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Sustainability Reporting Guidelines

Exposure Draft for Public Comment and Pilot Testing

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INTRODUCTION

About the GRI

The Global Reporting Initiative (GRI) was established in late 1997 with the mission of designing globally applicable guidelines for preparing enterprise-level sustainability reports. These Guidelines, presented as an Exposure Draft for comment and pilot testing, are the GRI's first major product.

The GRI is convened by CERES (Coalition for Environmentally Responsible Economies[†]) and incorporates the active participation of corporations, non-governmental organizations (NGOs), consultants, accountancy organizations, business associations, universities, and other stakeholders from around the world. The GRI seeks to establish a common framework for enterprise-level reporting on the linked aspects of sustainability: the environmental, the economic and the social. It seeks to elevate enterprise-level sustainable development reporting to the level of general acceptance and practice now accorded financial reporting. To ensure the long-term value of these reporting practices, the GRI also seeks to develop and advocate greater stakeholder awareness and use of such reports.

This Exposure Draft embodies the contributions of a diverse range of individuals. Efforts were made to include in the GRI as many different perspectives as possible by convening meetings in various locations, maintaining openness and transparency at meetings, inviting all interested to take part in Working Group activities, and posting of documents on the Internet.

Sustainability at the Enterprise Level

Environmental aspects Environmental aspects include impacts through processes, products, or services. These may include air, water, land, natural resources, flora, fauna, and human health.

Social aspects include, for example, treatment of minorities and women, involvement in shaping local, national and international public policy, and child labor, and labor union issues.

Economic aspects include, but extend beyond, financial performance. They include activities related to shaping demand for products and services, employee compensation, community contributions, and local procurement policies.

These Guidelines have been developed for public comment and testing through the end of 1999. This test period will serve as a laboratory for assembling examples and experiences in this early stage of developing sustainability reporting guidelines. GRI seeks to advance the relevance of these Guidelines to critical stakeholders, including corporations, the developing world, and prominent standards-setting organizations. This comment and testing period is essential for increasing the global applicability of these Guidelines and building consensus among interested parties, who inevitably represent a range of views, countries, and cultures.

GRI seeks to encourage reporting enterprises and other stakeholders alike to review and pilot-test the Guidelines and to bring feedback and experiences to the attention of GRI. As a result of this information, the Guidelines will be revised and re-released in early 2000. Thereafter, GRI intends that ongoing stewardship of the process will be the role of a new permanent, independent, international body, governed by a range of stakeholders including, but not limited to, those currently involved in GRI.

Sustainability Reporting

The GRI Guidelines are designed to encourage both accountability and learning. The intent of the Guidelines is to provide a sustainability reporting framework which stresses the linkages between the environmental, social and economic aspects of enterprise performance. Environmental measurement and reporting is becoming a relatively well-established practice among leading enterprises. But integrating the environmental with the social and economic is at a very early stage. Applying these linkages to decision-making within the enterprise is also just beginning.

[†] The Coalition for Environmentally Responsible Economies (CERES) is a non-profit, nongovernmental organization based in Boston, USA, comprising environmental organizations, socially-responsible investment professionals, institutional investors, labor and religious organizations. It is the author of the CERES Principles, formerly Valdez Principles, a ten-point code of conduct on environmentally responsible corporate behavior.

Some enterprises already view sustainability as the linkages and interface in environmental, social and economic performance. Thus, enterprises wishing to improve their sustainability performance would strive to improve all three areas, understanding that environmental, social and economic goals are not always in harmony. The notion that these three aspects of sustainability work together suggests that actions in any one area must be carefully reviewed for their effects on the other two.

While there have been recent efforts by various enterprises to measure and report on environmental, social, and economic performance, they have tended to involve compilation of information without integration. That is, they lack an explicit methodology for understanding the linkages between the environmental, social and economic. Yet, managers increasingly are asked to make decisions that account for these linkages. They need information that enables effects to be forecast, competing goals to be balanced, and stakeholders' interests to be heard. What is needed is a comprehensive and systematic methodology for integrating the major aspects of sustainability. While these Guidelines offer a step in that direction, much work remains to improve the methods for integration.

The Exposure Draft of the Guidelines addresses with greatest specificity the environmental aspects of sustainability. Indicators of social and economic performance are, by nature, generally more specific to location and culture than their environmental counterparts. While future strengthening of the social and economic indicators in the Guidelines is planned, the site- and culture-specific nature of such indicators places limits on their standardization. Further development of social and economic indicators will be informed by the feedback received by GRI during the pilot phase.

General Overview of the Guidelines

The GRI Sustainability Reporting Guidelines comprise three sections:

The **Preamble** describes the rationale and underpinnings of the Guidelines, their value and applicability, general reporting principles, and other information on their continuing evolution.

The **Guidelines** recommend specific data related to sustainability performance, along with explanatory notes to assist in interpreting and compiling the recommended information. The Guidelines are divided into nine parts:

- CEO Statement
- Key Indicators
- Profile of Reporting Entity
- Policies, Organization and Management Systems
- Stakeholder Relationships
- Management Performance
- Operational Performance
- Product Performance
- Sustainability Overview

Several **Appendices** provide additional explanation and illustrations pertaining to various parts of the Guidelines.

Future Agenda

In the immediate future, GRI will work to address a number of critical areas such as verification, North–South implications, implications for small and medium size enterprises, and potential sector-specific reporting activities. Over the longer term, GRI seeks to advance the usefulness of sustainability reporting by enterprises around the world. At the same time, the value to stakeholders of reports prepared according to GRI Guidelines as tools for benchmarking, investment, purchasing, and advocacy is substantial and growing. The many participants in the GRI jointly will determine the course of the program in the future. In addition to monitoring the pilot test and revising the Guidelines, this may include dissemination of information about corporate sustainability performance, reporting awards, or further exploration of the role of sustainability measurement and reporting in various governmental and quasi-governmental initiatives. GRI welcomes all interested parties to actively participate in the continuing process.

PREAMBLE

1. Why These Guidelines Have Been Developed

In increasing numbers, enterprises around the world are choosing to publish reports pertaining to their environmental, social, and economic policies, practices and performance. These reports serve multiple purposes. They provide enterprises with a management tool to enhance the quality of their operations through continuous improvement while strengthening public accountability. At the same time, the reports address the needs and expectations of external stakeholders—e.g., investors, customers, NGOs, communities, academics—for environmental, social and economic information.

The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines seek to assist those enterprises and other organizations that choose to publish reports about their performance and progress toward the environmental, social, and economic aspects of sustainable development. GRI seeks to do this:

- in a way that provides stakeholders with reliable information relevant to their needs and interests, and that invites further stakeholder dialogue and enquiry;
- in accordance with well-established, widely-accepted external reporting principles, applied consistently from one reporting period to the next, to promote transparency and credibility;
- in a uniform format that facilitates reader understanding and comparison with similar reports by other enterprises; and
- in a way that illuminates the relationship between an enterprise's financial performance and its performance on the three aspects of sustainability—environmental, social, and economic.

These Guidelines, presented at this time as an Exposure Draft for public comment and pilot testing by volunteer enterprises, are a primary vehicle for fulfilling the first two of the three elements of the GRI mission:

- to elevate sustainability reporting practices worldwide to a level equivalent to, and as routine as, financial reporting in terms of comparability, auditability, and generally accepted practices;
- to design, disseminate, and promote standardized reporting, core measurements applicable to all enterprises, and customized, sector-specific measurements, all reflecting the environmental, economic, and social dimensions of sustainability.
- The third element of the GRI mission follows from the first two:
- to ensure a permanent and effective institutional host to support such reporting practices.

The GRI Guidelines and process are dynamic while moving steadily toward full sustainability reporting. The first version of the Guidelines presented in this document reflects the longer history and greater consensus on environmental reporting practices compared to that achieved to date regarding social and economic reporting. Over time, GRI will strengthen the latter two elements while working to fully mesh all three elements into a framework that stresses the interdependencies of the environmental, social, and economic aspects of sustainability.

From the outset, GRI has been conceived as a voluntary, multi-stakeholder process involving business, NGOs, accounting societies, consultancy groups, and others. Participants share the view that the dozens of reporting initiatives worldwide, while valuable in their own right, will all benefit from a harmonized approach to help shape the future of sustainability reporting. The structure and content—and ultimately the legitimacy and credibility—of these Guidelines is a result of merging the viewpoints of these diverse stakeholders into a common framework for sustainability reporting (see Appendix C for a list of the GRI Steering Committee members and other participants).

2. What These Guidelines Provide

These Guidelines aim to provide guidance to enterprises preparing sustainability reports. For purposes of the Guidelines, guidance signifies a structured yet flexible framework for reporting that follows a uniform format, with due consideration to the practical considerations of collecting and presenting information in a way that effectively tells the sustainability "story" of the reporting entity. The Guidelines are built on a number of principles that seek to ensure the integrity of the reported information. These principles are discussed in Sections 6 and 7 of this Preamble and in Appendix A.

These Guidelines do not provide guidance for implementing data collection, information and reporting systems and organizational procedures for preparing sustainability reports. These are matters left to the discretion of enterprises, and appropriate guidance is available through the efforts of parallel initiatives that focus on protocols and procedures for data development and auditability (e.g., ISO and EMAS).

These Guidelines also do not present standards for rating sustainability management and performance, although enterprises publishing such reports are often evaluated by benchmarking organizations of various kinds.

3. Who is Encouraged to Use These Guidelines

General Statement of Applicability

These Guidelines are intended to be applicable to any size and any type of enterprise that chooses to prepare a sustainability report. The Guidelines are not specific to any industry or business sector. That is, they are designed to incorporate information common to most enterprises regardless of business sector. Indeed, while the focus is on corporate sustainability reports in the business sector, the Guidelines might also be applied to other entities such as government agencies and non-profit organizations.

The Guidelines are designed with enterprise-level information in mind. As in financial reporting, full coverage of all enterprise activities is the goal for a comprehensive sustainability report. Initially, an enterprise may not be in a position to cover all such operations, and may choose to move in that direction gradually by covering a portion of its activities; e.g., a business unit, a facility, a region. If this approach is chosen, care should be taken to develop information in a form that is readily aggregated across sub-entities such that an enterprise-wide report becomes possible in the future. Of course, in addition to the enterprise-wide sustainability report, complementary facility, regional, or other disaggregated sub-reports may well be appropriate for different stakeholders.

The GRI Guidelines are intended for voluntary use to advance the quality and consistency of sustainability reporting. Where enterprises already are subject to reporting requirements regarding one or more aspects of sustainability, such as under national laws and regulations, these Guidelines in no way aim to override or contradict such other reporting requirements. In the future, business groups, NGOs, accounting societies, governments and other entities may choose to refer to the Guidelines in their own programs. Such convergence is supportive of the goal of fostering worldwide uniform sustainability reporting practices.

To assist in the process of continuously improving these Guidelines, the decision by an enterprise to use the GRI Guidelines should be explicitly stated in the published report.

Reporting by Smaller Enterprises

It is unrealistic to expect many smaller enterprises to prepare and issue full sustainability reports. Nonetheless, some may wish to report in some way on their commitment to sustainability. The Guidelines provide a starting point for considering possible topics, as well as an overall reporting framework, for such smaller enterprises. During the 1999 pilot period, GRI will assess approaches to making the Guidelines most useful to such enterprises.

Scope

While some enterprises may have information systems in place for immediate coverage of all operations, others will choose to phase in coverage of operations gradually, beginning with only portions of their operations, business units or regions. Though GRI seeks to encourage eventual global coverage for all reporting entities, it recognizes this will evolve gradually for many—perhaps most—GRI adopters. For this reason, it is essential for a reporting entity to state precisely in the Profile Section what is included and what is excluded in a report, and what its intention is regarding expanding future coverage.

4. Value of these Guidelines

Within reporting entities, the Guidelines are intended to be a valuable tool for decision-making at three levels.

- at the level of board of directors and senior management, the Guidelines provide an internal vehicle for evaluating the consistency between corporate sustainability policy and strategy on the one hand, and actual performance on the other. Increased uniformity in reporting facilitated by the Guidelines will help leaders more readily distinguish themselves from laggards, and be recognized for improved performance.
- at the operational level, the Guidelines provide a logical structure for applying sustainability concepts to enterprise operations, for guiding data development for tracking progress toward sustainability goals and targets, and for benchmarking performance among comparable enterprises.
- from a communications standpoint, the Guidelines provide a framework for effectively sharing and promoting dialogue with internal and external stakeholders regarding the enterprise's accomplishments and challenges in achieving its sustainability goals.

Users of sustainability reports may also find the Guidelines helpful in a number of ways in gaining a better understanding of:

- what is reported and why, including relationships between different aspects of sustainability on one hand, and different sets of information and performance indicators on the other;
- how performance information is compiled from underlying data; and
- issues related to the precision, scope, and reliability in reported information.

As more enterprises choose to adopt the GRI Guidelines, the opportunities for comparing performance within and across sectors and nations will strengthen stakeholders' capacity to advocate continuous progress toward business practices compatible with sustainable development.

5. Structure of These Guidelines

These Guidelines comprise three sections.

- **The Preamble** sets out overarching aims, general reporting principles, specific issues to consider in reporting, and other general matters about the application, implementation and development of the Guidelines.
- **The Guidelines** present recommendations for reporting information about enterprises and aspects of their performance that is relevant to understanding and assessing their progress towards sustainability. The Guidelines attempt to balance flexibility within an overall uniform structure, recognizing that while each

reporting entity is unique, sustainability reporting is best served by adherence to certain common elements.

The recommended disclosures are organized into major sections and are seen as a minimum, not a maximum. Enterprises are encouraged to go beyond the recommended disclosures if that would communicate a more complete and balanced picture of their operations and performance.

Enterprises adopting the GRI Guidelines are asked to use the sections in the order in which they appear. This will be of benefit to report users for tracking performance over time, as well as making comparisons between entities at one point in time. However, flexibility is expected and encouraged *within* sections with respect to the order in which information appears and the emphasis assigned to each information item. The emphasis accorded various items in the Guidelines should reflect the nature of the enterprise – the environmental, social, and economic aspects of its operations. This balance of uniformity and flexibility will enable GRI reports to achieve the overarching goals of consistency and comparability discussed above while attending to enterprise and sectoral differences.

In this Exposure Draft of the GRI Guidelines, the performance portions of the Guidelines (Parts 6, 7, and 8) address with greatest specificity the environmental aspects of sustainability. Future versions of the Guidelines will be strengthened in social and economic content which in the present version is limited to categories and aspects of reported information. Indicators of social and economic (beyond financial) performance are, by nature, generally more specific to location and culture than their environmental counterparts. While future strengthening of the social and economic indicators in the Guidelines is anticipated, the site- and culture-specific nature of such indicators currently places limits on their standardization. (See Section 6 of this Preamble for definitions.) Informed by the experiences of the enterprises during the pilot phase, further development of social and economic indicators will occur.

Part 9 of the Guidelines is the 'Sustainability Overview'. This section of an enterprise's report is designed to provide a discussion of how the enterprise addresses the linkages between environmental, social and economic aspects of its operations, and how these linkages are manifested in the enterprise's decision-making and operations. GRI anticipates valuable feedback on Part 9 from enterprises pilot testing the Guidelines.

- **The Appendices** provide additional information, including explanatory notes for the Guidelines in Appendix B. Additional guidance for preparing the Sustainability Overview appears in Appendix B. A thematic approach is recommended to explore how the environmental–social–economic linkages and balance occur in the real world. The guidance provided in this Appendix is suggestive only; reporters should prepare the Overview in the form most suitable to their enterprise. In addition to further guidance on the Sustainability Overview, Appendix B provides a placeholder for future explanatory notes for other parts of the Guidelines. Draft examples of such notes are currently provided for Parts 7, and 8. Revisions to the Explanatory Notes will benefit from experimentation and feedback during the pilot phase of GRI. Over time, and with benefit of experience of reporting enterprises, these appendices will assist in continuously improving the clarity, consistency, and comparability of GRI–based sustainability reports.

6. General Reporting Principles

This section of the Preamble identifies those underlying reporting principles which are crucial to the objectives of usefulness, comparability and verifiability. These principles are explained further in Appendix A. GRI gratefully acknowledges the work of the Environmental Task Force of the European Federation of Accountants in formulating these draft reporting principles. Note that material contained in Appendix A has not yet been subject to full discussion by GRI.

Qualitative Characteristics

Over time, financial reporting has identified a number of qualitative characteristics that enhance the credibility of reported financial data. The GRI Guidelines incorporate and reflect these same qualitative characteristics, appropriately modified for sustainability reporting purposes:

- Relevance—to user groups with diverse expectations and needs
- Reliability—free from bias and material error
  - Valid description
  - Substance
  - Neutrality
  - Completeness
  - Prudence
- Understandability—to informed users
- Comparability—to enable monitoring and benchmarking
- Timeliness—to identify outcomes and trends in an expeditious fashion
- Verifiability—to enhance credibility of reported information.

These qualitative characteristics are discussed in more detail in Appendix A.

Underlying Assumptions

Financial reporting also has adopted a set of underpinning assumptions. These have, with some necessary modifications, been adopted by the GRI as underlying assumptions for sustainability reporting. These are:

- The entity assumption—a clear definition of boundaries of the reporting entity
- The accruals basis of accounting—events and activities are disclosed within the reporting period in which they occur.
- The "going concern" assumption—the entity is expected to continue operations into the foreseeable future
- The conservatism or precautionary principle—minimization and avoidance of risk is core to policy and practices
- The concept of materiality or significance—consideration is given to how information may influence the behavior of the user (or the reporter)

The underlying assumptions are discussed in more detail in Appendix A.

Hierarchy of Performance Reporting Elements

GRI has adopted the following hierarchy for organizing and presenting information in sustainability reports:

- **Category**—i.e., general class or grouping of issues of concern to stakeholders (e.g., air, energy, labor practices, local economic impacts).

- **Aspect**—i.e., specific issue about which information is to be reported (e.g., smog precursors, greenhouse gas emissions, energy consumed by source, energy efficiency, child labor practices, corporate giving to host communities).
- **Indicator—**i.e., the most precise (and usually quantitative) measures of performance during a reporting period (e.g., metric tons of emissions, joules used from a specific energy source, water consumption per unit of product, adherence to a specific international standard on child labor, net joules used per ton of product, monetary contributions per year to host communities).

This hierarchy, which is consistent with the approach adopted by both ISO 14000 and the World Business Council for Sustainable Development (WBCSD), informed the development of performance information elements in Section B of these Guidelines. Enterprises that choose to go beyond GRI information elements and provide supplementary information may benefit from applying this structure to such additional information.

7. Specific Issues to Consider When Using These Guidelines

Disclosure of Reporting Principles

Users of sustainability reports need to be informed as to the principles applied in preparing and presenting the reports. This is essential to building integrity and credibility in the reported information, and can be achieved by stating in reports, at a minimum:

- That they have been prepared and presented in accordance with the GRI Sustainability Reporting Guidelines (except as otherwise indicated);
- The nature and effect of any re-statements of information reported previously, and the reason for such re-statement (e.g., significant changes in composition of enterprise, change of base years/periods, nature of business, measurement methods);
- The basis for any conversions of, e.g., mass, volume, energy, or currencies;
- Any precision or measurement rules applied to data compilation and how the materiality or significance principle has been applied in deciding what to report or to omit; and
- The basis for reporting on joint ventures, operations of partially owned subsidiaries, leased facilities, out-sourced operations and other situations that can significantly affect comparability from period to period and/or between enterprises.

Frequency and Medium of Reporting

Enterprises need to decide how frequently they will prepare sustainability reports in accordance with these Guidelines, and what medium/media to use in communicating such reports. This will require consideration of the timing and integration with other external reporting, such as annual reports and financial statements.

The costs of preparing the information in accordance with the GRI Guidelines will vary from entity to entity. For those already preparing environmental or sustainability reports, the incremental cost may be minimal. For those new to such reporting, initial costs may be substantial to put in place data compilation, analysis and reporting systems. The costs of various reporting media and frequencies—e.g., paper copy of full report, shorter versions of selected sections, electronic/Internet versions of full report with regular updates—need to be weighed against the stakeholder needs and resource requirements to meet such needs. Preferences for and practical implications concerning independent verification also need to be considered when deciding frequency and medium of reporting.

Normalization and Units of Measure

Reporting enterprises should use the generally accepted international metrics. e.g. kilograms, tons, liters.

It is recommended that, where appropriate, enterprises report values for the identified reporting year and the two previous years, as well as target values and years. To ensure responsiveness to various stakeholders, enterprises should express indicators not only in terms of absolute values, but also in terms of normalized values that will be meaningful to users, using normalizing factors from Part 1, Profile of Reporting Entity. Report users thereby will be in a position to accept the company's choice of normalization factor or, should they choose, select different factors suitable to their needs.

For example, in order to illuminate the relationship between financial performance and environmental performance, an enterprise may wish to use eco-efficiency indicators. One way to express eco-efficiency is the ratio of unit of value provided per unit of environmental burden. Unit of value provided can be expressed by monetary indicators such as net sales or value added, by unit of enterprise activity level, such as mass or number of products sold, or by the functional value a product finally delivers to its user. Unit of environmental burden, such as energy, material consumption, or air or water pollutants, may be derived from values reported under Guidelines Part 7, operational performance (for production) or Part 8, product performance (for product use) respectively.

Enterprise-Specific and Sector-Specific Reporting

These Guidelines are intended to be applicable to all reporting entities. In places where the recommended disclosures are not applicable, preparers are encouraged to note this in their reports, with appropriate explanations. Providing additional information, either quantitative or qualitative, relevant to particular sectors not adequately covered in these Guidelines is encouraged. Enterprises should report such supplemental information in the appropriate section within the Guidelines. Where detailed information is of interest to only a limited number of readers, appendices may be used. This may be the case, for example, with facility-specific information or detailed lists of many individual chemical releases. Enterprises that have previously published environmental or sustainability reports may find this approach helpful in adapting earlier reporting formats to the GRI Guidelines.

It is part of the long-range workplan of GRI to develop sector-specific guidelines to complement these core Guidelines. Throughout the 1999 pilot test period, enterprise feedback will inform the extent to which such sector-specific customization is desirable and feasible.

Use of Graphics

The use of graphics can enhance the quality of reporting. However, research shows that graphics used in operational and financial reporting may unintentionally lead readers to reach incorrect conclusions and interpretations of data and results, or may confuse readers when inconsistent with data and explanations provided in text. It is thus essential that care be taken in the selection of axes, scales and data (including conversion of raw data to ratios and indices for graphic purposes), and use of colors and different types of graphs and charts. Therefore graphics use should be a supplement to—not a substitute for—text and narrative disclosure of information. As a general rule, raw data should accompany all graphical presentations, either alongside or in appendices.

8. Independent Review / Verification of Sustainability Reports

Methodologies for the independent examination (either by way of a limited review or a full verification) of non-financial reports are being developed. At the same time, an increasing number of enterprises, recognizing the additional credibility conferred by some form of independent attestation, have included reports by independent experts.

GRI is in the process of considering alternatives for independent report review and verification. An effective approach should strengthen the reliability of information in a sustainability report, without relieving the management of the enterprise of responsibility for the accuracy, completeness, and—in particular—balance and fairness, of the representations it makes. Independent assurance that the

report is in accordance with the GRI Guidelines will *in itself* be useful for readers to know, regardless of any particular reader's subjective interpretation and assessment of the performance of the reporting entity.

There is, as yet, no generally accepted approach to the review or verification of sustainability reports. However, GRI believes that experimentation and innovation in this area are vital. Consequently GRI encourages enterprises to consider independent review or verification of sustainability reports, taking into account the costs and benefits of such an exercise, as well as the possible limitations inherent in such a new field. Until such time as a generally accepted methodology does emerge, GRI views the following as important , minimum elements of an independent reviewer's report:

- the scope and purpose of any review/verification exercise, indicating the level of assurance provided for various types of subject matter in reports;
- the nature of stakeholder input in shaping the objectives of the report;
- the procedures employed by the independent expert and the qualifications and relevant expertise of the independent expert;
- the professional standards governing the conduct of the work of the independent expert; and
- the extent of application of the GRI Guidelines on Sustainability Reporting.

When making arrangements for independent review or verification, enterprises will need to consider all the above issues as well as the form and wording of the report the independent expert will provide, and the proposed timing of that report.

Note: During 1999, GRI will establish a working group to explore and develop the possibilities for achieving generally accepted sustainability report review / verification methodologies.

9. Relationship with Other Reporting Guidelines

The GRI seeks to foster a generally accepted framework for sustainability reporting. The GRI Guidelines were developed through consultation with a broad group of stakeholders in an effort to harmonize disparate reporting initiatives worldwide. In the course of developing the Guidelines, GRI participants reviewed and synthesized an extensive range of existing guidance, requirements, and studies of one or more aspects of sustainability reporting. There is no intention on the part of GRI to displace or modify existing financial reporting standards and practices.

Today, there continue to be various international, national, and sectoral sources of guidance (e.g., the WBCSD eco-efficiency metrics and reporting program) and, in some cases, governmental requirements for certain aspects of sustainability reporting (e.g., environmental reporting requirements in the Netherlands and Denmark). To the extent possible, these Guidelines have attempted to accommodate other sources while remaining faithful to GRI's overarching mission and reporting principles. While in the short term enterprises may see some benefit in maintaining their existing commitments to other reporting programs, the GRI process intends in due course to accommodate and incorporate such initiatives into a single, globally accepted reporting framework.

GRI is aware of the potential for linkages to the ISO 14000-series environmental management standards. At least for GRI's environmental component, the menu of management and operational indicators contained in ISO 14031 (Environmental Performance Evaluation) provides a starting point for such a linkage. As discussions proceed regarding revisions to ISO 14001, and as ISO 14031advances to approval and implementation, the GRI Guidelines may provide a valuable framework to accommodate needs for guidance about external reporting on environmental performance and management, and to complement these and other ISO 14000 series standards and guidelines.

10. Continuing Evolution of these Guidelines

These Guidelines are subject to continuous improvement over time. GRI intends to establish a new, independent multi-stakeholder organization to monitor the implementation and usefulness of the Guidelines, to identify needs for change and enhancements, and to take steps in consultation with stakeholders and enterprises to modify and communicate such changes as needed.

Users of these Guidelines are encouraged both to seek and collect feedback on their sustainability reports, and to communicate with GRI from time to time as needs arise for changes and enhancements in all aspects of the Guidelines.

Following the publication of these Guidelines in March 1999, there will be a consultative period extending until approximately 31 December 1999. During this period:

- The Guidelines will be "pilot tested" by a number of enterprises worldwide. GRI will work actively with these volunteer enterprises to elicit feedback on their experience in applying the Guidelines; and
- All interested parties are encouraged to review the Guidelines and send their comments to the GRI Secretariat. Unless otherwise indicated, GRI will assume that all comments will be a matter of public record.

GUIDELINES

General Notes:

Unless otherwise specified, all information throughout report pertains to the "reporting entity" defined in item 3.1 and circumscribed by item 3.10.

Appendix B contains additional detail clarifying information for those items marked with an asterisk (*).

Report values for the current reporting period (e.g. year) and the two previous periods, as well as target periods.

Report both absolute data and normalized data using appropriate normalizing factor(s) from item 3.8 and/or item 3.9.

Report the nature and effect of any re-statements of information reported previously, and the reason for such re-statement (e.g., significant changes in composition of enterprise, change of base years/periods, nature of business, measurement methods).

Report the basis for any conversions of, e.g., mass, volume, energy, or currencies.

Report any precision or measurement rules applied to data compilation and how the materiality or significance principle has been applied in deciding what to report or to omit.

Report the basis for reporting on joint ventures, operations of partially owned subsidiaries, leased facilities, out-sourced operations and other situations that can significantly affect comparability from period to period and/or between enterprises.

Part 1: CEO Statement

Statement of the CEO, or equivalent officer for reporting entity, describing key elements of the report.

Including, at minimum, the following:

- Explicit statement of the decision to apply the GRI Guidelines to the report.
- Highlights of report content and commitment to targets.
- Acknowledgement of successes and failures.
- Performance on benchmarks versus previous years and industry norms.
- Major sustainability challenges for the enterprise and its business sector as a whole.

Part 2: Key Indicators

The following selected items, drawn directly from subsequent parts of the Guidelines, provide an overview of aspects and indicators for the reporting entity.

Concise presentation of the following items including appropriate ratios (e.g. eco-efficiency indicators) extracted from Parts 3 - 8 of the Guidelines (contained in the following pages):

Item	Description
3.7	Key environmental, social, and economic issues and impacts ("aspects" per ISO 14001) associated with operations, products and/or services.
5.1	Major stakeholder groups.
6.2	Number, volume, and nature of accidental or non-routine releases to land, air, and water, including chemical spills, oil spills, emissions resulting from upset combustion conditions.
7.1	Indicators of occupational health and safety.
7.2	Total energy use.
7.7	Total materials use other than fuel
7.10	Total water use.
7.13	Quantity of non-product output (NPO) returned to process or market by recycling or reuse by material type and by on- and off-site management type.
7.15	Quantity of NPO to land by material type and by on- and off-site management type.
7.17	Emissions to air, by type.
7.19	Discharges to water, by type.
7.21	Indicators of social and economic aspects of operational performance.
8.1	Major environmental, social, and economic impacts associated with the life cycle of products and services, with quantitative estimates of such impacts.

Part 3: Profile of Reporting Entity

An overview of the reporting entity and scope of the report to provide a context for understanding and evaluating information in subsequent sections.

3.1 Name of enterprise or other reporting entity.

3.2 Major products and/or services.

3.3 Nature of ownership; legal form; stock exchange listings.

3.4 Nature of markets or customers served (e.g., retail, wholesale, governments).

3.5 Principal industry and business association memberships.

3.6 Contact person(s) regarding report.

3.7 Key environmental, social, and economic issues and impacts ("aspects" per ISO 14001) associated with operations, products and/or services.

3.8 Financial information:

Net sales	Debt/equity ratio	Employee wages/salaries/benefits
Total taxes	Total assets	Other(s) (e.g., gross margin, value added, net profit)

Breakdown of sales/revenues by country for those countries that comprise five percent or more of total revenues, as well as by major products and/or services identified in item 3.2.

3.9 Other relevant information regarding enterprise activity level including measures that may be used for normalization of absolute values provided in the report.

Number of employees	Product (mass/amount/quantity)
Total floor space	Other(s) as appropriate

3.10 Coverage of report (countries, products / services, divisions / facilities / joint ventures / subsidiaries). If coverage is not complete, projected time-line for complete coverage.

3.11 Items 3.8 and 3.9 revised to reflect report coverage specified in item 3.10.

3.12 Reporting period (e.g., fiscal/calendar year) for information provided (unless otherwise noted).

3.13 Date of most recent previous report, if any.

3.14 Significant changes in size, structure, ownership, products/services, that have occurred in the reporting period.

3.15 Public accessibility of information or reports about environmental, social, economic, or similar performance, including how to obtain copies of such reports.

Part 4: Policies, Organization, and Management Systems

A statement of the reporting entity's public commitment to the elements of sustainable development and how the entity has implemented organizational structures and management processes intended to fulfill that commitment.

*See Appendix B for guidance on economic and social categories and aspects.

4.1* Publicly available missions and values statement(s), and statements of economic, social, and environmental policy, including date of adoption and countries of applicability.

4.2 Environmental, social, economic, or similar charters, codes, or voluntary initiatives subscribed to, including date of adoption and countries of applicability.

4.3 Organizational structure and responsibilities (e.g., board, senior management, special staff, operating staff, committees and councils) for oversight and implementation of environmental, social, economic, and related policies.

4.4 Management systems pertaining to social and environmental performance (e.g., ISO 14001, EMAS), such as: employee orientation and awareness programs, social auditing and reporting, environmental risk assessment, environmental accounting, performance evaluation, internal communications, linkages between management performance and compensation, with countries of applicability.

4.5 Status and date, by country, of environmental, social, economic, or similar external certification (e.g., EMAS, ISO 14001, SA 8000).

4.6 Management systems for supplier and supply chain (including outsourcing), including selection criteria, training, monitoring, and other procedures and practices, and countries of applicability.

Part 5: Stakeholder Relationships

Information on the process and methods by which stakeholders—both internal and external to the enterprise—are engaged.

5.1 Basis for selection, definition and profile of major stakeholders (e.g., employees, investors, suppliers, customers, local authorities, public interest groups, non-governmental organizations).

5.2 Approaches to consultation with each stakeholder (e.g., surveys, focus groups, community panels, written communications). Number of such consultations by type.

5.3 Type of information generated by such consultations.

5.4 Use of such information (e.g., performance benchmarks and indicators), including applications in this report.

5.5 Plans for strengthening stakeholder consultation.

Part 6: Management Performance

Indicators of the reporting entity's performance regarding compliance with applicable mandatory standards, and adherence to internal policies and standards reported in Part 4.

Pertaining to Laws, Conventions, and Other Mandatory Standards

6.1 Magnitude and nature of penalties for non-compliance with all applicable international declarations, conventions, and treaties, and national, sub-national, and local regulations associated with environmental (e.g., air quality, water quality), workplace (e.g., worker health and safety, harassment, discrimination), community (e.g., human rights, noise, odor), and other similar issues. Explain based on countries of operations.

6.2 Number, volume, and nature of accidental or non-routine releases to land, air, and water, including chemical spills, oil spills, emissions resulting from upset combustion conditions.

6.3 Response of management to improve performance noted in items 6.1 and 6.2.

6.4 Costs associated with environmental compliance: environmental operating costs (e.g., training, licensing, legal monitoring, permitting, waste management) and environmental capital costs (e.g., waste water treatment plants, emissions control equipment).

6.5 Environmental liabilities under applicable laws and regulations.

6.6 Site remediation costs under applicable laws and regulations.

Pertaining to Internal Policies and Standards and Voluntary Initiatives

6.7 Performance regarding internal environmental, social, and economic policies and standards, and voluntary initiatives discussed in Part 4 (excluding supplier issues).

6.8 Response of management to improve performance noted in item 6.7.

External Recognition and Activities

6.9 Major awards received in the reporting period regarding environmental, social, economic, or similar performance and activities. Reasons for such awards.

6.10 Other external activities.

Suppliers

6.11 Supplier performance per item 4.6.

Additional Indicators

6.12 Additional indicators of core relevance to the enterprise's management performance, including those arising from stakeholder engagement or other sources (e.g., ISO 14031).

Part 7: Operational Performance

Indicators of the reporting entity's operational performance regarding key aspects of sustainability.

Notes
- Additional guidance for those items marked with an asterisk (*) is contained in Appendix B.
- Include definitions and calculation methods where appropriate.

Health and Safety

7.1* Indicators of occupational health and safety.

Environmental Performance

Energy — values in Joules

7.2 Total energy use (sum of 7.3 to 7.5).

7.3* Total electricity use. Amount purchased, by primary fuel source, where known. Amount self-generated (describe source).

7.4* Total fuel use. Vehicle and non-vehicle fuel, by type.

7.5 Other energy use (e.g., district heat).

7.6 Objectives, programs and targets regarding energy use and progress toward same.

Materials — values in metric tons

7.7* Total materials use other than fuel, including definition and how calculated.

7.8 Objectives, programs and targets regarding materials use and progress toward same.

7.9 Objectives, programs and targets regarding procurement and use of virgin and reclaimed materials and progress toward same.

Water — values in liters

7.10 Total water use.

7.11 Objectives, programs and targets regarding water use and progress toward same.

Land

7.12 Habitat improvements and damages due to enterprise operations.

Non-Product Output — values in metric tons

Non-product output (NPO) is defined as waste prior to treatment, off-site recycling, or disposal.

Non-Product Output Returned to Process or Market

7.13 Quantity of NPO returned to process or market by recycling or reuse by material type (hazardous or not hazardous under applicable national, sub-national, or local laws or regulation) and by on- and off-site management type (e.g., recycled, reused, remanufactured).

7.14 Objectives, programs and targets regarding non-product output returned to process or market and progress toward same.

Non-Product Output to Land

7.15 Quantity of NPO to land by material type (hazardous or not hazardous under applicable national, sub-national, or local laws or regulation) and by on- and off-site management type (e.g., incinerated with energy recovery, landfilled, deep well injected).

7.16 Objectives, programs and targets regarding non-product output to land and progress toward same.

Non-Product Output to Air

7.17* Emissions to air, by type.

7.18 Objectives, programs and targets regarding routine air emissions and progress toward same.

Non-Product Output to Water

7.19* Discharges to water, by type

7.20 Objectives, programs and targets regarding routine discharges to water and progress toward same.

Social and Economic Indicators

7.21 Indicators of social and economic aspects of operational performance within the following categories and aspects:

- Corporate (e.g., ethical standards, bribery/corruption)
- Employees (e.g., freedom of association, workforce diversity [gender, race, age])
- Local and Global Community (e.g., community involvement, skills transfer)
- Suppliers (e.g., procurement standards, partnership screens and standards)
- Customers (e.g., labeling standards, advertising standards)

Appendix B contains additional illustrative aspects of these categories.

Additional Indicators

7.22 Additional indicators of core relevance to the enterprise's operational performance, including those arising from stakeholder engagement or other sources (e.g., ISO 14031).

Part 8: Product Performance

Indicators of the performance of the reporting entity's product(s) regarding environmental, social, and economic aspects of sustainability.

Notes
- Additional information for those items marked with an asterisk (*) is contained in Appendix B.
- See Appendix B for guidance on economic and social categories and aspects.

8.1* Major environmental, social, and economic impacts associated with the life cycle of products and services, with quantitative estimates of such impacts.

8.2 Formal, written commitments requiring an evaluation of life cycle impacts associated with the use of new and existing products and services offered, and procedures in place to monitor this commitment.

8.3 Programs or procedures to prevent or minimize potentially adverse impacts of products and services, including product stewardship initiatives.

8.4 Procedures to assist product and service designers to create products or services with reduced adverse life cycle impact.

8.5 Additional indicators of core relevance to the environmental, social, and economic performance of the enterprise's product(s), including those arising from stakeholder engagement or other sources (e.g., ISO 14031).

Part 9: Sustainability Overview

A discussion of the reporting entity's efforts and progress towards integrating sustainability into its decision making and performance measurement.

A discussion of how environmental, economic and social goals and values intersect and are balanced in the organization, and how such linkages and balancing shape the enterprise's decision making. The overview seeks to assist the enterprise in articulating a long-term vision of sustainability, including obstacles and time scales, and communicating this vision to stakeholders.

The Sustainability Overview is an evolving tool. Reporters should use maximum flexibility and creativity in preparing the overview. Appendix B offers an illustrative approach which may be of value.

APPENDICES

Appendix A: General Reporting Principles

The discussion set out below is adapted from the work of the Environmental Task Force of the European Federation of Accountants (FEE) as presented in their discussion paper "Towards a Generally Accepted Framework for Environmental Reporting" (January 1999). The FEE material is modified to include the wider aspects of sustainability central to GRI's mission. GRI is grateful to the FEE Environmental Task Force for allowing its material to be appropriated and adapted in this way.

Material contained in this section has not yet been subject to full discussion by GRI. This material is presented on a consultative basis and for discussion during the 1999 pilot phase of the GRI Guidelines.

Section 6 of the Preamble identifies those qualitative characteristics and underlying assumptions that are crucial if the objectives of usefulness, comparability and verifiability are to be achieved. These are:

A. Qualitative Characteristics

Over time, financial reporting has identified a number of qualitative characteristics that enhance the credibility of reported financial data. The GRI Guidelines incorporate and reflect these same qualitative characteristics, appropriately modified for sustainability reporting purposes:

- Relevance
- Reliability
  - Valid description
  - Substance
  - Neutrality
  - Completeness
  - Prudence
- Understandability
- Comparability
- Timeliness
- Verifiability

B. Underlying Assumptions

Financial reporting also has adopted a set of underpinning assumptions. These have, with some necessary modifications, been adopted by the GRI as underlying assumptions for sustainability reporting. These are:

- The entity assumption
- The accruals basis of accounting
- The "going concern" assumption
- The conservatism or precautionary principle
- The concept of materiality or significance

These qualitative characteristics and underlying assumptions are discussed in more detail below.

Qualitative Characteristics

In financial reporting qualitative characteristics are the attributes that make published information useful. At the highest level of conceptualization, "usefulness" is usually equated with "relevance" on

the basis that information will not be relevant to a stakeholder unless it is also useful for decision-making purposes. Similarly, something that is not relevant for decision making is unlikely to be useful to a user. The FEE Environmental Task Force suggests that appropriately modified interpretations of the same characteristics will enhance the usefulness or relevance of environmental reporting. An extension of these characteristics to sustainability reporting should also be possible. Such an extension is attempted below.

Relevance

To be useful, information must be relevant to the decision-making needs of user-groups. The most relevant information in sustainability reporting is likely to be useful for attention-directing, knowledge-building and opinion-forming as well as straightforward decision-making. In sustainability reporting the issue of what is or is not relevant may best be gauged through various forms of stakeholder engagement, such as surveys of stakeholder needs conducted by companies themselves or by parties such as UNEP/SustainAbility.

Reliability

Information has the quality of reliability when it is free from bias and material error. Users should be able to depend upon the fact that the information is faithfully represented. A number of linked attributes contribute to reliability:

- *Valid description*: the way in which the various aspects are described will be important for the users' understanding. This is of particular importance where reports are technical in nature. The common characteristics that exist between generic types of air emissions, waste water discharges and wastes should allow some guidance on the types of description that might be considered valid. How 'waste' is described, or air emissions are referenced could vary considerably between reports, and lead to confusion. Over time, the GRI Sustainability Reporting Guidelines should seek to bring maximum possible clarity and consistency to terminology and measurement to minimize such confusion.

- *Substance*: presenting information in accordance with its social, economic or environmental substance and reality rather than a strict legal form is important. In sustainability reporting, the data may often be accurate, but without context or benchmark it may not be useful. For example, a furniture manufacturer that produces hardwood furniture may present accurately the quantity of wood procured, but it will require the 'substance' of the source of that timber to be within a valid context and to enhance reliability for report users.

- *Neutrality (freedom from bias)*: sustainability reports are not neutral if by selection, omission or presentation of information they influence a decision or judgement. Inappropriately constructed graphs or the omission of controversial issues may bias the judgements and opinions of the user groups. The absence of generally accepted sustainability reporting disclosure standards currently leaves any report open to charges of deliberate selectiveness. A fair and balanced presentation of information based on future generally accepted disclosure standards should avoid such charges.

- *Completeness*: making a report more complete in its coverage of environmental, social and economic issues will help to reduce the risk of bias. All significant issues, which may be considered to be material, should be reported. Consideration should be given to the reporting of indirect, as well as direct, effects, especially if such indirect effects are particularly significant in presenting a complete and balanced picture. Once again, the absence of generally accepted sustainability reporting disclosure standards means that reports are often criticized for being "incomplete".

- *Prudence*: related to the Precautionary Principle (see below). Uncertainty is a major factor in both financial and environmental reporting. The exercise of a proper degree of prudence in sustainability reporting should serve to ensure that :

1. adverse financial risks or sustainability impacts are not downplayed;
2. uncertain financial outcomes or sustainability impacts are not reported prematurely;
3. positive progress on environmental, economic and social issues is not misreported—for example by prematurely claiming that the entity is "sustainable" in some way or other.

Understandability

Understandability is an essential quality of any form of reporting. Financial reporting starts from the premise that the assumed user possesses a reasonable knowledge of business and economic activities and accounting. In sustainability reporting, such knowledge may not be sufficient to enable the user to readily understand the information being presented, although a broad understanding of the problems facing an industrial sector should be assumed.

In financial reporting, there is an unspoken assumption concerning the general level of education and experience of the assumed 'primary' user group; namely, investors. In sustainability reporting, at this stage it is not valid to identify any single group as the 'primary' user group since there are many diverse report users. Also, it is difficult to make general assumptions about the level of education and experience of user groups, or their fluency in the language of the report (e.g., English). Consequently, technical and scientific terms should be used carefully and explained within the report, and simple words used where possible. To make sustainability reports more understandable, further research is required into how much technical information can be presented while ensuring that the report remains easy to understand.

Comparability

Users of sustainability related information wish to monitor and compare performance over time, in order to identify significant trends. Users also will wish to compare the results of different enterprises, particularly within industry sectors. Consistency in the recognition, measurement and presentation of sustainability related data is therefore essential. Initially, consistency should be established internally, determined by the information needs of the enterprise's user groups.

Caution is needed when seeking to benchmark between enterprises within the same sector, as even apparently minor differences in process, product or location can be significant in terms of sustainability effects. As with financial reporting, it is important that corresponding information be reported for preceding periods on a comparable and consistent basis. There is a considerable amount of effort currently being expended on the development of appropriate environmental and social indicators (for example by GRI, WBCSD, Council on Economic Priorities, the UN ISAR working group of experts, New Economics Foundation, and the Institute for Social and Ethical AccountAbility). The detailed disclosure recommendations contained within the GRI Sustainability Reporting Guidelines are intended to provide a rigorous framework designed primarily to enhance comparability between entities.

Timeliness

Timeliness is not always addressed by financial reporting frameworks as the reporting periods for financial reporting are usually well defined by company or tax legislation. For sustainability reporting, however, some guidance is required to set out how the frequency of reporting should be determined. A complication not yet directly addressed by preparers of such reports is that the ecological / social impact cycle of their operations may not easily lend itself to overly-frequent public reporting. That is, natural/physical cycles do not necessarily coincide with financial cycles. An alternative formulation of this argument is to say that "continuous improvement" may not be readily identifiable if the reporting cycle is too short.

At this time GRI does not seek to prescribe precisely when sustainability reports should be published. It is recommended, however, that sustainability reports contain a clear indication of the reporting period covered and the reasoning behind the choice of reporting period and/or frequency of reporting.

Verifiability

Financial reports are as a matter of course verified or attested to by an independent third party in order to be credible in the eyes of a user. It follows that the information contained within the report and which is the subject of the independent third party's opinion should possess the characteristic of verifiability.

Financial statement standard setters historically have sought to keep the content of the audited accounts narrowly focused on financially quantified objectively determined data in the belief that such information is more verifiable than non-financial "values-derived" information. Environmental reporting techniques are now beginning to evolve towards a point where environmental management systems are providing increasing amounts of objective, verifiable physical data.

It remains to be seen, however, whether sustainability reports, which may contain some data that are neither objectively determined nor physically quantified, can be verified at a high level of assurance. It is important that statements provided by independent verifiers clearly identify the scope of their examination, and the verification standards applied, in order that unsupported assertions or unverified data are transparent to the user.

Underlying Assumptions

The Entity Assumption

In any form of corporate reporting it is essential that the boundaries of the reporting entity are clearly defined by management and reported clearly and explicitly in any public statement. Financial accounting and reporting standards have been developed to deal with variations in the form through which corporate control is exercised (e.g., via joint ventures, associates, subsidiary or other "controlled" operations).

In financial reporting, identification of the legal status and boundaries of the reporting unit are vital in determining accountability and in avoiding accusations of misleading financial reporting (e.g., by ignoring "off-balance sheet liabilities"). In the case of sustainability reporting, it is similarly important to identify clearly the boundaries of the reporting entity and not to permit or encourage the originator of, or contributor to, environmental impacts to shelter within formal legal boundaries.

A further complication with sustainability reporting is that where organizations form part of a supply chain, comprehensive accountability may require the total life-cycle impact of the product, from resource extraction to disposal, to be covered in some way. Whilst it would be controversial (and possibly misleading) to require consolidated sustainability reports that included separate legal entities along the entire supply chain, it might nevertheless be helpful to some users if such reports include reference to the more significant social or environmental impacts (such as from off-site waste disposal or suppliers employment policies) up- or down-stream from the reporting entity. The traditional entity concept may therefore require modification for true sustainability reporting.

A minimum requirement for sustainability reporting is therefore that the report itself (or any accompanying verification statement) clearly identify the extent to which the entity (as defined for financial reporting purposes) is fully disclosing the significant (non-financial) economic, environmental and social impacts of its activities.

The Accruals Basis of Accounting

The practical application of the accruals basis of accounting requires that the results or impacts of activities should be disclosed in the period in which those activities occur. In financial reporting, for example, use of the accruals basis is driven by recognition of the "critical event" (as occurring at the point of sale). There may, however, be variations on this central theme, including recognition of revenue and profit on a percentage of completion basis in the case of long-term contracts.

Relevant and credible sustainability reporting requires an accruals approach based on the point of production or timing of impact. Sustainability reporting needs to address the accruals (or matching) concept to ensure that production activities, emissions and waste and societal impacts are appropriately related from an activity perspective.

The Going Concern Assumption

An enterprise that is categorized as being "a going concern" is generally expected to continue operations for the foreseeable future (note that the "foreseeable future" in financial reporting terms is rarely longer than 18 months after the balance sheet date). This principle is adopted in financial reporting with the result that assets are conventionally carried at current or historical cost rather than at liquidation values. A fully developed approach to sustainability reporting will have to pay close heed to the broader implications of "the going concern concept".

Since longer-term environmental impacts and prospective environmental legislation can be very important for financial statements, it seems appropriate that sustainability reporting standards should include a requirement that, when potential environmental liabilities are significant, the environmental element of the broader sustainability report should provide a clear indication of whether the enterprise is capable of funding necessary remediation / clean-up procedures.

On a related point it can also be argued that whilst environmental liability provisions do serve to inhibit the ability of an enterprise to make distributions to its shareholders, this does not at the same time guarantee the availability of cash resources to fund a necessary remediation process. In the event of a corporate failure this may throw the cost burden onto the public purse.

At a policy level there may be strong arguments for requiring enterprises operating in environmentally sensitive industries to ensure adequate provision of financial resources. In part this may be handled through the conventional insurance framework. But for known long-term liabilities some form of "environmental bonding" could serve to insure society should the organization in question fail as a financial going concern.

The "Precautionary Principle"

It may be the case that the differing elements within sustainability reporting require the application of different theoretical underpinnings. For example, it has been argued that the "precautionary principle" is directly relevant for environmental reporting purposes, but it has yet to be seen whether or not there is a parallel application of the concept to sustainability reporting. In other words, does prevention of adverse environmental impacts have its analog in the social and economic realm as an underlying assumption of sustainability reporting?

Understandably from almost all stakeholder perspectives, pollution prevention is always a preferred alternative to post-contamination remediation or clean-up. From this prudential perspective has developed the so-called "precautionary principle"—a principle often cited by policy makers and green lobby groups as a defense against activities the effects of which are unknown.

The operation of the "precautionary principle" is illustrated in this short extract adapted from *"Environmental Science for Environmental Management"* by T. O'Riordan:

- there should be thoughtful action in advance of scientific proof of cause;
- decision-makers should leave ecological space as "room for ignorance", or as a margin of error, because of lack of information or scientific evidence;
- there should be a reversal in the normal "burden of proof," from affected party to the corporate decision-maker.

GRI believes that the environmental component of sustainability reporting should include inform users as to whether or not the precautionary principle is embedded in the environmental policies, programs and decision-making processes of the reporting entity. The practicalities of any broader application of the concept need to be explored.

The Materiality Principle

In conventional financial accounting, materiality is a principle that is related to relevance. The underlying assumption is that information is only relevant to a user if it is material in *financial* terms—which means "does its presence or absence influence the users' investment decision?". For financial reporting purposes, materiality is usually assessed by preparers and auditors in strictly financial terms, most often as a (commonly accepted) percentage of some "headline" accounting number—such as turnover, operating income, net assets employed etc.

It is clear that the application of the materiality concept in sustainability reporting situations is more complex than in financial reporting, and heavily dependent on the nature and circumstances of an item or event (as well as its scale). For example, in environmental terms, the carrying capacity of the receiving environment (such as availability of landfill capacity or background air pollution levels) will be just one factor in the materiality of the release / discharge of one tonne or one kilogram of waste, air emissions or effluent. Similarly, comparable health and safety information is likely to be of considerable interest despite its lack of significance in traditional financial accounting terms.

It may also be the case that what will be considered as material by one user group may be different from the view of another group. For the producer of a sustainability report, the results of research into user needs, as well as continuing interaction with stakeholders, will be necessary in determining issues of relevance and materiality.

Appendix B: Explanatory Notes

This appendix is the seed of what GRI intends to become a robust set of explanatory notes to the Guidelines. In this exposure draft, explanatory notes for many of the items are absent or incomplete. Comments, contributions, and recommendations GRI receives from enterprises that volunteer to pilot test the Guidelines, as well as from other reviewers, will be critical for developing this appendix.

We encourage your contributions.

Guidance on Social and Economic Categories and Aspects

Below are illustrative categories and aspects of the social and economic areas of sustainability beyond conventional EHS that the reporting entity might consider in its report. This list is not intended to be comprehensive—the items are provided as a starting point for reporting enterprises.

GRI recognizes that established indicators/metrics may not exist for many of the aspects listed. ***GRI actively seeks your input in the pilot phase as it refines this information.*** In particular, GRI seeks input on defining and developing indicators for the various aspects listed below.

Corporate

- Ethical Standards
- Bribery/Corruption
- Transparency
- Human Rights
- Political Activities

Employees

- Workforce Diversity (Gender, Race, Age)
- Freedom of Association
- Child Labor
- Turnover Rate (Recruitment and Retention)
- Absenteeism
- Compensation and Benefits: Standards and equity
- Wages, Salaries, Benefits
- Flexibility in Work Arrangements
- Assistance for Displaced Workers

Community (local and global)

- Community Involvement
- Skills Transfer
- Technology Transfer
- Site Selection
- Complaints (Noise/Odor)
- Community Reinvestment
- Activities in Developing Countries
- Philanthropy
- Taxes

Suppliers

- Procurement Standards
- Partnership Screens and Standards
- Outsourcing

Customers

- Product Labeling Standards
- Advertising Standards
- Training in Product Use
- Monitoring for Proper Use of Product

Note: Product performance is covered in Part 8

Guidance for Part 7: Operational Performance

GRI recognizes that established definitions may not exist for many of the indicators/metrics listed. ***GRI seeks your input in the pilot phase as it refines this information*** In particular, GRI seeks input on further developing indicators that allow maximum consistency across reporting enterprises.

In addition to the item components listed here, please include regional or sector specific components as appropriate (e.g., nutrient enrichment for discharges to water).

7.1 Indicators of occupational health and safety should include:
- Counts and, if meaningful, rates of occupational injuries and illnesses and lost workdays. Include definition and method of calculation.

7.3 Fuel sources for electricity should include:
- Fossil carbon based (oil, gas, coal)
- Hydro power
- Nuclear
- Solar, wind, biomass
- Other (specify)
- Unknown

7.4 Vehicle fuel types should include:
- Leaded Gasoline (including diesel)
- Unleaded Gasoline (including diesel)
- Other (specify)
- Unknown

Non-vehicle fuel types should include:
- Fossil carbon based (oil, gas, coal)
- Biomass
- Other (specify)
- Unknown

7.7 Total materials use: Select materials and categories of materials significant for reporting entity. ***GRI actively seeks your input in the pilot phase as it refines this item.***

Sample materials categories include:
- Renewable/non-renewable
- Virgin/recycled
- Natural/man-made
- Hazardous/non-hazardous (using equivalency numbers)

7.17 Emissions to air should include:
- Greenhouse gases (GHGs), per Kyoto Protocol, in CO2 equivalent, per IPCC GWP 100 Factors
- Ozone depleting substances (ODSs)—per Montreal Protocol, in CFC-11 equivalent
- Sulfur dioxide
- NOx
- Volatile organic compounds (VOC)
- Priority heavy metals
- Persistent organic pollutants (POP)

7.19 Discharges to water should include:
- Chemical oxygen demand (COD)
- Biological oxygen demand (BOD)
- Priority heavy metals
- Persistent organic pollutants (POP)

Guidance for Part 8: Product Performance

8.1 *Major environmental, social, and economic impacts associated with the life cycle of products and services, with quantitative estimates of such impacts.*

Sample product/service impacts at selected life cycle stages

Use Stage

- Hazardous nature to user
- Hazardous nature to non-user
- Addictiveness
- Durability or expected lifetime
- Expected energy consumption
- Emissions of NPO during use
- Non-NPO emissions (e.g., microwave radiation)
- Noise generation

Post-Use Stage (disposal or resource recovery)

- Packaging content
- Material content per unit of production
- Recyclability
- Emissions during disposal or recovery
- Product repairability

Items 8.2 - 8.4

Refer to ISO 14000 series standards and guidelines pertaining to life cycle assessment and product labeling for further guidance.

Guidance for Part 9: Sustainability Overview

1. Introduction

Understanding and addressing sustainability issues is important for enterprises wishing to plan their future progress in contributing to wider sustainability. Additionally, it can help them to reconcile their many different, and frequently conflicting, responsibilities—maximizing shareholder returns while creating environmental, social and economic value.

In order to build a complete sustainability report an enterprise will need to understand and assess its decision-making processes and performance across all three dimensions of sustainability: environmental, social and economic. A sustainability report, however, is more than the sum of environmental, social and economic information. It must also seek to integrate this information to allow readers to understand the inter-relations and balance between the three dimensions from the standpoint of both process (how decisions are made) and outcome (the results of decisions). Enterprises are just beginning to explore the implications of this for their public reporting programs.

The Guidelines present recommendations for reporting indicators of performance. This explanatory note seeks to assist reporters in preparing Part 9 of the Guidelines: the Sustainability Overview. This explanatory note does not specify environmental, social, and economic information as the Guidelines do. Rather, its goal is to provide guidance on how a reporting entity can present its thinking, decision-making, and practices with respect to operationalizing sustainability.

GRI views the Sustainability Overview as a key component for reporting an enterprise's commitment to integrating sustainability into its decision-making. It is, however, experimental in nature. Thus, this explanatory note should be viewed as part of an evolving process—it has been a challenge for GRI to design, and the experiences of pilot testers and others will be crucial in building the methods for this key component of the Guidelines.

2. Overall Approach

Sustainability reporting at the enterprise level provides an important contribution to the goals of sustainability. In order to make systematic progress towards global sustainability, the work by individual enterprises will need to be complemented by a range of other players and sectors (e.g., governments, communities, markets, and investors). Within GRI, the focus is on enterprise reporting as a contributor to overall progress toward sustainability.

Sustainability reporting is evolving through experimentation and learning as enterprises try different methods to communicate their "sustainability story". Most, however, are just beginning to consider their approach to sustainability reporting, and may be initially prepared to provide only a trial overview in their public reports. A few enterprises are already able to provide more sophisticated overviews based on their greater experience with integrating sustainability concepts into their operations. Many participants in the GRI share the belief that reports produced by entities using the Guidelines will represent a range of stages along a continuum of practice, although it is not yet possible to define that continuum.

In order to make progress towards sustainability, enterprises will need relevant and reliable information on which to make decisions. The Guidelines present recommendations for reporting on operational and management performance, as well as product performance and stakeholder relationships. Sustainability reporting demands that performance be understood and measured across each of these areas. This is because decisions about sustainability arise not simply from technical issues of operational performance, but encompass an evolving set of views and priorities among those involved and affected, that is, relevant stakeholders. The implication of this is that sustainability reporting should continue to evolve in a manner that demonstrates learning and represents continuous engagement.

3. Styles of Reporting

An enterprise may use several different reporting styles to construct a Sustainability Overview:

- **Systematic Accounting and Reporting** — A total approach comprising economic, social and environmental accounts, including flows and accumulated balances of value. Systematic Accounting and Reporting requires a sophisticated knowledge of causes and effects within and between the environmental, economic and social dimensions, and, though not yet well developed, presents a model for future sustainability reporting.
- **Thematic Statement** — The enterprise's interpretation of a conceptual theme—a core issue or challenge—that relates in some way to all dimensions of sustainability.
- **Case-Studies** — An exploration of the enterprise's decision-making in a particular situation, treating the inter-relations of environmental, economic and social aspects in terms of how it manages specific situations in the past, present, or future.

These complementary reporting styles all have a role in developing a Sustainability Overview. They are further described below.

Systematic Accounting and Reporting

Systematic Accounting and Reporting would involve production of integrated accounts of performance across environmental, social, and economic dimensions. In theory, such reporting would resemble standard financial accounting in many ways. Although standards are as yet not defined, this style of reporting offers an integrated view of performance and reveals whether or not performance in the reporting period represents an improvement over time. Some of the components of Systematic Accounting and Reporting are contained in Parts 3 to 8 of the Guidelines.

In Systematic Accounting and Reporting, an enterprise will need to define both stocks and flows of various forms of value into and out of environmental, social, and economic accounts. In other words, in order to understand sustainability, there is a need to report not only on the "bottom line" (i.e., the sustainability equivalent of the profit and loss statement), but also on the accumulated effects of various activities (similar to capital balances or asset–liability balances). So-called "eco-balance" methods of environmental accounting provide an example of a limited form of this practice. In sustainability reporting, this requires accounting for each dimension of sustainability, which in turn will help advance an understanding of the inter-relationships and balance between environmental, social, and economic impacts. Guidance on approaches for Systematic Accounting and Reporting will be further developed as the Guidelines are updated and revised.

Thematic Statements

Themes are significant issues or concepts faced by an enterprise that address the linkages between the environmental, economic, and social aspects of business operations. Relating the information collected in the Guidelines to such themes helps illuminate the complex relationships between key aspects of sustainability. By considering one or more of these themes in a sustainability overview, enterprises can begin to develop an effective sustainability message. A 'thematic statement' is a description of the way the enterprise understands and is addressing a given issue. The thematic statement as part of a sustainability report may deal with more than one theme.

Suggestions for broad themes are provided at the end of this note; however, an enterprise may prefer to refine a theme further to provide a more specific focus for its statement, such as:

- maintaining ethical integrity in a global context
- the health impact of enterprise activities
- use of transportation

- total product impact
- use of new technology
- investment strategy
- use of natural resources
- use of human resources
- dematerialization
- transition from product- to service-based enterprise.

Any selected theme should be especially relevant to a reporting enterprise, in light of its products, services, and aspects. It is helpful to bear the following points in mind:

- Will the thematic statement help to show how the enterprise is thinking about and working towards sustainability?
- Will the choice of theme be useful to report users in their understanding of the reporting enterprise's impact on sustainability?
- Are appropriate indicators available to describe the issue sufficiently?
- What policies are in place which bear on the theme?

Reporting enterprises should determine the structure of the thematic overview so as to be suitable to the theme selected. The following questions may help determine which aspects could usefully be included:

- What are the environmental aspects of the issue?
- What are the social aspects of the issue?
- What are the financial, and broader economic, aspects of the issue?
- How are the environmental, social and economic aspects of the issue reconciled or balanced among each other?
- To what extent is the reporting enterprise willing to take responsibility for the issue?
- How are decisions made in relation to the issue?
- Which indicators has the enterprise used to describe the issue?
- How are stakeholders involved in dealing with the issue and in making decisions about it?
- What knowledge and resources are needed to deal with the issue? How much are these currently available internally?
- How can addressing the issue add value to the enterprise?
- How can innovation be harnessed to addressing the issue?
- What positive changes have been, or could be, made which moves the enterprise further towards sustainability?
- To what extent has a long-term perspective been adopted in exploring the issue?
- How is the enterprise learning from dealing with the issue?
- How can what has been learned be applied to other issues?

It is intended that experience gained during the pilot test period will contribute more concrete examples of themes and their use in sustainability reports.

Case Studies

Case studies provide a powerful mechanism to explore and communicate how decisions are made by organizations and what outcomes have been achieved. Case studies focus on specific situations such as a facility opening or closure, an accidental release of a dangerous substance or a community project. Case studies do not provide a comprehensive measure of performance or a system-wide overview. But they do serve as a valuable complement to themes by illustrating enterprise behavior under real conditions.

Case Studies and Themes: What's the Difference?

It may be possible to use a case study as a part of a thematic statement, but thematic statements and case studies should not be confused. Whereas case studies describe specific situations or achievements, themes are broader issues or challenges faced by an enterprise. Certain aspects of themes may be illustrated by case studies, but the complexity and depth of a theme cannot be presented simply as a series of case studies.

Reporters may choose to consider and prepare multiple case-studies. One way to enrich case-study material is to set out the perspectives of different stakeholders so that the inter-relationships between different views may be analyzed. Case-studies may also be written by external stakeholders.

There are three broad categories of case studies:

- Historical case studies that record past actions in particular situations.
- Real time case studies that require an enterprise to "think out loud" through observation of actions in particular current situations.
- Future case studies (often referred to as scenarios) that set out what an enterprise plans to do in particular situations in the future.

Historical and real time case studies may be preferred by stakeholders, as results are more transparent. In examples to date, virtually all case studies that appear in published social or environmental reports are historical, but real time and future case studies will allow considerably greater insight to emerge. New communications technologies (e.g., electronic reporting) strengthen the ability of enterprises to both share their thinking and benefit from stakeholder input as decisions unfold.

4. Further Guidance on the Thematic Approach

GRI has developed a set of illustrative themes as one basis for exploring sustainability and for presentation as part of a Sustainability Overview. These sample themes are offered as a conceptual framework, not a guide to sustainable corporate behavior. They can provide the basis for developing a Sustainability Overview should an enterprise choose to make such use of them.

It is neither possible nor desirable to provide a definitive set of themes; the chosen approach must reflect an enterprise's particular situation. The set of themes on the following page is not prescriptive, but illustrative of how various aspects of business operations intersect for the purposes of preparing a Sustainability Overview. Choosing one or more such themes for discussion may be helpful to enterprises in this process.

Indicators provided to illustrate themes in many cases may be drawn directly from process and performance information recommended in the Guidelines. In other cases, the examples suggest a further development of performance indicators, or even wholly new indicators. For these reasons, themes and their indicators should not be viewed as questions to be answered or boxes to be ticked in developing a sustainability report. They are intended to motivate creative thinking in developing a Sustainability Overview.

Illustrative Application of Themes to Major Dimensions of Sustainability

Sample Themes	Sample Economic Dimensions	Sample Social Dimensions	Sample Environmental Dimensions
Diversity *An enterprise's mix and balance of activities and human, ecological and economic resources.*	• Business diversification	• Employee diversity, including employment of minorities and disabled people and empowerment of women	• Resource use diversity • Consumption of non-renewable natural resources • Consumption of renewable resources
Added Value *Increasing of relative worth, utility or importance as a result of enterprise activities.*	• Return on capital employed • Shareholder value • Economic value added • Investor satisfaction	• Intangible value (e.g., good will) • Information or knowledge held by employees • Employee satisfaction • Customer satisfaction	• Conversion of waste to usable or salable product • Activities to offset negative effects of other activities (e.g., carbon sinks for CO2 emissions) • Local impacts such as landscaping
Productivity *Effectiveness in creating results, benefits, profits or other forms of value.*	• Profit margins • Stability of economic impacts on communities	• Rate of employee turnover • Customer retention rate • Involvement in civic activities	• Resource efficiency • Material efficiency
Integrity *Adherence to principles and ideals.*	• Bribery • Political contributions • Lawsuits • Qualified accounts; exceptions to auditors'/verifiers' statements • Information disclosure policies and practices	• Complaints • Lawsuits • Public opinion • Membership in social responsibility fora • Information disclosure policies and practices	• Lawsuits • Environmental management systems • Membership in environmental responsibility fora • Information disclosure policies and practices
Health *Soundness and resilience.*	• Profitability • Demand of products or services • Solvency/liquidity • Rating by investment agencies	• Health of workforce (e.g., employee injury rate, lost time days) • Healthcare entitlements/benefits • Health of community • Local health risk of manufacture or service	• Health risk of product or service • Consumption of critical natural capital • Remediation • Contribution to ecological problems or changes (such as climate change contribution)
Development *Evolution, growth, progression.*	• Innovation programs • Investments or capital expenditures	• Employee training and development • Contribution to or impact on local infrastructure or services • Socially or ethically targeted investments	• Investment in environmental technologies • Product line substitution • Environmentally targeted investments

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