

## **G3: Improved, but still improvable!**

### **Suggestions to the G3-Guidelines derived from a comparison with the German Ranking of Sustainability Reports**

*by Thomas Loew and Jens Clausen<sup>1</sup>*

#### **1 Introduction**

The new draft G3-guidelines represent an important step forward both in quality and accessibility of the GRI-framework. The final G3 will represent the main international guidance for sustainability reporters for at least the next 5 years. But GRI's guidelines they are not the only guidance. Some national and sector documents are also important in developing sustainability reports.

In Germany, a national ranking of sustainability reports is published regularly in the business magazine CAPITAL. The first such ranking took place in 1994 with a ranking of environmental reports. Since then the criteria have been discussed intensively with business and stakeholders. In 2004/05 the fifth ranking was carried out, redesigned for sustainability reports. Both results and the detailed evaluation methodology are available at [www.ranking-nachhaltigkeitsberichte.de](http://www.ranking-nachhaltigkeitsberichte.de).

In order to compare the German Ranking with the draft G3 we imagined a report that ideally fulfils all requirements of GRI's new draft and evaluated it against the ranking criteria. This virtual report scored 522 out of 700 possible points using the German evaluation method (see annex). This means, that a report prepared ideally according the draft G3 would have won the most recent German Ranking in 2004/2005. At that time the highest score of 494 points was achieved by Henkel's 2004 sustainability report. On the other hand G3 falls some way short of the maximum 700 points.

A comparison of the two reporting frameworks reveals shortcomings in both the draft G3 guidelines and the German Ranking criteria. In this paper, we focus on suggestions to GRI how to improve G3.

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<sup>1</sup> We are very thankful for the critical comments and suggestions from Sabine Braun akzente, Munich and Paul Scott, CorporateRegister.com, London.

## 2 Missing Aspects and Indicators

**Environmental aspects in the supply chain:** First things first: We are quite concerned that there is no G3 requirement to report on the management of environmental aspects in the supply chain. Of course the actual discussion focuses on labour conditions, which in many cases are in definite need of urgent action. But looking at the environmental situation, e.g. in China, it is obvious that environmental improvements in the supply chain are also necessary. Concerning this aspect, business practice is ahead of GRI. Already many companies in the automotive, chemical and other industries require certain levels of environmental performance and management from their suppliers. So we urge GRI to add this aspect and a set of suitable indicators.

**Fair business relations:** Even assuming that environmental and social aspects of supply chain management have been adequately dealt with there is still more to be done. It is important to promote fair international business partnerships in order that developing countries build up intact economies that do not only serve the world market as cheap sources of labour and materials'. Also the OECD Guidelines for Multinational Enterprises consider fair partnerships in its section on science and technology. In general, companies are asked to contribute to the development of local and national innovative capacity where appropriate.

**Measures to promote employment:** The draft G3 only asks for the total number of employee turnover (LA2). But it is important to distinguish between employees leaving their workplace voluntarily, and those dismissed e.g. for reasons of profit maximisation. Therefore it is necessary to report on dismissals and provide background information on such issues as significant conflicts between employers and employees, measures to avoid dismissals and the effects of production transfers to other countries.

**Working time:** Information on modern working time agreements is missing. Modern working time encompasses flexible working times, sabbaticals, teleworking, annual work time accounts. There are working time models for all employees as well as considerations for special target groups such as parents, shift workers, elderly employees or the handicapped. Flexible working times prove to be important for competitiveness as well as for the work-life-balance of employees, diversity etc.

**Ownership:** The G3-guidelines only ask for "nature of ownership and legal form". To understand many international corporations and their policies it is also necessary to disclose information about major shareholders and the structure of share ownership.

**External information:** The G3 guidelines have a strong focus on stakeholder engagement. But one important aspect is missing. It should be recommended that companies make links to third party information relevant for understanding and assessing sustainability issues and company behaviour. In many cases, large companies could draw links to critical viewpoints and to information available from the different associations and partnerships in which the company is a member to promote sustainability.

### 3 Structure to be brought into line with business functions

From our point of view the way the set of indicators is structured has two major shortcomings.

1. Several of the human rights indicators address different business functions. The indicators (HR4, 5, 6, 7, 10) are important for supply chain managers as well as for the employee relationships within the firm. Others indicators are only applicable to suppliers (HR 1, 2, 8) and a third group only for internal management (HR 3, 9). One resulting problem is that the not all aspects of labour practices are can be found in the section LA Labour Practices and Decent Work. Some of them have to be picked up in the Human Rights section. A second problem is that sustainability issues in the supply chain are not exclusively related to human rights. Hence the sustainability issues of the supply chain are incomplete, e.g. the missing environmental aspects and also fair business relations.
2. Many experts consider product related environmental aspects even more important then site related ones. Clearly, this depends on the industry sector. But environmental product responsibility is obviously somewhat neglected. The four product related indicators EN 7, EN 8, EN 26 and EN 27 are somewhat submerged amongst 26 environmental site-related indicators.

We propose to re-structure the set of indicators according to business functions. This could be done in the following way (see table 1):

Table 1: Framework for sustainability measures in business

<i>business function</i>	<i>aspects / G3 indicators</i>	
<b>management</b>	<b>strategy and management systems</b> <i>G3-disclosure items 1 to 4</i>	
<b>production</b>	<b>environmental protection in production</b> <i>G3-indicators EN excluding EN 7,8,26 and 27</i>	<b>employee interests</b> <i>G3-indicators LA and HR 3 to 7, 9 and 10</i>
<b>product</b> (→ product design and sales)	<b>environmental product design</b> <i>G3-indicators EN 7, 8, 26 and 27</i>	<b>customers interests</b> <i>G3-indicators PR</i>
<b>purchase</b>	<b>social and environmental aspects in the supply chain</b> <i>G3-indicators HR excluding HR 3 and 9, to be extended by some indicators for suppliers environmental performance</i>	
<b>Others referring to society and economy</b>	<b>corporate citizenship:</b> (donations, volunteering, ...) <b>fair competition,</b> fair lobbying, tax payment <i>G3-indicators SO</i>	

The table makes clear that the existing structure of the G3 set of indicators is quite close to what we suggest. We think it should be brought into line with business functions. One possibility would be improving the structure within each sustainability

dimension. Doing so would bring the G3 structure closer the structure of representative sustainability reports. Also it would be easier to communicate the indicators within the company.

## **4 Further Recommendations**

### **Some Indicators too much?**

We did not spend so much effort identifying indicators which might be deleted in G3. This is a difficult task, as a reasonable case can be made for the inclusion of each indicator. Still we hope that there are some proposals because it would be helpful to reduce the number of indicators.

Our suggestion refers to the important issue of biodiversity. Our experience in German indicates that for many companies, impact on biodiversity is negligible, and biodiversity is therefore not a significant sustainability indicator for them. Therefore we were surprised to see that four indicators, EN 12 to EN 16, focus this issue. Biodiversity is a significant indicator for companies that are owners of large areas of land. But most companies are not. On the other hand, the impact on agro-biodiversity arising from the standardised raw material supply of food and chemicals is not addressed.

Against this background, we suggest that the number of biodiversity indicators should be reduced. Some of them would be better positioned in sector supplements e.g. for the mining or food industries; perhaps also for pharmaceuticals and chemicals.

### **The full Strategy should be described outside the CEO Statement**

The new draft guidelines seem to suggest that company strategy “particularly with regard to managing the key challenges associated with economic, environmental, and social performance” and the related risks and opportunities should mainly be described in the statement of the CEO or Chair (1.1.) Of course we agree that there should be a CEO statement and it should stress relevant aspects, challenges etc. of the sustainability strategy. However, the full outline of the strategy should not be part of this statement, but should form its own report section. There are two reasons for this: Firstly, it might be helpful to repeat parts of this outline in future reports or other media, e.g. internet. Then it is not too helpful always to quote the CEO or to repeat similar sections in new CEO statements. Secondly, in case the CEO changes the successor might be reluctant to repeat statements made by a predecessor. Thirdly, we believe a CEO statement should be brief, not more than two pages. Many stakeholders prefer even shorter statements. So the requirements for the CEO Statement as well as for the outline of the strategy have to be adapted.

### **G3-a Guideline for SMEs?**

We do not think that G3 will foster acceptance of GRI in circles of small and medium sized enterprises. The number of indicators is too high and the disclosure requirements on e.g. on strategy and management are too detailed. The idea expressed in High 5! (GRI Reporting Handbook for SMEs) that SMEs just exclude all irrelevant indicators when they develop their report will not work. In our experience excluding indicators needs detailed subject-knowledge and is quite time-consuming if done properly. Will SMEs really invest manpower in redesigning the indicator set to match their individual needs? We do not think so. Although an argument can be made against the development of a ‘light’ version of the GRI Guidelines, we consider that such a development is unavoidable if the GRI wishes to be adopted by SMEs.

## 5 Concluding Remarks

### Improvement Potential for the German Ranking Criteria

The German Ranking of Sustainability Reports can also learn from the new GRI Guidelines. For example, the German methodology might consider:.

- principles of reporting,
- instances of legal actions for anti-competitive behaviour,
- anti-trust and monopoly practices and their outcomes.

By revisiting the criteria the national set of indicators might be improved. One approach might be to refer directly to certain well defined GRI indicators. Further analysis of our comparison, based on the final version of G3, will be necessary for the improvement of the ranking method.

### G3 an important step forward

The new draft GRI guidelines G3 are an important step forward in focusing more attention on the most significant aspects and indicators for sustainability reporting. The principles of reporting are more accessible and the number of indicators slightly reduced. The underlying requirements for the management of sustainability aspects are challenging. We appreciate this, as we need significant improvements (not only) of business performance to achieve sustainable development. At present we are still falling below both the social and environmental bottom lines.

### Sources

Clausen J, Loew T, Westerman U (2005) **Sustainability Reporting in Germany: Summary of the Results and Trends of the 2005 Ranking**. Berlin, Hannover

Global Reporting Initiative (GRI) (Ed.) (2006) **Sustainability Reporting Guidelines [Draft] G3** Version for public comment. 2 January 2006 - 31 March 2006 Amsterdam

Loew T, Clausen J (2005) **Ranking Nachhaltigkeitsberichte: Kriterien und Bewertungsskala zur Beurteilung von Nachhaltigkeitsberichten**, Berlin Münster

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Thomas Loew (Institute 4 Sustainability, Berlin), Dr. Jens Clausen (Borderstep Institute for Innovation and Sustainability, Hanover), have, together with Dr. Klaus Fichter, developed and managed the Ranking of Environmental and Sustainability Reports since 1994. They are researching and consulting in sustainability reporting and management, CSR and related issues. Current projects focus on the provision of sustainability information in annual reports and to assurance. Further information at [www.4sustainability.org](http://www.4sustainability.org) and [www.borderstep.de](http://www.borderstep.de).

#### The German Ranking of Sustainability Reports

Since 1994 the Ranking has been a cooperation project between the Institute for Ecological Economy Research (IÖW), the business association future e.V. and the business magazine CAPITAL. The results of the ranking are published in CAPITAL, and therefore achieve high attention by German business. Further information, including an English summary of the results, is available at [www.ranking-nachhaltigkeitsberichte.de](http://www.ranking-nachhaltigkeitsberichte.de).

## Annex

### Evaluation of draft G3 according the German Ranking Methodology

Extract, the full version is available at [www.4sustainability.org](http://www.4sustainability.org). The methodology is described by Clausen et al (2005).

German Ranking of Sustainability Reports				
<b>G3</b> Draft Guidelines for Sustainability Reporting of the Global Reporting Initiative (G3)		version evaluator	TL-V-final Thomas Loew	
		contact date	<a href="http://www.4sustainability.org">www.4sustainability.org</a> Feb. 10, 2006	
		volume in pages	28 pages	
criteria	evaluation	multiplier	result	comments
<b>Part A: Content Requirements</b>				
<b>A.1 General information about the company</b>				
A.1.1 Sales revenue, employees, sites	5			2.1 Name of the reporting organization. 2.7 Scale of the reporting organization, including: • number of employees; • net sales (for private sector organizations) or net revenues (for public sector organizations); and • total capitalization broken down in terms of debt and equity (for private sector organizations). 2.6 Markets served (including geographic breakdown, sectors served, types of customers/beneficiaries). LA1 Breakdown of total workforce by employment type and by region (core)
A.1.2 Divisions, products/product groups	5			2.2 Major brands, products and/or services, including volume or quantity of products/services provided The reporting organization should indicate the nature of its role in providing these products and services, and the degree to which the organization relies on outsourcing.
A.1.3 Ownership, company structure	3			2.5 Nature of ownership and legal form. MISSING: Information on the spread of shares to different owners. Information on associated companies, permanent holdings.
Calculation of points:	4,33	5	22	
<b>A.2 Vision, Strategy and Management</b>				
A.2.1 Vision and strategy	5			1.1 Statement from the CEO and chair,...[...] The statement should present overall vision and strategy of the reporting organization ... particularly with regard to managing the key challenges associated with economic, environmental, and social performance. .../ 1.2 Description of Key Risks and Opportunities. The reporting organization should provide two sections that summarize the performance and other contextual information that has the highest strategic significance for the organization and its stakeholders. Section A ... RECOMMENDATION: The strategy should be mentioned, but not fully and only be described in the CEO statement. In case of a change of this position the successor might not be interested to always his/her predecessor.
A.2.2 Management systems and tools, accounting instruments	5			1.2 Description of Key Risks and Opportunities, ...Concise description of governance mechanisms in place specific to managing these risks and opportunities, and identification of other related risks and opportunities. Furthermore for each of the categories economic, environment, several "social" eg. HR the management approach is to be disclosed. POTENTIAL IMPROVEMENTS: The German ranking requirements suggests to describe the most important controlling/accounting instruments used, eg. balanced score card, checklist, lists of prohibited substances, and so on.

### Comparison of the Draft G3 Guidelines with top 6 Reports in the German Ranking

Requirements	G3	top6 in the Ranking*)
A.1 General information about the company	4,33	3,8
A.2 Vision, Strategy and Management	5,00	4,3
A.3 Employee Interests	3,43	2,9
A.4 Associated Social Responsibility	3,80	2,5
A.5 Social aspects of products and services	3,00	3,2
A.6 Environmental aspects of products and services	2,50	4,2
A.7 Environmental aspekts of production	3,75	2,4
A.8 Targets and programme	4,00	3,6
A.9 Sources of more detailed information	2,50	4,7
B.1 Credibility	4,60	3,5
B.2 Comparability	4,33	3,4
B.3 Materiality and clarity	5,00	3,8

\* The Top 6 Reports in the German ranking were

- 1 Henkel KGaA
- 2 KarstadtQuelle AG
- 3 OTTO (GmbH & Co KG)
- 4 Axel Springer Verlag AG
- 5 Adidas-Salomon AG
- 6 RWE AG

