In the CSR/ESG reporting debate, any successful standard must satisfy both functional and normative thresholds—these two things are often conflated.

From a functional perspective, standards must meet the needs of their intended audience. The primary functional challenge with standardizing corporate social responsibility is, in my view, the sheer variety of topics and audiences, which make it impossible to create one overarching CSR reporting framework. Moreover, CSR reporting encompasses disclosure on topics that are based on both value and values. We live in a dynamic world, and these distinctions can get murky. But we should try to be clear about which standards pertain to financial value and which ones relate to social values.

Even within one audience, such as investors, there is a wide range of views. An increasing number of investors, including younger generations of retail investors, are willing to make financial tradeoffs to advance social values. Other investors have long time horizons and are willing to make tradeoffs in the short term, but want to generate sustainable financial returns in the long run. And still others want to extract profits in the short term, regardless of the environmental and social costs. If the standards clearly delineate value from values (to the extent possible), they serve the needs of different types of investors.

Turning to a normative perspective, the process of creating and enforcing standards requires social legitimacy. There is a rich literature on legitimacy and standard setting, but to boil it down to three key ingredients, legitimacy requires: 1) expertise, 2) relevant stakeholder participation, and 3) transparency.

I am currently working on a project relating to Investor Climate Alliances, which are organized under the United Nations Glasgow Financial Alliance for Net Zero (GFANZ). I argue that these alliances are uniquely positioned to fortify the functionality and legitimacy of standards for climate-related financial risk. Such Investor Climate Alliances are too often misconstrued as purely private initiatives, but a closer look reveals the participation of a range of stakeholders from government, civil society, and the academic community. That is not too surprising, as these alliances have been spurred by the United Nations to facilitate a multilateral—or “polycentric”—approach to standard setting, monitoring, certification, and reporting. Notably, the “bottom-up” approach is consistent with The Paris Agreement, which was the first international treaty to contemplate a role for non-state actors in climate governance.

The value of Investor Climate Alliances as intermediaries for standard setting has not yet been fully explored or appreciated. To be sure, they are new—some were formed within the past year. Still, they offer a unique foundation that we can build upon to deliver expertise, stakeholder participation, and transparency to the standard setting process.