

REPORTING TODAY

GRI releases G3 for comment

On January 2, 2006, the Global Reporting Initiative released [G3](#), the third generation of its sustainability reporting guidelines, for public comment. At a slim 27 pages, G3 represents a concerted effort to be more user friendly than its 94-page predecessor; to facilitate practical and more rigorous application; and, above all, to promote consistency and comparability in reporting.

G3 boasts a number of new features, including

- guidance on defining report content, presenting quality data, and determining the report boundary
- a new strategy and analysis disclosure for key issues, risks, and opportunities
- restructured indicator sections that include disclosures on both management approach and performance indicators
- indicator protocols containing key definitions, compilation methodologies, and resources

G3 divides its eleven reporting principles into two groups, one for determining report content and one for ensuring content quality. For each principle, G3 offers a set of tests designed to improve its utility. The principles will help to increase transparency and comparability and will ultimately enable stakeholders to make better-informed decisions.

Emphasizing engagement, materiality

G3 stresses “inclusivity”—identifying stakeholders and responding to their concerns—and materiality as critical to defining and prioritizing report content. In employing an SEC-style materiality test, G3 encourages reporters to give due attention to

the issues of greatest concern to stakeholders in their reports and, by implication, their overall sustainability strategy. In addition, by urging all reporters to explain the reasons for omitting material information, G3 endorses a materiality test for most, if not all, reporting decisions. Given that many reporters still use a “kitchen sink” approach—discussing every program regardless of import, thus diluting key issues and elevating marginally relevant ones—this is a welcome approach.

Under G3, merely stating that a report is “informed by”, “based on”, “in the spirit” of the guidelines will not suffice. To enable stakeholders to better understand how organizations use the guidelines in report preparation, the GRI will establish a multitier system for determining the level of adherence to the guidelines.

No room for creativity?

The GRI’s stated mission is to “make sustainability reporting as routine and comparable as financial reporting.” Indeed, the new “key risks and opportunities” disclosures are specifically geared to address investors’ information needs. Does G3 rule out creativity and flexibility in reporting? No. Just as an annual report is an important vehicle for communicating a company’s vision, value, and future prospects to investors, the sustainability report is a key means of communicating how the company will endure the test of time.

Used as intended, G3 goes a long way toward making the GRI’s mission a reality. Likewise, companies that engage their stakeholders to help them define content, use G3 judiciously, and take a creative approach to reporting can make their sustainability vision real—and exciting—to all of their stakeholders.

NEW AND NOTEWORTHY

Surveys show greater focus on corporate responsibility among investors, executives

Two recent surveys indicate a shift in thinking among investors, analysts, and corporate executives regarding the importance of corporate responsibility in making investment decisions.

A survey of 183 US institutional investors conducted by US consulting firm Mercer Investment Consulting finds that, while 75 percent of those surveyed believe that environmental, social, and governance issues can be material to investment performance, fewer than half are assessing ESG capabilities of their internal or external investment managers. While 72 percent of those surveyed neither practice nor have any intention of practicing socially responsible investing, about 25 percent say they will undertake more active proxy voting and shareholder engagement in the next two years.

A study by Oracle Corporation and the Economist Intelligence Unit reveals that, of 136 executives and 65 investors surveyed, 85 percent rank corporate responsibility as a central consideration in investment decisions—almost twice that surveyed five years ago.

The study also found that 84 percent of executives and investors surveyed believed that corporate responsibility practices could improve a company’s bottom line.

REPORT REVIEWS

Each month, we evaluate a corporate responsibility report for [Ethical Corporation](#) magazine. Click on the following links to read our most recent reviews:

- > [Camelot 2005 Social Report Summary](#)
- > [Seventh Generation 2004 Corporate Responsibility Report](#)

One-on-ones: tiptoeing through a minefield?

In each of the six actions the SEC has brought to enforce Regulation Fair Disclosure, a market event followed an officer's nonpublic statements to analysts or investors. These cases make clear that an investor or analyst one-on-one is an opportunity for extreme caution.

Opposing interests. While Reg FD does not prohibit one-on-ones, one risk in an unscripted Q&A is that, while the officer may intend to release only information that is already public, the analyst has a keen interest in what's beneath the radar.

Materiality: it's not what you think. Reg FD's materiality test is what a reasonable shareholder—not the IR officer or CFO—would find important in making an investment decision. Often the question of materiality is resolved in hindsight, after the market has reacted. Clarification of a previous public statement, and even an executive's hang-dog expression when ostensibly confirming guidance, can move the market and trigger an investigation.

Taking it personally. The SEC is not opposed to penalizing individuals for Reg FD violations. In the 2005 Flowserve case, for example, the company was fined \$350,000, the CEO \$50,000.

Be prepared to remediate. It's always a good idea to subject a one-on-one to a post-mortem and to be ready to remediate with an 8-K if necessary. As always, IR officers should consult with legal counsel whenever in doubt.

In September 2005, a federal district court dismissed the SEC's 2002 enforcement action against Siebel Systems. While the decision's full implications are not yet clear, what is clear is that Reg FD is here to stay.

Based on "Reg FD: Learning from the Mistakes of Others," by Bryn Vaaler, *Investor Relations Update*, December 2005.

Ethical Corporation hosts May, June conferences

Ethical Corporation will host two conferences in the United States in May and June to kick off summer planning.

The May event, "Business-NGO Partnerships", offers practical tools for building and sustaining "win-win" partnerships. Discussion topics include

- finding the right partner
- addressing challenges to measuring progress
- strategies for minimizing risk and conflict

The June conference, "How to Communicate your Corporate Values to consumers", includes such topics as

- consistent communication across the organization
- ensuring that a brand effectively communicates corporate values
- promoting ethical purchasing
- crisis communication / reputation-risk management

"These conferences offer both a forum for idea exchange and strategies for dealing with salient and often difficult issues," says Caroline Estimé, producer of both conferences. "Though there are few easy answers, we want people to leave with practical tools they can implement upon returning to the office."

For more information, or to register, please click the links below:

[Business-NGO Partnerships](#)

May 9–10, 2006

Woodcliff, NJ

[How to Communicate your Corporate Values to Consumers](#)

June 14–15, 2006

Philadelphia, PA

GRI seeks public comment for G3

The public comment period for **G3**, the third generation of the Global Reporting Initiative's sustainability reporting guidelines, opened January 2 and closes March 31, 2006 (see page 1).

The [public comment](#) form is available on the [G3 website](#).

The **G3** is scheduled for publication in October 2006.

Framework:CR joins GRI as an Organizational Stakeholder

We are pleased to announce that Framework:CR has joined the Global Reporting Initiative as an organizational stakeholder.

The GRI currently offers the most comprehensive and widely accepted sustainability reporting guidelines. Yet much work remains in order to bring greater transparency and comparability to sustainability reporting—especially as it intersects with financial reporting. We look forward to participating in this process while helping our clients to better communicate their sustainability vision and performance.

We encourage the use of the GRI guidelines and will participate in the public comment and structured feedback processes to help further their development. We will also publish a sustainability report using the GRI guidelines by year-end 2006.

