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THE RISING ADOPTION OF GRI STANDARDS ENHANCING SUSTAINABILITY ACROSS THE VALUE CHAIN

Sustainability implies a change in the way companies address the challenges they face, integrating traditional profitability goals with environmental and social responsibility. A key framework incorporating these principles is provided by the Global Reporting Initiative (GRI), a standard widely used by companies to disclose their sustainability practices. Based on data from 272 companies, this article analyzes the different levels of GRI adoption among SMEs and large Italian companies.
By illustrating the level of disclosure in relation to GRI standards, this study aims to provide potentially useful benchmarking insights for Italian companies seeking to strengthen their commitment to actioning sustainable business practices.

SUSTAINABILITY//GRI STANDARDS//ESG//VALUE CHAIN//SUSTAINABILITY REPORTING

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The increasingly central concept of sustainability at the corporate level reflects a growing trend, as companies move toward adopting more informed, ethical business practices, as they integrate environmental, social and governance (ESG) criteria into corporate strategies and operations. Such an approach not only aims to ensure long-term profitability and success, but also contributes to achieving sustainable development goals, creating value for shareholders, for the community, and for the environment.

Recognizing the importance of corporate sustainability in the current global context, the European Commission is actively promoting these principles among businesses through a number of targeted initiatives and policies. Two of the most prominent are the European Green Deal and the

Sustainable Finance Action Plan, which incentivize companies to integrate sustainability into their strategies, operations and reporting processes (European Commission, 2024). By promoting transparency, innovation and collaboration, the European Commission aims to facilitate the transition to a more sustainable and resilient economy, giving companies a key role in achieving positive ESG outcomes (European Commission, 2024).

A growing commitment to integrating sustainability principles into business operations can also be seen in Italy, where the shift is supported by several initiatives. The most consequential of these is known as the PNRR (National Recovery and Resilience Plan), which aims to address the ESG challenges exacerbated by the pandemic by promoting long-term sustainability and resilience (Ministry of Economy and Finance, 2024). This and other initiatives not only demonstrate the growing relevance of sustainability goals in the Italian business landscape, but also map out a clear path toward a more environmentally and socially responsible future.

The growing awareness of sustainability issues has also led to an increase in reporting in Italy. In fact, more and more companies are voluntarily reporting their ESG performance through platforms such as the Global Reporting Initiative (GRI), one of the most popular sustainability reporting systems in the world, used by more than 10,000 organizations in over 100 countries (Global Reporting Initiative, 2024). The widespread use of the GRI is a testament to the credibility and effectiveness of these reporting criteria in helping organizations communicate their sustainability performance in a transparent and consistent manner. According to a recent study on sustainability reporting, up to 90% of Italian companies in the N100 group[1] are likely to produce a GRI-compliant report (KPMG, 2022).

Despite the consensus on sustainability reporting standards, particularly the GRI, there is considerable heterogeneity in the adoption of these systems. This variance is influenced by many factors, including company size (the focus of this article), industry, geographic location, regulatory environment, and corporate culture. For example, large companies with greater resources and global operations are championing these reporting practices, a trend motivated by a combination of needs ranging from regulatory compliance to stakeholder pressure to a commitment to corporate social and environmental responsibility.

While large corporations have dedicated sustainability teams, advanced reporting systems, and established structures for measuring and disclosing ESG performance, small and medium-sized enterprises (SMEs) face major hurdles in initiating reporting practices. Key challenges include a dearth of resources, limited awareness of the benefits of reporting, and a lack of expertise in implementing specialized systems such as GRI standards. In addition, many SMEs operate in highly competitive markets with low margins and lean organizational structures, making it difficult to allocate resources to sustainability initiatives.

Despite these challenges, the trend towards adopting ESG approaches is gaining ground. So it's useful to attempt to make an in-depth comparison of the disclosure levels of GRI standards, distinguishing between large companies and SMEs. Our aim is to identify any differences in the transparency and completeness of reporting, to provide explanations for the main discrepancies that emerged from our analysis, and to suggest effective approaches for implementing this reporting system.

THE STUDY

This study was carried out as part of the GRINS Project (Growing Resilient, Inclusive and Sustainable), funded by the EU's Next Generation

1 The authors acknowledge ASMEL (Italian Association for Subsidiarity and Local Government Modernization) for its support in data collection among medium-small municipalities.

program. Our objectives are three: to survey the current level of disclosure of environmental and social aspects of the GRI system among Italian companies; to illustrate the main differences in the level of disclosure of sustainability practices between SMEs and large companies; and to outline the key steps for implementing a reporting system in line with GRI principles. To this end, we conducted an analysis based on company size using data collected from a heterogeneous sample of 272 Italian companies. We also reviewed the sustainability reports of 100 large companies and interviewed some of the 172 SMEs operating in different sectors in Italy.

GRI DISCLOSURE IN ITALIAN COMPANIES

The GRI system includes indicators for a wide range of standards related to the sustainability and impact areas of business activities, including emissions, energy use, water consumption, waste management, and biodiversity. The goal is to guide companies in their efforts to operate sustainably and communicate transparently about their environmental and social practices. Figure 1 shows the averages and standard deviations we found in our sample for the various GRI environmental indicators.

To simplify our analysis, we distinguish between indicators that show an above-average dissemination compared to the full sample, in contrast with the ones that receive less attention in public reporting.

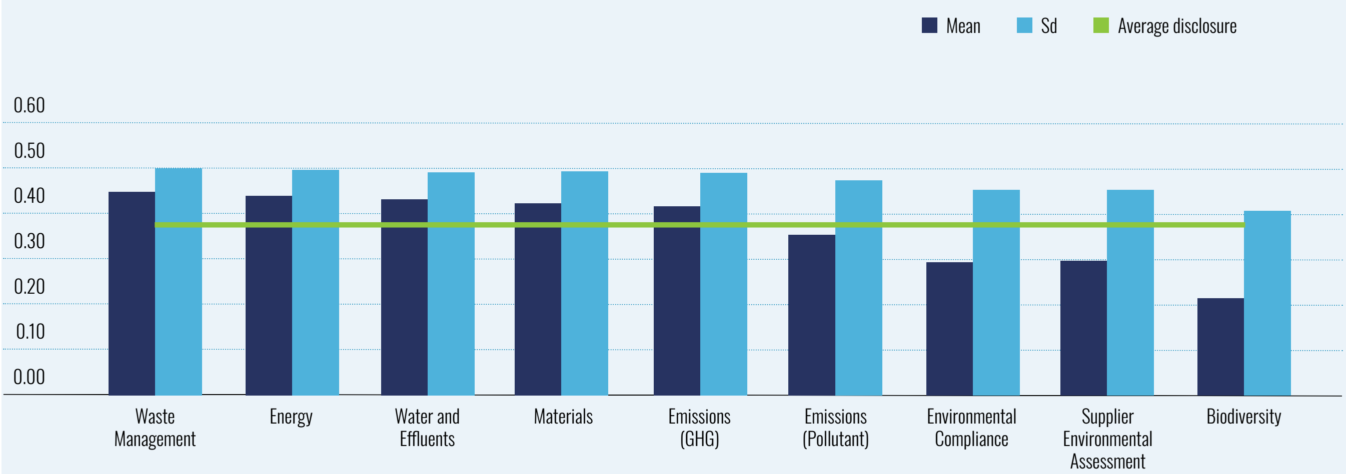
For the former, we find that among the Italian companies in the sample:

- 45% report responsible waste generation and management practices.
- 44% publish information on energy and water consumption and waste management practices.
- 43% report the use of sustainable raw materials and products in their operations.
- 42% report greenhouse gas emissions.

By contrast:

- 36% disclose air pollutant emissions.
- 30% report their environmental compliance practices and the environmental criteria they use to evaluate suppliers.
- 21% disclose the impact of their activities on biodiversity and ecosystems.

FIGURE 1. MEAN AND STANDARD DEVIATION – GRI ENVIRONMENTAL STANDARDS



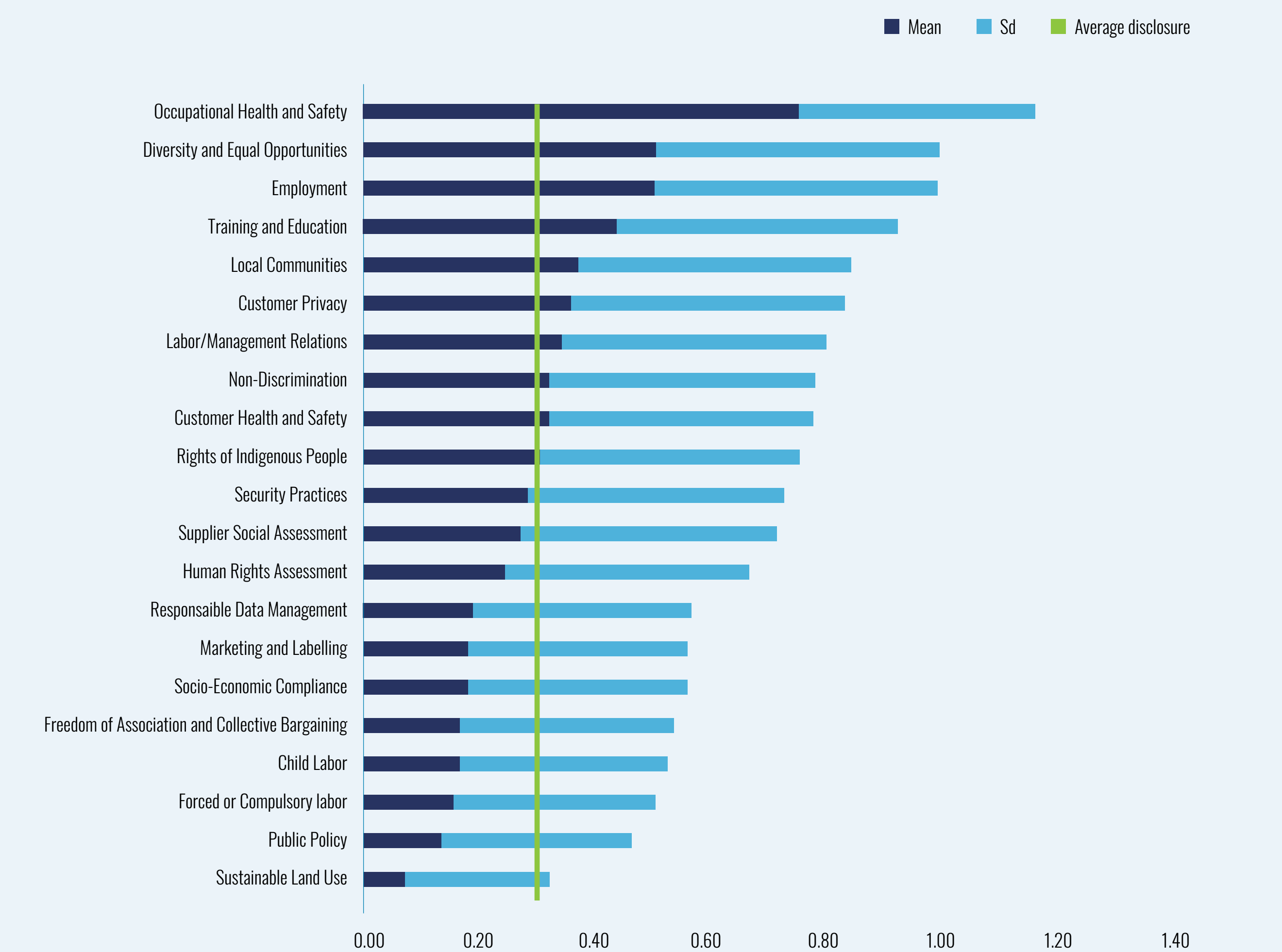
When analyzing data from the full sample, there is clearly a strong focus on indicators related to energy conservation, waste management, greenhouse gas emission reduction, and water consumption, regardless of company size. In contrast, there is limited reporting on compliance with environmental regulations and standards, which seems to be motivated by the perception that communication on these issues provides little value to stakeholders in light of relative regulatory enforcement.

As for the low incidence of the indicator on assessing the environmental performance of suppliers, this is presumably motivated by the fact that the SMEs in our sample are not yet equipped to conduct vendor rating analyses that include sustainability performance. The low level of reporting on biodiversity, on the other hand, seems to be influenced by several factors, including a lack of awareness of its importance, difficulties in measuring its impact, and the perceived complexity of implementing conservation measures.

Similar to the approach we used for the environmental sustainability indicators, we move on to distinguish the different social sustainability indicators based on how frequently they are reported. Figure 2 shows the overall mean, averages and standard deviations for each GRI indicator in our sample.

In terms of the most frequently cited indicators,

FIGURE 2. MEAN AND STANDARD DEVIATION – GRI SOCIAL STANDARDS



it is worth noting that:

- 78% of companies report practices aimed at fostering employee well-being and promoting a culture focused on safety; these organizations also invest in developing and improving employee skills.
- 52% report practices aimed at ensuring transparency in the hiring processes, promoting quality employment opportunities and diverse work environments, and supporting inclusion and equal access to career opportunities.
- 38% disclose the impact of their activities on local communities, reflecting their commitment to community engagement, support, development and well-being. In addition, 37% of companies disclose the policies and measures they implement to protect customer data and information, reflecting their commitment to respecting and ensuring privacy (an issue that is also regulated at the EU and national level).

However, an examination of the below-average scores reveals that:

- 28% of companies report actions to identify, assess, and manage human rights risks and impacts on stakeholders.
- 19% report compliance profiles on various socio-economic issues such as labor laws, fair competition, anti-corruption measures, and ethical business practices. The same number of firms assess respect for freedom of association and collective bargaining rights, and disclose information on their marketing and labeling initiatives.
- 16% disclose information on their participation in developing, reviewing, and promoting public policy.

In terms of social sustainability, several salient indicators also emerge from reporting. In particular, Italian companies are clearly interested in investing in their employees, focusing on health, safety and training, and promoting working conditions that guarantee equal opportunities and quality employment. Another relevant indicator concerns the contribution of companies to their host communities, a fact that is not surprising given the strong roots of Italian companies in the territory. These businesses often make localization one of their strengths, both in industrial district and in areas where a company's origins foster deep socio-economic relationships with local communities.

Some less frequently reported indicators, such as indigenous rights (7%), child labor (17%) and forced labor (17%), are less relevant in the Italian context. This is partly due to effective worker protection in the regulatory framework, union action and public pressure, which all to some extent minimize the incidence of these issues.

DIFFERENCES BETWEEN LARGE COMPANIES AND SMEs

GRI Environmental Standards

To identify the differences in how enterprises of various sizes approach sustainability reporting issues in the Italian business landscape, we compare the disclosure practices of GRI standards below, distinguishing between large companies and SMEs. Focusing on said standards, our results show an elevated level of environmental responsibility among large companies, as evidenced by systematically higher average scores compared to SMEs for all indicators (see Figure 3). In some cases, the difference in adoption is greater than 50%. Specifically:

- **Energy and greenhouse gas emissions**: Adoption of these standards is exceptionally high among large enterprises (m = 0.81, Sd = 0.40 and m = 0.80, Sd = 0.39, for energy and greenhouse gases, respectively) and low among SMEs (m = 0.22, Sd = 0.41 and m = 0.19, Sd = 0.39, for energy and greenhouse gases, respectively).
- **Waste management practices**: Again, adoption is higher in large enterprises (m = 0.77, Sd = 0.42)

than in SMEs (m = 0.26, Sd = 0.44).

In contrast, large enterprises and SMEs show similar frequencies of disclosure in the following case:

- **Use of sustainable materials** (m = 0.51, Sd = 0.50 and m = 0.37, Sd = 0.49, respectively).

In the first two instances, the difference can be explained by the greater availability of resources in large companies, which allows them to invest in advanced waste management technologies to optimize operational efficiency. In addition, these enterprises are often required to comply with specific regulations, such as the EU's waste management policy, which focuses on waste prevention, recycling, and "waste-to-energy" (WtE) practices. This contributes to high rates of disclosure on related business practices.

In contrast, attention to the use of sustainable materials does not appear to vary by company size. This is due to the importance of this question in manufacturing companies. What's more, the high incidence of outsourced activities, typical of Italian industry, extends the need to use sustainable inputs along the entire supply chain, regardless of company size. However, there is notable variance among the firms we analyzed, which we attribute to the variety of sectors and the heterogeneity in our sample.

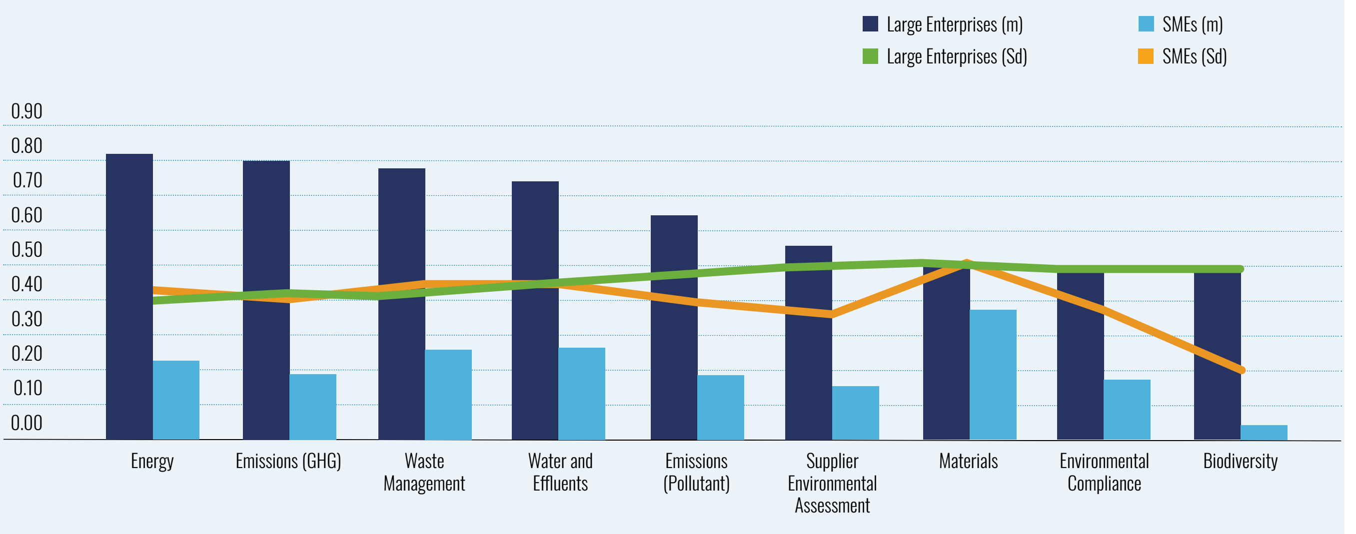
GRI Social Standards

With regard to GRI Social Standards, large companies are also noticeably more engaged in all categories, as evidenced by consistently higher average scores than SMEs (see Figure 4). This difference is particularly pronounced (between 44% and over 50% with respect to SMEs) for the standards related to:

- **Diversity and equal opportunities**: m = 0.84, Sd = 0.37 compared to m = 0.33, Sd = 0.47 of SMEs.
- **Training and education**: m = 0.80, Sd = 0.40 compared to m = 0.24, Sd = 0.43 of SMEs.
- **Non-discrimination** m = 0.60, Sd = 0.49 compared to m = 0.16, Sd = 0.37 of SMEs.
- **Supplier social assessment** m=0.57, Sd = 0.5 compared to m=0.12, Sd = 0.33 of SMEs.
- **Human rights practices** m = 0.56, Sd = 0.5 compared to m = 0.11, Sd = 0.32 of SMEs.

Company size in this case appears to impact in many ways. Issues such as diversity and inclusion,

FIGURE 3. GRI ENVIRONMENTAL STANDARDS (LARGE COMPANIES VS SMEs)



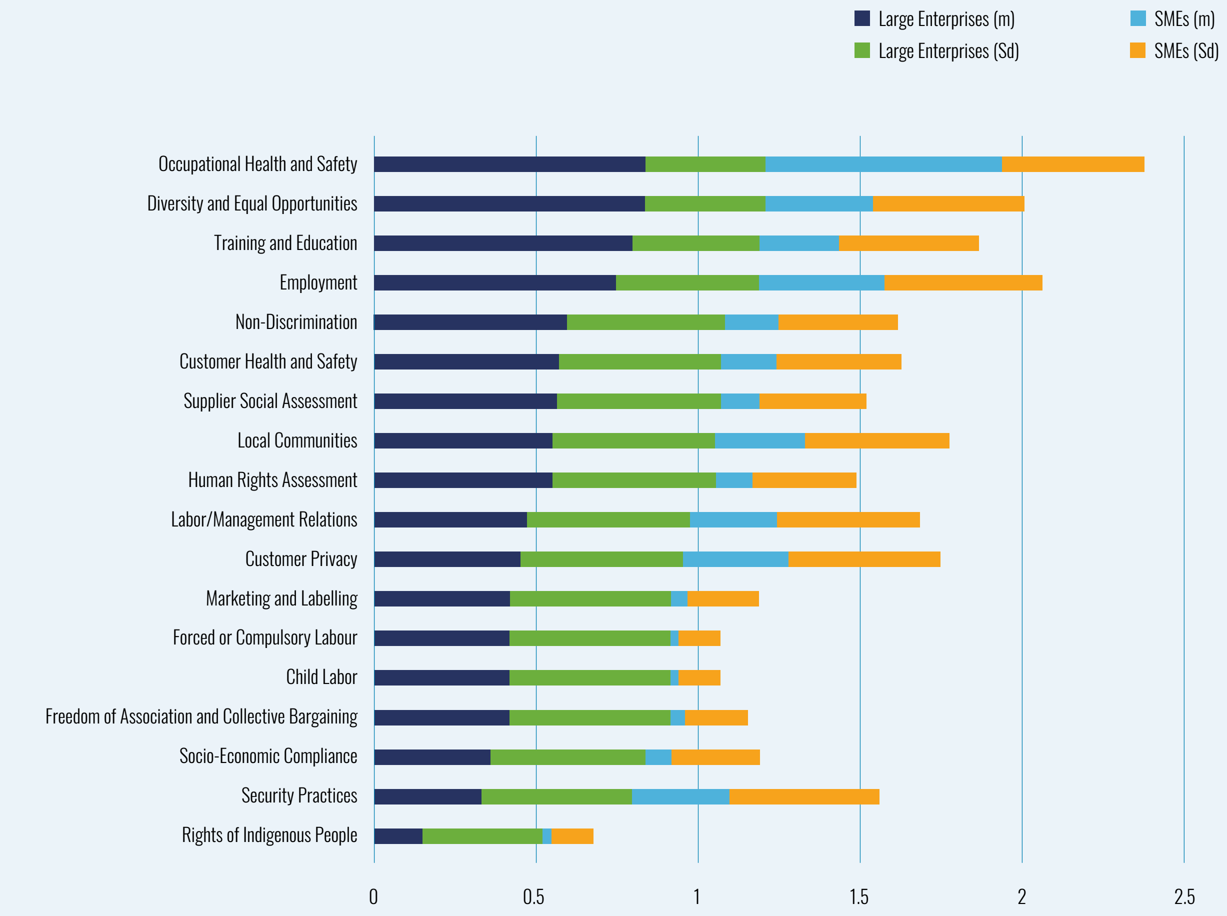
training, and the creation of a fairer and more inclusive working environment are now an integral part of the strategic choices of large companies which, unlike SMEs, can afford to invest in sophisticated human resource management processes.

In contrast, a similar percentage of disclosure is found between large companies and SMEs for:

- **Occupational safety** (m = 0.85, Sd = 0.36 and m = 0.73, Sd = 0.44).
- **Customer data protection** (m = 0.46, Sd = 0.50 and m = 0.32, Sd = 0.47).
- **Security practices** (m = 0.33, Sd = 0.47 and m = 0.30, Sd = 0.46).

Therefore, the level of disclosure in the areas of occupational health and safety and data protection does not appear to be influenced by company size. In fact, as mentioned above, these standards are informed by Italian legislation and strict EU and national occupational safety regulations. Examples include EU Directive 89/391/EEC and the directives of the National Institute for Insurance against Accidents at Work (INAIL in Italian), which require all companies to prioritize health and safety measures. Similar considerations apply to data protection: the introduction in 2018 of the General Data Protection Regulation (GDPR), Regulation (EU) 2016/679, has led companies to adopt strict data protection measures and ensure transparency in data processing practices.

FIGURE 4. GRI SOCIAL STANDARDS (LARGE COMPANIES VS SMEs)



TAKEAWAYS FOR MANAGEMENT

As we can see from the descriptive analysis summarized above, GRI standards provide a comprehensive framework for organizations wishing to initiate sustainability reporting for their activities. Taking into account the various aspects that qualify ESG performance, these standards provide a reporting platform and precise guidelines that enable companies to disclose key sustainability indicators. These are grouped into 35 thematic areas organized by ESG category, including energy use, water management, biodiversity conservation, emissions, waste management, environmental compliance, supplier environmental assessment, employment practices, and labor relations (GRI, 2024).

From the perspective of sustainable, responsible management, it's essential for reporting companies to select and publicly disclose only those issues that are relevant to their operations, i.e., those that reflect business practices in the most rigorous and transparent manner. The GRI standards define the metrics that can be used and provide guidance for consistent periodic reporting which is useful for monitoring trends as ESG performance improves over time. The GRI reporting process involves four main steps that must be performed iteratively: identification, prioritization, validation, and review.

Identification: Sustainability issues are selected based on stakeholder interest and their current and future impact.

The first step is for the sustainability team to initiate a stakeholder mapping exercise to identify who is directly affected by the company's activities or who can influence the company's strategy. Next, the team is responsible for organizing meetings with the different categories of stakeholders to compile and share a list of the most pertinent sustainability issues that will be considered in the next steps of the process (GRI, 2013).

Prioritization: Among the various issues identified in the first step, priorities are set according to their importance to the organization and stakeholders, establishing appropriate materiality thresholds and deciding which aspects to concentrate on most.

In this second phase, a multidisciplinary group needs to be set up, onboarding the sustainability team and representatives from different business areas such as control and finance, operations, human resources, and marketing. This group is tasked with developing a materiality matrix, a tool that evaluates various sustainability indicators and ranks them according to their importance to the company and their impact on stakeholders. This process allows the organization to identify the issues to focus on using the measures provided by the GRI standards (GRI, 2013).

Validation: Systems for collecting and measuring data are developed and internal data are translated into public information.

The sustainability team is responsible for developing standardized procedures for data collection to ensure consistency and integrity. This is a vital activity to ascertain that the selected metrics meet the requirements of the GRI standards which can be used in disclosure. This delicate process is often carried out in collaboration with external auditors (where possible) to guarantee impartiality and to validate the accuracy of the data through third-party verification (GRI, 2013).

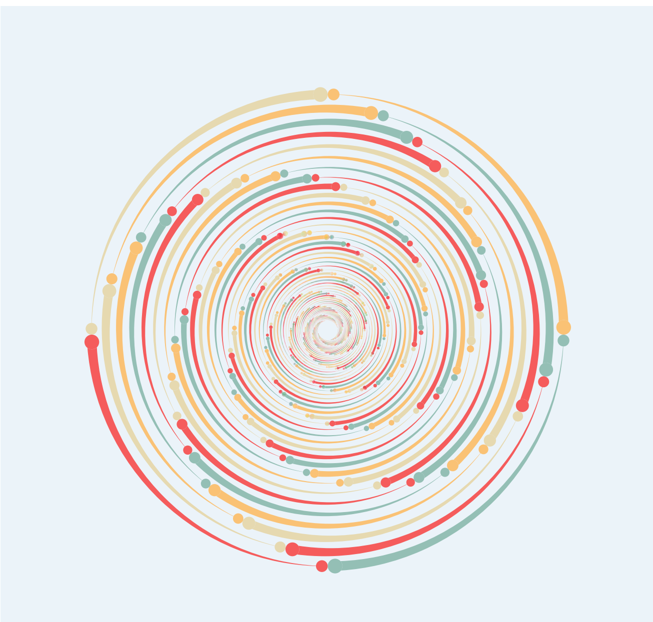
Review: The data are examined, compared to previous reports, and the next reporting cycle is determined (Bateman et al., 2017).

In this phase, the sustainability team reviews the data and assesses how the company's activities impact both the environmental and social sides of sustainability using the GRI as a framework. The results are compared with time series, where available, to analyze changes over time. The final report is drafted by the sustainability team and then rigorously reviewed by external auditors and senior management. This is an iterative process that may require several rounds of review, culminating in formal approval of the GRI report (GRI, 2013).

FINAL CONSIDERATIONS

The process summarized here is precisely described in the GRI G4 guidelines, which were developed specifically for sustainability reporting. (Please refer to these guidelines for further details, GRI, 2013). It's essential to follow the four steps outlined above to produce a successful sustainability report. Equally important, top management must adopt a broad vision that goes beyond simple reporting and integrates sustainability values and practices into the company's overall strategy, as well as day-to-day processes and activities.

To this end, investing in training is indispensable. Training programs, which should onboard all levels of the organization, serve to disseminate knowledge and improve employees' skills, and to raise general awareness that everyone needs to contribute to support sustainability initiatives. Furthermore, seeing that sustainability reporting, like any other performance, is an ongoing process, companies should strive to continuously improve their sustainability performance by publishing annual reports and shoring up their sustainability practices over time. Management must continually evaluate and refine sustainability practices to adapt them to changing standards and stakeholder expectations; this will ensure the effectiveness and infiltration of sustainability efforts at all levels of the organization.



As we previously highlighted, the current level of adoption of reporting practices shows natural heterogeneity, partly reflecting the flexible nature of the system in question. It's also clear that larger companies perform and report better in all GRI areas and view ESG performance as a central component of competitive strategy and reputation.

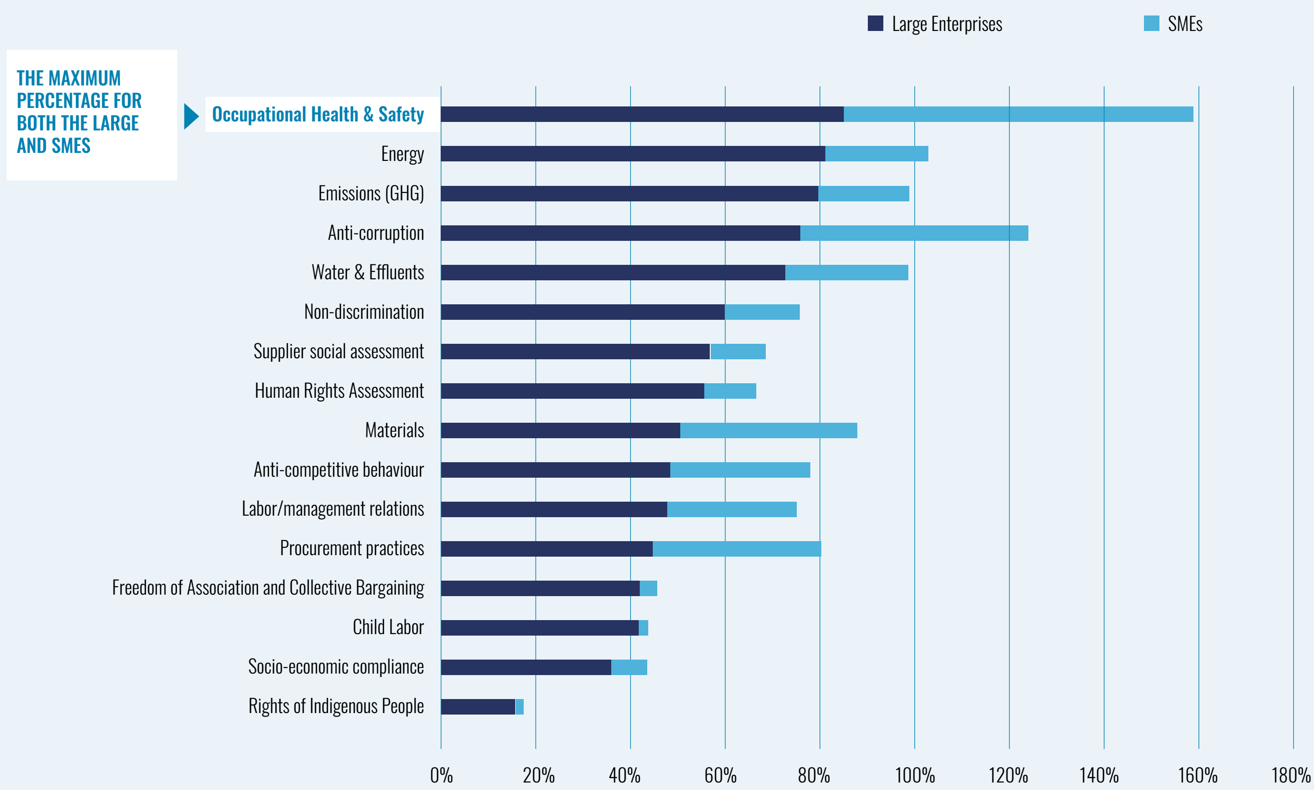
Four key points emerge from the summary presented here:

- **Operational consistency**: Large companies not only have higher average scores, but also demonstrate greater consistency in sustainability practices, the result of work done over time.
- **Priority areas for investment and reporting**: As shown in Figure 5, both SMEs and large companies place considerable emphasis on occupational health and safety issues, reflecting a shared commitment to ensuring the well-being of workers. In a country like Italy, which for on the job safety holds the tragic record of three deaths per day and one accident per minute at work, this priority underscores the urgent need to secure safer working conditions that comply with current regulations.
- **Resource allocation**: Large companies lead the way in their efforts to promote diversity, fight corruption and manage energy sustainably. Their investments in these areas go beyond mere compliance and demonstrate a proactive approach aimed at achieving positive social and environmental outcomes.
- **Performance gap**: The marked difference between large companies and SMEs in sustainability reporting practices highlights the need for the latter to invest in processes and initiatives that are increasingly inspired by the principles of sustainability and responsibility.

Figure 5 illustrates the reporting priorities of large companies and their systematic superiority over SMEs in reporting on all standards.

In Italy, where the business landscape is predominantly populated SMEs, it's crucial that these companies develop, implement and report on their sustainability projects. Otherwise, they risk being excluded from production chains dominated by leading companies that make sustainability a key element in defining their strategies and communicating with their stakeholders.

FIGURE 5. GRI STANDARDS (LARGE COMPANIES VS SMEs)



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