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Item 05 – GRI Universal Standards Project – Revised GRI 101: Section 2. Key concepts

For GSSB discussion

Date	8 February 2021
Meeting	25 February 2021
Project	GRI Universal Standards Project
Description	This document presents the revised draft of Section 2. Key concepts in *GRI 101: Using the GRI Standards* following the public comment feedback. Key changes are highlighted in comment boxes within the document. Minor editorial changes have not been highlighted, but a draft tracking all changes to the text has been included in the Annex. The public comments on the key concepts section can be found here: https://www.globalreporting.org/media/outfw4t2/item-01-public-comments-to-revisions-on-key-concepts-in-the-universal-standards-exposure-draft.pdf

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Explanatory note

The following significant revisions have been made in response to public comment feedback:

- Clarified more prominently the importance and role of stakeholder engagement in the process to identify an organization's most significant impacts, see lines 26-27, 59-61, and 135-136.
- Provided additional explanation regarding the relationship between sustainability reporting and financial and value creation reporting within Box 1, see lines 63-88.
- Clarified the relationship between stakeholders and rightsholders, and between interests and rights, see lines 120-124.

Additional revisions made in response to public comment feedback are explained in comment boxes.

The inclusion of 'human rights' in the phrase 'impacts on the economy, environment, and people, including impacts on human rights' will be discussed at the GSSB meeting on 25 February 2021.

Other editorial revisions have been made to the text to improve clarity and consistency with the GRI Style Guide and are explained in comment boxes.

Revised section 2. Key concepts

This section explains concepts that lay the foundation for sustainability reporting. Understanding how these concepts are used in the GRI Standards is essential for those who collect and prepare information for reporting, as well as for those who interpret information that is reported using the Standards.

The key concepts covered in this section are: impact, material topic, due diligence, and stakeholder. The purpose of the Standards is to enable organizations to report on their most significant impacts on the economy, environment, and people, including impacts on human rights – in the GRI Standards these are referred to as material topics. Due diligence and stakeholder engagement help organizations identify their most significant impacts.

2.1 Impact

In the GRI Standards, impact refers to the effect an organization has or could have on the economy, environment, or people, including on human rights, as a result of its activities or business relationships. The impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. These impacts indicate the organization's contribution, negative or positive, to sustainable development.

The organization's impacts on the economy refer to the impacts on economic systems at local, national, and global levels. An organization can have an impact on the economy through, for example, its competition practices, its procurement practices, and its taxes and payments to governments.

The organization's impacts on the environment refer to the impacts on living organisms and non-living elements, including air, land, water, and ecosystems. An organization can have an impact on the environment through, for example, its use of energy, land, water, and other natural resources.

The organization's impacts on people refer to the impacts on individuals and on groups, such as communities, or society more generally. An organization can have an impact on people through, for example, its employment practices (such as the wages it pays to employees), its supply chain (such as the working conditions of workers of suppliers), and its products and services (such as their safety or affordability). Individuals or groups that have interests that are affected or could be affected by the organization's activities are referred to as stakeholders (see Section 2.4 of this Standard).

Commented [SD1]: Type of change: revision following public comment feedback and editorial revision.

New text added to clarify more prominently the importance and role of stakeholder engagement in the process to identify an organization's most significant impacts.

Commented [SD2]: Type of change: revision following public comment feedback.

New text added to clarify that people includes communities and society.

Commented [SD3]: Type of change: editorial revision (change in location).

Commented [SD4]: Type of change: revision following public comment feedback.

The following text has been moved to section 2.4 Stakeholder and has been modified following public comment feedback: "The most acute impacts an organization can have on people are those that negatively affect their human rights."
See lines 120-124.

2.2 Material topic

An organization may identify many impacts on which to report. When using the GRI Standards, the organization prioritizes reporting on those topics that represent its most significant impacts on the economy, environment, and people, including impacts on human rights. In the GRI Standards, these are the organization's material topics.

Examples of material topics are anti-corruption, occupational health and safety, or water and effluents. A topic need not be limited to only impacts on the economy, or the environment, or people; it can cover impacts across all these three dimensions. For example, an organization might determine that 'water and effluents' is a material topic based on the impacts its water use has on ecosystems as well as on local communities' access to water. The GRI Standards group impacts into topics, like 'water and effluents', to help organizations report in a cohesive way on multiple impacts that relate to the same topic.

The process to determine material topics is informed by the organization's ongoing identification and assessment of impacts. The ongoing identification and assessment of impacts involves engaging with relevant stakeholders and experts and it is conducted independently of the sustainability reporting process. See Section 2 of *GRI 103: Material Topics* for more information on determining material topics.

Box 1. Sustainability reporting and financial and value creation reporting

The GRI Standards enable organizations to report on the most significant impacts of their activities and business relationships on the economy, environment, and people, including impacts on human rights. These impacts are of primary importance to sustainable development and to organizations' stakeholders, and they form the focus of sustainability reporting.

The impacts of an organization's activities and business relationships on the economy, environment, and people can have negative and positive consequences for the organization itself. These consequences can be operational or reputational, and therefore in many cases financial. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs for the organization due to legislation that seeks to shift energy use toward renewable sources.

Even if not financially material at the time of reporting, the impacts of an organization's activities and business relationships on the economy, environment, and people will eventually translate into financially material issues. The impacts are therefore also important for those interested in the financial performance and long-term success of the organization. Understanding these impacts is a necessary first step in order to determine related financially material issues for the organization.

Sustainability reporting is therefore crucial for financial and value creation reporting. Information made available through sustainability reporting provides input for identifying financial risks and opportunities related to the organization's impacts and for financial valuation. This in turn helps in making financial materiality judgments about what to recognize in financial statements.

While the impacts of an organization's activities and business relationships on the economy, environment, and people may become financially material, sustainability reporting is also highly relevant in its own right as a public interest activity. It is independent of the consideration of financial implications. It is important for the organization to report on all the material topics that it has determined using the GRI Standards. These material topics cannot be deprioritized on the basis that they are not financially material.

2.3 Due diligence

In the GRI Standards, due diligence refers to the process through which an organization identifies, prevents, mitigates, and accounts for how it addresses its actual and potential negative impacts on the economy, environment, and people, including impacts on human rights. The organization should address potential negative impacts through prevention or mitigation. It should address actual negative impacts through remediation, in cases where the organization identifies it has caused or contributed to those impacts.

Commented [SD5]: Type of change: revision following public comment feedback.

Original wording: "reflect".

Commented [SD6]: Type of change: revision following public comment feedback and editorial revision.

Text revised to clarify more prominently the importance and role of stakeholder engagement in the process to identify an organization's most significant impacts.

The explanation of significance is already included under Section 2.3 Due diligence, so it has been removed from this section to avoid duplication.

Original wording: "In order to prioritize its most significant impacts for reporting, the organization needs to assess the significance of the impacts. The significance of a negative impact is assessed based on its severity (scale, scope, and irremediable character) and likelihood. In the case of potential negative human rights impacts, the severity of the impact takes precedence over its likelihood. The significance of a positive impact is assessed based on its scale, scope, and likelihood. See Section 2 of *GRI 103: Material Topics* for more information on assessing the significance of impacts."

Commented [SD7]: Type of change: revision following public comment feedback.

Text revised to provide additional explanation regarding the relationship between sustainability reporting and financial and value creation reporting within Box 1.

See lines 211-227 for the original wording of Box 1.

The way an organization is involved with negative impacts is important for determining how to address the impacts:

- The organization should avoid causing or contributing to negative impacts through its own activities, and it should address such impacts when they occur by providing for or cooperating in their remediation through legitimate processes.
- In the case of negative impacts that are directly linked to the organization's operations, products, or services by its business relationships, the organization should seek to prevent or mitigate these impacts even if it has not contributed to them. The organization is not responsible for providing remediation for these impacts, but it can play a role in providing it.

If it is not feasible to address all identified impacts at once, the organization should prioritize the order in which it addresses negative impacts based on their severity and likelihood. In the case of potential negative human rights impacts, the severity of the impact takes precedence over its likelihood. See Section 2 of *GRI 103: Material Topics* for more information.

Due diligence is elaborated by the *United Nations (UN) Guiding Principles on Business and Human Rights*, the *Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises*, and the *OECD Due Diligence Guidance for Responsible Business Conduct*.

2.4 Stakeholder

Stakeholders are individuals or groups that have interests that are affected or could be affected by an organization's activities.[1] Common categories of stakeholders for organizations are business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, non-governmental organizations, shareholders and other investors, suppliers, trade unions, and vulnerable groups.

In the GRI Standards, an interest (or 'stake') is something of value to an individual or group, which can be affected by the activities of an organization. Stakeholders can have more than one interest. Not all interests are of equal importance and they do not all need to be treated equally. Human rights, for example, have a particular status compared to other interests, as they set a threshold in terms of the acuteness of impacts on people. The term 'rightsholders' is often used to refer to stakeholders whose individual human rights or collective rights (held by groups such as indigenous peoples) are or could be affected.

Stakeholder interests can be negatively or positively affected by the organization's activities. Due diligence focuses on identifying stakeholder interests that are or could be negatively affected by the organization's activities.

Stakeholders may not have a direct relationship with the organization; for example, the workers in the organization's supply chain can also be its stakeholders. The organization can also have an impact on stakeholders, such as local communities, that live at a distance from the organization's operations. Stakeholders might themselves be unaware that they are stakeholders of a particular organization, especially if they have not yet been affected by its activities. The organization should identify the interests of these and other stakeholders who are unable to articulate their views (e.g., future generations).

Engaging with stakeholders helps the organization identify and manage its negative and positive impacts. Not all stakeholders will be affected by all activities of the organization. The organization needs to identify the stakeholders whose interests have to be taken into account in connection with a specific activity (i.e., 'relevant stakeholders').

The organization may not be able to engage with all relevant stakeholders directly. In these cases, the organization can engage with credible stakeholder representatives or proxy organizations (e.g., non-governmental organizations, representative public bodies).

[1] Organisation for Economic Co-operation and Development (OECD), *OECD Due Diligence Guidance for Responsible Business Conduct*, 2018.

Commented [SD8]: Type of change: editorial revision.

Original wording: "Stakeholders are individuals or groups that have interests that are affected or could be affected by an organization's activities and decisions."

The term "decisions" has been removed for alignment with the *OECD Due Diligence Guidance for Responsible Business Conduct* and for consistency with the text of the GRI Standards.

Commented [SD9]: Type of change: revision following public comment feedback.

"and other investors" has been added

Commented [SD10]: Type of change: revision following public comment feedback.

Nex text added to clarify the relationship between stakeholders and rightsholders, and between interests and rights.

Commented [SD11]: Type of change: revision following public comment feedback.

New text added.

Commented [SD12]: Type of change: editorial revision (change in location).

Commented [SD13]: Type of change: revision following public comment feedback.

New text added to clarify more prominently the importance and role of stakeholder engagement in the process to identify an organization's most significant impacts.

In addition to engaging with stakeholders, the organization can also consult with experts of specific issues or contexts (e.g., academics, non-governmental organizations) for advice on identifying and managing its impacts.

Sometimes it is necessary to distinguish between stakeholders whose interests have been affected (i.e., 'affected stakeholders'), and those whose interests have not yet been affected but could potentially be affected (i.e., 'potentially affected stakeholders'). This distinction is important in due diligence. For example, if an organization's activity results in a safety hazard, workers who are injured because of the hazard are affected stakeholders, and workers who have not yet been injured but who are exposed to the hazard and could be injured are potentially affected stakeholders. The distinction between affected and potentially affected stakeholders helps identify which workers should receive remedy.

Commented [SD14]: Type of change: editorial revision (change in location).

Annex. Revisions with track changes

2. Key concepts ~~in the GRI Standards~~

This section explains concepts that lay the foundation for sustainability reporting. Understanding how these concepts are used in the GRI Standards is essential for those who collect and prepare information for reporting, as well as ~~interpreting the~~for those who interpret information that is reported using the ~~GRI~~ Standards.

The key concepts covered in this section are: impact, material topic, due diligence, and stakeholder. The purpose of the Standards is to enable organizations to report on their most significant impacts on the economy, environment, and people, including impacts on human rights – in the GRI Standards these are referred to as material topics. Due diligence and stakeholder engagement help organizations identify their most significant impacts.

2.1 Impact

In the GRI Standards, impact refers to the effect an organization has or could have on the economy, environment, or people, including on human rights, as a result of its activities or business relationships. The~~se~~ impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. These impacts indicate the organization's contribution, negative or positive, to sustainable development.

The organization's impacts on the economy refer to the impacts on economic systems at local, national, and global levels. An organization can have an impact on the economy through, for example, its competition practices, its procurement practices, and its taxes and payments to governments~~, its procurement practices, or its competition practices~~.

The organization's impacts on the environment refer to the impacts on living organisms and non-living ~~natural systems~~elements, including air, land, ~~air,~~ water, and ecosystems. An organization can have an impact on the environment through, for example, its use of ~~water,~~ energy, land, water, and other natural resources.

The organization's impacts on people refer to the impacts on individuals and on groups, such as communities or society more generally. ~~Individuals or groups that have interests that are, or could be, affected by the organization's activities and decisions are referred to as stakeholders (see Section 2.4 of this Standard).~~ An organization can have an impact on people through, for example, its employment practices (such as the wages it pays to employees), its supply chain (such as the working conditions of workers ~~making the organization's products~~of suppliers), and its products and services (such as their safety or affordability). ~~The most acute impacts an organization can have on people are those that negatively affect their human rights.~~ Individuals or groups that have interests that are affected or could be affected by the organization's activities are referred to as stakeholders (see Section 2.4 of this Standard).

2.2 Material topic

An organization ~~might~~may identify many impacts on which to report. When using the GRI Standards, the organization prioritizes reporting on those topics that ~~reflect~~represent its most significant impacts on the economy, environment, and people, including impacts on human rights. In the GRI Standards, these are the organization's material topics.

Examples of material topics ~~could be~~are anti-corruption, ~~water and effluents, or~~ occupational health and safety~~.~~, or water and effluents. A topic need not be limited to ~~one dimension, i.e.,~~ only impacts on the economy, or the environment, or people; it can cover impacts across all these three dimensions. For example, an organization might ~~identify~~determine that 'water and effluents' ~~as~~is a material topic based on the impacts its water use has on ~~natural~~ ecosystems as well as on local communities' access to water. The GRI Standards group impacts ~~under~~into topics, like 'water and effluents', to help organizations report in a ~~more~~ cohesive way on multiple impacts that relate to the same topic.

~~In order to prioritize its most significant impacts for reporting, the organization needs to assess the significance of the impacts. The significance of a negative impact is assessed based on its severity (scale, scope, and irremediable character) and likelihood. In the case of potential negative human rights impacts, the severity of the impact takes precedence over its likelihood. The significance of a positive impact is assessed based on its scale, scope, and likelihood. See Section 2 of *GRI 103: Material Topics* for more information on assessing the significance of impacts.~~

The process to determine material topics is informed by the organization's ongoing identification and assessment of impacts. The ongoing identification and assessment of impacts involves engaging with relevant stakeholders and experts and it is conducted independently of the sustainability reporting process. See Section 2 of *GRI 103: Material Topics* for more information on determining material topics.

~~**Box 1. Reporting using different materiality perspectives**~~

~~The GRI Standards focus on an organization's most significant impacts outward: on the economy, environment, and people, including impacts on human rights. These impacts can have negative or positive consequences for the organization itself (such as operationally or reputationally, and therefore in many cases financially). For example, an organization's high use of non-renewable energy contributes to climate change and could at the same time result in increased operating costs due to legislation that seeks to shift energy use toward renewable sources.~~

~~The outward impacts of an organization are therefore also important for those interested in the financial performance and long-term success of the organization. Understanding an organization's impacts outward is necessary in order to identify financially material risks, opportunities, and impacts for the organization.~~

~~An organization may want to report on its impacts outward as well as the financially material risks, opportunities, and impacts it faces as a result of these outward impacts, in an annual report or an integrated report, for example. When doing so, It is important for the organization to report on all its material topics identified using the GRI Standards, in order to report in accordance with the GRI Standards. The material topics identified using the GRI Standards need to be prioritized in their own right and cannot be deprioritized on the basis that they are not financially material.~~

Box 1. Sustainability reporting and financial and value creation reporting

The GRI Standards enable organizations to report on the most significant impacts of their activities and business relationships on the economy, environment, and people, including impacts on human rights. These impacts are of primary importance to sustainable development and to organizations' stakeholders, and they form the focus of sustainability reporting.

The impacts of an organization's activities and business relationships on the economy, environment, and people can have negative and positive consequences for the organization itself. These consequences can be operational or reputational, and therefore in many cases financial. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs for the organization due to legislation that seeks to shift energy use toward renewable sources.

Even if not financially material at the time of reporting, the impacts of an organization’s activities and business relationships on the economy, environment, and people will eventually translate into financially material issues. The impacts are therefore also important for those interested in the financial performance and long-term success of the organization. Understanding these impacts is a necessary first step in order to determine related financially material issues for the organization.

Sustainability reporting is therefore crucial for financial and value creation reporting. Information made available through sustainability reporting provides input for identifying financial risks and opportunities related to the organization’s impacts and for financial valuation. This in turn helps in making financial materiality judgments about what to recognize in financial statements.

While the impacts of an organization’s activities and business relationships on the economy, environment, and people may become financially material, sustainability reporting is also highly relevant in its own right as a public interest activity. It is independent of the consideration of financial implications. It is important for the organization to report on all the material topics that it has determined using the GRI Standards. These material topics cannot be deprioritized on the basis that they are not financially material.

2.3 Due diligence

In the GRI Standards, ~~D~~due diligence ~~is~~refers to the process through which an organization identifies, prevents, mitigates, and accounts for how it addresses its actual and potential negative impacts on the economy, environment, and people, including impacts on human rights. The organization should address potential negative impacts through prevention or mitigation. It should address actual negative impacts through remediation, in cases where ~~it~~the organization identifies it has caused or contributed to those impacts.

The way an organization is involved with negative impacts is important for determining how to address the impacts:

- The organization should avoid causing or contributing to negative impacts through its own activities, and it should address such impacts when they occur by providing for or cooperating in their remediation through legitimate processes.
- In the case of negative impacts that are directly linked to the organization’s operations, products, or services by its business relationships, the organization should seek to prevent or mitigate these impacts even if it has not contributed to them. The organization ~~does~~is not ~~have a responsibility to provide~~responsible for providing remediation ~~of~~for these impacts, but it can play a role in ~~doing so~~providing it.

If it is not feasible to address all identified impacts at once, the organization should prioritize the order in which it addresses negative impacts based on their severity and likelihood. In the case of potential negative human rights impacts, the severity of the impact takes precedence over its likelihood. See Section 2 of *GRI 103: Material Topics* for more information.

Due diligence is elaborated by the *United Nations (UN) Guiding Principles on Business and Human Rights*, the *Organisation for Economic Co-operation and Development (OECD) ~~OECD~~ Guidelines for Multinational Enterprises*, and the *OECD Due Diligence Guidance for Responsib~~i~~l~~ity~~e Business Conduct*.

2.4 Stakeholder

Stakeholders are individuals or groups that have interests that are~~,~~ affected or could be~~,~~ affected by an organization’s activities~~ and decisions~~.[2] Common categories of stakeholders for organizations

[2] Organisation for Economic Co-operation and Development (OECD), *OECD Due Diligence Guidance for Responsible Business Conduct*, 2018.

~~include~~are business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, non-governmental organizations, shareholders and other investors, suppliers, trade unions, and vulnerable groups.

In the GRI Standards, an interest (or 'stake') is something of value to an individual or group ~~that~~, which can be affected by the activities ~~and decisions~~ of an organization. Stakeholders can have more than one interest. Not all interests are of equal importance and they do not all need to be treated equally. Human rights, for example, have a particular status compared to other interests, as they set a threshold in terms of the acuteness of impacts on people. The term 'rightsholders' is often used to refer to stakeholders whose individual human rights or collective rights (held by groups such as indigenous peoples) are or could be affected.

Stakeholder interests can be negatively or positively affected by the organization's activities ~~and decisions~~. Due diligence focuses on identifying ~~individuals or groups whose~~stakeholder interests~~, such as their human rights,~~ that are or could be negatively affected by the organization's activities ~~and decisions~~.

Stakeholders ~~do~~may not ~~need to~~ have a direct relationship with the organization; for example, the workers in the organization's supply chain can also be its stakeholders. ~~The organization should also identify the interests of those who are unable to articulate their views (e.g., future generations).~~ The organization can also have an impact on stakeholders, such as local communities, that live at a distance from the organization's operations. Stakeholders might themselves be unaware that they are stakeholders of a particular organization, especially if they have not yet been affected by its activities ~~and decisions~~. The organization should identify the interests of these and other stakeholders who are unable to articulate their views (e.g., future generations).

Engaging with stakeholders helps the organization identify and manage its negative and positive impacts. Not all ~~of an organization's~~ stakeholders will be affected by all activities ~~and decisions~~ of the organization. The organization needs to identify the stakeholders whose interests have to be taken into account in connection with a specific activity ~~or decision~~ (i.e., ~~the~~ 'relevant stakeholders').

The organization ~~might~~may not be able to engage with all relevant stakeholders directly. In these cases, the organization can engage with credible stakeholder representatives or proxy organizations (e.g., non-governmental organizations, representative public bodies).

In addition to engaging with stakeholders, the organization can also consult with experts ~~on~~of specific issues or contexts (e.g., academics, non-governmental organizations~~, academics~~) for advice~~, such as for~~ on identifying and managing its impacts.

Sometimes it is necessary to distinguish between stakeholders whose interests have been affected (i.e., 'affected stakeholders'), and those whose interests have not yet been affected but could potentially be affected (i.e., 'potentially affected stakeholders'). This distinction is important in due diligence. For example, if an organization's activity results in a safety hazard, workers who are injured because of the hazard are affected stakeholders, and workers who have not yet been injured but who are exposed to the hazard and could be injured are potentially affected stakeholders. The distinction between affected and potentially affected stakeholders helps identify which workers should receive remedy.

~~These distinctions are important in due diligence. In the example of the safety hazard, identifying workers who are injured is necessary to determine which workers should receive~~ remedy~~.~~