GRI BOUNDARY PROTOCOL

January 2005

Global Reporting Initiative (GRI)

1. Overview

1-1. Why is a Protocol Needed?

An organisation faces a number of questions about who contributes to its overall performance when preparing a sustainability report. Should the organisation include the performance of its joint venture? If the organisation outsources most of its manufacturing, how should it report on its performance? Who has responsibility for reporting on construction projects that the organisation implements? In preparing a sustainability report, a reporting organisation[1] needs to set a "boundary" that defines which entities[2] are included in a report, and which are excluded (see Figure 1).

Sustainability reporting poses a unique boundary challenge since an organisation's economic, environmental, and social impacts occur as a result of, and are linked to, activities involving a complex network of entities in its value chain. These range from entities wholly or partially owned by the organisation, to others where the organisation does not have a financial stake such as suppliers, distributors, or consumers.

The organisation's degree of control or influence over the entities involved in these activities and their resulting impacts ranges from little to full. While financial control is a common boundary for disclosure, the risks to the organisation's assets and the broader community and opportunities for improvement are not limited to financial control boundaries. Therefore reporting only on entities within the boundary used for financial reporting may fail to tell a balanced and reasonable story of the organisation's sustainability performance and may fall short of the accountability expectations of users. This is one of the key messages underlying the logic of this protocol.

Setting reporting boundaries is therefore also is a management exercise in identifying whose sustainability performance needs to be tracked and in what manner. The report boundary helps an organisation to understand and communicate which strategic risks and opportunities need to be managed, and the extent of its control or influence over them.

Financial reporting has developed a set of explicit rules regarding the consolidation of accounts and preparation of other related disclosures in order to create comparability in reporting, and to assure complete disclosure of financial interests. In reporting on sustainability, the complexity of interpreting information has created a similar need for common approaches to ensure comparability and proper disclosure.

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[1] A "reporting organisation" is an entity that is responsible for issuing a given sustainability report. Many reporting organisations are at present essentially parent companies, but a growing number are also country level subsidiaries.

[2] An "entity" is usually an organisation or sometimes an operation that is considered for inclusion or exclusion from a reporting boundary, no matter whether it is a legally constituted body.

*The entities listed here are examples.

Figure 1: Where to Draw a Reporting Boundary?
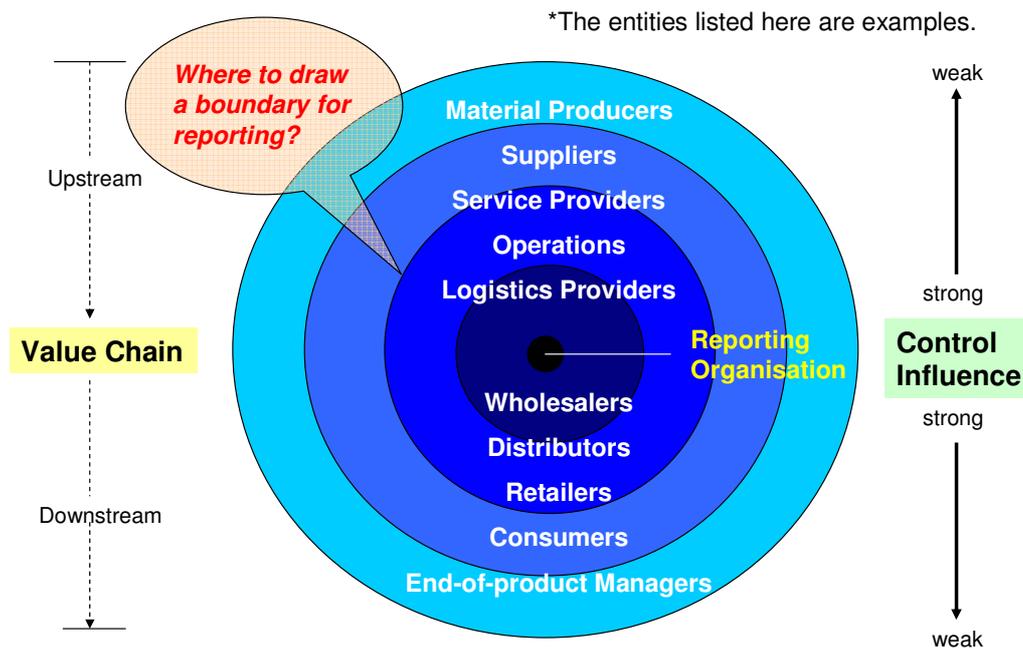
1-2. Scope covered in this Protocol

This protocol is intended to provide guidance for the organisations on how to set the boundary for their reports, and how to describe the chosen boundary to report users. This protocol is drafted with the current 2002 *Guidelines* in mind, but will also lay a foundation for the third generation of the *Guidelines* (G3) expected in 2006. See Appendix 1 for the current references to boundaries in the GRI *Guidelines*.

In the context of the 2002 *Guidelines*, this protocol helps explain a key element of the principle of completeness. The reporting principle of completeness in Part B of the GRI 2002 *Guidelines* asks the reporting organisation to ensure all information in the report is consistent with the declared boundary, scope, and time period. In the GRI *Guidelines*, "boundary" refers to the range of entities for which the reporting organisation gathers information. "Scope" refers to issues in sustainability, *inter alia*, in the context of GRI "aspects" such as energy use and health and safety, for which the *Guidelines* include indicators. Time period refers to the reporting period in which a report covers an organisation's activities and performance. Scope and temporal dimensions are distinct from the boundary dimension and this protocol does not provide guidance on these.

This protocol is still a pilot version and therefore not linked to qualification for "in accordance" status.[3] However, GRI encourages reporting organisation to put these recommendations into practice and provide feedback to the GRI as part of the pilot testing.

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[3] Regarding the "in accordance" status, see page 13 of the 2002 *Guidelines*.

The protocol has been written assuming that the reporting organisation determines the scope of relevant issues to include in a report based on the principles in Part B of the *Guidelines* (especially relevance, sustainability context, inclusiveness, and completeness) prior to determining the boundary. It is also assumed that this process takes into consideration issues across the value chain. The next version of the *Guidelines* expected to be published in 2006 will focus more on the reporting process and provide guidance on how to identify relevant aspects and indicators for reporting. The scoping process identifies "what" to report and the boundaries process then focuses on "who" to report on.

When preparing a report, a number of practical issues may arise alongside technical considerations when thinking about how to draw a boundary. This protocol defines a technical approach for drawing boundaries, but also includes discussion in Section 3 on practical issues that arise in implementation.

1-3. Framework for Defining a Report Boundary

Overall, a report helps to communicate the actions and results of an organisation on the elements of sustainability where it has the ability to make a change. The boundary for a sustainability report is linked to the range of entities for which an organisation is likely to be held accountable for, and whose actions will influence the decisions of stakeholders regarding the reporting organisation. Distinct from financial reporting, the reporting organisation needs to consider its boundary from the wider perspective of its value chain. From a management perspective, the boundary relates directly to the perceived responsibilities of the organisation, and is likely to include the entities whose performance on certain sustainability aspects are most worthy of management attention. The perspectives of stakeholders must be taken into consideration when the reporting organisation considers questions about boundaries. Dialogue with stakeholders helps make reports responsive to user needs and setting appropriate boundaries is a key factor.

This protocol provides a framework for defining the boundary for sustainability reporting according to the intersection of two concepts – "impact" and "control/influence" (Figure 2). Both concepts are explained in the next section.

A sustainability report should cover at least the entities in the value chain over which the reporting organisation has control/significant influence and/or which have significant impacts. The nature of the reporting on the entities may vary depending on whether the reporting organisation exercises control, and to what extent it has influence (Figure 3). However, as a whole, the report boundary should result in a reasonable and balanced picture of the reporting organisation's sustainability performance.
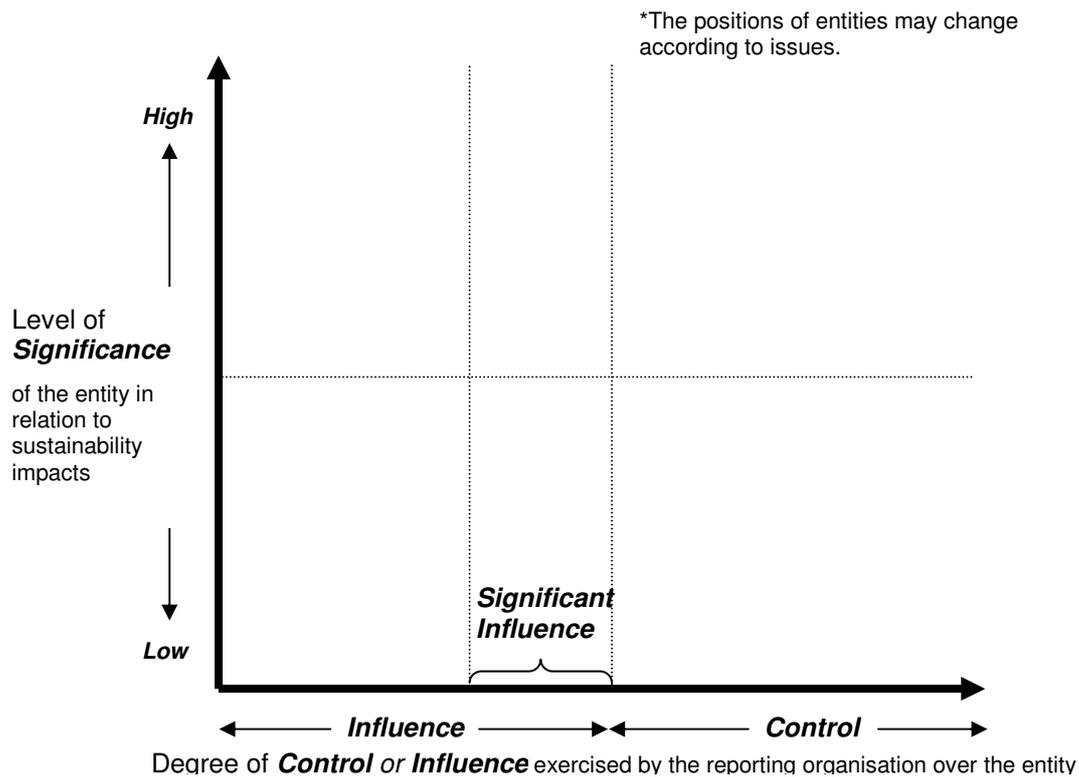
*The positions of entities may change according to issues.

Figure 2: Concepts of Control/Influence and Impact

This protocol has aligned its concept of control/influence with financial reporting principles as the baseline, but has expanded the definition of significant influence to take into account certain non-financial sources of significant influence. It recognises that there are different types of disclosures in a sustainability report including indicators focused on operations, indicators related to management approaches, and more general narrative disclosures on strategies adopted or dilemmas recognized (figure 3). Boundary setting under this protocol is structured to recognise the differences between these types of disclosures.
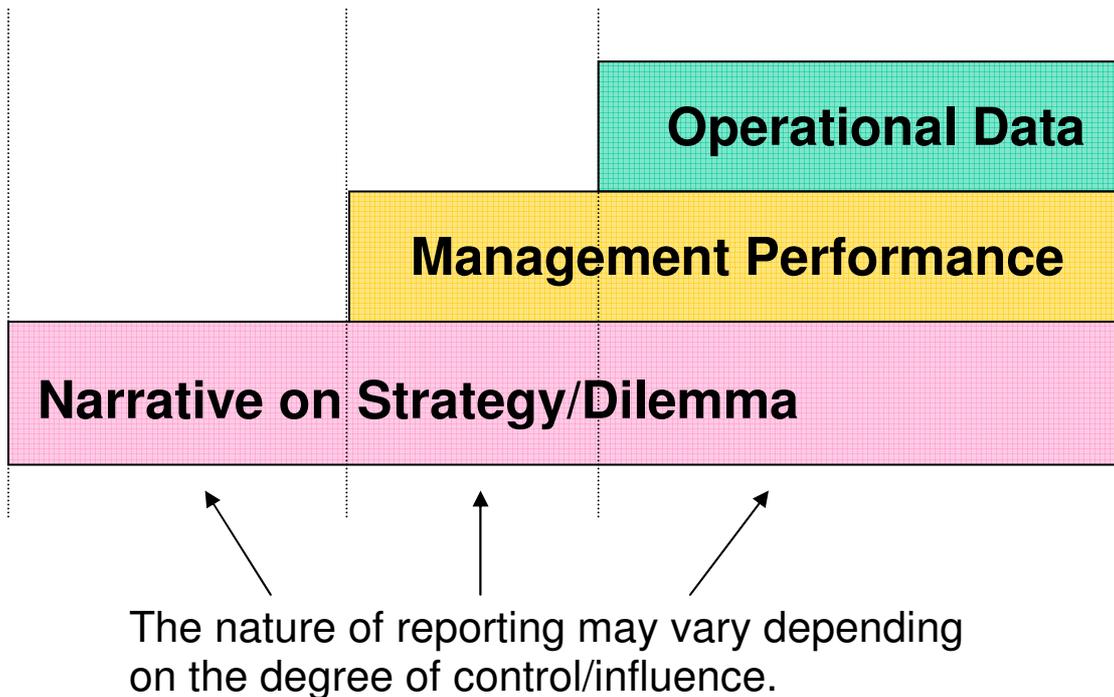
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		Operational Data
	Management Performance	
Narrative on Strategy/Dilemma		

The nature of reporting may vary depending on the degree of control/influence.

Figure 3: Different Nature of Reporting

2: Setting Boundaries

This section describes the rules that govern decisions on setting a boundary, and procedural steps for setting a boundary.[4] The reporting principles of *relevance* and *inclusiveness* in Part B of the GRI *Guidelines* emphasise the importance of reporting in a manner that meets the needs of report users and that includes information that is significant to users' decision-making. It is, therefore, critical for the reporting organisation to engage with stakeholders during the process of setting a reporting boundary, and in making related assessments of impact and control/influence.

2-1. Rules for Setting a Boundary

The four rules listed below should govern decisions on setting a boundary and their disclosure. These principles are derived from and are compatible with the reporting principles in Part B of the Guidelines, particularly *completeness*, *comparability*, *relevance*, inclusiveness, and *sustainability context*.[5] They have also been developed with financial reporting principles in mind.

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[4] If the reporting organisation follows another process for setting a reporting boundary, it should explain how it arrived at a reasonable and balanced decision on its boundary. (See Chapter 3 for further discussion on disclosing boundaries in a sustainability report)

[5] This does not preclude the other reporting principles (*transparency*, *accuracy*, *neutrality*, *comparability*, *clarity*, *timeliness*, *auditability*) when considering a reporting boundary

Rules for Setting a Boundary

1. *In principle, a sustainability report should include all entities in its boundary that generate significant sustainability impacts (actual and potential) and/or over which the reporting organisation exercises control or significant influence over financial and operating policies and practices.*

2. *These entities can be included either through the use of operational indictors or management indicators defined in Part C5 of the GRI Guidelines, and narrative descriptions.*

3. *At a minimum, the reporting organisation should cover the following entities in its report in specified ways:*

    a) *Entities over which the organisation exercises control should be covered by operational indicators. (for definitions of control, see Section 2-3)*

    b) *Entities over which the organisation exercises significant influence should be covered by management indicators. (for definitions of significant influence, see Section 2-3)*

    The boundaries for narrative disclosures should also include entities over which the organisation does not exercise control/significant influence, but which are associated with key challenges for the organisation because their impacts are significant.

4. *The reporting organisation may choose not to prepare data regarding a particular entity or group of entities within the defined boundary on the basis that it will not significantly change the final outcome of a disclosure. However, it is responsible for representing a reasonable and balanced picture of its performance considering the sum of all entities within its boundary.*

2-2. Basic Steps to Set a Boundary

The basic steps for a reporting organisation to apply the above rules are as follows, and are illustrated in Figure 4.

Setting a Boundary

Step 1: Define control and influence

Judge whether the value chain entities fall under the control or significant influence of the reporting organisation

Step 2: Assess impact

Identify which entities have significant impacts on the reporting organisation's performance.
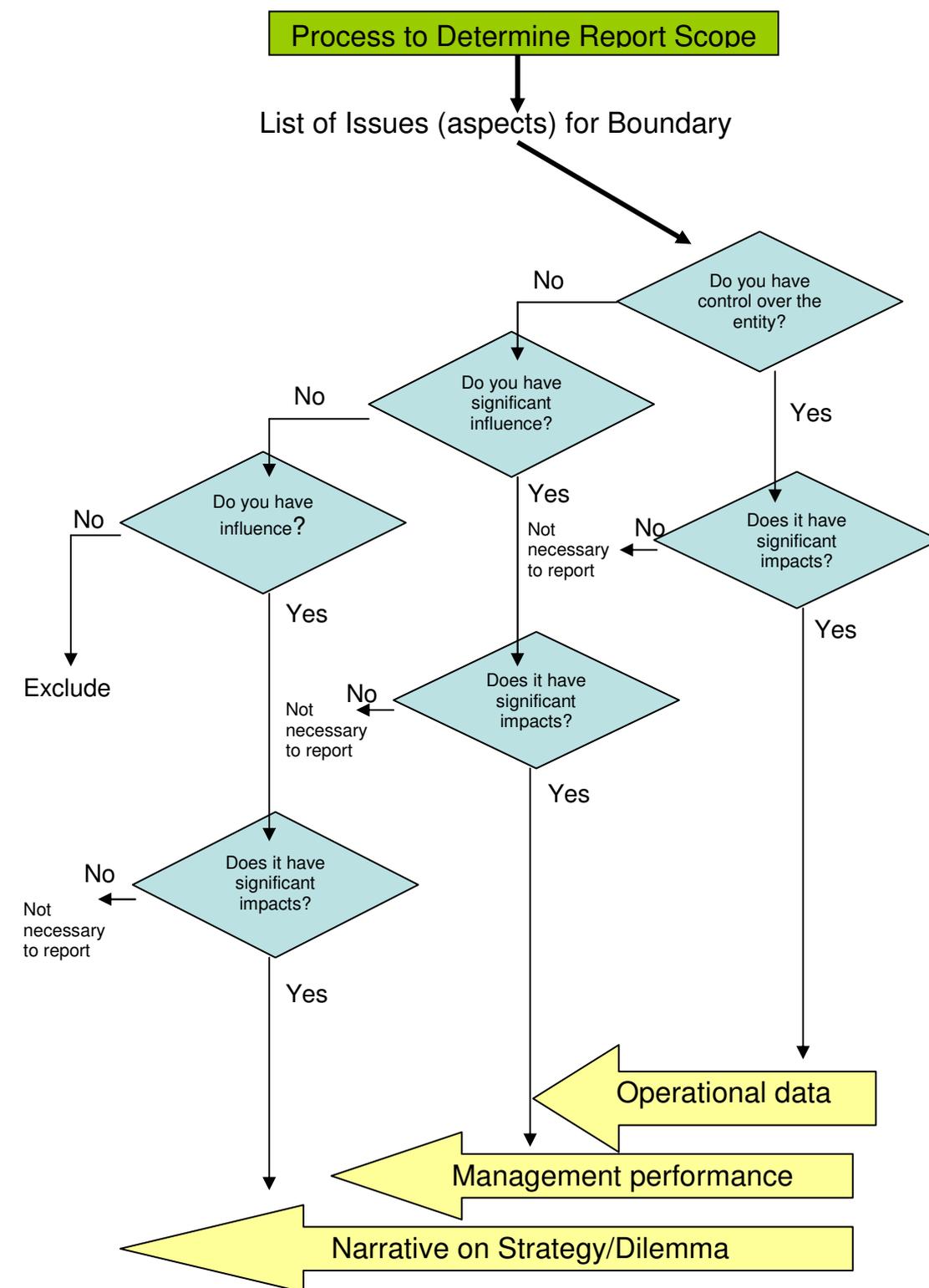
Step 3: Define inclusion in the boundary

Set the report boundary taking into account the different types of indicators used.

Step 4: Disclose boundaries

Disclose the boundary in the report.

2-3. Step-by-step Guide

Process to Determine Report Scope

List of Issues (aspects) for Boundary

Do you have control over the entity?
— No →
— Yes ↓

Do you have significant influence?
— No →
— Yes ↓ Not necessary to report

Do you have influence?
— No → Exclude
— Yes ↓

Does it have significant impacts? (right branch under control)
— No → Not necessary to report
— Yes ↓

Does it have significant impacts? (middle branch)
— No → Not necessary to report
— Yes ↓

Does it have significant impacts? (left branch)
— No → Not necessary to report
— Yes ↓

Operational data

Management performance

Narrative on Strategy/Dilemma

Step 0: Identify relevant issues for reporting

As noted in the beginning of this document, this protocol assumes that the reporting organisation has already identified the scope (i.e., key aspects and indicators) of its

report prior to commencing its boundary setting exercise.[6] Scoping is a process of identifying the high-level issues that are relevant and material for the report as a whole - generally a balance of issues are of interest to stakeholders and useful from a management perspective. For the purposes of drafting this protocol, it has been assumed that the scoping exercise:

- takes into consideration issues (aspects) across the value chain of the organisation, and specifically all of the aspects (and indicators) in the GRI *Guidelines*;
- applies the principles of Part B (especially relevance, sustainability context, inclusiveness, and completeness) and engages stakeholders[7]; and
- results in a list of issues (aspects) and indicators to cover.

The scoping exercise covers the question of "what to report", but still requires further work to identify "who to report on" The boundaries exercise is the process of determining which entities are relevant and material for the purpose of assessing performance in the context of a given aspect(s) or indicator(s).

Step 1: Define control and influence

The first step for boundary setting is to determine which entities fall under the control of or are significantly influenced by the reporting organisation. This defines the range of entities or groups of entities that fall within the report boundary. The protocol employs the same definitions as those defined under the International Financial Reporting Standards (IFRS) so as to ensure consistency with financial reporting and facilitate comparability and assurability. In applying the definitions, the concept of "substance over form" should be applied since there will be instances where control is exercised even though the exact terms of the definition are not met.[8]

In principle, organisations should seek to avoid variation in defining the set of entities covered for each aspect or indicator. In practice, there will likely be a degree of variation by sector, the subject of the indicator, and the type of indicator, however, these variations must be made clear to the reader.

a) Definition of Control

> **Control = The power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities[9]**

Entities under the reporting organisation's control are:

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[6] Note that the boundaries process outlined in this protocol – including the scoping step – do not change the conditions for claiming "in accordance" status or referencing the GRI. These are described in the 2002 *Sustainability Reporting Guidelines* with an additional explanatory note on "in accordance" the GRI website.

[7] The third generation of the GRI *Guidelines* in 2006 will provide more guidance on the application of principles.

[8] Substance over form means that the user will have to exercise judgement to consider whether there are circumstances where an entity may be excluded from the control sphere on the basis of the definition, but, in reality, is under the effective control of the organisation. In such cases, the substance of the relationship is the overriding factor rather than the specific form. For example, there could be circumstances where a minority holding is still the largest single block of votes and effectively enables the organisation to block measures at the Board level and push through a significant number of its preferred measures. In such cases, the organisation must consider counting the entity as under control on the basis of substance even though it fails the test on the technical basis of the relationship.

[9] Note that International Public Sector Accounting Standards (IPSAS) 6.21-6.38 contain an extended discussion that "benefits" may come in multiple forms and that the definition of control is not limited to the ability to gain "economic benefits".

- The reporting organisation (in many cases, currently the parent company).

- Subsidiary where the reporting organisation owns, directly or indirectly, more than 50% of the voting power regardless of their public listing status.

- Joint venture of which the reporting organisation owns, directly or indirectly through subsidiaries, 50% or more of the voting power.

- Other entities that the reporting organisation has control over based on the principle of "substance over form".

b) Definition of Significant Influence

Significant Influence

= The power to participate in the financial and operating policy decisions of the entity but is not control over those policies.[10]

Entities where a reporting organisation is considered to have significant influence are:

- Associates where the reporting organisation owns, directly or indirectly, more than 20% but not more than 50% of the voting power;

- Joint venture of which the reporting organisation owns, directly or indirectly through subsidiaries, less than 50% of the voting power but does have operational control;

In the context of sustainability, there are other types of contractual relationships that may confer significant influence by enabling the reporting organisation to affect the operating policies of an entity and associated sustainability outcomes. In such cases, these should be considered as being under significant influence and included even if they extend beyond those defined by the specific criteria under IFRS. Typical examples of relationships that may confer significant influence include:

◇ Entities for which the contractual relationship requires certain operating standards and practices that directly affect the reporting organisation's sustainability performance;

◇ Entities where the reporting organisation has purchasing agreements accounting for a substantial portion of sales by the entity;

◇ Entities where the reporting organisation imposes contractual obligations regarding aspects of sustainability performance; and

◇ Entities that use technology licensed or products patented by the reporting organisation that represents a significant part of the entity's sustainability performance.

The entities under significant influence represent entities that should be included in information gathering for reporting performance on the management indicators, but in some cases they may also be appropriate for inclusion in the data gathering for operational indicators. The impact of the entity and stakeholder interest will determine when such a decision is appropriate.

c) Other Relevant Entities for Reporting

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[10] Entities excluded from the reporting implications of IAS 24 because of the application of IAS 28.11 are not excluded for the purposes of this protocol.

There also may be entities that fall beyond the scope of the reporting organisation's control or significant influence as defined in this protocol, but that are still relevant to report users. The impacts or risks associated with these entities may not be directly attributable to the "performance" of the organisation, but are relevant to understanding how the organisation is approaching sustainability challenges or dilemmas. For example, participation in an industry association activity that sets standards for certain types of upstream or downstream products may be part of a strategy to address energy efficiency, but there is no clear way to measure the results in the context of performance indicators for the organisation.

These entities and their impacts are primarily discussed through narratives, case studies, or fall within the boundaries applied to the disclosures in section 3 (see Table 1). They should be identified with stakeholders and will primarily be entities that relate to efforts to find solutions to broad sustainability problems and/or increase the ability of the organisation to contribute to a solution. For example, this may include suppliers that do not fall within the sphere of significant influence, public-private partnerships, associations to which the organisation belongs, multi-stakeholder initiatives, etc.

Step 2: Assess impact

The reporting organisation must assess the level of impact of the entities over which it exercises control or has significant influence, to determine their relative importance for reporting. The report boundary should include entities from Step 1 with significant impacts, or the potential to have significant impact, on the organisation's performance in the course of their normal operations. Generally speaking, significant impacts are those that change a performance measured under a quantitative indicator by a noticeable amount. Similarly, a decision to include an entity in the context of risk management associated with an issue is also usually a sign of actual or potential significant impact.

Note that while collecting data on an indicator, a reporting organisation may determine that a particular entity is not material (i.e., does not substantially change the reported results outcome) and therefore is not included in data gathering efforts. As such, the entity is still considered within the report boundary, but its exclusion from the data set has not hampered the ability of the report to provide a reasonable and balanced picture of the organisation's performance.[11]

"Significant impacts" in the reporting period can be determined by comparing the scale of the entity's (or group of entities') impact relative to the overall performance of the organisation.

Significant potential impacts are essentially those entities who, in the course of their normal operations, have the potential to noticeably affect the organisation's sustainability performance and thereby represent a key risk. In addition to the GRI Reporting Principles, factors that could help identify organisations likely to have a significant impact include:

   a. The nature of the entity's operations, including the technology applied or sector/business line. For example, the use of highly toxic materials in large quantities.

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[11] The exception to this case would be incremental reporters who do not include sustainability information about all the entities within their control due to limitations in reporting systems.

b. The geographic location of the entity and related cultural, legal, or biophysical factors. For example, it is located in a region of the world known to have a high level of incidence for certain labour problems or located near a sensitive eco-system.

c. The size of the entity. Note, however, that larger size does not always mean larger potential impact. Geographic context is also important for assessing the relevance of size.

The impact of entities may vary by subject matter and it therefore may be necessary to conduct the assessment of impact according to issues (aspects). However, as noted earlier, variation of boundaries should be minimised wherever possible.

The methodologies applied to assess impact should be explained, including the role of internal stakeholders (i.e., board, senior management) and external stakeholders in reaching the conclusions. If multiple methods are applied, this should be disclosed as well. Life cycle assessment techniques may help assess the overall pattern of impacts across a value chain, including consumption and post-consumption phases.

Step 3: Decide how to include entities

The outcome of the initial steps should be a clear picture (or map) of the various entities with significant impacts and the level of control or influence exercised by the organisation (Figure 5). These entities must then be linked to the indicators and the information presented in a report. The GRI includes indicators of different types and organisations regularly include indicators of their own design in reports (see below for table of indicators).
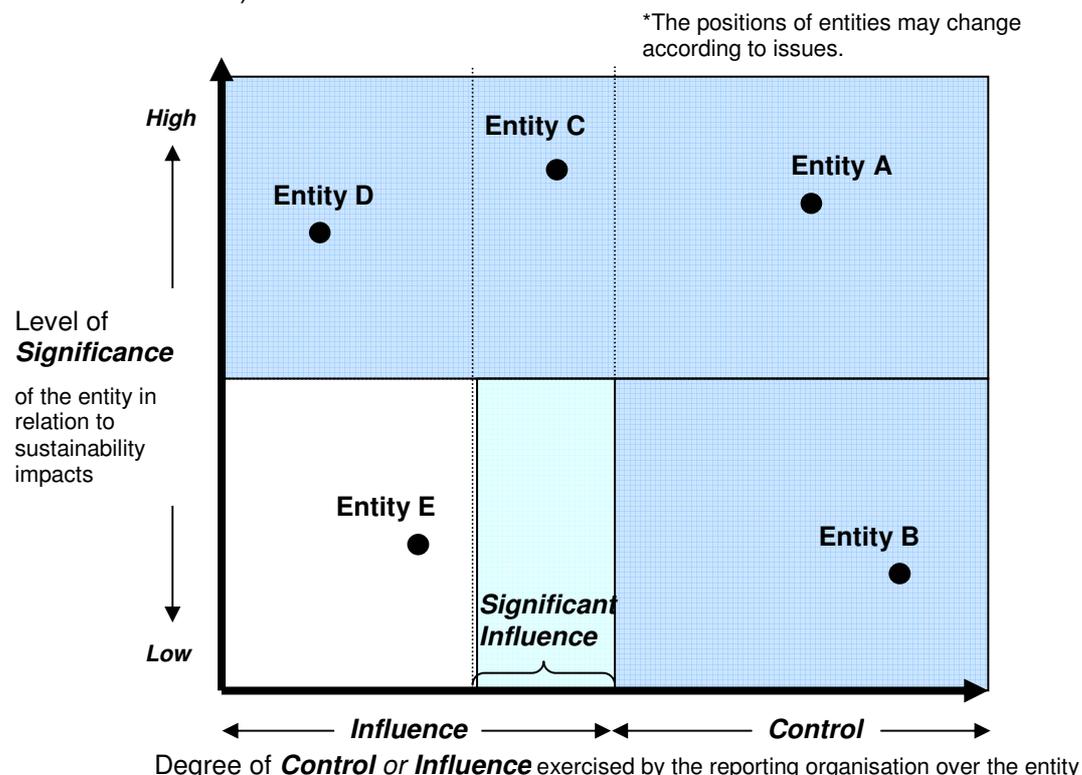

Figure 5: Evaluating Control/Influence and Impact

The minimum expectation for the boundary of a report differs according to the various types of indicators.

- Information on operational performance indicators should cover all entities that fall within the definition of control (e.g., Entities A & B). In some cases, entities under significant influence would also be included.
- Information on management performance indicators should cover all entities that fall within the definition of significant influence, in addition to those under control, although the reporting organisation may extend beyond this in some cases (e.g., Entities A, B, & C).
- The narrative disclosures and discussion of broad strategies and dilemmas should include entities where there is influence and where they are of high interest to stakeholders, but which fail to meet the tests of control or significant influence (e.g., Entity D).

Viewed in reverse order, this cycle of recognizing a dilemma to strategy to management to operational control also reflects the evolution of an organisational reaction to a sustainability issue starting from initial recognition and evolving into an operational response.

Table 1. Types of GRI Disclosures

| Types of disclosure	Disclosure based on GRI Guidelines
Performance: quantitative data (input/output)	Operational (quantitative) performance indicators in Section 5
Performance: qualitative information	Management (qualitative) performance indicators in Section 5
Narratives: strategies/initiatives	3.13 (precautionary approach) 3.14 (voluntary initiatives) 3.15 (industry membership) 3.16 (upstream/downstream management) 3.17 (approach to indirect impacts)
Narratives: dilemma sharing	1.1 (vision and strategy) 1.2 (CEO statement)
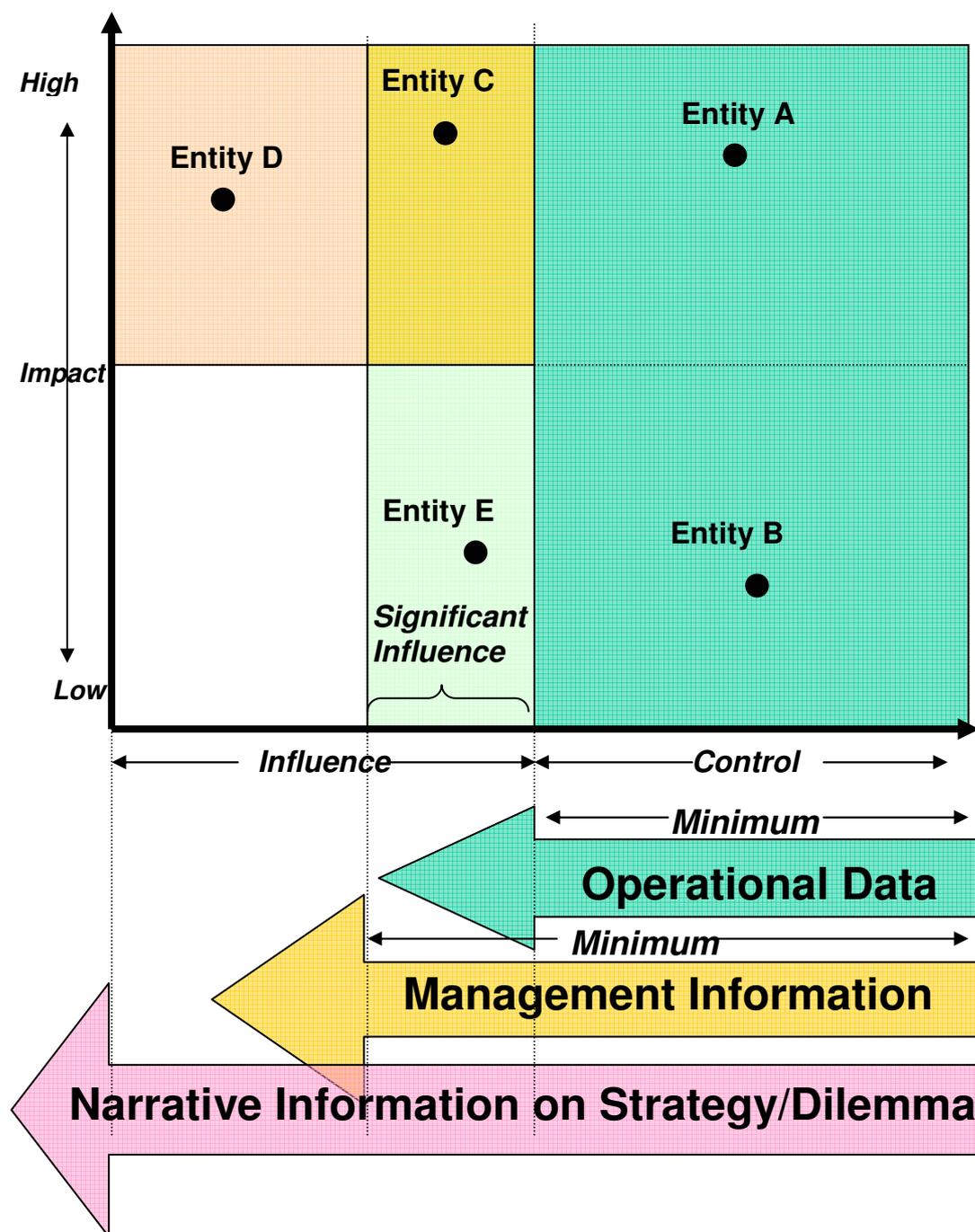
Figure 6: Type of Information to Report per Entity

Step 4: Disclose Boundaries

The GRI *Guidelines* currently list the disclosure of reporting boundaries under item 2.13 (see Appendix 1). This item specifically requests a description of the handling of certain specific relationships (joint ventures and subsidiaries) as well as the geographic scope and coverage of business lines. Responding to 2.13, a sustainability report should clearly disclose:

- *Which entities are included and the basis for the decisions;*

- *State the extent to which the information in the report covers the reporting organisation's: joint ventures, subsidiaries, geographic regions in which the organisation has operations/projects, and business units. If coverage is incomplete in any way, this should be stated and explained; and*

- *Indicate where any of the rules of boundary setting and consolidation specified in this protocol have not been applied and why.*

The reporting organisation can choose the format of disclosure which best communicates its reporting boundary.

One option is the use of the GRI Content Index (a sample is given in Annex 6 of the GRI *Guidelines*) and report preparers are encouraged to consider efficient ways to use the Content Index to communicate the boundaries associated with reported information. For example, reporting organisations could consider adding a column to the Content Index, which could be used to communicate the boundaries associated with information in the report.

See the next section for practical issues around the actual disclosure of reporting boundaries.

3. Implementation
Section 3 of this protocol provides discussion of some of the typical issues that may arise in choosing boundaries.

3-1. Incremental Approaches to Boundaries

This protocol has outlined the principles for setting boundaries for GRI-based reports. However, it is also recognised that new reporters typically begin with immature systems or incomplete information, and may not be able to gather performance information from some entities with significant impacts or potential impacts that fall under control or significant influence. While this protocol has outlined a standard boundary approach, the GRI also recognizes and supports incremental development of reporting boundaries on the expectation that the organisation remains fully transparent about its boundaries. As reporting systems mature, the organisation can progress towards boundaries that more closely meet the concepts outlined in this protocol.

When starting an incremental reporting process and working towards full coverage of entities within the boundary, several factors may influence decisions about where to begin. These include:

a) Access to information: Many reporters start their process with those entities from whom they can most easily access information (which typically are entities under control). Access should be balanced with the impact.

b) Impact: The relative importance of entities will vary by sector and organisation. Generally speaking, organisations should focus on covering entities that have significant impacts. This may imply that extending coverage to entities within the sphere of significant influence may be the priority before extending coverage to entities within the sphere of control.

c) Quality or reliability of information: The credibility and integrity of information available will vary depending on the source and the relationship to the reporting organisation. In some circumstances, it will be difficult for an

organisation to immediately access information that it considers sufficiently reliable to report, particularly in the case of covering entities where influence exists, but not control. The organisation's reporting strategy will have to balance investment of resources in improving information quality with pursuing easier opportunities to expand coverage.

d) Type of information: At the initial stage of reporting, an organisation may have extensive management system information, but only limited operational data. This can still provide a useful starting point for some organisations, assuming that they intend to continuing developing their reporting systems.

3-2. Practical considerations

Financial Reporting Implications

Some reporting organisations have begun to experiment with combining their annual financial statements with their sustainability reports. Financial statements are based on a boundary defined by the national Generally Accepted Accounting Principles (GAAPs) or IFRS, which may or may not fully align with the organisation's desired boundary for sustainability performance indicators. This creates certain challenges to aligning the sustainability and financial information.

An organisation will have to consider how its financial reporting and sustainability reporting will relate. Risks and opportunities of the greatest interest to investors arising from sustainability aspects may lie outside the financial boundaries of the organisation. For example, in outsourced industries, the issues of greatest concern to an investor could be the reputational risks associated with poor supply chain management, which would suggest the importance of reporting on supply chain management systems and associated performance.

This protocol has adopted IFRS definitions for control, so the information for at least a portion of the indicators should be consistent with that of consolidated financial statements. Financial reporting also embraces reporting in a qualitative and quantitative manner on risks and opportunities that may impact the decisions of shareholders, and does not limit the boundaries of these disclosures to those entities that fall under the strict definition of financial control applied to consolidated financial statements. Seen from a broad perspective, the underlying intention of this protocol is compatible with this approach to financial reporting, where the operational data is more closely linked to control and the management and other types of data are linked to spheres of influence and significant impact.

For auditing and assurance purposes, organisations seeking to merge sustainability and financial reports may need to include a clear statement about any differences in approaches and possible implications for report users. It may also be necessary to consider aligning the segmentation of financial data with sustainability information or vice versa to enable users to assess factors of a combined nature, such as productivity and efficiency (e.g. eco-efficiency).

Assurance

An organisation will inevitably receive information of different levels of quality and credibility as a result of its level of control or influence over the entity. Similarly, the ability to assure the information will depend in part on the nature of the relationship between the report preparer and the organisation providing the data. For example, it would presumably be easier to gather and assure operational information from a wholly-owned subsidiary than from a joint venture or a supplier.

As such, organisations will need to develop strategies for the use of internal and external assurance that seek the highest level of quality and credibility possible which take into account these practical circumstances. Organisations may find that it is not possible to achieve the same assurance for all of the information contained in a report, and may choose to either limit the scope of assurance or to use multiple approaches in their assurance strategy. The application of this protocol and developing clarity on the relevant entities and their manner of inclusion in a report may help simplify the assurance process.

Regardless of which approach it chooses, the organisation should clearly disclose the level and scope of the assurance obtained for the report. The challenges of obtaining assurance, however, should not limit an organisation's decision to cover entities beyond its financial boundary, especially those with a high significance for a specific issue, if it can provide sufficient clarity and can describe its reporting limitations.

3-3. Presenting Data

Differentiation of Information

In presenting information in a report, an organisation may choose to differentiate between the information relating to entities for which it has control, and those that are under significant influence. For example, an organisation may choose to report operational data on its subsidiaries, associates, and joint ventures where it has significant influence in addition to where it has financial control. In such a situation, an organisation may wish to (but is not required to) present the response to an indicator as two separate values – one denoting the performance of the entities under its control, and the other relating to the performance of the entities over which it has significant influence. This could potentially be presented as direct impacts and indirect impacts, which is a distinction that is often defined in terms of control and influence.

Disaggregation

"Aggregation" refers to whether information is presented as a single figure or as a response for the reporting organisation as a whole, or whether it is disaggregated (segmented) into multiple figures. For example, health and safety statistics could be reported for the organisation as a whole or disaggregated by country or business unit.

The GRI *Guidelines* encourage disaggregation of information where feasible.[12] Some performance indicators already specify a level of disaggregation (e.g. EC5: total payroll and benefits broken down by country or region). Where there is no specific guidance and the additional information is likely to be of value to report users, organisations are encouraged to disaggregate in an appropriate manner, such as:

- By geography (i.e., country, region, etc.)
- By business unit
- By site

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[12] See General Notes 6 in Part C of the GRI *Guidelines* (page 34). The guidance says: "In general, reporting organisations should disaggregate information on an appropriate and useful level as determined through consultation with stakeholders. The appropriate level of consolidation/disaggregation may vary by indicator."

If an organisation chooses to present responses to performance indicators by differentiating the performances of entities under control from entities under significant influence, it should still apply appropriate disaggregation where feasible.

Consolidation

"Consolidation" refers to the process of deciding what proportion of an entity's data or information should be claimed by the reporting organisation as its own reported performance, and to the aggregation of this information. For entities that fall under the definition of control, reporting organisations should consolidate 100% of all information and data. For entities under significant influence, the reporting organisation has to choose a consistent basis for consolidation that is applied to reported performance indicators. This basis should be disclosed in its report. Any deviations from the use of the approach of management control to consolidate data (for example, the use of the equity approach in consolidating financial data or greenhouse gas emissions) should be stated. In instances where information is gathered from entities under less than full control, it may not be possible to obtain information that is sufficiently robust to enable consolidation. In such circumstances, the reporting organisation must make a decision as to whether or not the data is robust enough to merit reporting of any nature or whether it is best excluded from the boundary and disclosed as such.

Double Counting

If some of the entities within the report boundary also issue reports, or other organisations report on the same entities, there is a possibility that the impacts of one entity may be included in more than one sustainability report. However, from the perspective of sustainability reporting, this has not been deemed to be a significant concern. It should also be noted that financial reporting under GAAPs or IFRS also results in double-counting as well.

Double counting is a significant concern for national registries or schemes that seek to add up a number of disclosures to get accurate national total numbers, or that use figures in market measures such as emission trading. However, sustainability reports are not used primarily for these purposes, but rather as a way to assess the sustainability performance of the individual organisation in the context of the risks and impacts over which it has the ability to significantly affect outcomes. As such, accurately drawing boundaries for the purposes of transparency and accountability is considered to be more important than ensuring that there is no double counting.

3-4. Disclosing Boundaries

Format
The reporting organisation can choose the visual format of disclosure which best communicates its reporting boundary subject to its ability to present the information identified in the *Guidelines* and elaborated in Step 4 of this document.

Report preparers are encouraged to consider efficient ways to use the Content Index to communicate the boundaries associated with the reported information. For example, reporting organisations could consider adding a column in the Content Index, which could be used to communicate the boundaries associated with the information in the report.

Change of Boundaries

Changes in the organisation's operations due to mergers, acquisitions, expansions, and closures will result in different reporting boundaries. These changes in turn will affect the overall comparability of the information over time, and an organisation will need to consider whether or not to restate information for previous years to reflect new boundaries. Restatements can improve comparability of information sets, but the necessary data may not always be available. Estimates should only be used as a substitute for actual data with extreme caution. As they are dependent on the extensive use of assumptions, this could result in other distortions that reduce the comparability of the data. The reporting organisation should judge the value of a restatement in terms of whether it increases the clarity of the report and if it better enables users to analyse performance. The change of boundaries and any restatements should be reported based on the items 2.14, 2.15, and 2.16 (see Appendix 1). Reporting disaggregated information helps to minimize this problem, as changes become more obvious to the reader and allow them to adjust their analysis accordingly.

Title of Report

The title of a sustainability report should be consistent with its reporting boundaries and should not be misleading to report users. The disclosure of boundaries should eliminate any possible confusion or incorrect assumptions that might result from the title. There should be a clear indication in the report about whether it covers all holdings or rather represents a more restricted universe, such as national or regional, business line, site, and brand. For companies where the reporting organisation shares its name with a brand, it is essential that the report explains whether it covers all its holdings, or only the entities associated with the brand that shares the name with the organisation.

Appendix 1: References to Reporting Boundaries in the GRI 2002 *Sustainability Reporting Guidelines*

Part A: Using the GRI *Guidelines*

Reporting Expectations and Design

Customising a Report within the GRI Framework

The *Guidelines* set out the basic information for inclusion in a report. However, GRI expects that reporting organisations will take steps to design their report content to reflect the unique nature of their organisation and the context in which it operates. These steps may involve:

- defining reporting boundaries;
- inserting additional content (usually based on stakeholder consultation) such as indicators, and textual discussions; and/or
- adopting a format tailored to the organisation.

Boundaries

In the early years of reporting, most organisations measured and reported on impacts based on the traditional boundary criteria used in financial reporting, that is, legal ownership and direct control. In recent years, companies have begun to experiment with expanding their reporting boundaries to better reflect the unique "footprint" of their organisation and its activities.

The completeness principle in Part B offers a brief commentary on boundaries, and GRI is working to develop additional guidance and technical protocols on this issue. Until such guidance is available, the GRI framework emphasises the importance of extensive interaction with stakeholders in order to determine the appropriate reporting boundaries. Equally important, organisations should maintain a high degree of transparency in their reports regarding the specific reporting boundaries they have chosen.

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Part B: Reporting Principles

Completeness

All information that is material to users for assessing the reporting organisation's economic, environmental, and social performance should appear in the report in a manner consistent with the declared boundaries, scope, and time period.

This principle refers to accounting for and disclosing, in sufficient detail, all information of significant concern to stakeholders within the declared boundaries (i.e., operational, scope, and temporal) of the report. Defining whether such information meets the test of significance to stakeholders should be based on both stakeholder consultation as well as broad-based societal concerns that may not have surfaced through the stakeholder consultation process. Such broad-based concerns may derive, for example, from national policy and international conventions.

The completeness principle is three-dimensional:

Operational boundary dimension: Reported information should be complete in relation to the operational boundaries of the reporting organisation, in other words, the range of entities for which the reporting organisation gathers data. These boundaries should be selected with consideration of the economic, environmental, and social impacts of the organisation. Such boundaries may be defined based on financial control, legal ownership, business relationships, and other considerations. The boundaries may vary according to the nature of the reported information. In some cases, the most appropriate boundaries for meeting the expectations outlined by other reporting principles may extend beyond traditional financial reporting boundaries.

Scope dimension: Scope is distinct from boundaries in that an organisation could choose extended reporting boundaries (e.g., report data on all the organisations that form the supply chain), but only include a very narrow scope (e.g., only report on human rights performance). In the context of GRI, "scope" refers to aspects such as energy use, health and safety, and other areas for which the *Guidelines* include indicators and queries. Despite the fact that the reporting boundary may be complete, the scope (e.g., human rights aspects only) may not be complete. The process for determining a complete scope may include, for example, the results of lifecycle analysis of products or services, and assessment of the full range of direct and indirect social or ecological impacts of the reporting organisation. Some of these same tools may also influence decisions about the other dimensions of completeness discussed here. The report should disclose all relevant information within the context of the scope (i.e., aspects) covered.

Temporal dimension: Reported information should be complete with reference to the time period declared by the reporting organisation. As far as possible, reportable activities, events, and impacts should be presented for the reporting period in which they occur. This may involve reporting on activities that produce minimal short-term impact, but will have a cumulative effect that may become material, unavoidable, or irreversible in the longer term. Such activities might include, for example, the release of certain bio-accumulative or persistent pollutants. Disclosure of the nature and likelihood of such impacts, even if they may only materialise in the future, conforms to the goal of providing a balanced and reasonable representation of the organisation's current economic, environmental, and social performance. In making estimates of future impacts (both positive and negative), the reporting organisation should be careful to make well-reasoned estimates that reflect the best understanding of the likely size, nature, and scope of impacts. Although speculative in nature, such estimates can provide useful and relevant information for decision-making, as long as the limitations of the estimates are clearly acknowledged.

Information within the organisation often flows from management systems that operate on a regular, short-term cycle, typically one year. However, a single reporting cycle often is too brief to capture many important economic, environmental, and social impacts. This type of performance, by nature, focuses on the long-term, with forward-looking trends at least as important as lagging, or historical, ones. Thus, reporting organisations should strive to gradually align information systems to account for these forward-looking trends, in addition to historical trends.

Defining boundary conditions for reporting on economic, environmental, and social performance is a complex challenge. Complicating factors include the diverse nature of the information and the intimate relationship between the organisation and the larger economic, environmental, and social systems within which it operates. Boundary research is a high priority in GRI's work programme. Discussion papers, exposure drafts and testable protocols will appear during 2002-2003, leading to more systematic and precise treatment of this critical reporting issue.

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Part C: Report Content

2. Profile

Report Scope

1.13 Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope.

If reporting boundaries do not match the full range of economic, environmental, and social impacts of the organisation, state the strategy and projected timeline for providing complete coverage.

1.14 Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.

1.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations.

1.16 Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).

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Appendix 2: Members of GRI Boundaries Working Group

Marie Apostol, Verité, Philippines

Pankaj Bhatia, World Resources Institute (WRI), USA

Jan Dell, CH2MHill, USA

Rafael Fernández de Alarcón Azón, Telefónica, Spain

Rob Fredrick, Ford Motor Company, USA

Lisa Gunn, Instituto Brasileiro de Defesa do Consumidor (Brazilian Institute for Consumer Defence – IDEC), Brazil

Paul Hilton, Dreyfus Corporation, USA

Jennifer Iansen-Rogers, KPMG Global Sustainability Services, The Netherlands

David Jerome, General Motors, USA

Neil Kearney, International Textile, Garment and Leather Workers' Federation (ITGLWF), Belgium

Christian Kornevall, ABB, Switzerland

Michael Kuhndt, Wuppertal Institute, Germany

Robert Langford, Institute of Chartered Accountants in England and Wales (ICAEW), United Kingdom

Kiyofumi Matsumoto, Canon, Japan

Peter Nelson, Eskom, South Africa

Cornis van der Lugt, UNEP Division of Technology, Industry and Economics, France

Johan Verburg, Novib/Oxfam Netherlands, The Netherlands