Enterprise Action 4. Set impact goals in line with now integrated purpose and strategy

Action4 is mapped to practice indicators as follows:

- ✓ Set ambitious and measurable goals for all material impacts (including negative ones) and cross cutting issues in context of baselines, thresholds and rate of change required to achieve the goal in a timely way (1.2.1, 1.2.2, 1.2.3, 1.2.5)
- ✓ Specify goals according to SDG outcomes areas & ABC impact classifications (1.2.4)
- ✓ Assess the risk (including to Stakeholders) that impacts may not occur as expected (1.1.8, 1.1.9**)**

Guidance notes can be found below:

- ✓ **Set ambitious and measurable goals for all material impacts (including negative ones) and cross cutting issues in context of baselines, thresholds and rate of change required to achieve the goal in a timely way (1.2.1, 1.2.2, 1.2.3, 1.2.5)**

- ✓ **Specify goals according to SDG outcomes areas & ABC impact classifications (1.2.4)**

Guidance Note 1.2.1

Aligning impact goals, purpose, strategy, stakeholder expectations and sustainability context

Stakeholder expectations and the sustainable development context, including the National Development Strategy(ies) in the country(ies) of operation, inform the requirements for sustainable development which overlap with and will drive purpose, strategy, and impact goals. Aligning them may not be immediate so the enterprise will need to have an ambitious and rigorous plan for alignment. Alignment may require changes to strategy and even purpose. Stakeholder expectations and requirements for sustainable development can be inconsistent but need to be incorporated into design of products and services if impact goals are to be achieved. Alignment with the preceding indicators can be the basis for recognizing inconsistency and non-alignment and development of the strategy.

Where strategy has not yet been implemented and stakeholder expectations have not been derived from stakeholder involvement in line with policy, expectations can be based on initial market research carried out as part of strategy formulation and business planning.

Guidance Note 1.2.2, 1.2.3, 1.2.4, 1.2.5

Ambitious and rigorous impact goals

The enterprise having an impact thesis and setting rigorous and ambitious goals is fundamental to the argument that these processes will drive decision making that, taken up across the ecosystem, would maximize contribution to sustainability and the SDGs. Ambitious goals also relate to the need for continuous improvement.

Goals may be descriptive but must be associated with quantitative targets. The encouragement of debate between those preparing the targets and those setting the targets, who are responsible for holding the management to account is key.

Where there is an element of performance related pay in relation to those targets there will need to be more willingness by directors to ensure that those payments meet directors' fiduciary responsibilities and the approach to impact management may be less risky.

Targets

The process for setting targets should consider the local context:

- Wider market and sustainability developments, including SDG goals and timescales
- Thresholds, and allocation of those goals
- Inequality, gender equality, climate action and decent work
- Recognition and prevention or mitigation of material negative impacts
- Trade-offs between positive and negative impacts in decision making
- The relationship between impact targets, impact risk and risk tolerance
- The relationship between impact targets and risk adjusted expected financial returns
- Scale

Ambitious targets

A process for ambitious targets requires:

- Assessing current performance (establishing baseline)
- Estimating thresholds for each relevant impact both positive and negative
- Setting targets within the longer-term strategy for the business and the impact thesis over the coming years, recognizing the need for targets to be above thresholds for each impact
- Comparison with peers and competitors recognizing that comparators must also meet these requirements to be a useful benchmark
- Agreement and sharing of targets with identified collaborations
- Separation of roles between preparation and approval of goals
- Process to adjust targets
    - Regular director review of performance against targets that then informs future targets
    - Changes made to address the results of that review, covering both strategy and operations
- A process to check progress on those actions

Rigorous targets

A process for rigorous targets necessitates quantified indicators or metrics (SMART), based on

- Definitions as used in the Standards, including dimensions of impact in setting targets (2.1.6)
- Stakeholder involvement to inform potential impacts and to understand and quantify the relative importance of impacts (1.1.4)
- Materiality process that ensures completeness of all material impacts (1.1.5)
- Sufficient segmentation that captures relative differences between stakeholder groups and sub-groups
- Relate impacts to SDGs and ABC classifications (1.2.2)

Thresholds

A threshold is a societal norm or ecological level that is the minimum that must be reached for an impact to be positive. The threshold defines the acceptable range for the impact. Performance outside of the acceptable range is negative or unsustainable. Performance within the acceptable range is positive or sustainable. Thresholds can be set locally, nationally, or internationally. They should also represent the affected stakeholder's perspective, so stakeholder feedback can be an important way to corroborate thresholds, especially when they are not well-established. (Note: care should be taken to recognize—and adjust accordingly—that under-represented stakeholder populations may not be aware of the negative impacts that business or other activities may have on their access to basic rights and services. Precedence should be given to international norms where locally set thresholds are unavailable or lower than international norms.) The Enterprise should default to using international norms when locally set thresholds are lower than international norms or not available.

There are three methods of arriving at thresholds for sustainable development:

- The first is grounded in natural or social sciences. Through research and empirical study, this method produces evidence to help organizations understand how their actions affect the people and natural resources they interact with (e.g., climate science).
- The second is grounded in ethics. This method looks to social norms for what is considered fair in society. These norms may be enshrined in law or formalized through institutions that have legitimacy in producing associated reference documents (e.g., ILO Conventions).
- The third is stakeholder expectations.

Enterprises should look to identify authoritative institutions which provide credible sources of thresholds for the impact they are trying to measure. Where established thresholds are not available, enterprises will need to determine a relevant threshold themselves. One option to inform the decision is through Stakeholder feedback, so that at least the perspective of the affected Stakeholder is included, and drawbacks of other methods can be mitigated (for example they are often historical and "universal" and may have entrenched bias, for instance, gender bias).

Enterprises may find that they have a choice between several credible thresholds. For example, when considering the outcome of income from employment, an Enterprise might consider the national minimum wage, the national living wage, or a regional living wage. In such cases, the

Enterprise should select the most ambitious threshold, so long as it is relevant to the affected stakeholder group. Enterprises may consider testing the relevance of thresholds through stakeholder engagement. It is important to note that setting ambitious thresholds provide incentives for continuous improvement even if reaching the target might take longer to achieve. It also increases the chances to find solutions that will be most impactful.

Ensuring impact goals are sufficiently targeted

Impact goals should account for relative differences between stakeholder groups – and different segments within stakeholder groups. For example, on average the SDG threshold may be met, however outcomes for certain stakeholder sub-groups (e.g., socio-economically disadvantaged groups, indigenous peoples, religious or racial minority groups, people living with disability, women) may be significantly below the threshold level. This requires making intergroup comparisons of impact, which in turn requires transparent valuation of impacts (including incorporating the perspectives of those experiencing the impacts into the valuation process).

Setting impact goals to avoid or significantly reduce all material negative impacts

This includes taking into account all expected material direct and indirect, intentional and unintentional (upstream and downstream) impacts that arise as a consequence of decisions, actions and business relationships. Goals can also be set to improve the identification and management of indirect impacts over time, recognizing the challenges that currently exist.

Avoiding or significantly reducing expected negative impacts is a positive contribution to sustainable development and the SDGs when reaching the threshold level.

Amplifying impact through setting market leadership and collective action goals

The SDGs are a shared responsibility and require partnerships and collaboration to realize. Impact can be amplified through setting market leadership and collective action goals to further enable the SDGs, for example:

- sharing SDG impact data and lessons publicly (e.g., sharing case studies about which business models in which contexts are effective at tackling specific SDG targets; sharing examples of the different decisions made as a result of impact data)
- actively participating in initiatives to build and/or comprehensively (i.e., not selectively) adopt shared industry impact management terms, conventions, and standardized metrics where appropriate
- proactively seeking to have metrics added to standardized lists where they are likely to have broader applicability
- mentoring and enabling others
- building stakeholders’ capacity (especially underserved and/or vulnerable populations)
- exploring partnerships as an enabler for greater SDG impact
- developing industry infrastructure such as open-source tools and resources

- helping to scale value-adding intermediaries, platforms, and networks
- promoting policy reforms.

Cross-cutting goals

For the purposes of applying the Standards, reducing inequality is an overarching objective and gender equity, climate action and decent work[1] are always material as they are key priority areas that underpin global sustainable development and require collective action to progress.

However, with respect to climate action, cross-cutting goals should take into account the development context, ensuring that developing countries and regions' ability to achieve important development outcomes are not jeopardized by unreasonable cross-cutting goals on climate action that are more fairly borne by more developed countries, and recognizing the interdependency between inequality and development issues and climate action.

Setting impact goals across the five dimensions of impact

An impact goal set across the five dimensions of impact is an expression of expected impact performance. It should include who is affected, what outcome occurs for them, how much that outcome changes, the contribution the enterprise expects to make to the change, and the risk that the impact is different from that expected. Quantified targets using both the dimensions and the assessment of materiality that incudes relative preferences on the set of impacts can then be set.

After considering each of the five dimensions, an enterprise is able to classify its specific impact goals according to the ABC impact classifications, which may be helpful in describing and summarizing the nature and depth of its impact intentions to stakeholders.

✓ **Assess the risk (including to Stakeholders) that impacts may not occur as expected (1.1.8, 1.1.9)**

Guidance Note 1.1.8

Incorporating sustainability risk and opportunities

Impact risk is the risk that the impact does not occur when expected and/or is less than expected which includes being negative. It is borne by the people who experience the impact. Decisions should therefore consider the risk tolerance of those who experience the impact, for example, the enterprise's risk register should include stakeholder risk tolerance (which if unknown, should be assumed to be low). A description of the different types of impact risk is provided in the glossary.

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[1] International Labour Organization (ILO)'s definition **of decent work** involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for peoples to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men. The four pillars of the ILO Decent Work Agenda are: (i) employment creation, (ii) social protection, (iii) rights to work, and (iv) social dialogue.

The stakeholder engagement process and reports arising from the engagement could consider risk tolerance.

Decisions made should separate out impact and financial or organizational risks.

Guidance Note 1.1.9

Scenario and sensitivity analysis

Decisions are made in uncertainty, based on assumptions about the future that may or may not eventuate. Scenario analysis helps decision makers make more robust risk-based decisions by stress testing the potential variability (sensitivity) of impacts based on changes to the assumptions on which the decisions are made.

Depending on how important the impacts are to stakeholders, their tolerance for unexpected outcomes, the ability and speed to reverse decisions and negative impacts, and the sophistication of the enterprise, the process may be as simple as constructing plausible scenarios based on an expected case, a worst case, and a best case, scenario, or may use more sophisticated modelling techniques such as running Monte Carlo simulations.