



Statement to GRI on the Need to Enhance Treatment Of the Sustainability Context Principle in G4

Submitted by Members of the Sustainability Context Group
September 24, 2012

We the undersigned members of the *Sustainability Context Group*, an international community of corporate sustainability managers, academics, analysts and advisors, hereby call upon GRI to undertake improvements to the *Sustainability Context* Principle in G4 as set forth below.

Rationale and Background on the Issue of Context

Although GRI's *Guidelines* currently do advocate for the inclusion of *Sustainability Context* in organizational reports, they fail to provide specific guidance for how to do so. Because of this lack of guidance, very few GRI-based sustainability reports have ever actually included such context – and yet without it, there can be no true or authentic sustainability reporting, in our opinion. For the sake of the credibility – and *usefulness* – of sustainability reporting, it is vitally important that this shortcoming be resolved, and that GRI take steps to include specific guidance in G4 for how to implement *Sustainability Context* in contemporary reporting.

Suggestions for Wording Changes in G4

Rather than devise a specific procedure for how to implement *Sustainability Context* in organizational reporting, we believe GRI should provide related guidance in the form of functional specifications, or criteria, for how to do so, in keeping with its charge of providing broad, non-prescriptive direction. This would leave open the door to innovation and competing methodologies for how to apply such context – procedurally – while maintaining a high degree of control over the meaning and interpretation of the Principle itself. Not all interpretations of *Sustainability Context* will necessarily be true to the purpose, intent, and role of the Principle in reporting, so the specification of criteria is key.

The specific language changes (additions) we have in mind for G4 are shown *in italics* below. We are proposing that this language be added to the discussion of *Sustainability Context* in the *Technical Protocol* section of G4:

Organizational sustainability performance (non-financial) should be measured and reported relative to norms, standards or thresholds for what social, environmental and economic impacts would have to be in order to be sustainable – that is, able to continue without causing systemic degradation or collapse. In order to identify, choose or define such norms, standards or thresholds, a proper procedure for doing so should be used. Since there is arguably more than one way to do this, and since the sustainability community is still very much in the early stages of developing such methods, we offer only the following functional specification, or criteria, for what shall constitute an acceptable method or procedure for identifying, choosing or defining norms, standards or thresholds for use in context-based measurement and reporting:

**Functional Specifications for Context-Based
Measurement and Reporting Procedures**

- **Relationships:** *Sustainability context ultimately derives from the relationships organizations have with their stakeholders and other parties whose interests and well-being are affected by an organization's actions, or whose interests and well-being ought to be so affected given the relationships involved. Any procedure for incorporating sustainability context in measurement and reporting should therefore integrate stakeholder perspectives as a major component of context;*
- **Impacts on Capital Stocks:** *Procedures for incorporating sustainability context in measurement and reporting should deal explicitly with both actual and normative organizational impacts on capital resources of vital importance to stakeholder well-being, namely: stocks of natural, human, social, and constructed (or built) capital;*
- **Allocations and Performance Standards:** *Such procedures should result in specific allocations of either (a) the carrying capacities of natural capital stocks (i.e., thresholds for use), or (b) the shared or exclusive burden to produce and/or maintain anthropogenic capitals (i.e., human, social, and constructed capital stocks) to individual organizations. Such allocations should serve as the basis of setting performance standards for determining whether or not an organization's actual impacts on vital capital stocks are sustainable;*
- **Generalizable:** *Such allocations should be reflective of duties and obligations owed to stakeholders to use and/or produce vital capital stocks at levels that are fair and proportionate and which (a) would help to ensure stakeholder well-being if applied to all members of contextually relevant, responsible populations, and (b) would not exceed available stocks of natural capital or fail to produce and/or maintain stocks of human, social or constructed capital at levels required to ensure stakeholder well-being – in short, the allocations should meet the "what if everyone did the same thing?" test;*
- **Context-Based Metrics:** *The procedure should involve the use of context-based metrics of some kind (i.e., key performance indicators) that express performance in terms of impacts on vital capitals relative to organization-specific standards of performance (or thresholds) for what such impacts must be in order to be sustainable. For example, context-based metrics can take the form of quotients in which numerators represent actual impacts on vital capital stocks, and denominators represent normative impacts for the same stocks.*

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In general, it is strongly advised that any report that aims to describe the sustainability performance of an organization should disclose impacts on vital capital stocks relative to norms, standards, or thresholds for what such impacts would have to be in order to be sustainable. Any procedure that conforms to the functional specifications set forth above will comply with this requirement. Reporting organizations should feel free to employ a procedure of their own choosing that allows them to do this.

Illustrative Examples for Possible Inclusion in G4

In addition to the proposed guidance set forth above, it should be useful to include an example of a method that complies with the functional specifications provided, followed by some illustrations of the method in action. Here, then, is some additional proposed language to consider for inclusion in the *Technical Protocol* section of G4 (in italics):

Below, for illustrative purposes only, is a very simple, 5-step procedure that fulfills the functional specifications above:

1. Identify Stakeholders

Start by identifying an organization's relevant stakeholders (by category), and identify relevant proxies, if needed (e.g., a subset of the group, or representative organizations), with whom to engage for input in steps 2 through 5 below;

2. Identify Relevant Impacts on Vital Capital Stocks

Identify relevant impacts an organization is either already having and/or managing on vital capital stocks of importance to stakeholder well-being (i.e., actual impacts), or ones that it should be having and/or managing given the relationships involved (i.e., obligatory impacts);

3. Determine Normative Impacts on Vital Capital Stocks

Determine the organization's proportionate ("fair share") allocations for impacts on vital capital stocks, and define related context-based norms, standards, or thresholds for what such impacts must be in order to be sustainable. Such norms, standards or thresholds should either set maximum limits for using natural capital, or minimum contributions for producing and/or maintaining the supply of anthropogenic capital (i.e., human, social, and/or constructed capital) at levels required to ensure stakeholder well-being.

4. Determine Actual Impacts on Vital Capital Stocks

Measure the actual impacts an organization is having on vital capital stocks of importance to stakeholder well-being.

5. Determine Sustainability Performance

Based on steps 1 through 4 above, calculate the quotient or ratio of actual impacts on vital capital stocks (numerators) to normative impacts on vital capital stocks (denominators); then manage and report sustainability performance according to the results (i.e., to resolve disparities if and when they are discovered).

To help understand the application of the sample procedure above, we offer two specific examples, one involving carbon emissions and the other involving water use.

- Carbon Emissions

1. Identify Stakeholders

The contextually relevant stakeholder group in the case of carbon emissions is all humans on Earth, since carbon emissions affect the well-being of humanity in general by putting the normal functioning of a type of natural capital (the global climate system) at risk. Appropriate proxies representing this stakeholder constituency, if needed, might include non-governmental organizations that address climate change.

2. Identify Relevant Impacts on Vital Capital Stocks

Most organizations emit greenhouse gases and thereby affect the functioning of the climate system on earth. This gives rise to normative duties and obligations to manage such emissions in ways that help ensure stakeholder well-being. Such emissions are therefore relevant and involve impacts on a type of natural capital (i.e., the ecosystem service we call 'climate regulation') that stakeholders rely on.

3. Determine Normative Impacts on Vital Capital Stocks

One way of specifying what an organization's normative impacts on the climate system should be is to say that its carbon emissions should be systematically reduced over time in a way that contributes to the reversal of climate change and to the restoration of CO₂ concentrations in the atmosphere to safe levels (e.g., to 350 ppm).

There are many science-based models or scenarios that specify a trajectory of CO₂ emissions reductions over time for this purpose, and which can be used as a guide or basis for determining what the pattern of such reductions ought to be. One example is the WRE350 CO₂ stabilization scenario developed by Tom Wigley et al at the National Center for Atmospheric Research in Boulder, Colorado. For an article on this, see: <http://www.nature.com/nature/journal/v379/n6562/abs/379240a0.html>

But since CO₂ emissions are generated by a large number of organizations and other anthropogenic sources on Earth, overall levels of reduction targets must be allocated to individual emitters in a proportionate way. In the case of organizations, this can be done on the basis of size. For example, organizations can determine their proportionate allocations based on the size of their workforces relative to the global

human population. Alternatively, organizations can determine their allocations based on the size of their contributions to GDP, as BT currently does with its CSI (Climate Stabilizing Intensity) methodology, and Autodesk and EMC currently do with Autodesk's C-FACT (Corporate Finance Approach to Climate-Stabilizing Targets) methodology. See:

<http://www.btplc.com/responsiblebusiness/ourstory/literatureandezines/publicationsandreports/pdf/csimethodology.pdf>

And also:

http://images.autodesk.com/adsk/files/greenhouse_gas_white_paper000.pdf

Other allocation schemes are conceivable as well.

4. Determine Actual Impacts on Vital Capital Stocks

An organization's actual CO₂ emissions should then be measured.

5. Determine Sustainability Performance

Once an organization has determined what its proportionate share of CO₂ reductions should be in order to comply with a climate change mitigation scenario (i.e., the result of step 3 above) and also what its actual emissions have been (i.e., the result of step 4 above), it can then compare the two in the denominator and numerator of a context-based metric, respectively, and calculate its sustainability performance, accordingly. Armed with the results of this step, it can then manage its emissions reductions as needed so as to meet the reduction targets involved, and periodically report its associated context-based performance for stakeholder review.

- Water Use

1. Identify Stakeholders

The contextually relevant stakeholder group in the case of water use is all others who rely on the same water resources used by an organization. Generally speaking, this will involve the stakeholder populations that inhabit the same basins or watersheds in which an organization's own facilities are located, and who therefore rely on the same water resources an organization does. Appropriate proxies representing this stakeholder constituency, if needed, might include local or regional government offices overseeing water management, or community-based organizations focused on water issues.

2. Identify Relevant Impacts on Vital Capital Stocks

Relevant impacts in the case of water resources include impacts that an organization is already having on water supplies, or related impacts that it should or should not be having given the needs and interests of other stakeholders who rely on the same resources.

3. Determine Normative Impacts on Vital Capital Stocks

Once the contextually relevant watershed topographies, precipitation levels and stakeholder populations have been determined, proportionate allocations of available renewable water resources can be made to individual organizations (i.e., to their facilities) according to their size (e.g., the size of their workforces relative to the local watershed populations, or the size of their contributions to GDP in the same geographies). Again, other allocation schemes are conceivable.

4. Determine Actual Impacts on Vital Capital Stocks

An organization's actual water consumption should then be measured.

5. Determine Sustainability Performance

Once an organization has determined what its proportionate share of available, renewable water resources is in a particular watershed (i.e., the result of step 3 above) and also what its actual water consumption has been (i.e., the result of step 4 above), it can compare the two in the denominator and numerator of a context-based metric, respectively, and calculate its sustainability performance, accordingly. Armed with the results of this step, it can then manage its water consumption as needed so as to comply with the thresholds involved, and periodically report its associated context-based performance for stakeholder review.

Once again, the 5-step procedure and examples set forth above are provided for illustrative purposes only. Other solutions for how to satisfy the functional specifications proposed will certainly exist and should be encouraged.

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This concludes our feedback at this time. We thank you for your attention to this important issue, and urge you in the strongest possible terms to take action on this matter. Members of the Sustainability Context Group would be glad to provide appropriate assistance to GRI should you decide that you would benefit from such help. Please don't hesitate to reach out to us, as we support GRI's vision of achieving a sustainable global economy.

Sincerely,

[Note: All signatories are signing in their personal capacity; organizational affiliations are included for identification purposes only; asterisked (*) signatories represent organizational endorsements as well as personal ones.]

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**Signatories to September 24, 2012 Public Comment by SCG to GRI
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1. Michele Andreaus, University of Trento
2. Alan AtKisson, The AtKisson Group
3. Andy Barker, Social Mission Specialist, Ben & Jerry's Homemade, Inc.
4. Bill Baue, Corporate Sustainability Architect
5. Jan Bebbington, University of St. Andrews
6. Eric Becker, Clean Yield Asset Management*
7. Mike Bellamente, Climate Counts*
8. Stephanie Bertels, Simon Fraser University
9. John Byrd, University of Colorado Denver
10. Kyle Cahill, Blue Cross Blue Shield Massachusetts
11. Karin Chamberlain, Consultant, First Peoples Worldwide
12. Charles Cho, ESSEC Business School
13. Yara Cintra, Fundacao Getulio Vargas
14. Bob Costanza, Portland State University
15. Peter Crowell, Marlboro Sustainability MBA, Antioch University Sustainability MBA
16. Chelsea Davidoff, Cabot Creamery Cooperative*
17. Jed Davis, Cabot Creamery Cooperative*
18. Bob Doppelt, The Resource Innovation Group
19. John Elkington, Volans Ventures
20. Gil Friend, Natural Logic, Inc.
21. Rob Gray, University of St. Andrews
22. Sue Gray, University of St. Andrews
23. Alexandra Groezinger, Cabot Creamery Cooperative*
24. Marc Gunther, Journalist
25. Henk Hadders, University of Groningen
26. Rick Hausman, Clean Yield Asset Management*
27. Barbara Heinzen, Independent Consultant, BarbaraHeinzen.com
28. Adrian Henriques, Middlesex University
29. Bart Houlahan, B Lab
30. Valéry Kalemba, Independent Research Analyst
31. Cary Krosinsky, Trucost
32. Laurie Lane-Zucker, Hotfrog.org
33. Chris Laszlo, Case Western Reserve University
34. Deborah Leipziger, Sustainability Lexicon Project
35. Eric Lowitt, EricLowitt.com
36. Poonam Madan, Genesis Burson-Marsteller
37. Jacob Mayne, New Angles
38. Mark McElroy, Center for Sustainable Organizations*
39. Edward Tello Melendez, Macquarie University
40. Giovanna Michelin, University of Padova
41. Markus Milne, University of Canterbury
42. Marcy Murningham, MurninghamPost

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43. Den Patten, Illinois State University
44. Karl Pfalzgraf, BPA Worldwide
45. Matthew Polsky, Institute for Sustainable Enterprise
46. Tames Rietdijk, Bright Exchange
47. Bill Russell, SustainEdge
48. Maryam Sadeghi, University of Sheffield
49. Mohamed Saeudy, Keele University
50. Roger Saillant, Case Western University
51. Maria Sillanpaa, Sustainability Advisory Group
52. Chris Soderquist, Pontifex Consulting
53. Lorna Stevenson, University of St. Andrews
54. Martin Thomas, call4change*
55. Ralph Thurm, Founder & Managing Director, A|HEAD|ahead
56. Mark Tulay, Global Initiative for Sustainability Ratings
57. Chris Tuppen, Advancing Sustainability LLP
58. Liz Umlas, Independent Human Rights Researcher
59. Jo van Engelen, TU Delft
60. Wayne Visser, CSR International & Kaleidoscope Futures
61. Dimitar Vlahov, Sustainable Life Media
62. Mathis Wackernagel, Global Footprint Network
63. David Waldron, Synapse Strategies
64. Allen White, Tellus Institute
65. Andrew Winston, Winston Eco-Strategies
66. Jennifer Woofter, Strategic Sustainability Consulting*