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Item 05 – GRI Topic Standard Project for Economic Impact – Working paper

For GSSB discussion

Date	27 September 2024
Meeting	16 October 2024
Project	GRI Topic Standard Project for Economic Impact
Description	This paper provides the GSSB with an overview of the relevant research, outcomes of working group (WG) discussions, and key proposals for the revision of *GRI 201: Economic Performance 2016* standard. **Request to GSSB:** The Standards Division requests the GSSB reviews proposals put forward in this paper in preparation for a discussion during the upcoming GSSB session. This discussion will provide an opportunity for GSSB members to react to the revisions proposed in this paper, through asking questions on technical content, putting forward additional recommendations or raising concerns. This process is intended to test the technical content and proposed direction of the revised standard with the GSSB and ensure alignment between the GSSB, WG and Standards Division in the revision of the standard.

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Introduction

As part of the GSSB (Global Sustainability Standards Board) Work Program 2023-2025, the GSSB identified the GRI's Topic Standards and disclosures on economic impact as a priority for revision. These Standards were selected based on stakeholder feedback, including the consideration of national and international developments. The project was formally approved in September 2023 with the primary objective of reviewing the existing GRI economic impact disclosures portfolio. The project will also aim to develop a set of new disclosures and standards that better represent internationally agreed-upon best practices.

There are currently eight GRI Topic Standards that relate to economic impact:

- *GRI 201: Economic Performance 2016*
- *GRI 202: Market Presence 2016*
- *GRI 203: Indirect Economic Impacts 2016*
- *GRI 204: Procurement Practices 2016*
- *GRI 205: Anti-corruption 2016*
- *GRI 206: Anti-competitive Behavior 2016*
- *GRI 207: Tax 2019*[1]
- *GRI 415: Public Policy 2016*

Purpose and scope

This paper provides the GSSB with an overview of the relevant research, outcomes of working group (WG) discussions, and key proposals for the revision of *GRI 201: Economic Performance 2016*. One objective of this working paper is to encourage deeper dialogue with the GSSB on the subject, with the aim of building consensus and identifying a path forward.

The concepts presented in this paper are grounded in authoritative intergovernmental instruments, internal research carried out by the Standards Division (SD), and recommendations from WG experts. GSSB comments and feedback will further inform the direction of the revision process.

Key elements covered:

1. **Current *GRI 201* guidelines:** An overview of the existing guidelines, including their objectives and the challenges faced during implementation.

2. **Proposed revisions:** Detailed descriptions of the proposed changes to *GRI 201*, including new metrics, reporting standards, and methodologies.

3. **Suitability assessment:** An evaluation of the proposed revisions to determine their practicality, effectiveness, and potential impact on economic performance reporting.

4. **Background research:** Summarized findings from authoritative research and insights from industry experts, highlighting the need for revision.

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[1] Not considered for revision in current project

1. Current GRI 201 Guidance

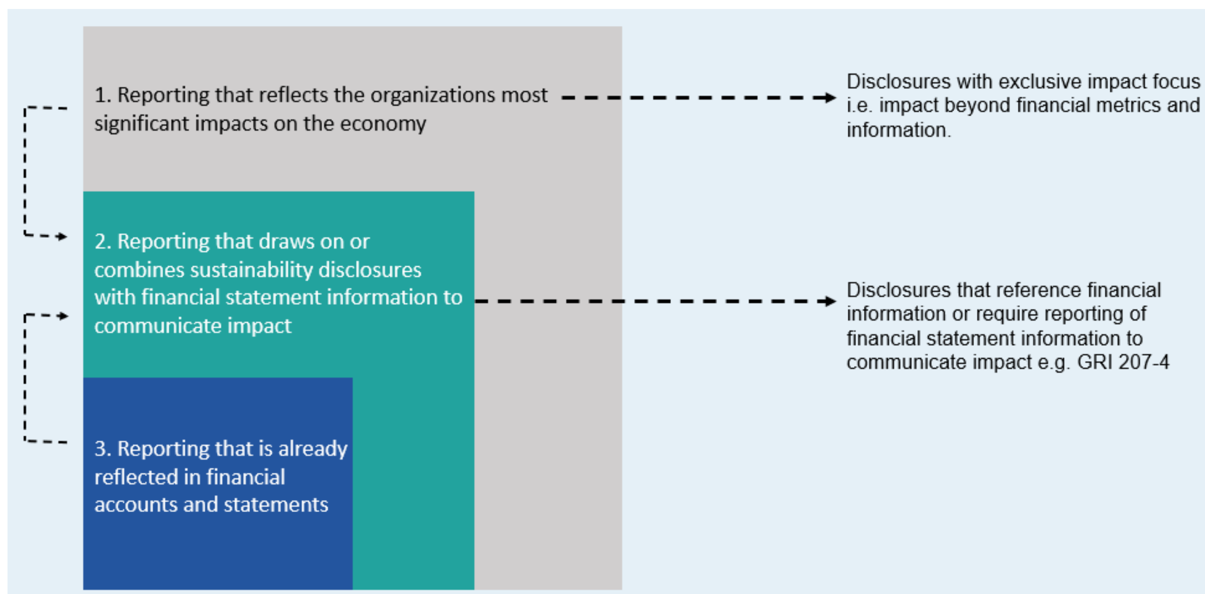
GRI 201 provides disclosures for organizations to report information on their economic performance-related impacts and how they manage these impacts.

These disclosures were initially intended to provide report users with a more complete overview of an organization's impact on the economy than would be provided in a traditional financial statement or within a sustainability report.

The SD puts forward that within the existing series of Topic Standards and disclosures on economic impact, there are **three broad organizing blocks** (see Figure 1). These frame the types of disclosures included in the current Standard and the actions needed to revise these disclosures.

Block 1: Economic impact disclosures

Figure 1. Organizing blocks for GRI economic impact disclosures



Several disclosures within existing GRI Topic Standards have a distinct and exclusive focus on an organization's economic impact.

For example, disclosures in *GRI 205: Anti-corruption*, *GRI 206: Anti-competitive Behavior,* and *GRI 415: Public Policy* cover the impact of an organization intentionally influencing rules and regulations that govern economic exchanges. *GRI 415* includes 'an organization's participation in the development of public policy, through activities such as lobbying and other forms of political engagement'.

The purpose of impact-focused disclosures is to provide stakeholders with insights into the organization's socioeconomic contributions beyond the information related to financial performance or that drawn from financial or audited statements.

Authoritative sources such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct set clear expectations for businesses to take responsibility for the impacts they cause and those they contribute to or are linked to through their business relationships. The World Economic Forum WEF [20] also provides updated and expanded metrics explaining the broader role of organizations in sustainable value creation and the impacts this has on economic actors and economic systems.

Block 2 (Overlaps between impact and financial disclosures) and Block 3 (Disclosures that replicate financial statement information)

The current format of *GRI 201* includes several disclosures that require organizations to draw on or refer to financial statement data when reporting on the economic impacts of their operations and activities. These disclosures were initially intended to provide report users with a more complete overview of an organization's impact on the economy than would be provided in a traditional financial statement or within a sustainability report.

For example, an organization reporting against disclosures in *GRI 201* is 'expected to compile information for economic disclosures using figures from its audited financial statements or from its internally audited management accounts, whenever possible'. *GRI 207: Tax* is another good example of a Topic Standard containing disclosures requiring organizations to reference financial information drawn from statutory reports.

In conducting a review of reporting trends for organizations reporting against Disclosure 201-1 in *GRI 201: Economic Performance*, the GRI research team noted the following:

- Few organizations refrain from reporting against GRI 201-1;
- Many organizations draw on information directly from their financial statements;
- Many organizations go beyond reporting information in their financial statements and expand on other indicators, including community investments, labor costs, or expenses on suppliers.

Although *GRI 201* remains one of the most reported Topic Standards, there are several limitations in the current Standard which this revision seeks to address, including:

1. **Lack of clarity and purpose:** Stakeholder feedback at the project's outset indicated that the current disclosures in *GRI 201* are unclear and inconsistently interpreted and would benefit from a thorough content review. WG feedback further highlighted the definition of economic performance, or lack thereof, as a concern. Furthermore, the background on the topic does not provide any meaningful guidance on the purpose of the Standard and how its content informs this purpose. This contributed to a lack of clarity on the Standard and the information to be disclosed.

2. **Narrow focus on financial metrics:** WG feedback noted that a number of disclosures in *GRI 201* currently overlap or simply duplicate data disclosed in traditional financial statements, providing limited added value for report users and creating an extra reporting burden for reporting organizations. These disclosures may indicate financial flows between stakeholders and the organization. However, they could be considered too narrow to sufficiently define economic performance, leaving out important aspects such as job creation, economic stability, and contributions to local economies, which are increasingly relevant in corporate sustainability assessments.

3. **Limited use for the public sector:** *GRI 201* is primarily designed for private sector organizations, which can limit its applicability and relevance to public sector organizations. Public entities often have different economic objectives and performance indicators, such as public value creation or service delivery efficiency, which is not fully addressed by the Standard.

4. **Lack of contextual reporting**: The Standard does not always encourage organizations to provide sufficient contextual information to interpret the economic data meaningfully. For example, financial data without context on market conditions, economic environment, or the organization's strategic goals can be less helpful to users of the Standard.

5. **Underrepresentation of long-term value creation**: Feedback suggests that current disclosures may place an emphasis on understanding short-term financial performance rather than long-term value creation. This can lead to underreporting activities that contribute to sustainable economic growth and resilience for the organization and its stakeholders.

6. **Limited consideration for externalizing costs:** The Standard tends to overlook externalized costs, such as environmental degradation or social inequalities, resulting from an

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organization's operations. These externalized costs can have significant long-term economic implications, but they are often not reflected in the economic performance disclosures.

Developing a revised purpose and intent will help position the Standard more clearly within the GRI Standards system and further strengthen connectivity with other reporting standards and frameworks, as well as financial statements and statutory reports.

2. Proposed revisions

This section presents a set of broad proposals for revising *GRI 201*. It encompasses a detailed problem statement and outlines proposed solutions, as well as the rationale for the inclusion of these recommendations into the GRI Standards framework.

Proposal 1: Update the purpose of the Standard

Challenge:

According to feedback from the WG, one of the overarching concerns with *GRI 201* is a lack of clear purpose. This results in several issues, including incoherence between the objective of the Standard and its current disclosures.

These issues can be observed in the ambiguity of the title, the lack of background information on the topic, a lack of sufficient guidance at the disclosure level, and a lack of clarity around why certain disclosures were included or how they inform the primary purpose of the Standard. For instance, while *GRI 201* introduces several metrics for organizations to disclose financial information, these alone provide limited insight into how an organization's activities and operations contribute to the economy. This can often cause organizations to misunderstand the perspective from which they are reporting in their disclosures, leading them to refer to financial statement information as a compliance exercise.

According to the WG, disclosures for reporting on how an organization's economic performance impacts the economy should consider how an organization creates value, in what form, and for whom, rather than simply focusing on how much value it generates. If the value generation process exacerbates inequality or human rights abuses, it creates additional costs for the economy, though not immediately for the organization. The WG suggested that these issues are currently inadequately covered and disconnected within the current Standard, and there is little logical and narrative thread between an organization's financial reporting and its economic performance-related impacts.

Solution:

In rethinking the purpose of the Standard, the WG recommended several concepts that should form part of a revision that aligns with recent developments. These include emerging concepts, such as stakeholder capitalism and stakeholder governance (balancing benefits for stakeholders vs. shareholders), in addition to more established concepts now gaining traction in sustainability reporting discourse, such as the organization's purpose. These concepts, while typically not as prominent or comprehensively reported on as financial performance metrics, such as profit and loss or return on assets, represent important data points for report users in understanding the true impact of organizations. Updating disclosures to account for and seek greater connectivity between impact and financial performance information is seen as a cornerstone of the revised purpose of this Standard.

Therefore, it is proposed that *GRI 201* be updated to bring attention to how an organization creates, harnesses, and distributes monetary value for stakeholders over time to understand an organization's impact on the economy. 'How' an organization creates value for stakeholders is an area particularly where organizations have substantial scope for improved reporting and disclosure. This is the core of what the Standard should address and will guide organizations in understanding the reporting requirements better. It will also more meaningfully reconcile sustainability impacts and financial performance while accounting for the externalization of costs.

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Suggestions for an updated title to align with this purpose include Social Financial (or Socio-financial, or even Economic) Highlights or Economic ‘Sustainable’ Performance. These, along with other alternatives, will be explored further.

Implementation:

Based on the above inputs, the WG recommends repurposing the Standard as a central location to enable report users to access relevant financial accounting and contextual information. This will give report users a complete view of how an organization contributes to the economy, particularly the extent to which an organization’s operational decisions and incentives account for and influence the economic well-being of its stakeholders and the environment.

To achieve this, the WG proposes the development of an expanded introduction and topic background section for the Standard. The revision of these sections will provide more comprehensive contextual information on the topic of economic performance needed by organizations to understand its relevance, connection with other GRI Standards, and how the topic fits within the overall framework of corporate sustainability. These revised sections will also include new concepts, principles, and issues related to economic performance and underline their significance to stakeholders and report users.

The SD will also develop expanded guidance for the Standard. Considering the complex reporting landscape, as *GRI 201* requires both financial and impact-related information, it can be difficult for report preparers and information users to clearly understand the context, rationale, and inclusion of certain concepts in the revised Standard. The additional guidance would mitigate any potential misinterpretation or ambiguity.

Rationale for inclusion in GRI Standards:

Reflect emerging sustainability concepts in GRI Standards*.* Rethinking the purpose of the Standard will enable GRI to position itself around several issues gaining prominence in the discourse on an organization’s impacts on the economy. These include a growing acknowledgment that organizations need to account for all their costs, including those that may be externalized. For example, environmental costs are transferred through pollution, and labor is exploited through low wages. There is also a growing shift towards organizations pursuing value optimization rather than profit maximization, which is acknowledged as a key part of creating more sustainable practices and equitable business outcomes for all.

Improved usability. Revising the Standard’s purpose can help position it as a central location for report users to access meaningful links between financial statement information and impact disclosures. This builds on the approach adopted by the *GRI 207: Tax* by providing organizations with a space to critically evaluate an organization’s sustainability approach in the context of its impact on the economy.

Proposal 2: Disclosure 201-1 to become value-added statement

Challenge:

Disclosure 201-1 is one of GRI’s most widely reported disclosures. Through this disclosure, organizations can provide information on creating and distributing economic value, giving stakeholders a basic indication of how wealth is created. The disclosure is intended to provide a useful picture of the direct monetary value added to local economies as one possible proxy for an organization’s economic impact.

One of the main concerns raised regarding this disclosure in its current format is the reference to financial information, which often duplicates or closely overlaps with data already disclosed in traditional financial statements such as the profit and loss (P&L) statement or internally audited management accounts. Beyond that, the extent to which it reflects actual economic performance is unclear. By measuring income and costs, Disclosure 201-1 provides a broad measure of value-added, although it ignores costs and benefits not adequately measured by the market. These metrics

may be considered too narrow to capture an organization's impact on the economy. They may also leave out important aspects across social and environmental dimensions of impact, such as job creation, economic stability, and contributions to local economies, which are increasingly relevant in corporate sustainability assessments.

In addition, Disclosure 201-1 contains several technical shortcomings that have scope for improvement, including:

- how economic value generated is calculated;
- no provision is given to differentiate between the value distributed to different providers of capital (shareholders and financiers);
- lacks guidance on environmental expenditures; and
- there is ambiguity between an investment (an asset) and an expenditure (a profit-and-loss item).

These technical inaccuracies may limit the usefulness of the disclosure for reporters and report users and pose a risk of greenwashing, manipulation, and target washing.

Solution:

The WG proposed converting Disclosure 201-1 into a value-added statement (VAS). The VAS is a general-purpose statement (tool) that, when reconciled with financial accounting, provides general audiences with information on how and where money flows through the activities of an organization. This provides greater insight into which stakeholder groups can access these flows and the value of the monetary flows that they receive relative to others. The VAS does not account for overall value but focuses on a particular aspect of the business model – namely the flow of funds – and acts as an input to understanding an organization's distribution to or extraction of value from the environment, society, and the economy.

The VAS utilizes data that an organization already collects as part of its financial reporting requirements and presents it in a way that provides greater insight into an organization's sustainability commitments and impact on the economy. Some basic concepts of the approach are as follows:

1. It is reconciled with financial accounting.
2. It is meant to be used by the general public and stakeholders at large.
3. It provides an integrated view of the impact an organization has on its stakeholders through the distribution of monetary value – not simply repeating financial information.

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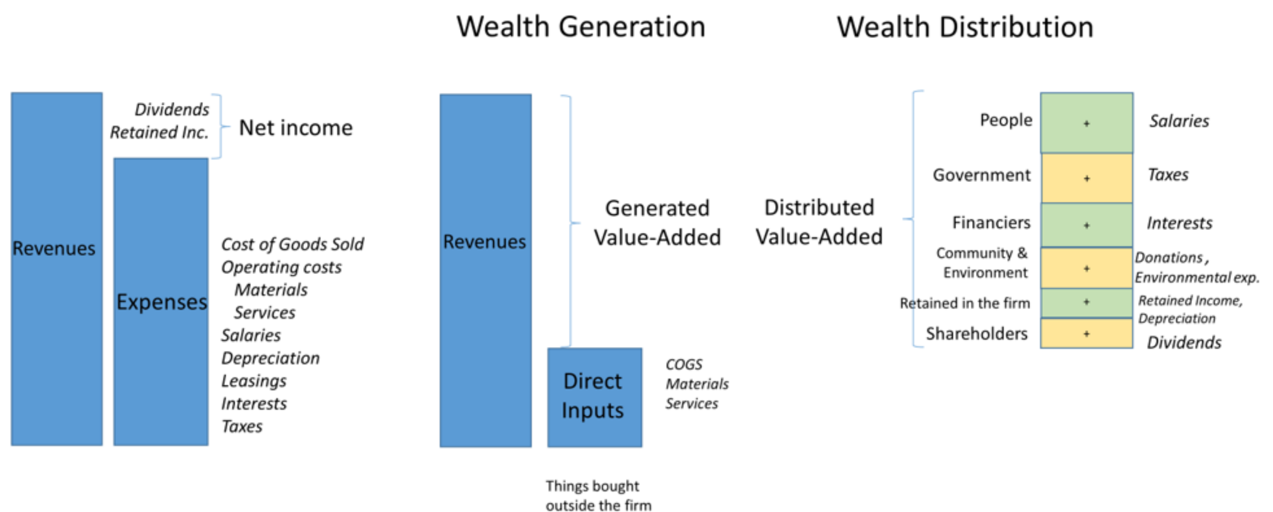
Figure 2. Income statement vs VAS



As shown in Figure 2, the VAS provides a framework for presenting information through a social value lens while maintaining flexibility that can be adapted for geographic or industry variations. In this way, it embeds sustainability further into financial reporting and brings accountants on board with sustainability. Furthermore, drawing on absolute distribution figures (see Figure 3), the VAS can also illustrate the change in the share of monetary flows distributed to each stakeholder group over time, giving insight into how an organization may prioritize certain stakeholder groups across different periods.

Figure 3. Value-added statement

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total	Average
Sales	21 247 755	37 204 197	44 730 843	53 030 808	44 812 965	64 251 293	96 864 052	97 771 340	66 550 850	526 464 103	58 496 011
Direct cost	12 783 045	24 008 698	29 739 261	36 439 709	26 356 925	37 570 056	53 717 029	57 595 271	36 323 564	314 533 558	34 948 173
Mexican Costs	9 587 284	18 006 523	22 899 314	32 066 944	22 980 434	32 773 668	47 471 630	50 929 142	31 601 501	268 316 440	29 812 938
Foreign Costs	3 195 761	6 002 175	6 839 947	4 372 765	3 376 491	4 796 388	6 245 399	6 666 129	4 722 063	46 217 118	5 135 235
Exceptional result, Fresnillo spin off				16 243 410							
Value-Added Created	8 464 710	13 195 499	14 991 582	32 834 509	18 456 040	26 681 237	43 147 023	40 176 069	30 227 286	228 173 955	25 352 662
	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total	Average
Shareholders	1 073 350	2 200 000	2 085 000	6 757 088	3 734 335	9 323 245	6 772 988	9 858 322	8 624 784	50 429 112	5 603 235
Reinvestment	1 786 702	2 771 577	3 833 202	11 771 696	5 626 864	2 639 146	15 056 911	9 423 171	3 184 201	56 093 470	6 232 608
State	995 128	2 178 538	1 946 931	5 362 224	1 033 032	3 678 604	9 226 561	6 388 244	3 926 239	34 735 501	3 859 500
Finance	126 492	183 836	154 831	1 292 277	71 867	1 101 701	653 403	151 606	276 993	4 013 006	445 890
Employees and retired people	2 146 209	2 665 812	2 887 995	3 065 827	3 335 041	3 948 702	4 728 111	5 161 594	4 707 085	32 646 376	3 627 375
Suppliers	2 215 201	2 988 300	3 803 960	4 341 365	4 361 756	5 638 123	6 279 550	8 659 208	8 745 724	47 033 187	5 225 910
Community and Environment	121 628	207 436	279 663	244 032	293 145	351 716	429 499	533 924	762 260	3 223 303	358 145
Value Added Shared	8 464 710	13 195 499	14 991 582	32 834 509	18 456 040	26 681 237	43 147 023	40 176 069	30 227 286	228 173 955	25 352 662

The VAS approach would also allow report users to compare an organization's sustainability commitments, including its statements on value generation and distribution, against its actual performance and the resources it commits to managing its impacts. Including disclosures that require organizations to explain how this 'value' is being addressed through changes in inputs and process or reinvestment of profit to finance new capital would arguably further enhance the usefulness of the VAS within the GRI Standards.

Considerations for VAS:

Below are several considerations raised in relation to the proposed use of a VAS in the GRI Standards, along with responses by the GRI Economic Impact Working Group:

1. VAS remains a novel concept and has not been extensively used by organizations.

While the WG acknowledges VAS is not yet a widespread tool among reporting organizations, there are a number of technical pronouncements, initiatives, and case studies in various countries such as Italy, Brazil, Argentina, Spain, Mexico, South Africa, and the UK, where the VAS has been applied. Building on a growing source of literature on the topic, a number of constituencies have also begun to endorse the approach. The VAS reorganizes financial accounting information from a societal perspective, helping to align the financial aspects of an organization with an integrated sustainability reporting effort.

2. While the VAS utilizes existing financial information, it presents a net amount. Therefore, cross-checking and reconciling the values with those in financial statements can be difficult.

The VAS preparation methodology provides mechanisms that assure reconciliation with financial accounting records. It is not the 'net amount' that brings difficulties. On the contrary, by setting a mechanism that forces cross-checking, the VAS approach allows for proper reconciliation, and no line is determined 'by difference' as currently exists with 'retained value' in Disclosure 201-1.

3. The use of 'value-added' terminology poses a challenge for reporting organizations and report users due to varying interpretations by different stakeholders.

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254 The WG acknowledges the challenges 'value-added' terminology poses in this context. One option to
255 address these concerns is to develop more technically accurate alternative naming conventions and
256 terminology for what remains conceptually a VAS. For example:

257 - Social-financial statement
258 - Stakeholders' financial statement
259 - Social-financial information by stakeholders
260 - Monetary flows by stakeholders
261 - Monetary value generation and distribution flows

262 Furthermore, adapting the terminology to fit these alternative naming conventions will also be
263 important. For instance, highlighting the VAS as a tool to demonstrate how monetary flows are
264 redirected through the organization and how different stakeholders have access to these monetary
265 flows based on the activities of an organization. This provides a clearer representation of what the
266 VAS can and cannot provide for report users. It is, however, worth noting that Disclosure 201-1 is
267 already confronted with the same risk. The key is to disclose the basis and maintain consistency for
268 comparison purposes rather than use a 'one-size-fits-all' approach.

269 **4. It has been put forward that the VAS employs a wealth concept, i.e., the notion of income**
270 **being the change in wealth. It may again offer a limited assessment of everything that**
271 **converts to cash flows.**

272 The VAS does not employ the above-referred notion of income (change in wealth or equity from one
273 year to another), which is the IFRS approach. Rather, it is based on the concept of determining
274 income on its own merits (known as the 'revenues and expenses' view), which conforms to a different
275 theoretical accounting stream. For cash flow purposes, IFRS already has a Statement of Cash Flows.
276 The VAS approach gives financially related information a different societal dimension.

277 **5. The VAS attempts to show the flow (change in the stock), but the stock itself is not**
278 **presented in the balance sheet, so it conceals those business models that operate by**
279 **extracting value from one stakeholder (for example, the environment) and giving it to**
280 **shareholders as returns. However, we know many environmental and social problems**
281 **arise due to resource extraction without fair compensation and set up power structures to**
282 **maintain potentially exploitative practices. In this case, is the focus of the VAS on 'wealth**
283 **equals cash', or does it also consider the commonwealth?**

284 The VAS approach is a tool that presents a different perspective of the financial position of an
285 organization in terms of its value-added, aggregated, or generated, typically represented as wealth.
286 Most important, however, is how it presents monetary flows to various stakeholders, including labor.

287 The tool is based on the idea that organizations are trustees of goods and resources (commonwealth)
288 put into their hands and helps report users understand how an organization adds and distributes
289 value to society at large. As an accounting tool, it also presents monetary flows and, ultimately, cash.
290 Its main purpose, however, is not to present 'wealth equals cash' but to show how an organization
291 deals with the resources they use in terms of value generated and distributed to society.

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Rationale for inclusion in GRI Standards:

Builds on the existing popularity of *GRI 201* amongst reporters. *GRI 201* is already the most commonly reported of GRI's economic Standards. The high level of reporting against *GRI 201* is likely because almost all organizations already report their revenue – an indicator under *GRI 201* – in their annual reports and financial statements. Existing usage and familiarity amongst reporting organizations may facilitate ongoing reporting against more comprehensive reporting requirements, such as a revised VAS.

A practical, additive approach, leveraging data already reported by organizations as part of the financial reporting requirements. While many impact-weighted accounting initiatives are gaining attention, it may still be too early to incorporate VAS into the GRI Standards due to ongoing challenges linked to quantification, data availability, and quality and complexity in standardization, which may create a substantial reporting burden for organizations. Therefore, at this stage, the VAS may be more practical to select as one of the currently available methods that are accessible and feasible for organizations to adopt as a first step to gradually increasing impact reporting capabilities on this topic. Furthermore, by leveraging existing financial reporting information that organizations already maintain, VAS minimizes the additional reporting burden on organizations, making it an efficient and useful tool for both reporters and stakeholders.

An opportunity for GRI to lead the normalization of the VAS on a larger scale. Including the VAS in *GRI 201* can promote its normalization on a larger scale by setting a precedent for transparent financial reporting. By integrating VAS, organizations are encouraged to consistently report on the economic value they generate and distribute among stakeholders, thereby establishing a benchmark for accountability and comparability. More organizations adopting this practice can drive widespread acceptance and standardization of VAS, facilitating better stakeholder understanding and decision-making across industries.

Proposal 3: Business model-related disclosures

Challenge:

The current Standard does not require an organization to disclose specific information on how its business model(s) and strategy contribute to its economic performance and, ultimately, its impact on the economy and its stakeholders. WG members highlighted that reported financial performance information may overlook information that affects an organization's impacts, such as how value is created and distributed and how costs are externalized in the process. By not considering these factors, users risk making decisions based on incomplete information, for example, in cases where organizations report strong performance but rely on extractive or exploitative strategies that may be unsustainable in the long term.

Proposed solution:

The WG, therefore, proposes the inclusion of disclosures or recommendations that provide insight into specific components of an organization's business model, strategy, and purpose. An entity's purpose, strategy, objectives, and business model are interrelated concepts. The disclosure of an organization's purpose, strategy, objectives, and business model can help report users better understand what an organization does and how and why it does it.

In *GRI 201*, the disclosure of certain aspects of an organization's business model can also provide insight into the key resources and relationships that facilitate the generation of value in the organization. An organization may generate a significant portion of its value from its workforce or through various stakeholder relationships. Enhanced disclosures of these relationships and the actions taken by the organization to manage, sustain, and share value equitably with stakeholders over the longer term [14] are critical in assessing an organization's impact on the economy.

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Implementation:

The SD proposes an expansion of the topic management approach disclosures as an option to address this feedback. Management approach disclosures are a narrative explanation of how an organization manages a material topic, such as economic performance, the associated impacts, and stakeholders' reasonable expectations and interests.

In the context of *GRI 201*, topic management disclosures may complement topic disclosures by providing additional information on an organization's corporate governance and decision-making processes that affect its impacts on the economy and its stakeholders. These may consider the following:

1. The link between business model, value creation, and net cash inflows to the organization.
2. How the organization leverages or changes its business model to achieve its purpose.
3. The organization's approach to balancing financial performance with quality stakeholder relationships.
4. Whether the description of the business model focuses on the changes in the organization's business model(s) from the previous reporting period or also covers standing information about business model(s).

WG members further note the value in understanding aspects linked to the organization's ownership and share structure, including whether an organization is a benefit corporation; has dual-class share structures or golden shares; whether the organization is steward, employee, or community-owned; whether there is a stated purpose, and if so, what it is and how it is governed.

This would help clarify whether and how sustainability is included in strategic decision-making, the time horizons over which decisions are based, and how organizations value different stakeholders. These disclosures may follow a similar approach to those adopted in *GRI 207: Tax.*

In presenting this proposal for the revised Standard, the SD acknowledges that GRI does already require organizations to disclose context-related information both in *GRI 2: General Disclosures* (for example, information on cross-shareholding and power exerted across the value chain) and as part of its materiality assessment in *GRI 3*. This is currently limited when compared to business model-linked disclosures, for example, in the ESRS 2 and IFRS S1 standards. While there may be a need to consider an update to the business model disclosures in the GRI Universal Standards as part of the GSSB's future work program, there is already an opportunity in the revision of *GRI 201* to introduce a robust set of topic-specific disclosures. This would provide report users with this information and could serve as a first step toward more substantial future development of *GRI 2* disclosures.

Alternatively, for each relevant topic disclosure, the SD proposes the development of additional guidance or recommendations on business model-linked information or cross-referencing against existing disclosures from other standards.

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Rationale for inclusion in GRI Standards

Alignment with EFRAG and ISSB standards. By proactively including business model disclosures in the revision of *GRI 201*, GRI could reinforce its position as a leading global standard for sustainability reporting. This move would demonstrate GRI's commitment to evolving and addressing the growing complexities of modern business practices and strengthen interoperability with other standards setters in the landscape – IFRS and ESRS – on this issue.

Broaden focus beyond profit generation. The inclusion of business model information complements GRI's focus on impact. It will provide users with information to understand the extent to which the organization is meeting its stakeholders' needs and its ability to sustain or develop its operations in the short, medium, and long term.

WG members agree that a common problem in corporate reporting is a lack of consideration for externalizing costs, often focusing on profit maximization. Developing and promoting disclosures, tools, and approaches that draw on an organization's business model and strategy to report more accurately how profit is generated would provide useful insights for users of GRI Standards. For example, through additional business model disclosures, GRI could provide report users with deeper insights into how an organization externalizes costs to realize performance objectives and how it accounts for this.

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349 # 3. Suitability of proposals

350 The previous section presented three broad proposals for the revision of *GRI 201: Economic*
351 *Performance*. This section considers the suitability of these proposals based on their compatibility
352 with GRI's impact mandate and reporting system. The assessment also considers the alignment of
353 each proposal with current regulatory requirements, industry best practices, and stakeholder
354 expectations.

355 Reporting on an organization's business model or its specific components may provide useful context
356 for report users. It helps them understand relevant aspects of the organization's strategy and
357 approach, such as its purpose, resources used, and relationships managed. This context helps to
358 understand how the organization creates and distributes value, as reflected in existing topic
359 disclosures. However, a key challenge to integrating business model disclosures into GRI Standards
360 is the scope of these disclosures. There is no single widely accepted definition of 'business model',
361 and organizations can understand the term differently, leading to inconsistencies and a lack of
362 comparability in reporting. For instance, reporting standards by EFRAG and the ISSB rely on similar
363 definitions of business models, and GRI may seek to align with these or narrow the definition to align
364 with GRI's focus on impact.

365 Clear boundaries would, therefore, be needed to avoid the following:

366 1. overlap with business model disclosures on risks and dependencies of the organization; and
367 2. duplication with existing disclosures in *GRI 2* and *GRI 3*.

368 Identifying and ring-fencing only those components of the business model that are relevant for and
369 enhance reporting of *GRI 201* will, therefore, be critical.

370 The remaining proposals are linked to the following:

371 1. the purpose of the revised Standard, i.e., as a centralized location to bridge the gap between
372 financial accounting and impact reporting; and
373 2. the use of a VAS as a key tool to facilitate this.

374 It has been argued that these proposals would, in theory, help organizations better report on their
375 economic contributions and make a stronger link between the financial value of impacts or indicators
376 across other Topic Standards and how this translates to impact on the economy. The benefit may be
377 greater interoperability between GRI and other sustainability standards and frameworks.

378 The proposed VAS approach, for instance, would represent an incremental 'step up' in terms of what
379 is already contained in *GRI 201* rather than a complete overhaul. The approach remains relatively
380 simple and easy to comprehend and can be accommodated within GRI's existing structure. However,
381 striking a balance between what is feasible and available for reporting organizations, such as using
382 VAS, versus pushing the boundaries of reporting with newer methodologies remains crucial. On the
383 one hand, tools like VAS offer a practical and straightforward way to report economic performance,
384 leveraging existing data. This approach minimizes the additional reporting burden, ensuring
385 organizations can maintain transparency and compliance without overwhelming resources. The VAS
386 is not, however, a panacea, as it has its own set of limitations. For example, there is no detailed
387 standard on what to consider value generated and value distributed, leading to a potential lack of
388 consistency or uniformity regarding how organizations think about this.

389 On the other hand, adopting newer and more complex reporting methodologies, such as the Impact
390 Weighted Accounting Initiative (IWAI), may provide deeper insights and align with evolving
391 stakeholder expectations for measuring and reporting an organization's economic impact. However,
392 methods such as these remain under development and are not without challenges, such as difficulty
393 in quantification, data availability and quality, and adoption and implementation, which can
394 significantly increase the reporting burden on organizations. Therefore, selecting VAS as a current
395 method is practical, easy for organizations to adopt, and requires disclosure accordingly.

396 While the proposals put forward in the previous section may arguably enhance the clarity, relevance,
397 and comprehensiveness of *GRI 201*, the features of these proposals require further consideration as
398 they may not fit within the system of GRI Standards.

399 4. Research

400 In response to feedback from the WG, the GRI Research Team conducted internal research to
401 understand how an organization's economic performance can be conceptualized, measured, and
402 reported within the system of GRI Standards.

403 Economic performance perspectives

404 The word performance indicates the measurement of results. In economics, it typically refers to the
405 measurement of the economic activity in a given territory, usually by measuring GDP. In this note, we
406 review some key ideas from macroeconomics before exploring ways to apply them at the level of the
407 organization.

408 Economic performance at the macro-level

409 Economic performance is defined as the evaluation of how effectively an economy manages its
410 resources to foster growth, ensure social equity, and minimize environmental impact. This expanded
411 definition goes beyond traditional measures such as Gross Domestic Product (GDP) to include
412 metrics assessing societal well-being and environmental health. In this way, economics emphasizes
413 the balance between the quantity and quality of economic activities, focusing on long-term
414 sustainability and efficient resource utilization [13].
415 Stiglitz, Sen, and Fitoussi [16] advocated for this broader perspective in their report, arguing that GDP
416 alone does not adequately capture economic progress. They recommended incorporating
417 environmental sustainability and social well-being indicators for a more comprehensive evaluation.

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This perspective is aligned with the sustainable development principles outlined in the Brundtland Report [3], which advocates for balancing economic growth, environmental protection, and social equity.

The Environmental Performance Index (EPI), developed by Esty and Porter [6], and the Human Development Index (HDI), described by Amartya Sen [15], are examples of tools that measure the environmental and social dimensions of economic performance, respectively. The EPI assesses how well nations protect human health and ecosystems, while the HDI incorporates health, education, and income, providing insights into broader socioeconomic factors.

Some economists advocate for the use of composite indicators that combine economic, social, and environmental metrics to provide a more holistic view of economic performance. For example, the Genuine Progress Indicator (GPI) adjusts GDP by considering factors such as income distribution, environmental degradation, and non-market labor [18].

By integrating these frameworks and indices, economic performance can be understood more fully, moving beyond GDP measures to include social and environmental considerations.

Economic performance at the organization level

Building on the previously discussed views of economic performance at the macroeconomic level, we draw inspiration from the cited literature and propose potential recommendations.
Stiglitz, Sen and Fitoussi [16] proposed a multidimensional approach to measuring economic performance and social progress, emphasizing the importance of considering quality of life, sustainability, and well-being alongside traditional economic indicators.

To integrate this framework into financial metrics, organizations and economies could adopt a set of indicators that measure performance across these dimensions. For example:

Quality of Life: Metrics could include employee satisfaction scores, customer satisfaction ratings, and measures of product or service impact on consumer well-being.

Sustainability: Financial metrics could incorporate assessments of long-term viability, such as the sustainability of supply chains, the impact of business operations on natural resources, and the organization's contribution to or mitigation of climate change.

Well-being: Metrics might evaluate the broader societal impact of economic activities, including contributions to community development, poverty reduction, and inequality measures.

Financial metrics, such as profit and loss or return on assets, provide efficient use of resources but only cover resources adequately included in market transactions. In other words, they exclude externalities or assets not adequately priced by the market, such as natural or social capital.

To effectively integrate broader concepts of economic performance into financial metrics, businesses and economies could consider several approaches:

1. Development of composite indices

Composite indices can be developed to combine traditional financial indicators with social and environmental performance measures. This approach allows for a more comprehensive assessment of an organization's or economy's overall performance. For instance, integrating indicators such as carbon footprint, employee satisfaction, and community impact with financial metrics like ROI and profit margins can provide a holistic view of an organization's sustainability and ethical impact [7].

2. Adoption of integrated reporting

Integrated reporting frameworks can be implemented to provide a holistic view of an organization's performance that includes financial results, social impact, and environmental sustainability. This approach helps stakeholders understand how an organization is performing across multiple dimensions. Integrated reporting frameworks, such as those developed by the International Integrated

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Reporting Council (IIRC), guide organizations in reporting their performance in terms of various capitals. These include financial, manufacturing, intellectual, human, social and relationship, and natural capital [11].

3. Utilization of non-financial indicators

Incorporating non-financial indicators into financial analysis and decision-making processes can enhance understanding of an organization's broader impacts. Adjusting financial models to account for the value of ecosystem services, social capital, and human well-being can lead to more informed and sustainable decision-making. For example, metrics such as ESG scores can be integrated into investment analysis to evaluate potential risks and opportunities not reflected in traditional financial data [5].

4. Engagement in impact investing

Focusing on impact investing can direct capital towards projects and organizations that promise financial returns and demonstrate positive social and environmental impacts. This approach aligns investment decisions with broader societal goals, such as sustainability and social welfare, and can be facilitated by developing specific criteria for impact measurement and reporting to ensure transparency and accountability in impact investments [19].

Limitations

These strategies often receive criticism for their theoretical basis, which does not always translate effectively into practical applications. They ambitiously integrate social, environmental, and economic dimensions, but their implementation can be complex and resource-intensive, posing challenges for businesses and policymakers [17]. Additionally, critics note limited real-world progress despite theoretical advancements in financial metrics that consider broader economic, social, and environmental outcomes. This is often attributed to the lack of effective enforcement mechanisms, inadequate incentives for adoption, and slow regulatory changes [12].

Furthermore, current strategies for integrating broader considerations into financial metrics can be inflexible, often seen as the only available options, and not suited to all industries or regions. This one-size-fits-all approach can be restrictive and may not address the unique challenges that different organizations face [2].

Three initiatives to integrate impacts into performance metrics of organizations

Three specific initiatives were identified from the previous literature reviews that try to implement the principles outlined above. A description of their objectives and limitations is included below:

1. Engine No. 1's Total Value Framework represents a data-driven investment approach that quantifies an organization's sustainability impacts in financial terms, linking them to long-term value creation. The Total Value Framework aims to redefine financially superior investing by showing a strong correlation between stakeholder value and financial outcomes, challenging the notion of a trade-off between impact and returns. Preliminary analysis suggests that organizations with minimal negative ESG impacts outperform their peers in terms of share-price performance, EBITDA, and net income. The framework is designed to inform investment decisions and guide asset managers in identifying top performers in each industry based on their ESG impacts [9].

2. Furthermore, the collaborative initiative by the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) introduces a comprehensive methodology for impact accounting. The methodology introduces fundamental concepts of impact accounting, including the definition of impact, the role of impact pathways, and the importance of considering impact materiality in preparing impact accounts. The methodology also outlines the qualitative characteristics of impact information, such as relevance and faithful representation, to ensure the reliability and usefulness of impact data. Additionally, it addresses the challenges of measuring and valuing impacts, particularly when standardized impact pathways are not available. This highlights the iterative nature of identifying, measuring, and valuing impacts for inclusion in impact accounts [10].

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3. Finally, a study by Allcott et al. [1] offers a new perspective on assessing corporate social impact, suggesting it should be evaluated based on the potential welfare loss if a firm exits the market. Their analysis emphasizes consumer surplus as the primary indicator of social impact, notably surpassing profits, worker surplus, and externalities. The authors critique existing environmental, social, and governance (ESG) and social impact ratings for not correlating well with their economically grounded measures, proposing that these ratings might not truly reflect organizations' social contributions. The study underscores the significance of employing economic frameworks to more objectively and comprehensively evaluate how organizations contribute to social welfare, moving beyond traditional financial metrics.

Limitations

1. Engine No. 1's total value framework:

Quantification challenges: Quantifying sustainability impacts in financial terms is difficult due to the subjective nature of social and environmental impacts, leading to potential biases and inaccuracies.

Data availability and quality: The variability in the availability and quality of ESG data across organizations and industries can result in inconsistent outcomes.

Adoption and implementation: The framework's success depends on its widespread adoption and implementation, which is hindered by its complexity and the apprehension about revealing negative sustainability impacts.

2. IFVI and VBA's impact accounting methodology:

Complexity in standardization: Standardizing impact pathways is challenging due to diverse industry and regional contexts.

Stakeholder engagement: Effectively involving a broad spectrum of stakeholders in impact accounting is both logistically and practically challenging.

Dynamic nature of impact assessment: The continual need to update and revise impact assessments can disrupt regular business practices that favor predictability.

3. Corporate social impact based on welfare loss:

Focus on consumer surplus: This narrow focus may overlook broader aspects like employee welfare and environmental sustainability, leading to incomplete assessments.

Economic framework constraints: Strict economic frameworks may not capture qualitative social impacts like community trust and social cohesion.

Correlation with financial metrics: There is a notable gap between traditional financial metrics and the measures that reflect true social value creation, complicating their integration into financial evaluations.

Each of these initiatives was presented to the WG for consideration as part of the revision process for *GRI 201*. While they provide innovative ways to integrate social and environmental impacts into corporate performance metrics, the limitations of the initiatives highlight existing challenges, such as the complexity of quantifying non-financial impacts, the difficulty in standardizing impact assessments across diverse contexts, and the potential disconnect between economic frameworks and broader social value. These factors may lead to inconsistencies and limit the practical application of these models within the context of GRI Standards.

In contrast, the WG believes the VAS and business model disclosures offer a more straightforward and understandable approach for organizations to communicate how value is created and distributed, aligning closely with GRI's emphasis on transparency and stakeholder inclusivity. By including VAS and business model disclosures, GRI can ensure that the reporting framework remains accessible, practical, and relevant to a broad range of stakeholders. This will enable the Standard to support more consistent and meaningful assessments of an organization's contribution to the economy and its stakeholders beyond financial performance. Therefore, the approach aligns better with GRI's goals of promoting sustainability and responsible corporate governance.

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