

IDENTIFYING MATERIAL ASPECTS AND BOUNDARIES FOR SUSTAINABILITY REPORTING: CASE STUDIES IN CZECH CORPORATIONS

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Abstract

Appropriately identify significant aspects can be seen as a significant important task in performing sustainable activities and preparing sustainable reports. Currently, GRI issues G4 guidelines to instruct organization in this main task. This paper examines the Czech companies which have identified these material aspects by applying G4, then evaluates how firms perform and disclose information regarding to this topic. From that, successful and failure in implementing G4 guidelines can be revealed. The research focuses on real cases of six Czech firms that comply with G4 in 2014 and 2015. The research firstly examines the guidelines content for identifying material aspects. Then, these companies' sustainable reports are observed to investigate how firms define and disclose material aspects. Comparison in determining sustainable measures between companies' preparation and guidelines, and between companies in different sectors are performed to provide better understanding for implementing GRI guides in corporations for other companies. After the evaluation, the paper found that even though all firms declared that they are in accordance with G4, the quality of information is not consistent. Only one firm had proper disclosure while these other fives totally neglected the guidelines, or just applied some main standard disclosures according to G4 guidelines regarding to this subject.

Keywords: GRI-G4, materials aspects, Czech Republic.

1 INTRODUCTION

Even though sustainability development issues have been researched for the long time, enhancement on sustainability implementing and reporting is still ongoing. Studies on the impacts of sustainability development on the economic growth of corporations, business sectors, and countries have not yet finished. Due to current issues on global environmental changes and social problems occurring worldwide, this paper continues the research on sustainability development. The research focus on examining corporation sustainability reports which can reveal evidences of complying sustainability development in corporations.

This paper is structured into four sections. The first section will summarise the literatures which also become sources for further analysis in Czech corporations. Next, the research design, and sample selection are revealed in section two. Section three will concentrate on analysis in four Czech firms regarding to identifying material aspects and indicators for sustainable reporting. Finally, section four will conclude the research and discuss expected contributions and implications of this research.

2 LITURATURE REVIEW

2.1 Emerge of sustainable developement study and implementation

Implementation of corporate sustainability has recently emerged due to the integration into global economy. This process provides opportunities for the country's development in which economic growth is maintained as a high level, and country's resources are effectively used. More countries and organizations have required companies and members to comply with

mandatory sustainability reports such as big EU companies must include sustainability factors in annual report. However, these actions create not only more opportunities but also more challenges and rules for enterprises. According to Nguyen (2007), this implementation is a long process and is presently being oriented and applied by big firms who perceive corporate social responsibility (CSR) as an attractive factor for foreign investment and export expansion. Nevertheless, it cannot be neglected that many other firms are still hesitated to implement CSR due to time and costs consuming. These pros and cons of implementing corporate sustainabilities have been revealed in many past and current researches.

Takala and Pallab (2000) defined corporate sustainability (CS) as a firm's attempt in satisfying of social, environmental, and economic purposes. Corporate social responsibility has been discussed in terms of sustainable development which, according to Kuln and Deetz, (2008), is firms' long-term growth in associated with protecting environment and improving social values. Strategic management theory states that a firm's key success is to create competitive advantages which can lead to the firm's value creation. This value creation is measure by consumers' willing to pay a premium on the firm's products and services due to firm's actions on social activities (Husted, and Allen, 2007). In addition, according to Sharma and Vredenburg (1998), innovation opportunities can be created by implementing a CSR program. And it is obviously that value creation and innovation can enhance the perception of shareholders on firm's performance and value. Moreover, based on stakeholder theory, Freeman (1984) suggested that firms orient their actions, activities and decision making not only base on the interest of shareholders but also on the interests of other stakeholders as customers, employees, suppliers and communities. Regarding to this, CSR was argued to be able to predict and decrease conflicts between firms, community and its stakeholders (Heal, G., 2005).

Profit organizations, as part of the society, play a role in resolving environmental issues and achieving better society (Frederick, 2006). As a result, companies are increasingly implementing corporate social responsibility programs, and considering their corporate sustainability performance to be able to set close relationships with environments and societies (Nicolau, 2008). These actions are expected to improve social and environment issues, and boost human's well-being. Although it is increasingly necessary for companies to engage in these activities, the other purpose of making profit of these businesses cannot be neglected. Therefore, examining the influence of society-and-environment-oriented activities on the firm financial performance is important issue. Positive impacts of sustainable development on firm performance and economic growth have been proved in many researches. Bird et al, (2007) suggested that social activities can increase firm value by positively impacting on cost saving, firm reputation, and regulatory cost avoidance. As for environmental purposes, Dowell et al., (2000) found the positive relationship between implementation of global environmental standards and firm value. Consistent with these papers, Orlitzky et al., 2003 and Nicolau, 2008 found the positive influence of firm CSR program on financial performance.

Along with favorable influences, adverse effects indicated in following papers can be seen as deterrent factors for applying sustainable programs and reporting. According to Friedman (1970), the main purpose of firm is to enhance its shareholders' wealth; hence, activities that ineffectively impact on the firm current resources will harm the firm performance. In addition to the positive or negative results on the relationships between CS and firm performance, some studies have failed to find the relationship (Margolis and Walsh, 2003). Ray et al, (2004) suggested the major reason for these different results is because of financial performance being influenced by so many variables, and inconsistencies in measuring corporate social responsibility. Given this, it is worthwhile to test the relationship between CS

and financial performance, and to find appropriate measures for CS and its relationship to firm performance.

Although CS is currently being implemented by many companies, the research literature is still exploring a more appropriate measurement of CS. The need to find relevant sustainability measurement is increasingly meaningful (Tyteca, 1998) due to their ability to provide major information about economic, social and environmental issues, and to analyse the relationships among these elements (Veleva and Ellenbecker, 2001). This will help decision makers have a deeper understanding on how to attempt economic growth that is consistent to social and environment targets (Farrell and Hart, 1998). Farrell and Hart (1998) also suggested that measurement can be an individual indicator, or part of a set, or a single number of composite index, which can be used to examine whether firms have accomplished their sustainability regarding to social, environmental and economic performance (Lawrence, 1997). Given this, the stakeholder framework which consists of social and environmental issues can be introduced the types of measurement (i.e. single number of composite index). Stakeholder framework includes five dimensions relating to major stakeholders issues including employee relations, product quality, community relations, environmental issues, and diversity issues (KLD, n.d.). As for GRI, the updated guidelines (GRI-G4) provide detail disclosed instruction on economic, environmental, and social aspects.

Among guidance regarding to sustainable reporting, GRI has a long history in providing direction for sustainable reporting. In addition, more and more companies are now partly or totally applying GRI guidelines in their sustainable reports. Indeed, while GRI-G4 has just been issued in 2013, in 2014, 1190 companies have applied, and 2636 was the figure in following year (GRI, 2016). Therefore, this paper considers GRI knowledge as a good benchmark to compare and analyse the identification of material aspects and indicators for sustainable reporting.

2.2 GRI-G4 Guides on identifying material factors and indicators for sustainable reporting

GRI was founded in Boston in 1997 by two United States non profit organizations, the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute. GRI aims are to support companies, governments and other organizations to comprehend and disclose the impact of companies' operations on environmental, social issues, and other sustainability issues. As an international independent organization, GRI issued Guidelines that can be implemented by many types of organizations such as multinational organizations, public agencies, SMEs, NGOs. Currently, 10,449 organisations around the world have applied GRI which have provided more than 26,282 GRI reports. And the application trend is increasing year by year. Until now, GRI have issued four guidelines: G1, G2, G3, and G4. . The later versions were reviewed and updated, so it is expected to provide better guidelines than previous versions. This report focuses on the latest guidelines of GRI, the GRI-G4.

According to GRI-G4 guidelines, the first step in delivering sustainable disclosure is identifying material aspects and boundaries. Material Aspects reveals the considerable impacts of organization's economic, environmental and social issues on stakeholders' evaluation and decisions making process. Aspect Boundary describes where the significant impacts occur for each material Aspect. The Aspect Boundaries can be internal or external to the organization. GRI have been issued to support companies in determining material Aspects and Boundaries and to specify where firms' impacts may be significantly.

GRI-G4 provides two options in preparing sustainable reports: the Core option includes crucial elements of a report, and the Comprehensive option develops the Core option by

adding further disclosures on firms' strategy and analysis, governance, and ethics and integrity. These differences do not impact on the firms' performance or reports' quality, it just show how companies comply with GRI-G4. Within the disclosed requirements (appendix 1), GRI-G4 presents instruction on identified material aspects and boundaries which has the index from G4-17 to G4-23. According to GRI-G4, the identification process is divided into four steps: identification, prioritization, validation, and review.

Before moving into details of the steps, there are two principles that preparers and users should understand. The first principle is the Principle of Sustainability Context, which requires the presentation of organization performance to be placed in a sustainable context of limits and demands on environmental and social resources. And the second one is the Principle of Stakeholder Inclusiveness, which asks firms to recognize their stakeholders and response to stakeholders' appropriate needs.

Referring four mentioned steps, the 'Identification Step' requires firms to identify material aspects based on Principles of Sustainable Context and Stakeholder Inclusiveness. G4 also presents a list of aspects (appendix 2) that firms can use, however, the chosen aspects should be relevant to firms' economic, environmental and social context. The relevance can be considered on top of firms' activities, products and services, or firms' relation with stakeholders. Once the aspects are identified, companies should classify into the internal and external influences. This is also the boundary indication of the aspect. Then, a list of aspects and their boundaries should be completed.

In 'Prioritization Step', preparers should apply Principles of Materiality and Stakeholder Inclusiveness to evaluate relevance of each aspect referring to the significance of firm's economic, environmental and social impacts, and to the effects on stakeholders' judgments. For every significant aspect, level of information disclosures should be stated. At the end of step two, a list of material aspects, their boundary and level of coverage should be revealed.

Next, 'Validation Step' requires the compliance with Completeness and Stakeholder Inclusiveness Principles to evaluate the validity of the chosen material aspects. The validation is approved if the report can produce equal and appropriate illustration of firm's influences regarding to economic, environmental and social aspects. Also, the report should provide sufficient and relevant information for stakeholders to be able to evaluate the firm's performance. After the approval, information needs to be collected to be disclosed. In this step, appropriate indicators should also be determined to be ready for reporting. With unavailable information, report should indicate the necessity to develop management approaches and measurements systems.

Lastly, a review should be done on previous material aspects to inform for next period reporting. Based on these four steps, all GRI-G4 standard disclosures from 18 to 23 can be fulfilled, which also include the list of material aspects (G4-19). Even though these steps are not compulsory for firm to follow in order to be 'in accordance' with GRI-G4, all information in the GRI index should be disclosed according to chosen option.

3 RESEARCH DESIGN

When GRI-G4 was issued in 2013, there were just 35 companies implementing this guideline. However, the figures significantly increased in 2014 and 2015 in all regions. In 2014, European was the leading region in number of firms that applied G4, and in 2015, the compliant firms were double (Figure 1). With the focus on Czech Republic, this paper examines the compliance status of Czech firms in these two years. In 2014, there were two firms that declared to be in accordance with G4 (KPMG Czech Republic and Skoda),

however, KPMG discontinued to followed G4 in following year and Skoda prepare the report every two years. Therefore there was no sustainable report in KPMG and Skoda in 2015. In 2015, according to GRI (2016), four new firms started to apply G4, which consist of ArcelorMittal Ostrava, CSOB, PWC Czech Republic, and Sev.en Group. Therefore, this paper will assess the compliance to G4 of all these six organizations.

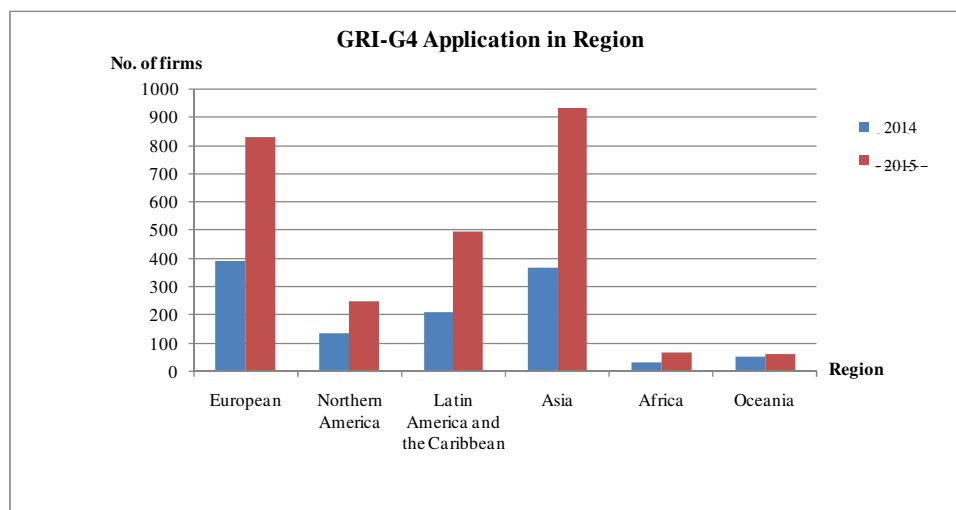


Figure 1: GRI-G4 Application in Region. Source: GRI Reports (2016)

Main methodology that applies in the research is documentary analysis. Research on GRI guidelines and firm's practical implementation regarding to identification of material aspect and indicators for sustainable reporting are carried out base on GRI and firm's reports. Then, comparison between the guidelines and the practices, and between firms' performance in preparing report in these topics are produced. Base on the comparison, appropriate analysis and conclusions are retrieved.

4 CASE STUDIES IN CZECH CORPORATIONS

According to G4 guidelines, whatever option the company choose, there are always seven information that the company need to disclose regarding to identified material aspects and boundaries.

Table 1: Standard Disclosures for Identified Material Aspects and Boundaries. Source: GRI-G4 (2016)

	Standard Disclosures
G4-17	All entities that are included in firm's consolidated statement need be listed. For those entities that are not covered by the report need to be reported.
G4-18	Clarify how firm has applied Reporting Principles to define report content, and illustrate the process to define report content, material aspect and boundaries.
G4-19	List all the material Aspects identified in G4-18.
G4-20	For each material Aspect, stated whether the aspect is significant for all entities determined in G4-17. For insignificant aspect, list the

	entities that are not considerable impacted by the aspect, or list the entities that are considerable influenced by the aspect.
G4-21	For each material Aspect, stated whether the aspect is significant for entities outside of the organization. For significant aspect, list the impacted entities, and describe the geographical location where the aspect is considerable for these entities.
G4-22	If there are any restatements from previous sustainable reports, firm should report and explain.
G4-23	If there are any major changes from previous reporting periods, state them in the Scope and Aspect Boundaries.

After completing all detailed standard disclosures, firm should have a summaries into an index at the end of sustainable report. For each disclosure, firm should indicate in which pages that the information is release and whether the information has the external assurance or not.

For Czech corporations, all six companies chose Core option and prepared G4 Index table at the end of the report. However, the levels of coverage, the details of information were not the same among these firms regarding to identified material aspects and boundaries. Indeed, among these six firms who declared that they were in accordance with GRI-G4, Arcelormittal did not disclose any information in general standard disclosures. CSOB only provided information about the list of entities included in consolidated financial statements and other unclear disclosures which did not have the pages' reference. The others disclosed in more detailed. As there was no standard disclosure in identified material aspects and boundaries in Arcelormittal Ostrava, the analysis focuses on the other five companies. Following analysis for five Czech firms are carried out according to the indicated index appearance in table 1.

4.1 G4-17: List all entities included in the organization's consolidated financial statement

Entities in two auditing companies in Czech Republic (PWC and KPMG) were similar to each other. Main entities included employees, working groups, clients, suppliers, media, and community (PWC (2015) and KPMG (2014)) . These illustrations were divided into three parts: entity's name, communication methods, and benefits and threads, to illustrate to whom, how and why the organization creat the relationships with. While the first two parts had no significant different in content, PWC provided more details about the reasons to create the relationship with the entities in comparison to KPMG.

For two mining companies: Arcelormittal Ostrava and Sev.en, while no disclosures referring to identified material aspects and boundaries were made in Arcelormittal Ostrava, Sev.en made very detailed disclosures on these contents. However, contents referencing benefits and threats from these stakeholders were neglected in Sev.en report. For the list of entities, Sev.en present comprehensive table about the key events with the stakeholders to illustrate for the entities' names and way to communicate.

The last two companies in the analysis include CSOB and Skoda, for G4-17, these two companies just simply listed the name of entinites. There was no further information aside the entities's names in this disclosure.

4.2 G4-18: Process of defining report content, material aspects, and boundaries

According to GRI-G4 guidelines, firms can apply four steps as stated in literature review part to fulfill G4-18, 19, 20, and 21. All these five firms did not tightly follow the steps, however, among five companies, only Sev.en and Skoda provide details of the process while other companies just briefly reported on the process. For instance, CSOB stated that they defined the report content based on past experience of the CSR report, advices from Ipsos Research relating to public opinion surveys, suggestions by company's stakeholders. To define significant activities and areas, COSB just said they based on viewpoints of the stakeholders and the bank itself.

PWC and KPMG Czech Republic had similar approach in presenting the process of defining report content and material aspects. The two companies directly determined the important activities, and then explained how they manage these activities. For example, KPMG stated their considerable aspects including employees focus, environmental footprint reduction, and sustainable business development. Next, brief and general explanation for carrying out activities to meet material aspect expectation was revealed. For PWC, major aspects were involved in energy and paper consumption, and employee records, harnesses and training.

In Skoda, four-step process was illustrated in identifying report content and material aspect. The first step indicated the global challenges by examining some external and internal researches and materials. Next, appropriate key contents were evaluated by the support of online-based media screening. Thirdly, based on previous steps, major topics were defined in the concerns of stakeholders' needs, possible contribution to group's strategic goals, and the variances of stakeholders' needs and possible contribution. Lastly, due to the size, the impact, and the responsibility of the contents, and based on all the GRI suggested aspects, Skoda determined key reporting contents through detailed discussions. Through these steps, there were sixteen major aspects to be identified.

As for Sev.en, firstly, appropriate information, documents and legislations were identified to support for the preparation of the report. Then, based on the knowledge of sustainable development, Sev.en prepared a survey with 40 aspects and delivered to relevant stakeholders indicated in G4-17 and a result of 23 significant aspects was returned. This can be seen as a good approach to determine significant aspect in relating to Principles of Sustainable Context Materiality and Stakeholder Inclusiveness as stated in step 1 and 2 of G4 guidelines. Sev.en also had a deep review on 2014 report in preparing 2015 one, this is the compliance with step 4 of the guideline. Different from the guide, Sev.en did not determine the boundaries in step 1, but Sev.en waited until step three once the company could confirm for the list of material aspects. In 2015, even though, there were 23 materials aspects returned from the survey, Sev.en identified 25 materials aspect in the Validation steps.

4.3 G4-19: List all material aspects identified in the process for defining report content

For G4-19, CSOB did not comply with G4 guide as there was no list of material aspects in the report. In the meantime, all the other four companies provided completed illustration of materials aspects. Under economic, environmental and social areas, in PWC, twelve material aspects were determined, while this figure in KPMG was six. Skoda presented sixteen key actions areas to illustrate for sixteen material aspects. These actions are not totally consistent with the G4 material aspects list. However, G4 do not require firm to strictly base on G4 list to determine material aspects, hence, Skoda are in accordance with G4 in standard disclosure G4-19. Different from previous companies, Sev.en presented twenty five materials aspects in

more detailed categories. The areas included economic, environmental, social sphere, coal mining, and electricity production.

4.4 G4-20: Aspect boundary within the organization and G4-21: Aspect boundary outside the organization

Among these five analysed firms, only Sev.en provided detailed classification for internal and external boundaries for each material aspect. All the rest were not comply with G4-20 and G4-21 guide in disclosing the boundaries.

4.5 G4-22: Restatements of information provided in previous reports

KPMG stated that this was the first time they prepare sustainable report in accordance with GRI-G4, thus, there was no information in G4-22 and G4-23. In Skoda, previous report was prepared in 2013, and Skoda confirmed that there had no major changes and restatement of information to the current report. As for PWC, the company affirmed that all restatements of definition and criteria were because of the expansion to G4 application. This information is also the standard disclosures of Skoda and PWC relating to G4-22 and G4-23.

Different from brief disclosures in the other companies, Sev.en provided detailed information relating to complementation of important perspectives from the comments on sustainable report in 2014. For instance, there was some adjustment on visualisation of important aspects due to employees' comments. In addition, requirement on further illustration about future dependence on government policies and possible regulation changes were fulfilled in current report.

4.6 G4-23: Significant changes from previous reporting periods in the Scope and Aspect Boundaries

Similarity to G4-22, only Sev.en provided proper standard disclosure on changes from previous reporting periods. The disclosures specified on changes in material aspects that had not been determined last year. Moreover, internal aspects which previously were identified as important, now were classified as relevant. Sev.en also indicated some changes to G4-guide, for instance, some aspects that are listed separately by GRI, were grouped by Sev.en to provide more concrete information.

5 CONCLUSION

Even though all firms declared that they are in accordance with G4, the quality of information is not consistent. For example, Arcelormittal ignored the standard disclosures requirements in identified material aspects and boundaries. In the meantime, CSOB just applied two above seven standard disclosures. These were G4-17 and G4-18, however, the disclosures were still so simple. For KPMG, PWC and Skoda, these companies complied with five guides and did not present information about internal and external boundaries as indicated in G4-20 and G4-21. The other five guidelines were brief disclosed, hence, further explanation should be carrying out to have better compliance performance. Among these six firms, only Sev.en had proper disclosures regarding to identified material aspects and boundaries. The information in Sev.en had sufficient details that the users can understand what information the company provided, how and why the company delivered the information.

All these six companies are taken from completed list provided by GRI as they declared to be in accordance with G4. However, firms still have wide flexibility on how to disclose the information. As analysis above, the details and sufficiency of the standard disclosures are not consistent, which may impact on the quality of sustainable report. Therefore, more specific

requirement on levels of disclosures should be added in G4 guidelines. In addition, GRI should have a review on sustainable reports of firms that declare to be in accordance with G4 before putting these companies in the 'in accordance' lists of GRI databases.

As examination of GRI- G4 implementing on each company is still limited, therefore, this research has not compared the findings with the previous studies. Future research can be carried out in other countries, then comparison to Czech organization can be performed.

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Appendix 1: Table 3 - Required General Standard Disclosures

General Standard Disclosures	'In accordance' – Core (This information should be disclosed in all cases)	'In accordance' – Comprehensive (This information should be disclosed in all cases)
Strategy and Analysis	G4-1	G4-1, G4-2
Organizational Profile	G4-3 to G4-16	G4-3 to G4-16
Identified Material Aspects and Boundaries	G4-17 to G4-23	G4-17 to G4-23
Stakeholder Engagement	G4-24 to G4-27	G4-24 to G4-27
Report Profile	G4-28 to G4-33	G4-28 to G4-33
Governance	G4-34	G4-34 G4-35 to G4-55(*)
Ethics and Integrity	G4-56	G4-56 G4-57 to G4-58(*)
General Standard Disclosures for Sectors	Required, if available for the organization's sector (*)	Required, if available for the organization's sector (*)

Appendix 2: Table 5 - Categories and Aspects in the Guidelines

Category	Economic	Environmental
Aspects IV	<p>Economic Performance</p> <p>Market Presence</p> <p>Indirect Economic Impacts</p> <p>Procurement Practices</p>	<p>Materials</p> <p>Energy</p> <p>Water</p> <p>Biodiversity</p> <p>Emissions</p> <p>Effluents and Waste</p>

		Products and Services Compliance Transport Overall Supplier Environmental Assessment Environmental Grievance Mechanisms		
Category		Social		
Sub-Categories	Labor Practices and Decent Work	Human Rights	Society	Product Responsibility
Aspects IV	Employment Labor/Management Relations Occupational Health and Safety Training and Education Diversity and Equal Opportunity Equal Remuneration for Women and Men Supplier Assessment for Labor Practices Labor Practices Grievance Mechanisms	Investment Non-discrimination Freedom of Association and Collective Bargaining Child Labor Forced or Compulsory Labor Security Practices Indigenous Rights Assessment Supplier Human Rights Assessment Human Rights Grievance Mechanisms	Local Communities Anti-corruption Public Policy Anti-competitive Behavior Compliance Supplier Assessment for Impacts on Society Grievance Mechanisms for Impacts on Society	Customer Health and Safety Product and Service Labeling Marketing Communications Customer Privacy Compliance