G4 GUIDELINES: MARRYING BUSINESS AND SUSTAINABILITY – Shashwat DC (SUSTAINUANCE, JULY 25, 2013)

With the new stipulations of GRI reporting guidelines, namely G4, there is a conscious move towards greater interaction between an organization's business objectives as well as the sustainable goals.

"Socialism collapsed because it did not allow prices to tell the economic truth. Capitalism may collapse because it does not allow prices to tell the ecological truth," said Oystein Dahle, retired Vice-President, Esso. While over the past decade or so, there has been much greater movement towards greener and sustainable practices on the part of the corporate sector, there is still much that needs to be done and achieved. One of the primary goals is to integrate business strategy and sustainable practices in a manner that corporates need not look at the two as separate goals. The primary driver of any business is stakeholder profit, while that of sustainability is to conduct affairs in a manner that is least harmful to the environment and ecology at large. Both are certainly not mutually exclusive, and that is the underlying message of GRI's G4 reporting guidelines that have been shared recently.

Financial reports have always sought favour with shareholders and stakeholders. Corporates seeing the worth and success of financial reports decided that reporting on the environmental initiatives of the company would boost the organization and be impactful in portraying it in good light. That is where GRI (Global Reporting Initiatives) stepped in to provide a framework for measuring more than just the financial performance of organizations, taking into account the entire impact of the organization. The guidelines ensure that organizations report accurate and meaningful information to their stakeholders.

Globally, close to 5,000 corporations use the GRI framework for sustainability reporting, with some 65 percent of the top 250 companies. The number is much lower in India, with around 100 odd companies; nonetheless, GRI is still the most popular reporting framework. Little wonder then, any changes or additions to the guidelines would be closely analysed by the corporates in India. The G4 guidelines according to analysts, is a step up over G3 and here is why:

1) Quality Vs Performance: that the performance indicators (A,B,C) were sending out a wrong signal: the often erroneous assumption associated with the company's performance rather than the quality of its disclosure. New G4 guideline replaces the performance indicators and introduces two 'in accordance' levels: 'Core' and 'Comprehensive'. Core reports must include the standard disclosures for all material issues and at least one relevant indicator per material issue. Comprehensive reports must include all standard disclosures and all indicators for each material issue.

2) Specificity: many felt that the earlier G3 guidelines were not specific in communicating the importance of materiality. The new guidelines will encourage organizations to report on information that is material to their business.

3) Governance & Remuneration: This has been a tricky issue of late, and many companies have tried their utmost to skirt it. G4, however, requires all companies reporting in accordance with the Comprehensive option to up their game and report against all of the governance disclosures, which have been tailored to suit all types of organizations: privately held, large, or small.

4) Disclosure Management Approach: unlike G3, the new G4 guidelines require organizations to disclose how they manage material issues. The Disclosure Management Approach (DMA) is designed so organizations provide detailed information on how they identify, analyse, prioritize and report the actual and potential material impacts. This will give organizations an opportunity to be transparent and allow them to focus on how they can look towards assessing the risks and opportunities of the material issues.

5) Value Chain Accountability: companies must disclose how they manage environmental, social and societal issues related to the material impacts of their supply chains. This would push companies to engage in those suppliers who take into account the environmental and societal impacts including labour practices and human rights.
There is no doubt that GRI has taken steps to ensure higher standards of pursuing transparency within organizations. The new G4 guidelines are definitely a welcome change, but have they done enough to persuade non reporting organizations to report?

Industry Speaks

According to **Namita Vikas, President & Country Head, Responsible Banking, Yes Bank**, "*The GRI guidelines so far have been one of the mechanisms to strengthen its transparency and accountability on sustainability considerations. While GRI G3.1 was providing a broad framework on measuring and monitoring the triple bottom line, the new version that was released in May 2013 is more focused though. We find the G4 guidelines to be more user-friendly and provide greater accessibility for those reporting for the first time*."

The G4 guidelines have made it a point to encourage companies to delve further and report on information that is material to their business. Under the guidelines, organizations are directed to state why a certain disclosure, such as greenhouse gas emissions, is material to the organization. However, a number of analysts fear that to report more is not always a good thing. They fear that the standard is technical and complex in nature. **Aditi Haldar, Director-GRI Focal Point India**, explains that, "*The central theme of G4 proposes that the organization presents its material topics upfront in the report, meaning that higher visibility will be given to the chosen material topics. So, the sustainability report following the G4 will not be lengthy and complicated but more relevant.*"

With the myriad sustainability issues cropping up, GRI has taken pains to ensure that the guidelines are relevant globally to companies of all shapes and sizes; addressing and incorporating various stakeholders. They want organizations to be more focused in their approach to report on key principles, which will help push them towards more efficient and greener practices. The new guidelines are pushing companies to dive deeper into their value chain and change management policies. Many are wondering whether this would increase reports or have companies drop GRI as the basis for reporting.

"*The inclusion of mapping of the value chain and basing reporting on it is a welcome step—as that is one of the key steps companies should take in understanding materiality of issues to stakeholders and the organization. However, most companies may not have either the required resources and capabilities to do it or will start from programmes that impact primary stakeholders first—like employees, customers and to a certain extent proximate communities and only later integrate aspects that are of importance to the wider set of stakeholders further upstream and downstream of the value chain*," stated **Lingaraj Dinni, Manager, Sustainability Team, Wipro.**

Another fundamental change has been the reporting standards. Gone is the lettered approach, and replaced with 'in accordance' levels. This, too, has been much welcomed by the community, "*The new 'in accordance' levels are better since the application level of the reports were generally perceived by most of the stakeholders as an indicator of the quality of report. The newly introduced Core and Comprehensive levels give leeway to the organizations on the extent of reporting depending on the organization's level of maturity while simultaneously ensuring that the report is material,"* stated **Sonal Kohli, Head Sustainability, Essar.**

Speaking of transparency, how relevant is the fear that any increase in transparency might come at a competitive advantage for the corporates and might dissuade them from reporting altogether? "*Proactive businesses would use the new guidelines for more focused reporting to their key stakeholders. Having said this, new guidelines contain ten new standard disclosures on governance, which means that the organizations will need to disclose more complex governance indicators on remuneration ratios which may require new processes for data collection and reporting. Yet, in no way, would it be a competitive disadvantage*", stated **Arvind Sharma, Associate Director, KPMG Australia.**

In the end, the responses to the guidelines are very heartening and positive, with almost everyone agreeing that it is a step in the right direction. Companies have time till December 2015 to transition from GRI 3.1 to GRI 4. Thus, there's plenty of time to understand and move towards a more transparent reporting standard.