

Enterprise Action 2. Understand what's important to Stakeholders and achievement of the SDGs, and where the Enterprise is making impacts to determine where material impact can be made in the future

Action is mapped to practice indicators as follows:

- ✓ Increase understanding of sustainable development context including about the global, national, and local SDG priorities and gaps and interdependency across the SDGs (1.1.4, 1.1.2)
- ✓ Engage with Stakeholders to understand what matters to them (1.1.5)
- ✓ Map current and future potential impacts on different Stakeholders (including under-represented Stakeholder segments) through the value chain, and determine what impacts are material based on what is important to them (1.1.6)

Guidance notes can be found below:

- ✓ **Increase understanding of sustainable development context including about the global, national, and local SDG priorities and gaps and interdependency across the SDGs (1.1.4, 1.1.2)**

Guidance Note 1.1.2

Interdependency

The SDGs are interconnected, integrating economic, social, and environmental targets. Changes in one outcome can affect other outcomes directly or indirectly, intentionally, or unintentionally, positively, or negatively. A lack of progress on one goal can also hinder progress on others, for example, the relationship between inequality and climate action.

Consequently, impacts need to be considered holistically to understand how actions in one area might affect other areas, to understand the overall impact being created, and to avoid unintended negative impacts and consequences.

Guidance Note 1.1.4

Understanding the sustainable development context

Evidence and relevant social and scientific data from reputable agencies such as government, scientific, community and civil society organizations may be available to better understand the sustainable development context(s) the enterprise is operating in.

It is important that this information is:

- Relevant to the people experiencing the impacts. International research or research with a similar group of people but in a different context, that aggregates different groups of people together (such that needs of disadvantaged or marginalized groups are masked), or that excludes certain groups may not be relevant and its use may increase the risk of making sub-optimal decisions. Therefore, data should be sufficiently disaggregated (i.e., segmented) for decision-making, especially regarding

excluded or disadvantaged groups. Inclusive data sources may need to be expanded over time to counter for the shortcomings in currently available data sets and factors which might inadvertently compound disadvantage or discriminatory approaches.

- Timely and up to date, especially as the sustainable development context and our understanding of it is changing rapidly.
- Supported by meaningful stakeholder engagement (taking into account stakeholders along the enterprise's whole supply and value chain, its products and services) and does not supplant that engagement either in selection of potential impacts or in design of products and services to create impacts without documented reasons – and therefore informed by 1.1.5.

✓ **Engage with Stakeholders to understand what matters to them (1.1.5)**

Guidance Note 1.1.5

Stakeholder identification

Stakeholder identification should differentiate between people and organizations that experience impacts and people and organizations that contribute to those impacts. Stakeholders includes both current Stakeholders and potential future stakeholders, including currently excluded sub-groups and stakeholders along the whole enterprise supply and value chain, its products and services.

Stakeholder identification should consider the appropriate level of disaggregation for use in the impact thesis and in design and development of products and services recognizing that these are likely to be different.

Stakeholder engagement/involvement plan for those experiencing impacts

Stakeholder engagement should be designed to reduce the risk that material impacts (both current and potential future impacts identified based on what matters to stakeholders and achievement of the SDGs) are not identified to an acceptable level. This includes making sure that:

- the engagement is appropriate and inclusive for different stakeholders.
- the approach to identifying potential impacts is open and results have been documented.
- the risk of bias from the person conducting the engagement is recognized and minimized, for example there is a risk of explaining away or not recording negative impacts, or differences between stakeholders and those conducting the engagement.
- Risk of unintended or perverse consequences of the approach has been considered.

The initial assessment is likely to be more demanding and time consuming than in future measurement cycles. A risk-based approach can be taken to the frequency and extent to stakeholder involvement by stakeholder, allowing for changes in the sustainability context and in the characteristics of the stakeholder group.

- ✓ **Map current and future potential impacts on different Stakeholders (including under-represented Stakeholder segments) through the value chain, and determine what impacts are material based on what is important to them (1.1.6)**

Guidance Note 1.1.6

Determining Materiality

Determining materiality means identifying the issues that matter to a user for making decisions with a specific purpose. For the SDG Impact Standards: the issues are impacts and the users are those experiencing the impacts to their well-being or those required to act in their interests that result from an organization's work; the decision is to provide resources to organizations or, within organizations, to produce products and services; and the purpose is to contribute positively to sustainability and the SDGs to maximize the well-being of people and planet.

Where the purpose of the enterprise, the requirements for sustainable development and the impacts that matter to those that experience them are aligned there is no conflict (1.2.1). Where the purpose of the enterprise is not aligned there is a risk that the enterprise identifies material issues but then focuses on a subset that are deemed to matter to the enterprise, often on the enterprise's ability to generate cashflows for investors.

However, the requirement for sustainability to be central (1.1.1) and for positive contribution to consider what matters from the perspective of those that experience the impacts (1.1.3) means that approach would not be consistent with the Standards. Nonetheless an enterprise may have a plan for how it changes its business model, strategy, or operations to the point where its approach to materiality is aligned. So long as this plan is ambitious and rigorous (2.2.1), and the enterprise considers the increased risk of making decisions that are not optimal, the enterprise can meet the requirements of the Standards.

There are three points at which judgements are made that result in the understanding of material impacts where the risk of missing impacts must be considered:

- The initial identification of stakeholders as the impacts experienced by
- The engagement with those stakeholders to identify potential material impacts (relevant) which would include consideration of the SDGs
- The assessment of the significance (2.1.6) to determine a final list of expected material impacts

The approach should be designed to result in a complete list of stakeholders and the impacts that matter to them as a basis for making decisions alongside this plan. The objective is to reduce the risk that impacts are missing that would change decisions being made to increase well-being, and so covers the approach to stakeholder engagement (1.1.5), the checks to ensure that potential impacts are being identified through that engagement, including these in the Impact Thesis and Strategy (1.2.3 and 1.2.5) and recognizing trade-offs in decision-making are inevitable (2.2.5). This should also include an assessment of the enterprise's relative capabilities and ability to deliver impacts that matter to stakeholders both efficiently and effectively (acknowledging that enterprises can decide to change their capabilities to meet stakeholder requirements).

Whether or not a potential impact is material depends on subsequent measurement (2.1.6) and so an enterprise starts with expected material impacts which is refined over subsequent measurement cycles. This means the initial effort is higher and in subsequent cycles, where materiality judgements have been made based on data, a less frequent check to confirm would be adequate to meet risk tolerance.

The use of predetermined lists of sector level material impacts can help, especially where this is derived from the enterprise's previous application of a materiality policy that is consistent with the definition used in these Standards, but over reliance on this increases the risk that impacts are missing and that decisions will not be optimal (the risk of this happening increases if the sector level resources are based on a more narrow or different definition of materiality than is applied in the Standards).

Inequality (overarching) and gender equality, climate action and decent work are always material (1.2.2 – cross cutting goals).