



cutting through complexity

Bridging the gap between Integrated and GRI G4 Reporting

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OVERVIEW

This article aims to provide an understanding of the interactions between Integrated Reporting (as presented by the International Integrated Reporting Council (IIRC)) and Sustainability Reporting as presented by the Global Reporting Initiative (GRI). We consider the current reporting landscape and analyse the objectives of the two reporting frameworks. We demonstrate how value creation is central to the successful implementation of both and how one reporting process and producing one primary report could meet the objectives of both the IIRC and GRI G4 Frameworks.

The article has been presented as follows:

We provide a synopsis of the current reporting landscape and then take the reader through building a bridge between <IR> and GRI G4 including the analysis of:

01.
Materiality definitions

02.
Reporting Principles

03.
Report Content Elements

04.
G4 Reporting Options

05.
Reporting Boundaries

06.
Conclusions reached

REPORTING LANDSCAPE

The GRI launched its fourth generation of sustainability reporting guidelines (“G4” or “the Guidelines”) in May 2013. GRI has become the de facto sustainability reporting guideline recognised internationally. The results of the KPMG 2013 International Corporate Responsibility Reporting Survey revealed that 82 percent of G250 companies that report on sustainability/corporate responsibility refer to the GRI guidelines as opposed to 78 percent in 2011.¹

Companies all over the world including South Africa have used the GRI reporting guidelines to guide content for their sustainability reports. The most used and outgoing versions of the Guidelines (G3 and G3.1) had been criticised for being a “disclosure checklist” of social, environmental and economic performance. G3/G3.1 was seen to promote a “tick-box mentality” as opposed to being a meaningful and focused reporting tool to bring about true sustainability practices within organisations. In light of this, the main objective of G4 is “to help reporters prepare sustainability reports that matter, contain valuable information about the organisation’s most critical sustainability-related issues”². G4 puts materiality centre stage throughout these revised Guidelines.

Running parallel to these new GRI developments have been the efforts of the IIRC. In December 2013, after more than two years of public consultation and development, the IIRC launched the Final International Integrated Reporting <IR> Framework V1.0. The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. It therefore contains relevant information, both financial and other.³

In South Africa all JSE listed companies are required, on an apply or explain basis, to produce an Annual Integrated Report as part of the recommended principles and practices outlined in the King III Code of Corporate Governance since as early as February 2011. As a result, South Africa has led the way in integrated reporting. In practice, many South African companies have over the past few years produced a separate sustainability report or included sustainability information as part of their annual integrated report.

¹ The research sample included the top 250 companies listed in the Fortune Global 500 ranking for 2012- measured by revenue.

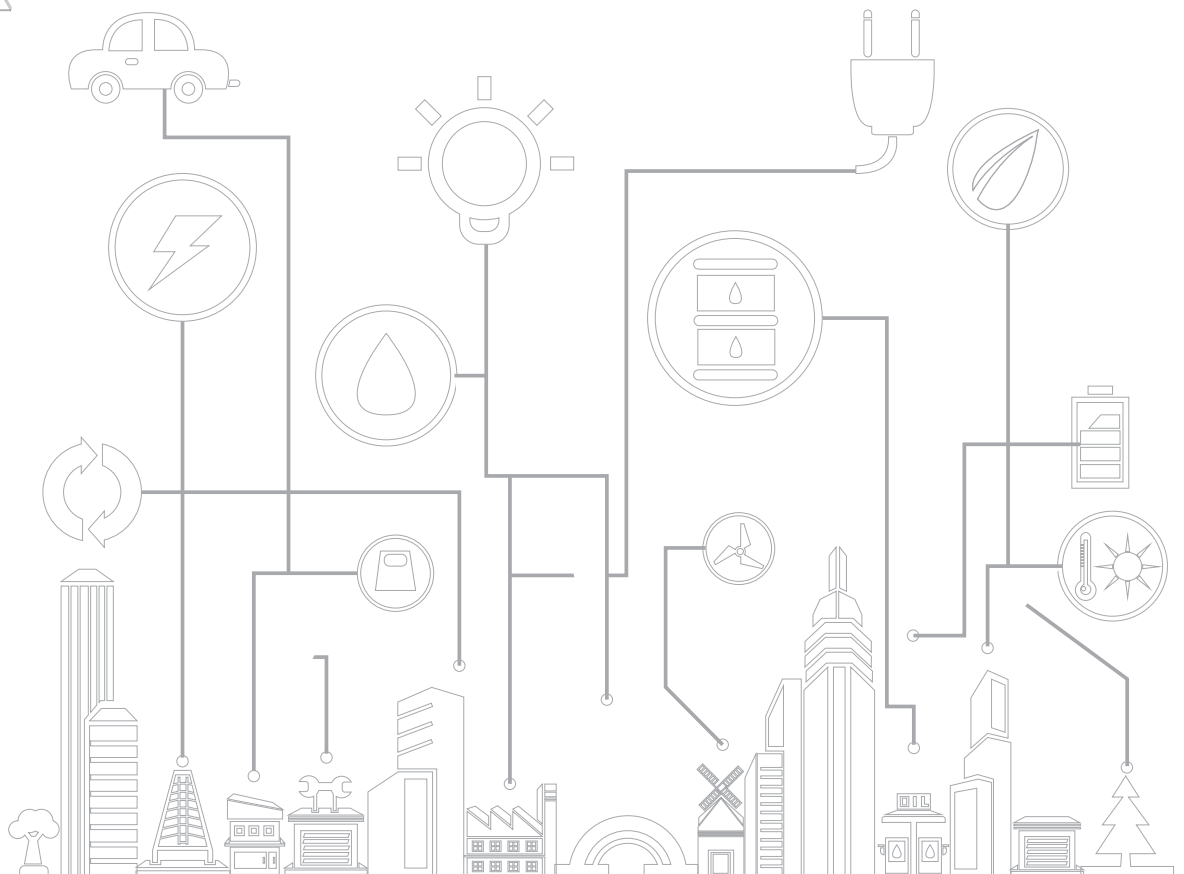
² GRI G4 Part 1: Reporting Principles and Standard Disclosures Preface.

³ IIRC International Integrated Reporting Framework V1.0, [Section 1C.1.7]

BUILDING A BRIDGE: <IR> AND GRI G4

In light of G4's move towards a materiality driven process, the natural question for organisations would be "Can we have one reporting process and produce one primary report (supplemented by other reports where needed⁴) that will meet the requirements of both G4 and <IR>? Surely if both focus on materiality, one can focus the reporting process on producing one primary report?"

KPMG believes that the two frameworks have many complementary aspects, which we will highlight in this article. We believe that the starting point of alignment, is to find the common ground in what each of the two frameworks define as materiality. Both frameworks emphasise that materiality is the cornerstone of the report and therefore it is imperative to have a common starting point. KPMG has analysed the two materiality definitions and we believe that if value creation is the common denominator to filter material topics then a bridge can be established between the two definitions. This is not a perfect solution and each organisation will need to take a stance on their definition and application of materiality and clearly articulate this in their philosophy and approach to reporting.



01.

Materiality definitions

<IR>

The <IR> Framework defines materiality as follows:

AN INTEGRATED REPORT SHOULD DISCLOSE INFORMATION ABOUT MATTERS THAT SUBSTANTIVELY AFFECT THE ORGANISATION'S ABILITY TO CREATE VALUE OVER THE SHORT, MEDIUM AND LONG TERM [SECTION 3D.3.17].

The <IR> Framework further clarifies this definition with these concepts:

- Value has two interrelated aspects – value created for:
 - The organisation itself, which enables financial returns to the providers of financial capital
 - Others (i.e. stakeholders and society at large) [section 2B.2.4]
- The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. It therefore contains relevant information, both financial and other [section 1C.1.7]
- An integrated report benefits all stakeholders interested in an organisation's ability to create value over time. [section 1C.1.8]
- The ability of an organisation to create value for itself is linked to the value it creates for others. [section 2B.2.6]
- Providers of financial capital are interested in the value an organisation creates for itself. They are also interested in the value an organisation creates for others when it affects the ability of the organisation to create value for itself, or relates to a stated objective of the organisation (e.g., an explicit social purpose) that affects their assessments. [section 2B 2.5]

It can be seen that an integrated report is founded on value creation. Value creation extends beyond just financial returns and thus appeals to a wide range of stakeholders.

The <IR> Materiality definition appreciates that the interests of providers of financial capital are not limited to

⁴ Both the IIRC and GRI Frameworks offer some latitude in presenting information which is pertinent to its users. As a result the GRI G4 Part 1: Reporting Principles and Standard Disclosures Preface, section 3.2, provides guidance on reporting required standard disclosures by using references to other reports. While the <IR> Framework through section 1E outlines guidance on the form of report and relationship with other information.

⁵ GRI G4 Part 1: Reporting Principles and Standard Disclosures Preface, section 4.1

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only the traditional financial indicators (e.g. EBITDA, Return on equity). Rather, the mature approach appreciates that sustainable value creation extends beyond short term financial performance and must include consideration of social, environmental and economic performance, which span the medium to long term horizon. For example, the social issue of an incapacitated workforce in labour intensive industries will have significant financial implication on productivity, or energy usage for energy intensive industries will have significant financial implications through electricity tariff increases compounded by impending carbon taxes.

As recent headlines indicate, South Africa faces future water shortages, few companies have considered the cost and logistical impact of this on their production processes; perhaps a hydro-tax may also become one of several "environmental" taxes that attempt to balance supply and demand of our finite natural resources.

G4

Materiality is not a new concept under the GRI Guidelines, the principle remains the same as in G3/G3.1 but there is now clearer focus and revised guidance in the application of the materiality principle, G4 makes more explicit links between materiality and the management and performance information which organisations should report. The G4 materiality definition is split into two parts.

The report should cover Aspects that:

- REFLECT THE ORGANISATION'S SIGNIFICANT ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACTS; OR
- SUBSTANTIVELY INFLUENCE THE ASSESSMENTS AND DECISIONS OF STAKEHOLDERS⁵

Meeting either one of the conditions would deem an aspect material.

Consideration of both G4 and <IR>

Part 1 of the G4 materiality definition:

The report should cover Aspects that reflect the organisation's **significant** economic, environmental and social **impacts**" [GRI G4 Part 2: Implementation Manual: section 3.1].

The <IR> materiality definition refers to "substantively affect", whilst the G4 definition refers to "significant ... impacts", which we consider to be synonymous terms provided they are from the organisation's perspective of value creation.

Secondly, significant economic, environmental and social impacts of an organisation would clearly have an impact in that organisation's ability to create value.

Part 2 of the G4 materiality definition:

"The report should cover aspects that substantively influence the assessments and decisions of stakeholders." [GRI G4 Part 2: Implementation Manual: section 3.1].

One would need to clarify what the subject matter of such decisions and assessments by stakeholders would reasonably be. G4 defines stakeholders as entities or individuals that can reasonably be expected to be:

- Significantly affected by the organisations activities, products or services; and ⁶
- Whose actions can reasonably be expected to affect the ability of the organisation to successfully implement its strategies and achieve its objectives. [GRI G4 Part 2: Implementation Manual: section 3.1]

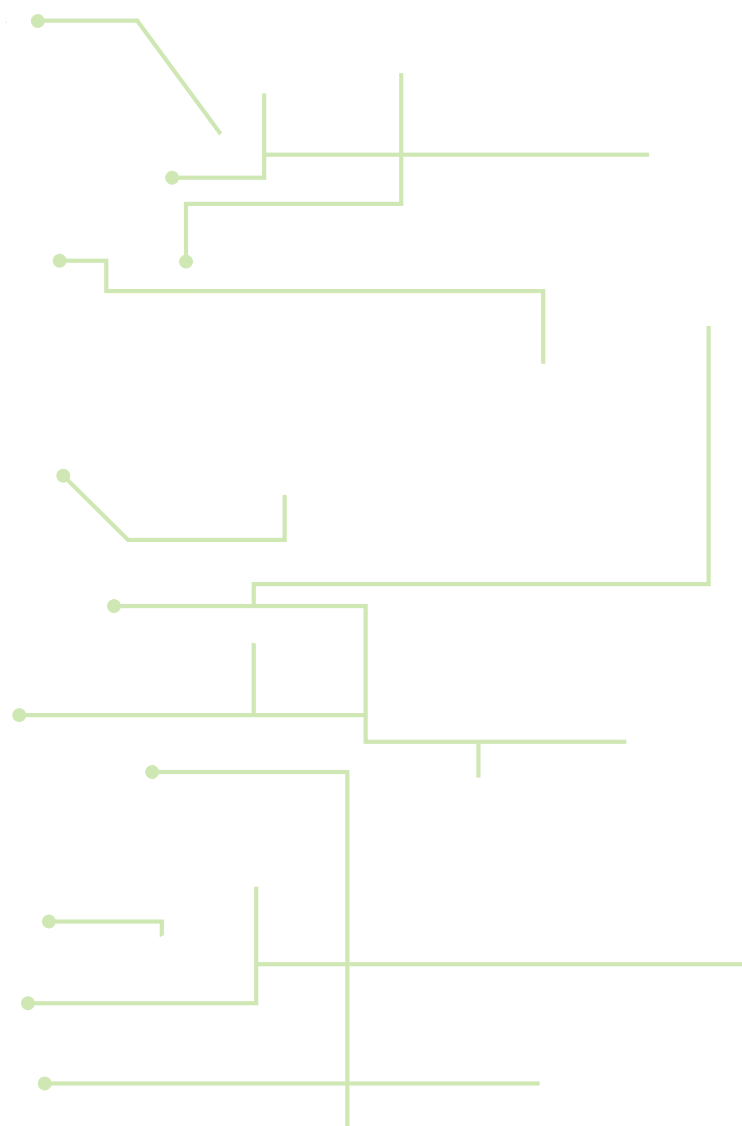
If a stakeholder is taken to be a party significantly affected by an aspect, and whose actions with regard to that aspect will affect the ability of the organisation to implement strategy, in line with this observation we infer that the second part of the definition could be completed as follows: "The report should cover aspects that substantively influence the assessments and decisions of stakeholders about the organisation's ability to create value with respect to that aspect."

All organisations ultimately exist to create value and this is inherent in their strategic objectives and business strategies. The successful implementation of a sustainable business strategy will lead to value creation. As explained above, a clear bridge can be established between G4 and <IR> if strategy implementation and ultimately a value creation lens

is applied when determining material matters or aspects to report on.

Other Considerations

Once past the Materiality hurdle, the most fundamental basis of achieving a synchronised GRI and <IR> reporting process, the frameworks show significant correlation in other areas as demonstrated below.



⁶ It is worth noting that the collective inclusion of the second part of the stakeholder definition through the 'and' is a change from the previous G3/G3.1 definition of stakeholders which then made the two parts of the stakeholders definition mutually exclusive through the use of 'or' in the old definition. We see this change in the definition as alignment with the value creation and materiality fundamentals.

02.

Reporting Principles

Both the G4 and the <IR> Frameworks are guided by and are fundamentally principles based. These principles guide the content of reporting and the presentation of information. When comparing the principles in G4 and the <IR> Frameworks there is significant alignment. The table below maps out the principles under each framework and their alignment:

	<IR>	GRI G4
Content	Strategic focus and future orientation	Sustainability Context
	Materiality & Conciseness	Materiality
	Completeness	Completeness
	Stakeholder Relationships	Stakeholder Inclusiveness
Quality	Reliability	Reliability
		Timeliness
		Accuracy
		Balance
	Comparability, Consistency	Comparability
	Clarity	
	Connectivity of information	

To a large extent the reporting principles of <IR> and G4 are aligned and aim to achieve similar outcomes in reporting. A more in depth analysis of the principles demonstrates that the principles presented in <IR> and G4 are largely consistent.

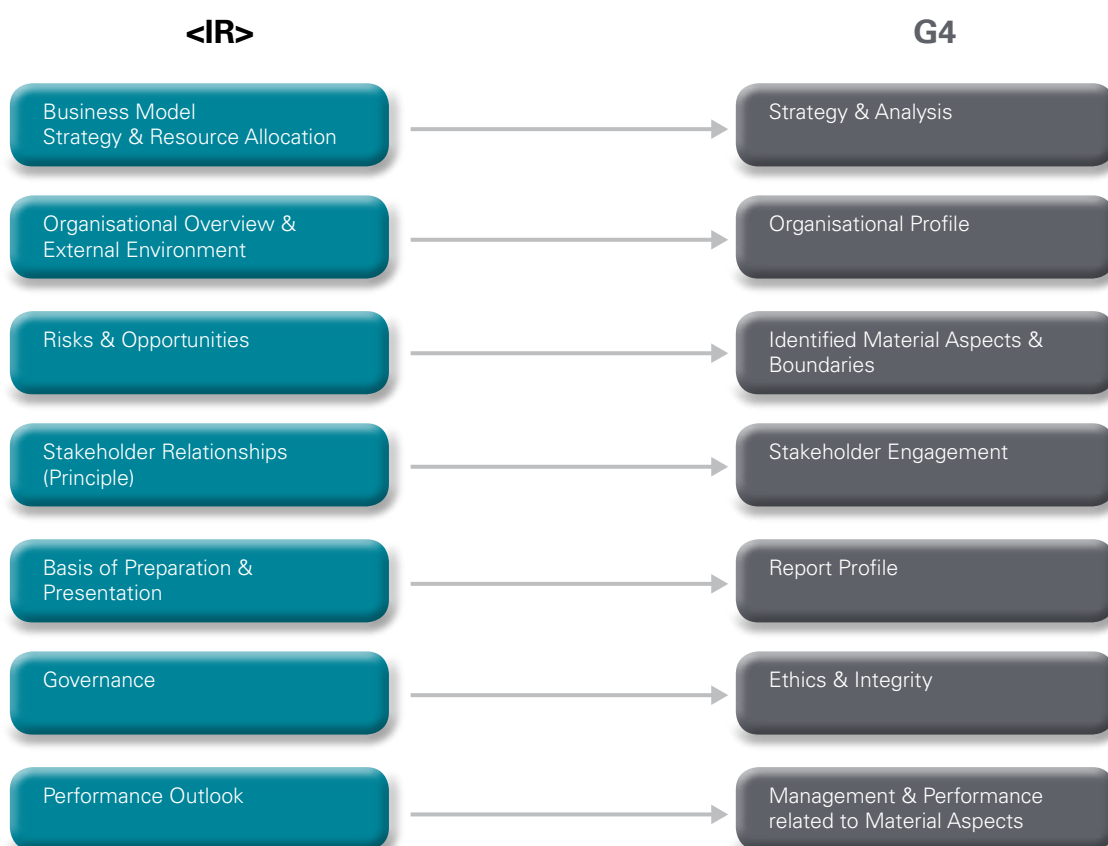
For principles marked in red above, we do not see their ostensible absence in the counter framework as deviations but rather that they are as relevant and complimentary to <IR> as they are to GRI and will make for better business reporting. For example The <IR> Framework emphasises connectivity of information through the dependencies between the components that are material to the organisation’s ability to create value. Connectivity of information may not necessarily be addressed by G4, however if applied will provide better context for stakeholders.

03.

Report Content Elements

Both the G4 Guidelines and <IR> Framework provide guidance on contents of the report. A distinction between the two is that <IR> expressly states that the Content Elements are not intended to serve as a standard structure and checklist of specific disclosures but rather as probing questions that management needs to consider when deciding on report content. G4 on the other hand, expressly requires Standard Disclosures to be made.

There is significant alignment between the Content Elements and Standard Disclosures of <IR> and G4 respectively as demonstrated by the diagram below:



Again as was the case for the principles, whilst there may be different levels of emphasis on different items, we believe that in substance the G4 and <IR> content elements are complementary and largely aligned.

04.

G4 Reporting Options

G4 provides two “in accordance with” reporting options, Core and Comprehensive. These options replace the previous GRI Application Levels. To prepare a report ‘In Accordance’ with the G4 Guidelines, organisations must:

- Focus on material issues (‘Aspects’) and include Disclosure on Management Approach for all Material Aspects
- Report on at least one indicator per Material Aspect to meet the Core level, and include all relevant indicators for all Material Aspects to meet the Comprehensive level
- Report on General Standard Disclosures such as organisational profile, stakeholder engagement and governance to meet the Core level. Additional disclosures on strategy, governance and ethics and integrity are required to meet the Comprehensive level

Each option can be applied by all organisations, regardless of their size, sector or location. Whether the Core or Comprehensive in accordance option is chosen is a matter of business case. The option chosen does not have bearing on the quality of the report or to the performance of the organisation but rather the extent of disclosure.

We believe that a Core GRI Report aligns well with an integrated report, on the basis that the Core option focuses on material matters with a limited amount of Standard Disclosures. The extensive disclosure requirements for a Comprehensive GRI Report may not necessarily align with the conciseness and connectivity principles of an integrated report and will probably necessitate either a separate stand-alone sustainability report or refer superfluous disclosures to supplementary reports.

Under both Frameworks there is flexibility on extent of reporting. With reference to <IR>, if the report is required to include specified information beyond that required by the <IR> Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by the <IR> Framework. For example, <IR> does permit the inclusion of additional information so that the report can fulfil other regulatory purposes. G4 also allows for information to be disclosed in supplementary reports or referenced to other reports (e.g. remuneration report).

05.

Reporting Boundaries

<IR>

Determining the boundary for an integrated report has two aspects:

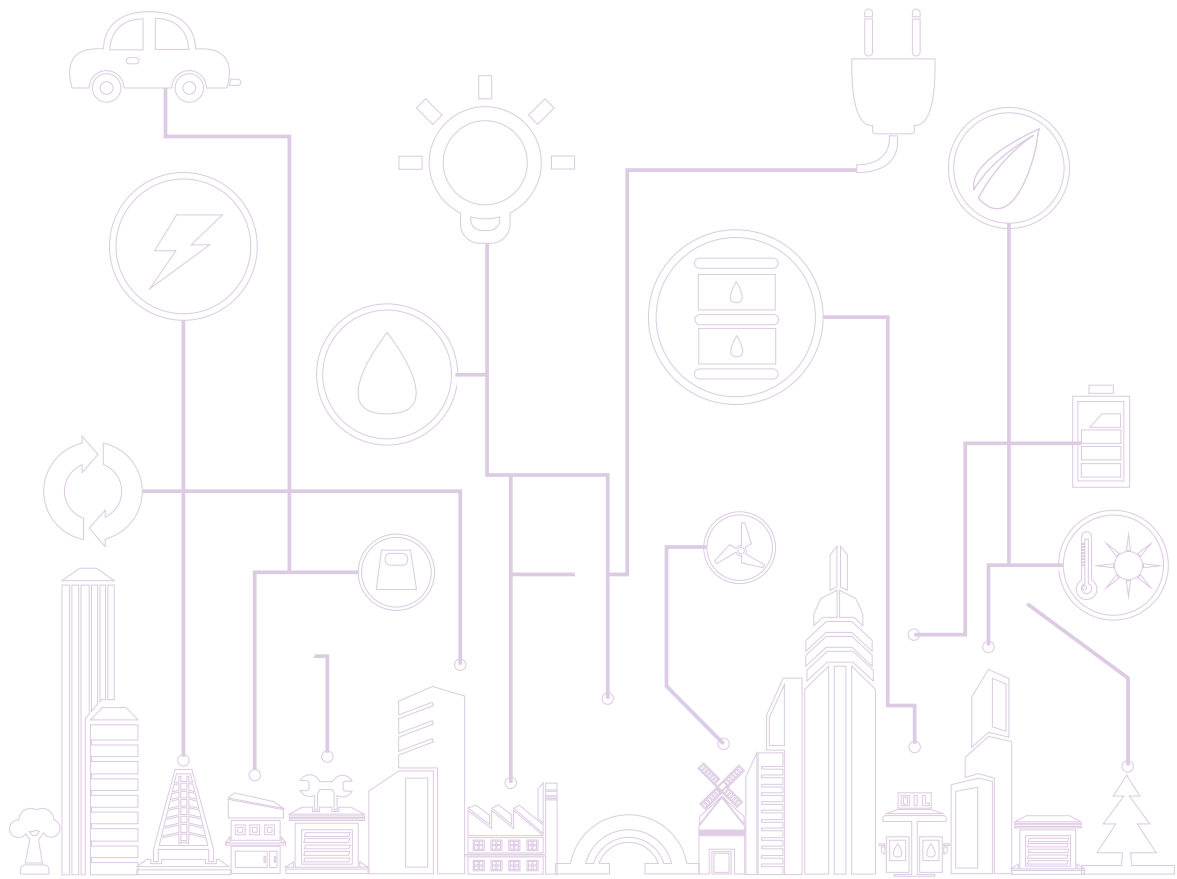
- The boundary used for financial reporting purposes: the financial reporting entity-concepts of control or significant influence.
- Opportunities, risks and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a material effect on the ability of the financial reporting entity to create value over time. [section 3D 3.30]

G4

Boundary refers to the description of where impacts occur for each Material Aspect. In setting the boundaries, an organisation should consider impacts within and outside of the organisation i.e. value chain impacts. This broader boundary concept is emphasised in G4. Even though G3/ G3.1 made reference to value chain impacts, organisations tended to limit their reporting boundary to the financial reporting concepts of control and significant influence. Under G4, to avoid the risk of casting the net too wide, reporters need to apply the Materiality definition when considering which value chain impacts they should report on.

As can be seen the boundary definitions of G4 and <IR> align as they both look beyond the organisation and into the value chain, when assessing material matters on which to report.





06.

Conclusions reached

One can argue that the GRI G4 guidelines still produce a report that is overly focused on traditional sustainability performance (environmental and social) whereas the <IR> Framework produces a report that is overly focused on the needs of providers of financial capital. We believe both these viewpoints are narrow interpretations. The right question would be not whether something is a sustainability or financial issue but rather on whether the issue creates or destroys value for the business.

The material matters that the G4 and <IR> report should focus on, should be those that are on the Board's and executive management's agenda that cause them to make strategic decisions to ensure that the business creates and sustains value in the short, medium and long term.

We have seen how the principles, content elements and reporting boundaries of the two frameworks are aligned. The common driver for both G4 and <IR> is value creation and materiality which should be the overarching filter

when defining report content. There is no straight forward solution to directly reconcile the two materiality definitions, each organisation will need to develop their own approach to aligning the materiality definitions and articulate this approach clearly in its integrated report.

If value creation is the lens for reporting, we believe one reporting process can meet both the G4 and <IR> requirements. This "one reporting process" will allow organisations to achieve the concept of integrated thinking and simultaneous implementation of G4 and <IR>.

Reporting will focus on one set of material issues, strategic responses thereto and performance thereon. It is no longer about <IR> or Sustainability reporting but better business reporting based on the ability of businesses to create and sustain value. *Change isn't easy but it is inevitable.*



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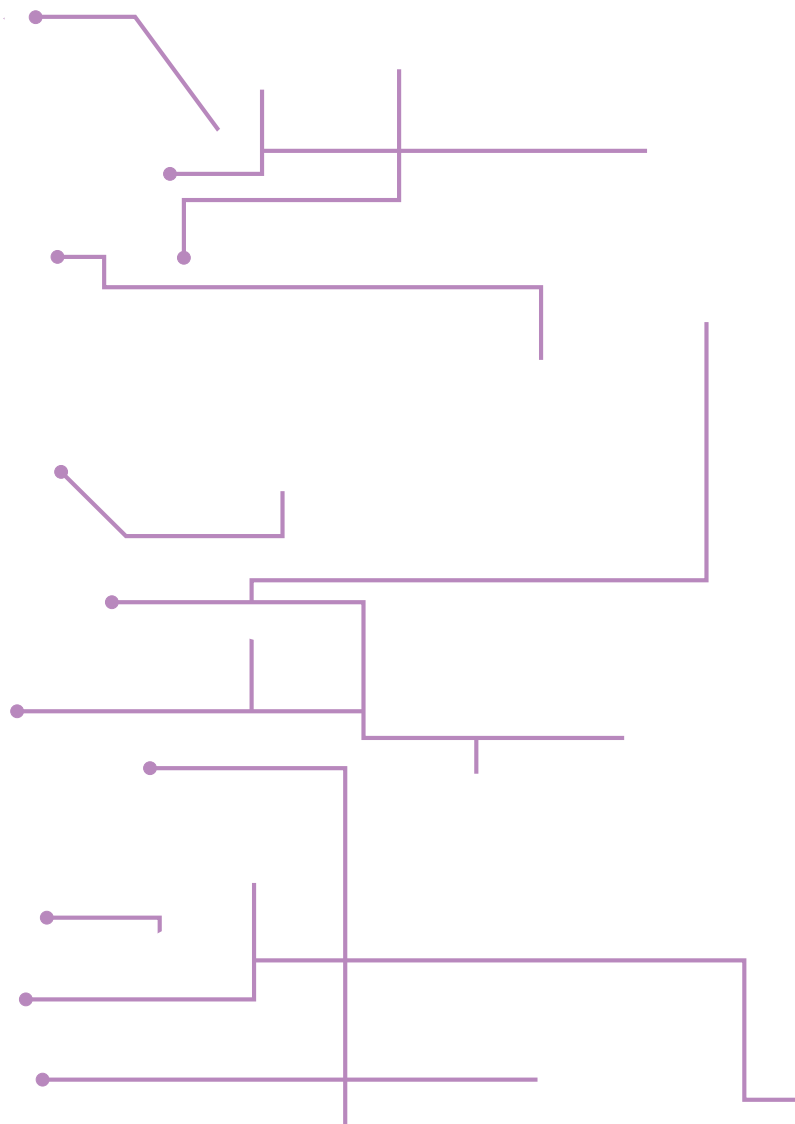
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