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The Global Reporting Initiative's Transition to Standards:

The Good, the Bad and the Ugly

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As many companies are publishing or in the final stretch of developing their 2016 sustainability reports, it's time to start planning for the next reporting cycle. A key part of that planning process for many reporters will be thinking through the Global Reporting Initiative (GRI) Standards, released in October 2016, which will be required for any report published after July 1, 2018. In this paper, we review some of the good, the bad and the ugly of the new Standards, in terms of how well they help to advance GRI's stated goals, the value of the Standards to reporters and report readers and the effort required to make the shift.

GRI has been a major force in encouraging and guiding sustainability reporting for nearly two decades, and the four generations of GRI Guidelines have been widely used. In 2016 alone, more than 3,400 reports were published using the GRI Guidelines, and some 26,400 GRI-based

reports are listed in GRI's database. The GRI Standards are intended to update the sustainability reporting framework from guidelines to a full-fledged standards-based system. The Standards follow the substantial 2013 overhaul of GRI's reporting guidance from G3 to G4.

We're sure many reporters, and report users, are wondering how big a transition the shift to the Standards will be, and whether and when to make the jump. Not surprisingly, given that the Standards were released after many companies were well into the development of their 2016 reports, relatively few companies are moving to the Standards in their 2016 reports. (As of July 2017, there were only 100 Standards-based reports in GRI's database). But we expect to see the majority of companies transition to the Standards in their next reporting cycle.

As we outline below, there is much to like about the Standards, and the lift won't be as heavy as the move from G3 to G4. But some knowledge of the good and the bad of the Standards may be a helpful first step in making the transition.

THE GOOD

Substantially the same reporting requirements as G4. The requirements are very similar in terms of the principles used for defining report content and the specific disclosure requirements.

Clarification of required versus recommended disclosures. The Standards make it clearer what is required versus just recommended through the use of the terms "shall" and "should." This clarification improves usability by reporters and improves transparency for readers by making it easier to understand what's required to claim that an indicator as reported. It also improves comparability across reports that claim to disclose the same indicators.

Even more focus on materiality, and clarity on what makes issues material. As in G4, reporting using the GRI Standards requires companies to assess their most material issues and impacts. For the Standards, GRI has clarified that materiality assessments should focus on the direct and indirect impacts an organization has outside its borders on the environment and society, rather than on how issues impact the company. In addition, the Standards require reporters to provide a more robust explanation of how they use GRI's principles for defining report content to identify material issues. This may require many companies to update both their materiality analysis process and how they describe it. It will also be a more useful guide for

reporters in determining report content and for report readers in understanding an organization's broader sustainability impacts.

Improved clarity on how to handle non-GRI material issues. In the past, it wasn't clear whether or how reporters had to discuss material issues that did not align to GRI's aspects or topics. Under the Standards, GRI makes it clear that reporters must provide a disclosure on management approach for all material topics, and GRI recommends using relevant indicators as well.

Increased requirements for disclosures on management approach (DMAs). Many companies don't provide robust information on how they manage material impacts and issues. While this content may be a bit dull, it is useful information to help readers assess how a company manages risks and its potential for sustained performance on key issues. GRI Standards require that, for each material topic, companies report on many key management disclosures—including goals and targets, policies and management structure. GRI has also added some new requirements, including reporting on the purpose of the management approach and on grievance mechanisms. This evolution in the approach to DMAs is good for overall transparency but adds a challenge for reporters to integrate this less-than-riveting content into their reporting.

More stringent requirements for referencing GRI Standards. Many reporters reference GRI in some way without claiming to be in accordance with GRI's reporting requirements. Moving forward, to claim any use of GRI, reports will have to meet a higher, and more consistent, standard. This will increase the usefulness and comparability of GRI-referenced reports and their GRI indices for report readers, but it also increases rigor for reporters who previously provided a GRI index without really digging into the indicators' specific requirements.

Clarification of worker/workforce/employee terminology. In the past, there was a lot of confusion about GRI's requirements for reporting on employees, contractors and others associated with an organization's workforce, and many companies found it difficult to gather information for workers beyond their direct employees. On the one hand, GRI's clarifications on this issue will simplify the reporting task. For example, some difficult indicators -- like G4-10, which asks for detailed breakdowns of a company's workforce -- will focus only on direct employees. On the other hand, this could reduce transparency about a potentially large part of a company's overall workforce that may not receive the same benefits as direct employees.

Expansion of the "information not available" reason for omitting required information. Under the Standards, organizations will be able claim "information not available" as a reason to omit reporting on an indicator when they don't have data on impacts that occur outside their own operational boundaries. This is a nod to the kinds of data companies can realistically collect, as supply chain and value chain data is often very hard to track reliably. However, many significant impacts occur upstream and downstream of an organization's direct operations, so it may slow the trend of greater transparency around those impacts.

THE BAD

No more sector supplements. The GRI Standards have dropped the sector supplements as a required part of reporting for "in accordance" reports. They do still recommend that companies consider the sector supplement issues and disclosures in doing their materiality analyses, but reporting sector-specific indicators is no longer required. This seems considerably at odds with some of GRI's stated goals. For many industries, the sector supplements contain the most important material issues and disclosures. For financial services companies, for example, the most important impacts are really in the issues covered only in the sector supplements, such as how they screen for social and environmental risks. This makes the GRI standards much less relevant and rigorous for a large number of industries.

THE UGLY

All-new indicator numbers and indexing format. New numbering will make creating the indices much harder, at least the first time, and will require relearning all the indicator numbers. For GRI experts who've learned the current numbering system by heart, this could be a bit annoying!

Lots of small tweaks to reporting requirements. Under the Standards, there are enough small changes to indicator requirements that reporters and report users will need to do a careful read of all the indicators and align existing report content to tweaks in the requirements. Given that the overall substance of the reporting requirements hasn't changed that much, this may feel like a lot of work for little gain.