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Rival reporting camps mean business

SASB, GRI and IIRC

A reporting standards shootout

Peter Knight suggests the Sustainability Accounting Standards Board is making the Global Reporting Initiative's leadership get hot under the collar

To misquote the American political scientist Wallace Sayre, NGO politics is the most vicious and bitter form of politics, because the stakes are so low.

This rewrite of Sayre's Law on academic politics neatly characterises the tempestuous tiff between the people who run the Global Reporting vInitiative (GRI) and the accountants in charge of the Sustainability Accounting Standards Board (SASB).

Disharmony erupted at the annual GRI conference in May in Amsterdam when the topic of SASB was raised. Trust accountants to spoil the fun.

SASB is busy devising sustainability accounting standards for 88 different industries – a mammoth task it hopes to complete by 2015. These standards are designed expressly to be used when US-listed companies complete their 10-K and 20-F forms required by the US Securities and Exchange Commission (SEC).

The documents (10-K for domestic and 20-F for foreign-domiciled corporations) always make interesting reading because corporations have to list their current and future risks for investors. The format is legalistic, and therefore relatively spin-free.

SASB is trying to make environmental, social and governance (ESG) issues relevant to investors by helping companies define which issues are material, then include that information in SEC filings.

By the indignant reaction of the GRI chief executive, Ernst Ligteringen, to questions about SASB, it would appear GRI is worried that the accountants could provide serious competition to GRI – until now the only show in town.

Ligteringen likes to put on a forceful show of confidence but he could not hide his frustration with SASB when he declared – possibly a little too vehemently – that the GRI had extended an open invitation to the accountants for talks but had received no reply. Such rude people, these American accountants.

It will be interesting to see the quality of SASB's output, especially its interpretation of materiality. In fact, it appears SASB has copied the start-up restaurant model where a tiny portion of equity is shared among a thousand "investors" who all become cheerleaders for the enterprise.

The big question is about how SASB sees itself. Is it a campaigning organisation in the same mould as GRI and the International Integrated Reporting Commission (IIRC)? And does it want to encourage greater detail in the reporting of ESG issues, or improve the quality of ESG reporting?

SASB promotes the complementary nature of the three different initiatives – itself, GRI and IIRC – as sharing the same goal, "the advancement of corporate sustainability reporting".

Unlikely partners

The GRI has successfully infiltrated the IIRC and co-opted its mission. GRI executives sit on the board and council of the IIRC and the common hymn sheet says that the organisations' roles are complementary. This way the raison d'etre of both organisations is protected and their shows can go on. Jobs and pensions are protected.

But SASB has yet to be co-opted and looks too insular and too American to be persuaded. SASB distinguishes its efforts from others because it says it's seeking to provide standards for mandatory reporting, while GRI and IIRC provide frameworks for voluntary reporting.

SASB distinguishes its efforts from others because it says it's seeking to provide standards for mandatory reporting

We will have to wait some while for SASB's final offering to see if it can devise simple, useful standards. But its emphasis on catering to the needs of investors puts it in a bit of a bind. No matter what the sustainerati say about investors (stupid, pompous, short-term etc), this group is pretty astute at determining materiality because they look at the real world – for them a short-term world where sustainable profits are important.

Sustainability people think long term and constantly consider a world they would like to see – what they think should be. They are locked firmly in campaign mode, constantly striving for nirvana.

These are totally different and incompatible world views. GRI is firmly in the second camp, haranguing business people to provide vast amounts of mostly needless information for a wide group of stakeholders who only have a very limited interest in the data.

But where does SASB sit? If it chooses the GRI mode, SASB's standards will be entirely irrelevant to mainstream investors. If it chooses the mainstream investor view of the world – as it should – it won't have much to say because investors are pretty good at working out materiality without SASB's help.

Investors' stakes are high. IIRC's and GRI's stakes are, unfortunately, so very low. ■

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Global Reporting Initiative G4

Generation materiality

By Mallen Baker

The new GRI G4 guidelines have had a difficult birth. Central to the new approach is a greater onus on companies to assess materiality

At its May conference, the Global Reporting Initiative launched the latest iteration of its sustainability reporting framework: G4.

From the tweets of some of the conference attendees, you would think this was an event every bit as exciting as the release of the latest Apple gadget, which would normally see queues of the converted outside the door for hours before launch.

So is G4 the equivalent of the iPhone, which revolutionised its marketplace when it was first revealed to the world? Or perhaps the equivalent of the famously broken Apple maps that attracted criticism and derision in equal measure once people started using it?

For now, opinion is divided, with some genuine fans applauding the changes that have been introduced alongside a louder chorus of criticism than we have been accustomed to.

What's changed?

At a purely mechanical level, a number of changes have been introduced between G3 and G4. The application levels, which enabled companies to put an A+ rating on their report if they met the disclosure requirements – and, to get the "+", had third party verification – have gone.

Some companies liked them because they looked like a quality mark that some might mistakenly assume meant the company had good performance – but that was precisely why others had criticised them. For several years GRI had been content to insist that the application levels were not a quality measure. But if a measure looks that way, and is used that way, then that's precisely what it becomes even if it's not fit for that purpose.

The other headline change has been a greater focus on materiality. Rather than being so focused on the number of indicators that should be reported over a range of issues, now there is a process specified by which companies should evaluate which are the most relevant areas to their business, and focus in on those.

In theory, that could mean that G4 reports are more streamlined and interesting. But then at the same time a raft of new core indicators have been introduced, specifically focusing on governance and remuneration.

Elaine Cohen, a regular report reviewer for Ethical Corporation, who is currently working on a book on understanding G4, believes that the difference is much greater than these mechanical details suggest.

She argues that the new thinking has not been well communicated in GRI publications or at the conference. "The change in mindset is a move from an indicator-based approach to a much more mature relevant transparency approach."

Cohen points out that most companies, when they've been reporting in the past, "decided on how many of the GRI indicators they could report on". But, "with G4 you can't do that. You've got to focus on where you are in your sustainability journey and the most important issues you can report on."

This sounds a lot more meaningful, in principle. Cohen, though, while a fan of the shift, notes that this may be a real drawback for companies that haven't yet reached a certain level of maturity.

Is G4 the equivalent of the iPhone, which revolutionised its marketplace?

G4 in a nutshell

GRI recommends that even first-time reporters should use the G4 guidelines as their starting place. It will recognise reports as being in accordance with **G3** up to the end of 2015. After that point, all reports should follow G4.

Materiality: A company is expected to complete a "**materiality assessment**" to identify its main impacts and therefore which sustainability **indicators** to report on. GRI says it encourages organisations to "provide only information that is **critical** to their business and stakeholders". It claims this will result in reports that are "more **strategic**, more **focused**, more credible and easier for stakeholders to navigate".

It also wants companies to identify where in their value chain impacts occur so they can set the appropriate **boundary for reporting**. In setting these boundaries, companies should consider impacts both within and without an organisation.

Application levels: Replacement of the **ABC system** for declaring reports to be "in accordance" with GRI with a simpler system that has two levels, "**core**" and "**comprehensive**". There are a number of differences, including the fact that to achieve "core" you must report against at least one indicator for each of the prioritised issues. To achieve "comprehensive" you must use all the GRI indicators for those issue areas.

GRI says that there is "no expectation" that companies should be expected or obliged to gradually work their way from "core" to "comprehensive" levels.

New required disclosures: Additional measures on **governance**, **ethics** and **integrity**, **supply chain**, **anti-corruption** and greenhouse gas **emissions**.

To report "in accordance" or "core" you need to report on **34** standard disclosures in addition, many covering governance and process issues. To move to "comprehensive" you need to report on **58** such disclosures.

The index: Organisations have to complete a **full content index** for the core or comprehensive options. They cannot disregard a part of the content index, for instance on external assurance.

External assurance: GRI continues to **recommend external assurance**, but it is no longer required to be "in accordance" with G4 guidelines. There is no "core+" to match the A+ or B+ levels of G3.

Harmonising with others: GRI says that the G4 guidelines help companies to report on their implementation of a number of **other standards**, including the Global Compact, the OECD Guidelines for Multinational Enterprises and the Guiding Principles on Business and Human Rights.

Others have been much more sharply critical, and have questioned whether the introduction of G4 might represent the beginning of the end for the Global Reporting Initiative.

One expert commentator on reporting, who preferred not to be named, said the process behind G4 had been "a fiasco".

"During all its years of development G4 was based around the concept of value chain reporting, but that is no longer part of it. The whole conceptual basis was summarily abandoned. Then they decided they had better have a concept, so they came up with materiality. The launch conference had already been arranged so they just did it all at the last minute."

Some question if the introduction of G4 might represent the beginning of the end for GRI

Critical feedback

The original exposure draft – the text that was released to test opinion before finalising the framework – certainly produced plenty of critical feedback. Even Cohen, a staunch GRI fan, professed herself to have been alarmed by the draft. "It wasn't clear why some things were in there, and it gave an extraordinary focus to all sorts of details."

For some, the version of G4 that emerged at the end of the process was, at least, a lot better than the earlier version. But for some it could still potentially represent a challenge too far. Jason Perks, of Two Tomorrows, reported recently that some of his organisation's clients had resolved to turn their back on GRI as a result of G4 because it added onerous new expectations.

G4 is served

How widespread that response might be remains to be seen. One corporate sustainability head says that, although he likes the focus on materiality in principle, he has a big concern about delivering it in practice. "The whole management section piece has really exponentially expanded at the same time as talking about materiality. The governance part is the boring bit that our stakeholders are not generally that interested in. I'm anxious that we have now got another 20 indicators in that area."

His company, however, has not yet made any decisions since it wants to take extra time to study the new framework.

Unnecessary complexity has long been the

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Unnecessary complexity has long been the complaint about GRI reports

complaint about GRI reports. Simon Propper, chief executive of sustainability strategy and communications consultancy Context, believes that a huge amount of company time is being absorbed into reporting because of the sheer complexity of the GRI standard.

"Thousands of man hours paid for out of sustainability budgets are wasted each year … it takes on average two days just to compile a GRI index," Propper says. "If 2,000 companies do this a year, an underestimate, that's 18 person years of sustainability budget just making the index. Is this really the best way we can think of to deploy talented young people?"

Another corporate head of sustainability echoes this sentiment, adding that in practice it is "considerably more than two days" to produce the GRI index for his company.

Propper is also sceptical about the very core of G4 – its promotion of the centrality of materiality. "G4 has this big focus on materiality, but what that means in this context is completely undefined."

He points out that in accountancy, materiality is "specifically what can impact the investor and its parameters are very clear". But, when it is extended to cover all sorts of other stakeholder issues, "it's very fuzzy".

Tough choices

Propper says: "When you're sitting there with your list of issues, how do you know where to draw the line? If two different people did it on two different days they could come out with a different answer."

It is hard to review the fairly complex process GRI prescribes for determining materiality and not conclude there will be challenges for companies. It

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The G4 Amsterdam launch was the biggest show in town

involves creating a comprehensive list of impacts and then rating them according to their impact on a wide variety of stakeholder groups. These then have to be validated with some of those stakeholders, and approved by the company's leadership.

That is no small process to tack onto the beginning of your reporting period.

GRI: from the top

Global Reporting Initiative chief executive Ernst Ligteringen acknowledges that the tone of the discussion has been challenging. He says the guidelines are built over time with the collective insights of reporters, and this is a process that doesn't stop with G4.

When it comes to the changes to the exposure draft, he admits that GRI probably didn't communicate its intentions well enough. "The exposure draft was not a prototype that was [close to being] ready. It was simply the sum total of ideas that had emerged throughout the process that were being put out to test. We expected a lot of feedback and we acted on the feedback."

Should there have been more time spent on it rather than finalising the framework for launch at the May conference? "Sometimes," he says, "a deadline is helpful. It could have been improved further had we taken more time, but it was a judgment call that had to be made. We're not going to immediately start on G5, but some further work will be done and the work doesn't stop."

How does he square the fact that the new materiality-focused GRI should enable simpler reporting, but currently uses a 260-page implementation manual full of detailed technical reference information?

"When you go into the details the implementation isn't necessarily simple. One way we do this is the distinction between what should be reported and how to report.

"The implementation manual is a reference. Some people want the precision in it, and in the judgment of the experts involved this was the right balance."

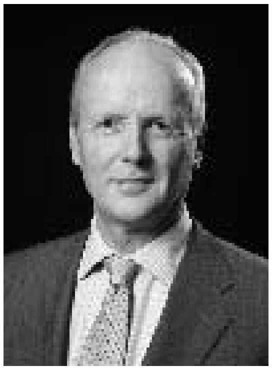
When GRI first began, it was the only game in town. But now new players are emerging – the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB) to name two. Is there a danger that if G4 flops then one of these will overtake GRI to define the sustainability reporting agenda?

Ligteringen claims not to be worried. He says SASB is not developing a reporting framework as such, and he sees its approach to develop recommended sectoral indicators as being complementary to GRI.

Likewise with integrated reporting. "GRI has the view that sustainability should be central to integrated reporting, but some others have the view that it is marginal. So, just as integrated reporting is not going to displace financial standards, the same applies on the sustainability side."

According to one critic speaking to Ethical Corporation, it's all just too complacent, and he wishes that some of the leading reporting companies would get together to put some real weight behind more meaningful and useful change. It would be very powerful, but there's just one problem. "Most of those people just don't have the time, and don't see fixing the GRI as a big enough problem to justify the hassle".

Ultimately, it seems it will be how many companies embrace the G4 guidelines that decides whether G4 is a next step in the right or wrong direction by the Global Reporting Initiative.



"GRI has the view that sustainability should be central to integrated reporting"

Ernst Ligteringen, chief executive, GRI