

The Future of GRI: Exploring GRI's Key Propositions – Executive Brief

Melbourne, 2nd August 2010, and Sydney, 9th August 2010
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Summary of Outcomes

Note: *The following document summarises the key outcomes of both the Melbourne and Sydney proposition events. GRI works to encourage debate globally on how sustainability reporting should progress into the future. This brief report provides a summary of the discussion of speakers and participants at these events, and not the explicit views of GRI.*

The event *The Future of GRI: Exploring GRI's Key Propositions* explored the outcomes of the GRI Global Conference on Sustainability and Transparency in Amsterdam in May 2010. The event focused on the two key propositions set out at the GRI Conference, which will shape GRI reporting for the next ten years:

- *By 2015, all large and medium-size companies in OECD countries and large emerging economies should be required to report on their Environmental, Social and Governance (ESG) performance and, if they do not do so, explain why.*
- *By 2020, there should be a generally accepted and applied international standard which would effectively integrate financial and ESG reporting by all organizations.*

The panel speakers were Australian delegates of the GRI conference and hence, were able to draw from their experience in Amsterdam to reflect upon the key propositions.

1st Proposition

By 2015, all large and medium-size companies in OECD countries and large emerging economies should be required to report on their Environmental, Social and Governance (ESG) performance and, if they do not do so, explain why.

General comments on mandatory reporting

- The point was raised that before the reporting community can enter a discussion around mandatory reporting it first requires a clear sense of direction on what reporting actually means. To understand why and on what issues organisations should report on we need to first answer questions such as "What are companies in this world for?" or "What should the role of a company be?" It was espoused that institutions have the responsibility to maintain, sustain or enhance the human condition and hence, should report on that responsibility.
- It was questioned whether or not making reporting mandatory would be effective in ensuring that sustainability becomes part of core business, particularly amongst medium sized companies. The suggestion was made that an alternative, potentially more successful approach would be to provide context to the indicators organisations report against, and deliver guidance on how to align materiality with their core business strategy.

Maturity of Australian reporters

- Despite a growing group of experienced reporters, speakers felt the reports of large and medium sized Australian companies have not yet evolved sufficiently for comprehensive sustainability reporting to be made mandatory. Over the past decade in Australia, a greater number of mandatory disclosures have emerged; presenting great challenges even to experienced reporters. In this context, concerns were raised as to whether or not medium sized companies have the capacity and appropriate data gathering systems in place to report meaningful data.
- On the other hand, with the idea of "What gets measured, gets managed" in mind, concerns were raised that some areas are too important to be left up to voluntary disclosure and while some areas

still present major challenges, others may well be mature enough to be mandated. Further, a discrepancy in reporting maturity was highlighted not only between the issues/indicators but also between the different sectors. With regards to the Australian reporter community this suggests that there might be space for mandating very basic disclosure on ESG issues taking into account the different levels of maturity of disclosure on different indicators as well as by different sectors.

GRI's future role/mission

- The audience agreed that the 1st proposition shifts GRI's mission. A suggestion was made that rather than GRI focusing primarily on mandating sustainability reporting, it should continue to focus on voluntary reporting beyond legal obligations to ensure sustainability reporting does not get bogged down in the compliance space, but maintains its presence within leadership and advancing best practice. This would also ensure GRI's legitimacy and role beyond 2020.
- The audience also noted a semantic change in GRI's proposition: by limiting the proposition to "companies" rather than "organisations" generally, GRI redefines its former inclusive approach to a much more exclusive group of stakeholders. It was highlighted that GRI is at a critical point of shaping the future of reporting and that, regardless of the decision, should remain inclusive of all institutions.

Government's role

- It was commonly agreed that government must play a key role in encouraging sustainability reporting and in the future integrated reporting, and that GRI's proposition provides an immense opportunity for governments to show leadership in this space. To be successful in this role, it was suggested that the Australian Government should mandate that all governmental enterprises participate in sustainability reporting to demonstrate leadership and gain experience reporting. This experience in the reporting process would then inform national reporting requirements articulated by the different governmental agencies.
- Furthermore, it was highlighted that despite its power to mandate and hence, to legally enforce sustainability reporting, governments must be sensitive to the risks of overemphasising compliance and encouraging a "tick the box" mentality that is inherent in many mandatory disclosures.

Further Questions Raised

- What exact information would be disclosed under a mandatory regime?
- Will mandatory reporting just result in organisations scratching through information to report on?
- How can the GRI indicators help corporations to meet the high standard threshold in disclosure?
- After what period of time should organisations back up your discussion around sustainability issues with measurable performance?

2nd Proposition

By 2020, there should be a generally accepted and applied international standard which would effectively integrate financial and ESG reporting by all organizations.

Integrating reporting: conceptual challenges and the way forward

- The discussion around Integrated Reporting (IR) focused on the nature of both financial and sustainability reporting and what challenges may arise within the integration process. The common view described sustainability reporting (SR) as conceptually very different from financial reporting (FR), even though both reporting modes include the quantification of externalities. While FR could be considered more backwards looking, sector neutral and primarily focused on disclosure to shareholders and/or investors; SR could be considered more forward looking, sector oriented and focused on disclosure to a much wider range of stakeholders beyond shareholders. Further, the point was made that FR and SR differ in regard to materiality and the timeframe in which issues become important: while FR will close up all sold capitals once a year, such a sale can have a longer term impact on SR. The conceptual difference of each type of reporting mode is apparent when one investigates the underlying assumptions of the purpose of the corporation.

- With this in mind, the major challenge ahead with regards to the integration process was seen to be the reconciliation of these contradicting modes. To prevent the integration process from being a step backwards, it was noted that attention must be given to the risk of financial reporting becoming the starting point of which sustainability issues only become externalities. For a successful integration we need to identify common needs and how financial liability translates into more sustainable performance and how sustainability performance impacts on the financial health of a corporation. Once these interdependencies are identified they can be integrated and then translate into measurements. The maturity of organisations, the sophistication of reporting systems and the consistency of definitions will all impact on the success of IR and the next steps need to focus on establishing coherent financial and sustainability processes and new data systems, and on capacity building and stakeholder engagement. The next decade provides an opportune time for experimentation by reporters on IR, as we move towards an international standard by 2020.

Materiality

- The discussion around IR included the question of what companies should and should not report on and materiality evolved as key to this question. Materiality was described as a process in which companies can determine through direct and comprehensive stakeholder engagement what is and is not significant to their core business. In this context, Sector Supplements were mentioned as a valuable guide on how to identify materiality issues however, it was also noted that many sectors still lack a supplement.

Integrated reporting: process vs. outcome

- During the discussion around IR it was highlighted that currently, there seems to be confusion around the question what IR really is or means. In this context, IR was clearly seen to be a strategic process as opposed to a final outcome in the form of “one report” and a clearer articulated distinction between the two was called for. It was pointed out that IR is not about integrating sustainability content while writing a report, but about the process of integrating sustainability at the core of business; this process starts much earlier than the production of the report itself.
- With this clear distinction between process and outcome in mind, the discussion focused on how to best communicate the final outcome to a wide range of stakeholders. With the diversity of stakeholders and the resulting very different interests in organisational performance in mind, it was suggested that the final published integrated report be regarded as just only one channel of communication supported by a whole range of other media for communicating organisational performance. The required detail of disclosure and the length of the final report are only part of the challenges within this communication process and here, voices were once again raised in favour for a tailored sophisticated stakeholder engagement process that can then inform the way in which organisations report.

GRI's / IIRC's role and expectations

At both proposition events the discussion evolved to the International Integrated Reporting Committee (IIRC) and GRI's role in shaping the proposed IR Standard (set for launch in 2020).

- GRI's multi-stakeholder engagement approach was widely commended as a highly valuable strength of GRI that must be reflected in the development process of the IR framework. At the same time, acute concern was expressed that this strength is so far missing within the IIRC and that this may impact negatively on the success and uptake of the new framework. Concern was raised that the constitution of the IIRC was biased towards financial accounting bodies and risked losing GRI's valuable multi-stakeholder approach. Further, the lack of Australian representation on the IIRC was flagged. An explicit call was made that the existing international sustainability reporting community be brought into the IR framework's development process, and that it continue to contribute to GRI's future work more broadly.
- With regards to the development of the IR framework the importance was flagged to give consideration to the strategic fit between the new framework and existing reporting requirements at an international, national and sector level. It was highlighted that GRI is ideally placed to head up the development of the IR framework, due to its long and successful history of stakeholder engagement

and efforts to align international sustainability oriented agreements (of which the recently signed Memorandum of Understanding between GRI and the UN Global Compact is an example). Attention must be given to the risk of simply creating another layer of reporting which places an additional burden on reporters. In this context the G4 guidelines were briefly mentioned as potentially providing an opportunity to develop guidance for IR and revise the information that needs to be disclosed under the new framework. Further, a process was called for, which articulates the steps towards the 2020 target, rather than confronting the reporter community with one confronting statement.

Additional comments concerning the 1st and 2nd proposition

Assurance

- The discussion around both mandatory reporting and IR pointed out the impact that these future developments will have on the accounting profession and the role of assurance. There was wide agreement on the suggestion that considerations of integration need to include assurance and here, attention was called once again to the difference between FR and SR assurance standards. Concern was expressed about the accounting profession being too dominant within the development process of IR; the inherent danger was seen due to the general perception that the accounting profession broadly lacks understanding of sustainability.
- For a successful integration the assurance process must bring FR and SR together by putting them into relation to each other, rather than aiming to have them necessarily operate under the same paradigm. Assurance must go beyond a purely financial approach that focuses on compliance and include non-financial auditors skilled to collect and assure qualitative data, for instance. Further, the suggestion was made that in the future, assurance statements require greater consistency and should disclose the skills of the individual assurer.

Semantics

- With regards to the articulation of both propositions a semantic change was noted; the 1st proposition limits down the proposed mandate to only companies rather than organisations in general (see detailed discussion on page 2), and both propositions talk about ESG, a term that has emerged from the financial sector, as opposed to the traditional semantics of triple bottom line (TBL) – “economic, environmental, and social” performance - traditionally used by GRI. While some considered ESG and TBL to be similar concepts, others proclaimed distinctive differences between the two. In this view, ESG limits *economics* to the *financial*, and broader *politics* to *governance*. ESG is a more prescriptive, risk oriented concept designed to meet the needs of the investment sector; while TBL places a greater emphasis on materiality and stakeholder engagement. In this context, it was highlighted that the semantics potentially reflecting the more limited direction of the future developments in this area.

A National Annex

- With regards to both propositions a discussion evolved around the development of a National Annex for Australia. One view suggested that, while international laws are very weak in their framing, focusing on the national level makes sense and a National Annex may be a vehicle for both integrating all reporting requirements and producing meaningful sustainability data. Another view highlighted the risk of companies potentially taking advantage of lower standards in countries they operate in and hence, called for a global standard. Questions remained such as “What does a National Annex require of MNEs?”

Further information

The Future of GRI Exploring GRI's Key Propositions: thehub.ethics.org.au/gri/ (see events page)
GRI's 2010 conference visit: www.amsterdamgriconference.org
International Integrated Reporting Committee visit: www.integratedreporting.org

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