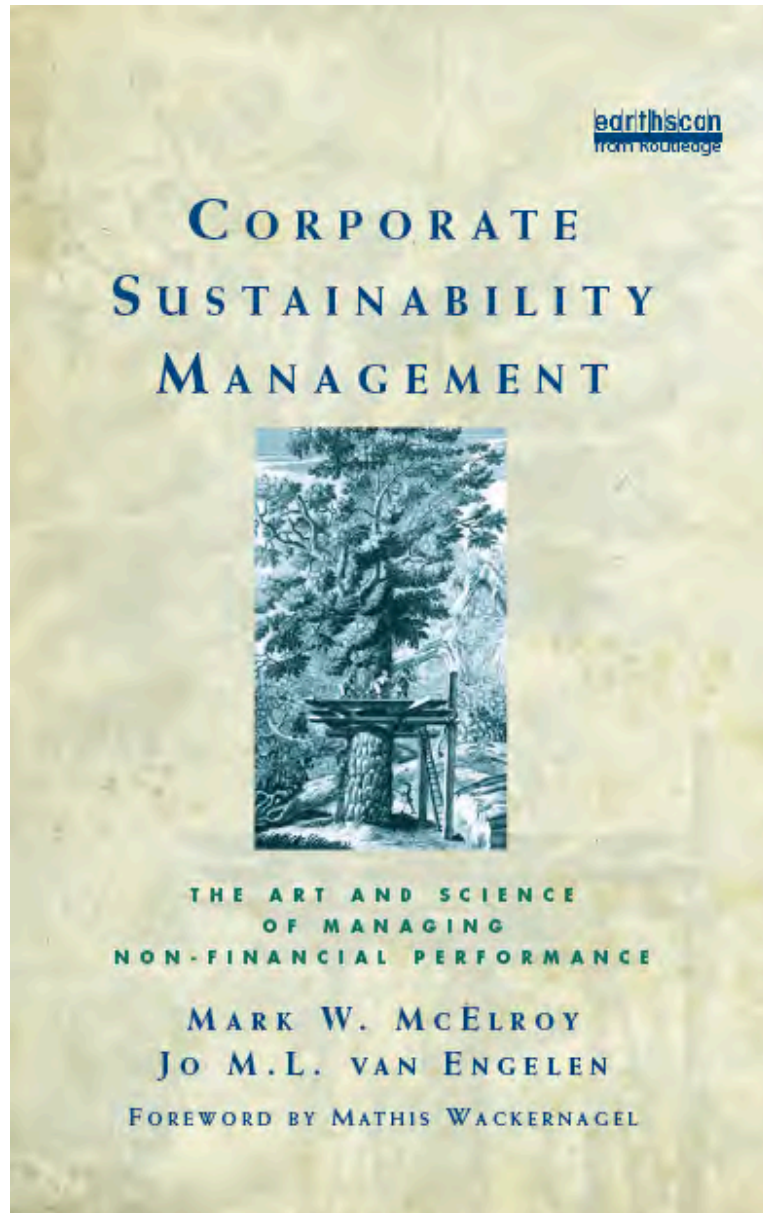


# Critique of GRI Response

- Reaffirms its commitment to context as a key principle for reporting
- But fails to acknowledge its indifference as to whether or not reports actually contain context, not to mention the fact that its failure to enforce context means that most reports do not report sustainability performance at all – a serious problem!
- Claims that it should not judge the quality of reports
  - And yet it already does through its Application Check program
  - And why shouldn't GRI judge the quality of reporting at least in terms of adherence to the standard it created and maintains?
  - Is FASB violating its independence when it tells us (and enforces) that *Income Statements* must include costs, not just revenue?

# Conclusions

- Most sustainability reports (and standards) are context-free and therefore do not report on sustainability performance at all
- Instead, they report on eco-efficiency, social benevolence, citizenship, product impacts and sometimes monetized impacts
- Context-based methods and metrics do exist, however:
  - Ecological Footprint Method
  - Social Footprint Method
  - Context-Based Sustainability , or CBS (a context-based TBL method)
- Forthcoming Bright Exchange capital market in the Netherlands will *require* the practice of CBS by listed companies



*Thank You!*

