GRI

Due diligence. Can managing adverse impacts be simplified?

What is the issue?

Increased societal expectations for companies to take responsibility for their impacts have driven organisations to become far more focused on due diligence, the process through which an organization identifies and assesses, prevents, mitigates, and accounts for how it addresses its actual and potential adverse impacts, including public communication.

National due diligence policies started to appear over a decade ago, increasingly driven by pressure from stakeholders to apply a due diligence lens not only to their own company's operations, but also in their supply chains and other business relationships. With the 2021 update, GRI has incorporated the globally accepted principles of due diligence in its GRI Standards, providing companies a framework and tool to account for their impacts.

Initially, due diligence policies were largely focused on addressing negative impacts on human rights. However, this is increasingly being extended to environmental impacts as well - with environmental issues being gradually entrenched in human rights at the international, regional, and national level.

What does this mean for policy makers?

To ensure that businesses prevent, mitigate and account for their impacts, including public communication, policy makers should incorporate due diligence into their legislation.

Around the globe, legislators and regulators are increasingly obliged to consider how to embed and operationalize due diligence expectations into policy. As policy makers address this challenge, they often turn to existing or emerging guidelines or regulatory frameworks.

In 2011, the Human Rights Council adopted the United Nations Guiding Principles on Business and Human Rights (UNGPs), which state that all companies have a responsibility to conduct human rights due diligence. Subsequently, the Organisation for Economic Cooperation and Development (OECD) incorporated the UNGPs into the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) and extended its application to other areas beyond human rights. The International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy was also updated in 2017 to incorporate the UNGPs.

The UN Human Rights Council in October 2021 went a step further and recognized that a clean, healthy and sustainable environment is a human right. In July 2022, this was confirmed by the United Nations General Assembly adopting a resolution (A/76/L.75) which recognized the right to a clean, healthy, and sustainable environment as a human right.

Within the EU, recent developments give these due diligence guidelines 'teeth' such as the European Commission's proposed Corporate Sustainability Due Diligence Directive (CSDDD), and the Corporate Sustainability Reporting Directive (CSRD).

The EU CSDDD is a legislative framework to oblige companies to demonstrate what action they are taking to protect the environment and human rights. CSRD which entered into force in January 2023 requires companies to report on the impact of corporate activities on the environment and society. The disclosure requirements under the CSRD will apply to an estimated 50,000 companies, from January 2024.

How embedding the GRI Standards in due diligence policy can help

Regulations are vital ways to reinforce guidelines such as the UNGPs and can encourage adherence via sanctions. Public communication of due diligence policies and implementation to stakeholders are a required step of due diligence. Businesses embarking on the due diligence journey are significantly benefited by a reporting framework that enables them to operationalize and communicate on their due diligence.

Conceptually, reporting directly supports all the steps of due diligence as it enables communicating what the organizations' impacts are; who their stakeholders are and how they are engaged; how impacts are identified and managed, etc. It provides evidence that steps of the due diligence have been effectively followed.

Due diligence reporting has been built into the modular structure of the GRI Standards and the operated terminology has been aligned with intergovernmental authoritative instruments. For example, the materiality assessment under the GRI Standards embeds the identification and assessment step of due diligence in the UNGPs and OECD MNE Guidelines. The 2021 updates to the GRI Standards give full effect to the due diligence process as articulated in the OECD MNE Guidelines and the UNGPs. So, it is also worth noting that GRI standards, the world's most widely used sustainability reporting standards, have a high degree of interoperability with both CSDDD and the CSRD. A GRI paper on due diligence and reporting gives more details on this.

73% of the world's 250 largest companies by revenue use GRI guidelines or standards for their sustainability reporting and 67% of the top 100 companies by revenue in 52 countries and jurisdictions use the GRI standards, as well as 86% of the world's largest 100 banks. The GRI Standards are also currently referenced or required in 259 policies in 85 countries. The interoperability of GRI standards with the global authoritative due diligence framework effectively means that reporting organisations using GRI will dramatically ease the burden of the reporting process, cut costs and reduce complexity as they seek to adhere to their own country's due diligence policies.

As due diligence gains more traction globally, national policy makers can be confident that policies based on GRI standards will more easily be adhered to by the many organisations that already report using GRI standards. For more information, please contact policy@globalreporting.org.

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