



# G4 Exposure Draft

OVERVIEW

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Do Good. Do Well. **Win.**<sup>TM</sup>

## The Good News

Reporting to GRI will actually mean something.

## The Bad News

Reporting to GRI will actually mean something.

### GRI'S VISION:

A sustainable global economy where organizations **manage** their economic, environmental, social and governance performance and impacts **responsibly** and **report transparently**.

## G4 Exposure Draft

- Application Levels
- Boundary
- Governance & Remuneration
- Disclosure on Management Approach
- Supply Chain

## G4 Exposure Draft

- **Application Levels**
  - What counts as a GRI report is much more rigorous
  - Application Levels have been removed
- Boundary
- Governance & Remuneration
- Disclosure on Management Approach
- Supply Chain

# Application Levels – Where We Are (G3.1)

## G3.1

Application Level	Disclosure on Management Approach (DMA)	"Management Intensive" Profile Disclosures
A	✓	✓
B	✓	✓
C		

### Examples of "Management Intensive" Disclosures

<b>Executive Oversight</b>	Explain the linkage between compensation for members of the highest governance body, senior managers, and executives (including
<b>Codes of Conduct</b>	Disclose any internally developed mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.

Source: *GRI Application Levels: Why Strive for an A?* BrownFlynn Whitepaper

# Application Levels – Where We Are (G3.1)

## G3.1

Application Level	Disclosure on Management Approach (DMA)	"Management Intensive" Profile Disclosures	Fully Reported Indicators	Relevant Sector Supplement	"Basic" Profile Disclosures & GRI Content Index
A	✓	✓	55+	✓	✓
B	✓	✓	20 <sup>*</sup>		✓
C			10 <sup>**</sup>		✓

Source: *GRI Application Levels: Why Strive for an A?* BrownFlynn Whitepaper

- \* At least one indicator from each of the following categories – economic, environmental, human rights, society, labor and product responsibility
- \*\* At least one indicator from each of the following categories – economic, environmental and social

The move from C to B is a very different kind of progression than the move from B to A. Many, including BrownFlynn (in our whitepaper on this topic), thought that the move from Application Level C to B was a step in the right direction.

Why? Because the move from the Application Level C to B requires a significant investment in **management strategy**. Companies with at least an Application Level B will be in a better position to manage risks and will have more internal controls in place. Moving to B requires an increased **attention to and assessment of risks**.

But the move from the Application Level B to A only requires the company to report on several more indicators.

Having more **data** and having more **management**  
can be two very different things.  
So the move from C to B to A is not necessarily a progression.

# Application Levels – G4 Solution

G4

## G4 Removes the Application Levels

How this makes life **easier**: You don't have to do the extensive, irrelevant data collection that was previously required for an A.

Using GRI and striving for a higher application level under **G3/G3.1** would:

1. Increase transparency
2. Increase attention to and assessment of risks
3. Increase number of indicators reported

Using GRI and striving to report in accordance with the GRI guidelines under **G4** would:

1. Increase transparency
2. Increase attention to, assessment and disclosure of risks
- ~~3. Increase number of indicators reported~~

## G4 Removes the Application Levels

How this makes life **more difficult**: To report to GRI, *everyone* must do the risk assessment and management intensive analysis that was previously required for a B.

Using GRI and striving for a higher application level under **G3/G3.1** would:

1. Increase transparency
2. Increase attention to and assessment of risks
3. Increase number of indicators reported

Using GRI and striving to report in accordance with the GRI guidelines under **G4** would:

1. Increase transparency
- 2. Increase attention to, assessment and disclosure of risks**
- ~~3. Increase number of indicators reported~~

# Application Levels – G4 Solution

In order to say that a report is “in accordance with the GRI G4 Guidelines”, it must contain:

G4 Requirements	G3/G3.1 Currently Requires This For...
All profile disclosures (labeled “DI” – DI 1, DI 2, etc.)	Application Level B and higher (except <i>many</i> new profile disclosures in G4)
Material DMAs	Application Level B and higher
Material Core Indicators	Application Level C and higher
Sector Supplement	Application Level A and higher
Content Index	Application Level C and higher
CEO Letter	Application Level C and higher
that says the report is balanced	n/a

## Reasons for Omission

The **unavailability of data** or specific **legal prohibitions** may result in an inability to disclose certain information required by points 1-3 above.

If such information is not disclosed, the statement required by the CEO must also clearly:

1. Indicate **what** information has been omitted,
2. Explain the **reasons why** the information has been omitted, and
3. In the case of the unavailability of data, identify the **steps being taken** to obtain the data and the **expected timeframe** for doing so.

**First time reporters** who wish to incrementally apply the GRI Guidelines may, for the **first two reporting periods**, state that their report is in accordance with the GRI Guidelines if the statement required by the CEO also clearly:

1. Identifies what information has been omitted, and
2. States the organization's commitment for the report to fully be in accordance with the GRI Guidelines once the transition period is over.

# Application Levels – G4 Solution

G3 & G3.1	G4
Perception of options centers around difference in number of indicators	Perception of options will center around <b>materiality</b> , risks and opportunities
What many companies did...	What companies will have to do...
Decide which Application Level will be declared.	Do a robust <b>materiality assessment</b> with executive leaders.
Determine which of the indicators could be or want to be reported.	Look at policies and management (look in the mirror and assess performance).
Report at the Application Level C or B, giving high-level answers to questions about policy, governance, materiality and stakeholder engagement.	Decide whether they will report according to GRI.
Reports that were technically in accordance with GRI sometimes did not disclose risks or opportunities.	Reporting in accordance with GRI will require companies to “report or explain” all <b>material topics</b> and all standard profile disclosures, which are much more robust in G4.

# Application Levels – G4 Solution

## Why This is No Surprise

Reports that were submitted for a GRI Check under G3.1 were all evaluated for 3.5 (materiality) and 4.14-4.17 (identification of stakeholders and approach to stakeholder engagement).

Profile Disclosure  
3.5 (below)

GRI was unable to find evidence of full disclosure on the cited page(s).

**Option 1: Disclose in the reporting or answer directly in the Content Index**  
Please disclose the organization's process for prioritizing topics within the report.

OR

**Option 2: Provide a valid reason for omission in the Content Index**  
Provide a valid reason for omission in the Content Index for partially/not reporting as defined in Annex I of this document.

*Process for defining report content, including:*

- *Determining materiality;*
- *Prioritizing topics within the report; and*
- *Identifying stakeholders the organization expects to use the report.*

*Include an explanation of how the organization has applied the 'Guidance on Defining Report Content' and the associated Principles.*



# Application Levels – G4 Solution

## Why This is No Surprise

The new GRI Database asks companies to identify themselves by their risks and opportunities.

**Profile** Reporting examples

**BrownFlynn**

**Description**

BrownFlynn is a corporate responsibility and sustainability consulting firm. We advise companies on how to integrate responsible practices into their business strategies and how to communicate these practices internally and externally for bottom-line impact.

Organization type: **Private company**  
Listed/Non-listed: **Non-listed**  
Sector: **Commercial Services**  
Country: **United States of America**  
Country Status: **OECD**

**Contact information**

Web url: <http://www.brownflynn.com>  
HQ Address: **5603 Wilson Mills Road Highland Heights, Ohio 44143**  
HQ city: **Cleveland, Ohio**

### Risks

#### Incomplete profile

This organization has not yet disclosed their sustainability risks on this profile

### Opportunities

#### Incomplete profile

This organization has not yet disclosed their sustainability opportunities on this profile

## G3.1

### Sustainability Report

- Highly varied standardization and quality
- Many times, specific information is not easy to find

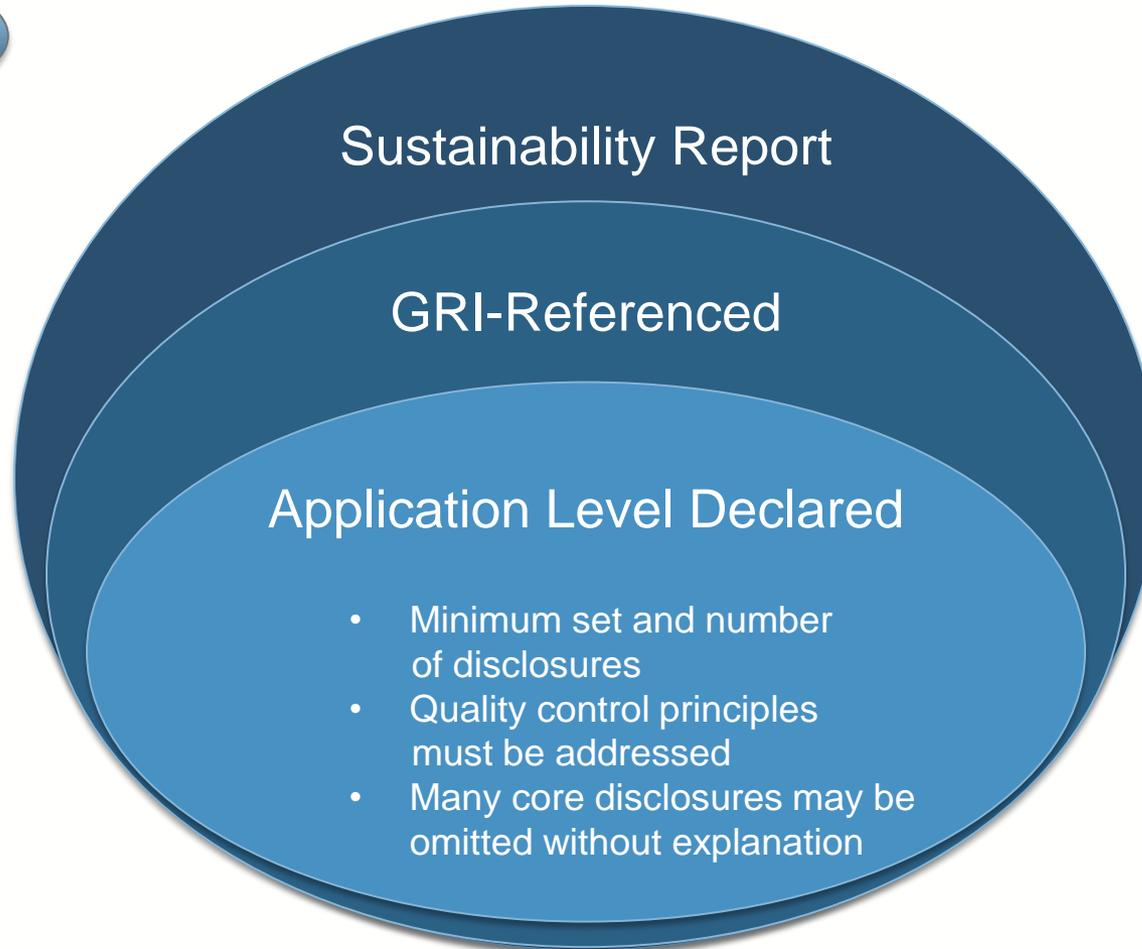
## G3.1

### Sustainability Report

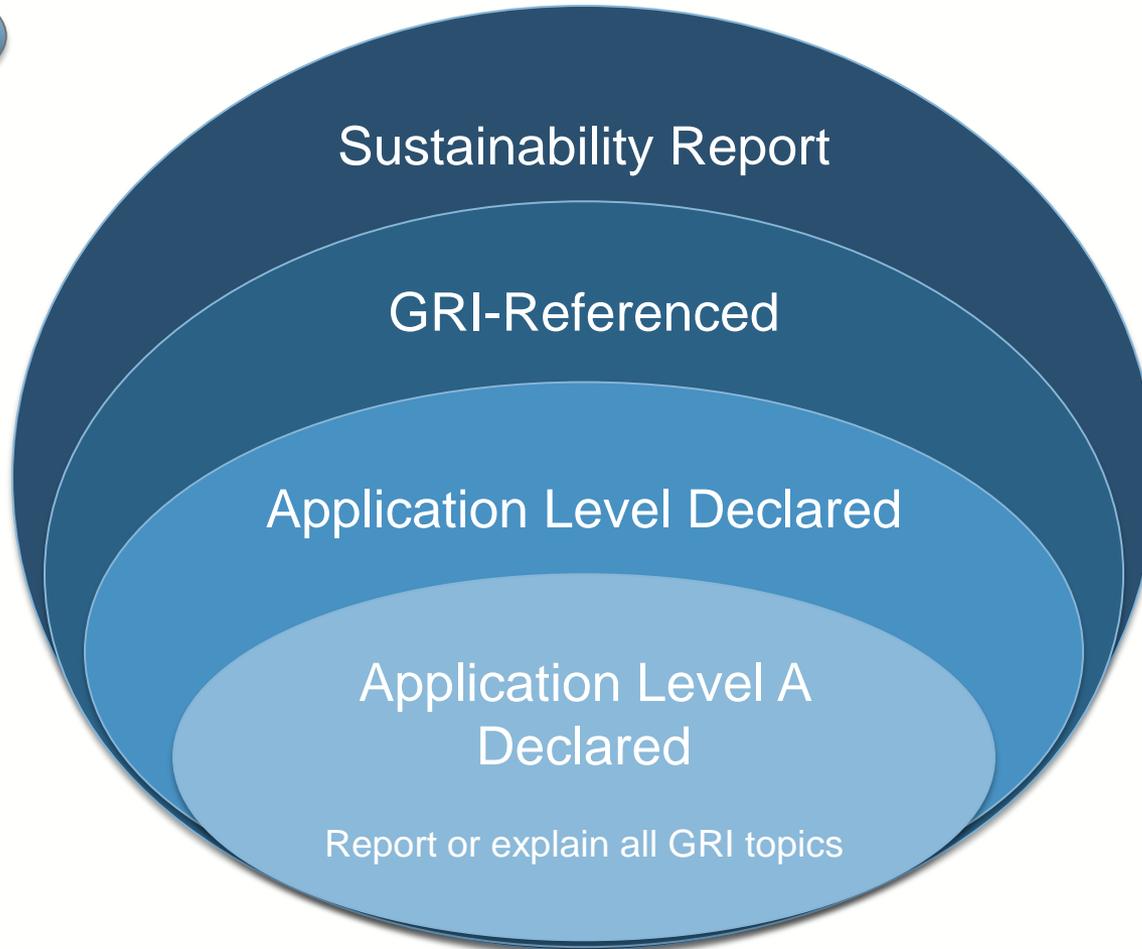
### GRI-Referenced

- Acknowledges where report overlaps with GRI (usually just indicators)
- Many core disclosures may be omitted without explanation
- Principles may or may not have been implemented

## G3.1



G3.1



**G4**

## Sustainability Report

- Highly varied standardization and quality
- Many times, specific information is not easy to find

**G4**

## **Sustainability Report**

### **In Accordance with the GRI Guidelines**

Report or explain all  
material topics.

Company is not hiding  
anything important.

## G4 Exposure Draft

- Application Levels
- **Boundary**
  - Emphasis on company's impacts on the entire value chain, more closely tied to materiality
- Governance & Remuneration
- Disclosure on Management Approach
- Supply Chain



# Boundary – What Needs Improvement

G3 & G3.1	G4
Boundary is centered around whether an organization can <b>get report content</b> from another entity	Boundary will be centered around whether an organization <b>impacts</b> another entity
Focus is on data	Focus is on risks and opportunities
Focus is on contractual relationships	Focus is on impacts
Lack of <b>control or influence</b> over an entity excluded it from a company's boundary	Lack of <b>impact</b> is the only thing that can exclude an entity from a company's boundary

## Value Chain

‘**Boundary**’ refers to the range of value chain elements or areas covered in the report for each material topic. In setting the boundaries for material topics, an organization should consider impacts throughout its entire value chain, **regardless of whether it exercises control or influence over the elements in its value chain**. Boundaries vary based on the topic being reported.

Explicit **impact assessment** disclosure requirements have been added to:

- CEO letter
- Scale of organization
- Report scope
- Materiality assessment
- DMA
- Governance disclosures

In GRI’s Framework, unless otherwise stated, the term ‘impact’ refers to significant economic, environmental and social impacts that are:

- Positive
- Negative
- Actual
- Potential
- Direct
- Indirect
- Short-term
- Long-term

## Depth of Disclosure (Previously Boundary Decision Tree)

Primary consideration:

### **Impact**

At a minimum, each material topic associated with a significant impact should be discussed in Disclosure on Management Approach disclosures.

Secondary consideration:

### **Influence**

The organization is expected to provide Disclosure on Management Approach for material topics regardless of its ability to influence. Disclosure on Management Approach allows for the discussion of challenges and dilemmas for cases where the organization is not able to exercise influence to manage its impacts. Where an organization has actual or potential negative impacts and has no ability to influence, it should disclose its efforts to increase its ability to influence in its Disclosure on Management Approach.

## G4 Exposure Draft

- Application Levels
- Boundary
- **Governance & Remuneration**
  - Focus on how highest governance body manages sustainability topics
  - Focus on executive evaluation
  - More specific definitions
- Disclosure on Management Approach
- Supply Chain

## G3.1

### G3/G3.1

- Governance
  - Focus on **mechanisms** and **processes** in place for oversight
  - Risks and opportunities are not required for Application Level C
  - Policies are described but description of decision-making process is not required
- Stakeholder Engagement & Materiality
  - Described generally and usually discussed generally

## Actions vs. Assessments

G3.1

The terms “management” and “executive management” are used loosely and inconsistently. Many times, it is not clear who manages the sustainability efforts within a company.

In G3/G3.1, questions are phrased in such a way that the **actions of the company** are disclosed instead of the **risks and opportunities** recognized by **executive management**.

## How Highest Governance Body Manages Sustainability Topics

A GRI G4 report must contain:

A statement, signed by the highest governance body or Chief Executive Officer (CEO), that the report has been prepared in accordance with the GRI Guidelines and that it is a **balanced** and **reasonable presentation** of the organization's economic, environmental and social impacts.

**DI 17** List the identified material Aspects (and other material topics).

**DI 24** Explain the process for defining report content, including:

1. How the value chain was determined
2. How relevant topics were identified
3. How material topics were prioritized
4. How the report content is validated to ensure all relevant GRI Reporting Principles have been applied

A dark red oval containing the white text "DI = everyone reports or explains".

# Governance – G4 Solution

## How Highest Governance Body Manages Sustainability Topics

G3.1	G4
Company's purpose, values, strategy	Highest governance body's role in setting purpose, values and strategy
Procedures for highest governing body's oversight of sustainability issues	Process for highest governance body's delegation of authority on sustainability topics
Mechanism for contacting highest governance body	Processes for consultation between stakeholders and the highest governance body
Composition of highest governance body	Stakeholder representation on highest governance body
Process for evaluating the highest governing body's own performance	Highest governance body's members' qualifications, experience, expertise and training on sustainability, number of sustainability complaints filed with the highest governance body, clawbacks, compensation, performance-based pay, ... (see DI 31 – DI 68).

# Governance – G4 Solution

## New focus on executive evaluation

G3/G3.1	G4
<p><b>4.17</b> Key topics and concerns that have been raised through stakeholder engagement, and how <b>the organization has responded</b> to those key topics and concerns, including through its reporting.</p>	<p><b>DI 49</b> Report whether stakeholder consultation is used to support <b>the highest governance body's identification and management</b> of economic, environmental, and social risks and opportunities.</p>
<p><b>4.10</b> Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.</p>	<p><b>DI 46</b> Describe processes for evaluation of the highest governance body's performance with respect to governance, the organization's codes of conduct, and economic, environmental, and social topics.</p> <p><b>State whether such evaluation is independent or not, and its frequency.</b></p>

## More specific definitions

### **HIGHEST GOVERNANCE BODY**

The formalized group of persons charged with ultimate authority in an organization. In instances where the highest governance body consists of two tiers, both tiers should be included when responding to GRI disclosures.

### **SENIOR EXECUTIVE**

A top ranking member of the management of an organization that includes a Chief Executive Officer (CEO) and individuals reporting directly to the CEO or the highest governance body. Individual organizations define which members of their management teams are senior executives.

### **CLAWBACK**

A repayment of previously received compensation required to be made by an executive to his or her employer in the event certain conditions of employment or goals are not met. Annual total compensation includes: salary, bonus, stock awards, option awards, non-equity incentive plan compensation, change in pension value and nonqualified deferred compensation earnings, all other compensation.

### **UNDER-REPRESENTED SOCIAL GROUP**

A population that, relative to its numbers in a given society, has less opportunity to express its economic, social, or political needs and views.

## G4 Exposure Draft

- Application Levels
- Boundary
- Governance & Remuneration
- **Disclosure on Management Approach**
  - Detailed guidance now provided
- Supply Chain

## G3.1

### Disclosure on Management Approach (DMA)

*required for Application Level B or higher*

For every **aspect**, disclose:

- Goals & Performance
- Policy
- Organizational Responsibility
- Training & Awareness
- Monitoring & Follow-up
- Contextual Information

Companies have always needed to provide a disclosure on management approach for all material aspects.

## G3.1

The DMA has always been the essay question within the GRI framework. As such, there is not very much comparability between one company's answer and another.

Generally, the DMAs can be vague descriptions of **initiatives** and **policies** that do not necessarily explain **why** the topic needs to be managed. Elements of self-evaluation of existing policies were also usually missing from a disclosure on management approach.

The G4 Disclosure on Management Approach asks companies to make explicit:

1. What the material topic is
2. Why the topic is material
3. How the topic is managed
4. How management approach is monitored, evaluated, and adjusted

In G4, companies are asked to specify whether the management approach is intended to avoid, mitigate, or remediate negative material impacts, or enhance positive material impacts.

In G4, companies are asked to provide a more detailed disclosure on management approach for topics with highly significant impacts and to combine the DMA for groups of Aspects where there is a common management approach.

## Detailed Guidance

G4 Guidance for Disclosures on...	Examples
Policy	The date of issue and last review date
Commitments	Whether the commitment is based on regulatory compliance or extends beyond it
Goals	The expected timeline for achieving each goal
Responsibilities	Who is assigned responsibility for managing the material topic
Resources	Identify the resources allocated for managing the material topic and explain the rationale for the allocation.
Specific Actions	How actions are prioritized
Challenges and Dilemmas	The organization's handling of conflicting requirements and stakeholder expectations

## Self-Evaluation of Management Approach

G4 has also added an entirely new disclosure (D4) requiring disclosure of how the effectiveness of the management approach is monitored and evaluated. Report the results and the related adjustments to the management approach.

The DMA for each of the particular aspects requests much more detail on **stakeholder engagement** and **value chain impact assessment**.

## G4 Exposure Draft

- Application Levels
- Boundary
- Governance & Remuneration
- Disclosure on Management Approach
- **Supply Chain**
  - New Definitions
  - New and Revised Profile Disclosures
  - New and Revised Aspects, Indicators

# Supply Chain – Where We Are (G3.1)

## G3.1

In G3/G3.1, the GRI framework has always asked companies to report on their supply chains within the Disclosure on Management Approach.

“Procedures related to monitoring and corrective and preventive actions, including those related to the supply chain. List of certifications for performance or certification systems, or other approaches to auditing/verification for the reporting organization or its supply chain.”

In G3/G3.1, a company’s supply chain was also addressed in the indicators related to:

- Local spending
- Indirect economic impacts
- Human rights screening of significant suppliers in the supply chain

## G3.1

Similar to the concerns mentioned above about boundary, companies are focused on their suppliers only insofar as they can **get report content** from the entity in their supply chain.

Because of this approach, a GRI reporter's suppliers were seen as **entities to be sent surveys and approached for information**. One of the goals once mentioned by GRI in relation to the G4 framework (though not stated in this exposure draft) was to attempt to reduce **survey fatigue**.

In G3/G3.1, GRI gave little to no guidance on how to report on one's supply chain and the topic only comes up regarding specific topics. The reader of a GRI report does not get a **full picture** of a company's full supply chain.

## New Definitions

### **SUPPLY CHAIN**

The part of the value chain which consists of the sequence of suppliers and activities that provides materials, products or services to an organization.

### **SUPPLIER**

An organization or person that provides materials, products or services directly or indirectly to another organization. A specific definition of each type of supplier is also included in G4:

- Brokers
- Consultants
- Contractors
- Distributors
- Home workers
- Independent contractors
- Primary producers
- Wholesalers
- Sub-contractors

## New Profile Disclosure

**DI 12:** Describe the organization's supply chain.

1. Total number of suppliers
2. Total monetary value and/or volume of materials, products and services purchased directly from suppliers, broken down by:
  - a. The types of materials, products and services provided by suppliers that are used for the organization's primary brands, products and/or services, as reported under DI 4 (primary brands and services)
  - b. Types of suppliers
  - c. Location of suppliers by country and/or region. Where it will provide appropriate context on relevant risks and impacts, identify the location of suppliers within a country. List those suppliers that are located in weak governance zones and Export Processing Zones (also called Special Economic Zones or Free Trade Zones).

## Revisions to Profile Disclosures

Impact on the supply chain explicitly added within:

- CEO letter (now includes impacts resulting from relationships with suppliers)
- Changes to size, structure, leadership (now includes changes in suppliers)
- Approaches to stakeholder engagement (now includes supplier satisfaction surveys)

## New DMA Guidance – Report or Explain if Material

Disclosure on Management Approach (now includes detailed, specific guidance on how to disclose management of your supply chain). “For specific actions related to the supply chain, explain practices for:

**Supplier selection;** list the economic, environmental and social criteria used when selecting new suppliers; and describe how the use of these criteria is encouraged within the organization

**Supplier management;** explain how expectations are established and defined in contracts with suppliers to promote improvement in economic, environmental and social performance (including targets and objectives); how suppliers are incentivized and rewarded for economic, environmental and social performance; and feedback and dialogue mechanisms for suppliers

**Product and service design;** identify changes, and describe their outcomes and progress

**Certifying and auditing suppliers;** list the type, system, scope, frequency and current status of certification and audit

**Supplier termination;** describe systems in place to assess the potential economic, environmental and social impacts of terminating a relationship with a supplier, and strategy to mitigate the impacts”

## New Indicators – Report or Explain if Material

Environmental, Labor Practices, Society and Human Rights categories are each getting an additional Aspect (Screening and Assessment) and additional set of Indicators asking for:

- Percentage of new suppliers and other business partners screened for environmental/labor/society/human rights performance, and actions taken
- Percentage of existing suppliers and other business partners identified as having actual and potential adverse impacts on the environment/labor/society/human rights and actions taken
- Number of grievances about environmental/labor/society/human rights impacts filed, addressed, and resolved through formal grievance mechanisms, including those filed by suppliers

## New Indicators – Report or Explain if Material

Category: Economic

Aspect: Procurement Practices

- **CORE G4 1** Spending on suppliers with which long-term agreements exist
- **CORE G4 2** Percentage of suppliers with which orders were placed for the first time during the reporting period
- **CORE G4 3** Time taken to pay suppliers
- **ADD G4 4** Percentage of monetary value of each type of materials, products and services purchased that have been verified or certified as being in accordance with credible, widely-recognized economic, environmental and social standards

# Behind the Scenes of a GRI Report

G3.1



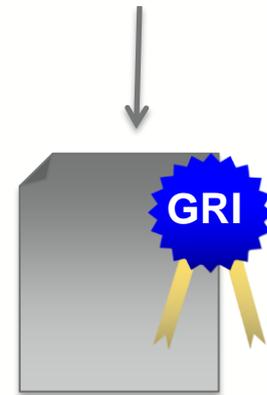
Leaders



Warriors



Laggards



# Behind the Scenes of a GRI Report

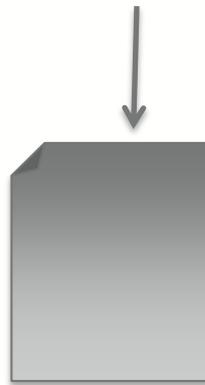
G4



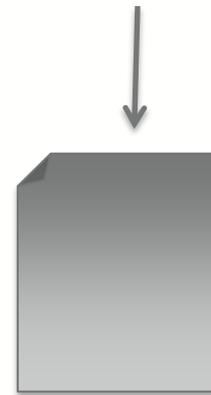
Leaders



Warriors



Laggards



# Behind the Scenes of a GRI Report

G4



Leaders



Warriors



For warriors, GRI offers a little help from the top...

Any step toward GRI reporting requires highest governance body to understand risks, opportunities and materiality.

## What to read within the G4 Exposure Draft:

- Read Technical Protocol in its entirety (pp.290-310).
- Carefully review all profile disclosures (labeled “DI” – DI 1, DI 2, etc. pp. 26-40).
- Do a search for “stakeholder” and carefully review places where it has been added.

## Begin preparing for G4:

- Start mapping value chain and supply chain.
- Evaluate the highest governance body.
- Ensure that a robust stakeholder engagement process is established.
- Evaluate materiality assessment to ensure that it involves both internal and external constituents.
- Do a thorough analysis of risks and opportunities.
- Begin using standard definitions of key terms.
- Begin prioritizing impacts within your supply chain.

## Sustainability and Corporate Responsibility Advisors

### CONSULTING

We **advise** you on your journey

- Sustainability Strategy
- Goal Setting
- Materiality
- Stakeholder Engagement
- Research and Analysis
- Facilitation

### COMMUNICATIONS

We help you **communicate** your successes

- Stakeholder Communications
- Branding
- Sustainability Reporting
- Community Outreach

### TRAINING

We **train** you/your team along the journey

- Executive Sessions
- Customized Employee Sessions
- Open Enrollment Classes
- Webinars

**BrownFlynn** is a corporate responsibility and sustainability consulting firm advising companies on:

- Integrating responsible practices into their business strategies
- Communicating these practices internally and externally for bottom-line impact
- Training to build skills and engage associates

# Thank You

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