SDG Compass

The guide for business action on the SDGs

Developed by:

GRI

United Nations Global Compact

wbcsd

Our planet faces massive economic, social and environmental challenges.

To combat these, the Sustainable Development Goals (SDGs) define global priorities and aspirations for 2030. They represent an unprecedented opportunity to eliminate extreme poverty and put the world on a sustainable path.

Governments worldwide have already agreed to these goals. Now it is time for business to take action.

The SDG Compass explains how the SDGs affect your business – offering you the tools and knowledge to put sustainability at the heart of your strategy.

The Sustainable Development Goals (SDGs)

What's inside?

Why do the SDGs matter for business?

The Sustainable Development Goals (SDGs) define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. The SDGs call for worldwide action among governments, business and civil society to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet.

Unlike their predecessor, the Millennium Development Goals, the SDGs explicitly call on all businesses to apply their creativity and innovation to solve sustainable development challenges. The SDGs have been agreed by all governments, yet their success relies heavily on action and collaboration by all actors.

The SDGs present an opportunity for business-led solutions and technologies to be developed and implemented to address the world's biggest sustainable development challenges.

As the SDGs form the global agenda for the development of our societies, they will allow leading companies to demonstrate how their business helps to advance sustainable development, both by minimizing negative impacts and maximizing positive impacts on people and the planet.

Business is a vital partner in achieving the Sustainable Development Goals. Companies can contribute through their core activities, and we ask companies everywhere to assess their impact, set ambitious goals and communicate transparently about the results.

Ban Ki-moon, United Nations Secretary-General

Covering a wide spectrum of sustainable development topics relevant to companies – such as poverty, health, education, climate change and environmental degradation – the SDGs can help to connect business strategies with global priorities. Companies can use the SDGs as an overarching framework to shape, steer, communicate and report their strategies, goals and activities, allowing them to capitalize on a range of benefits such as:

- **Identifying future business opportunities**
  The SDGs aim to redirect global public and private investment flows towards the challenges they represent. In doing so they define growing markets for companies that can deliver innovative solutions and transformative change.
- **Enhancing the value of corporate sustainability**
  Whilst the business case for corporate sustainability is already well established, the SDGs may for example strengthen the economic incentives for companies to use resources more efficiently, or to switch to more sustainable alternatives, as externalities become increasingly internalized.
- **Strengthening stakeholder relations and keeping the pace with policy developments**
  The SDGs reflect stakeholder expectations as well as future policy direction at the international, national and regional levels. Companies that align their priorities with the SDGs can strengthen engagement of customers, employees and other stakeholders, and those that don't will be exposed to growing legal and reputational risks.
- **Stabilizing societies and markets**
  Business cannot succeed in societies that fail. Investing in the achievement of the SDGs supports pillars of business success, including the existence of rules-based markets, transparent financial systems, and non-corrupt and well-governed institutions.
- **Using a common language and shared purpose**
  The SDGs define a common framework of action and language that will help companies communicate more consistently and effectively with stakeholders about their impact and performance. The goals will help bring together synergistic partners to address the world's most urgent societal challenges.

What is the SDG Compass?

The objective of the SDG Compass is to guide companies on how they can align their strategies as well as measure and manage their contribution to the SDGs.

The guide presents five steps that assist companies in maximizing their contribution to the SDGs. Companies can apply the five steps to set or align their course, depending on where they are on the journey of ensuring that sustainability is an outcome of core business strategy.

The five steps of the SDG Compass rest on the recognition of the responsibility of all companies to comply with all relevant legislation, respect international minimum standards and address as a priority all negative human rights impacts.

The SDG Compass is developed with a focus on large multinational enterprises. Small and medium enterprises and other organizations are also encouraged to use it as a source of inspiration and adapt as necessary. It is also designed for use at entity level, but may be applied at product, site, divisional or regional level as required.

The SDG Compass guide is organized into sections that address each of the five steps of the guide:

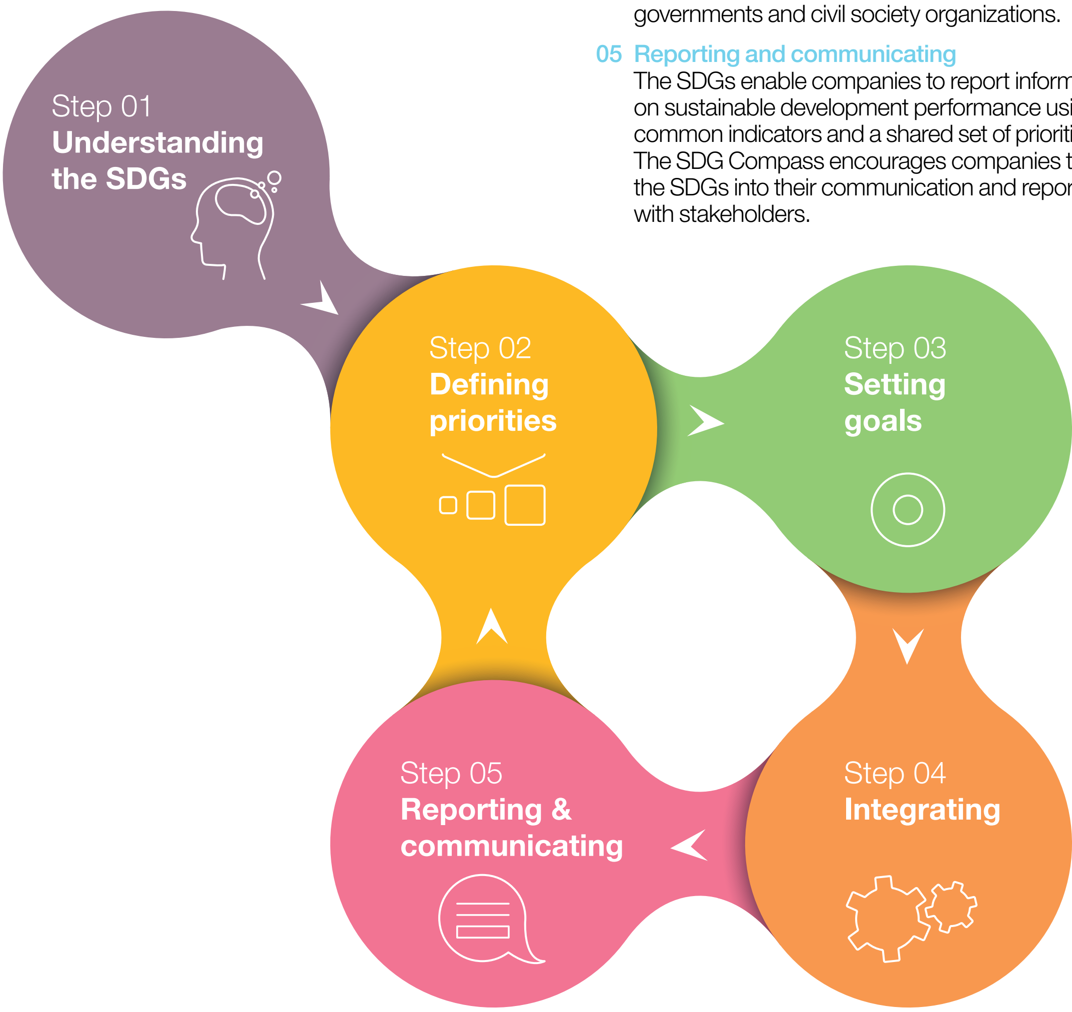
01 Understanding the SDGs
As a first step, companies are assisted in familiarizing themselves with the SDGs.

02 Defining priorities
To seize the most important business opportunities presented by the SDGs and reduce risks, companies are encouraged to define their priorities based on an assessment of their positive and negative, current and potential impact on the SDGs across their value chains.

03 Setting goals
Goal setting is critical to business success and helps foster shared priorities and better performance across the organization. By aligning company goals with the SDGs, the leadership can demonstrate its commitment to sustainable development.

04 Integrating
Integrating sustainability into the core business and governance, and embedding sustainable development targets across all functions within the company, is key to achieving set goals. To pursue shared objectives or address systemic challenges, companies increasingly engage in partnerships across the value chain, within their sector or with governments and civil society organizations.

05 Reporting and communicating
The SDGs enable companies to report information on sustainable development performance using common indicators and a shared set of priorities. The SDG Compass encourages companies to build the SDGs into their communication and reporting with stakeholders.



Step 01
Understanding the SDGs

As a first step, it's important to familiarize yourself with the SDGs and understand the opportunities and responsibilities they represent to your business.

The SDGs call on companies everywhere to advance sustainable development through the investments they make, the solutions they develop, and the business practices they adopt. In doing so, the goals encourage companies to reduce their negative impacts while enhancing their positive contribution to the sustainable development agenda.

The degree and speed with which companies around the world develop more sustainable and inclusive business models will play a large role in the success of achieving the SDGs. In turn, all companies are impacted by the challenges that the SDGs address.

In this step we will explore what the SDGs are, how they came about, how companies can use them to their benefit, and how they build on existing business responsibilities by covering the following areas:

What are the SDGs?

Designed for global action: Between 2000 and 2015, the Millennium Development Goals (MDGs) provided an important development framework and achieved success in a number of areas such as reducing poverty and improving health and education in developing countries.

The SDGs succeed the MDGs, expanding the challenges that must be addressed to eliminate poverty and embracing a wide range of inter-connected topics across the economic, social and environmental dimensions of sustainable development.

The SDGs were born out of what is arguably the most inclusive process in the history of the United Nations, reflecting substantive input from all sectors of society and all parts of the world. Through the UN Global Compact alone, more than 1,500 companies provided input and guidance.

The goals are universally applicable in developing and developed countries alike. Governments are expected to translate them into national action plans, policies and initiatives, reflecting the different realities and capacities their countries possess.

While they primarily target governments, the SDGs are designed to rally a wide range of organizations, and shape priorities and aspirations for sustainable development efforts around a common framework. Most importantly, the SDGs recognize the key role that business can and must play in achieving them.

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Each goal offers several specific and actionable targets. To find out more visit: www.sdgcompass.org

Understanding the business case

By developing and delivering solutions for the achievement of the SDGs, companies will discover new growth opportunities and lower their risk profiles. Companies can use the SDGs as an overarching framework to shape, steer, communicate and report their strategies, goals and activities, allowing them to capitalize on a range of benefits. These include:

Identifying future business opportunities

Global sustainable development challenges already represent market opportunities for those companies able to develop and deliver innovative and effective solutions, including:

- Innovative technologies to increase energy efficiency, renewable energy, energy storage, 'green buildings' and sustainable transportation;
- The substitution of traditionally manufactured and processed products by ICT and other technology solutions that reduce emissions and waste;
- Meeting the needs of the large and mostly untapped market for products and services – including in healthcare, education, energy, finance and ICT – that can improve the lives of the four billion people who currently live in poverty.

The SDGs aim to redirect global public and private investment flows towards the challenges they represent. This will further grow markets and ease access to capital for companies that can offer relevant technologies and solutions through sustainable and inclusive business models.

Enhancing the value of corporate sustainability

The business case for corporate sustainability is well established. By integrating sustainability considerations across the value chain, companies can protect and create value for themselves by, for example, increasing sales, developing new market segments, strengthening the brand, improving operational efficiency, stimulating product innovation and reducing employee turnover.

Global efforts by governments and others to deliver the SDGs will further strengthen financial value drivers of corporate sustainability, including:

- The introduction of taxes, fines and other pricing mechanisms to make current externalities become internalized to the business. This will further strengthen economic incentives for companies to use resources more efficiently or to switch to more sustainable alternatives.
- Younger generations in particular value responsible and inclusive business practices, and sustainability performance is emerging as an important factor in the 'war for talent'. Employee morale, engagement and productivity may further strengthen within companies that take action to advance the SDGs.
- Around the world, consumers are increasingly basing their purchasing decisions on their perception of a company's sustainability performance, and the SDGs may further strengthen this trend.

➤ Strengthening stakeholder relations and keeping pace with policy developments

The SDGs reflect stakeholder expectations as well as future policy direction at the international, national and regional levels. Companies that align their priorities with the SDGs can better engage with customers, employees and other stakeholders, with those that don't being exposed to growing legal and reputational risks.

Companies that help advance the SDGs will be likely to:

- Improve trust among stakeholders;
- Strengthen their license to operate;
- Reduce legal, reputational and other business risks;
- Build resilience to costs or requirements imposed by future legislation.

➤ Stabilizing societies and markets

Business cannot succeed in societies that fail. Investing in the achievement of the SDGs supports pillars of business success.

Successful implementation of the SDGs will help to:

- Lift billions of people out of poverty, thereby growing consumer markets around the world;
- Strengthen education, thereby fostering more skilled and engaged employees;
- Make progress on gender equality and women empowerment, thereby creating a 'virtual emerging market' equivalent in size and purchasing power to that of China's and India's populations;
- Ensure that the global economy operates safely within the capacity of the planet to supply essential resources such as water, fertile soil, metals and minerals, thereby sustaining the natural resources that companies depend on for production;
- Foster accountable and well-governed institutions as well as open and rule-based trading and financial systems, thereby reducing the costs and risks of doing business.

➤ Using a common language and shared purpose

The SDGs define a common framework of action and language that will help companies communicate more consistently and effectively with stakeholders about their impact and performance.

Because they provide a unified sense of priorities and purpose across all dimensions of sustainable development, the SDGs may also assist in the creation of more effective partnerships with governments, civil society organizations and other companies.

Transforming our world: The 2030 agenda for sustainable development

Article 67 agreed to by all 193 UN Member States:

'Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. We acknowledge the diversity of the private sector, ranging from micro enterprises to cooperatives to multinationals. We call on all businesses to apply their creativity and innovation to solving sustainable development challenges.'

The baseline responsibilities for business

The SDG Compass rests on the recognition of the responsibility of all companies – regardless of their size, sector or where they operate – to comply with all relevant legislation, uphold internationally recognized minimum standards and to respect universal rights.

As embedded in the human rights Principles of the UN Global Compact and reaffirmed and elaborated by the UN Guiding Principles on Business and Human Rights, respecting human rights is distinct from a company's effort to support or promote human rights. It is a baseline expectation of all companies that they avoid infringing on human rights, and that they address any harms with which they are involved either through their own activities or as a result of their business relationships. This responsibility cannot be offset by any effort to promote human rights or advance sustainable development.

According to the UN Guiding Principles, it should always be a priority for a company to address all adverse human rights impacts associated with its operations and value chain. Where companies need to prioritize the order in which they address these issues, the UN Guiding Principles make clear that they should do so based first and foremost on the severity of the potential adverse impacts – in other words, how grave these impacts would be, how widespread, and how hard to remedy.

Priority should be given to adverse human rights impacts or risk, regardless of the potential cost or benefit to the business. Nevertheless, there is increasing evidence that risks to human rights frequently converge with risks to business and that this convergence is particularly strong where the most severe human rights impacts are concerned.

Existing normative frameworks, principles and guidelines

Over the last several decades, ongoing dialogue among businesses, governments, civil society and thought leaders has shaped international frameworks, principles and guidelines for responsible and ethical business conduct.

The list of principles that apply universally to all companies include:

- **ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy**
- **UN Global Compact Principles**
- **UN Guiding Principles on Business and Human Rights**

These principles direct companies to respect universal rights and uphold certain minimum standards. For example, the UN Global Compact's Ten Principles covering human rights and labor, environment and anti-corruption define the minimum expectation of any company engaging on sustainable development. Similarly, the UN Guiding Principles on Business and Human Rights reaffirm and elaborate on the responsibility of all companies to respect human rights.

In addition, there are a number of guidelines that companies are advised to take into consideration as the basis for their contribution to the SDGs. These include the **ISO 26000 Guidance on Social Responsibility** and more regional guidelines such as the **OECD Guidelines for Multinational Enterprises**.

An inventory of existing principles, standards and guidelines as well as other business tools can be found on **www.sdgcompass.org**

Step 02
Defining priorities

To benefit from the opportunities and challenges presented by the SDGs, defining where your company's priorities are will help you to focus your efforts.

Not all 17 SDGs will be equally relevant for your company. The extent to which your company can contribute to each, and the risks and opportunities they individually represent, will depend on many factors.

Taking a strategic approach to the SDGs, your first task should be to conduct an assessment on the current, potential, positive and negative impacts that your business activities have on the SDGs throughout the value chain. This will help you identify where positive impacts can be scaled up and where negative impacts can be reduced or avoided.

This step outlines how your company can define priorities by focusing on three broad actions:

Map the value chain to identify impact areas

The greatest social and environmental impact that your company has on the SDGs may be beyond the scope of the assets it owns or controls, with the greatest business opportunities being potentially further upstream or downstream in the value chain.

It is therefore recommended that your company considers the entire value chain – from the supply base and inbound logistics, across production and operations, to the distribution, use and end-of-life of products – as the starting point for assessing impact and defining priorities.

Companies are encouraged to start this impact assessment by doing a high-level mapping of their value chain to identify areas with high likelihood of either negative or positive impacts on the issues that the SDGs represent. Due consideration should be given to both current impacts and the likelihood of future ones.

⋎ See below for an example in action

This mapping does not entail a detailed assessment of each SDG at each stage of the value chain, but rather a high-level scan of where impacts can be expected to be greatest. This means examining each segment of the value chain falling within the scope of the assessment to identify areas where:

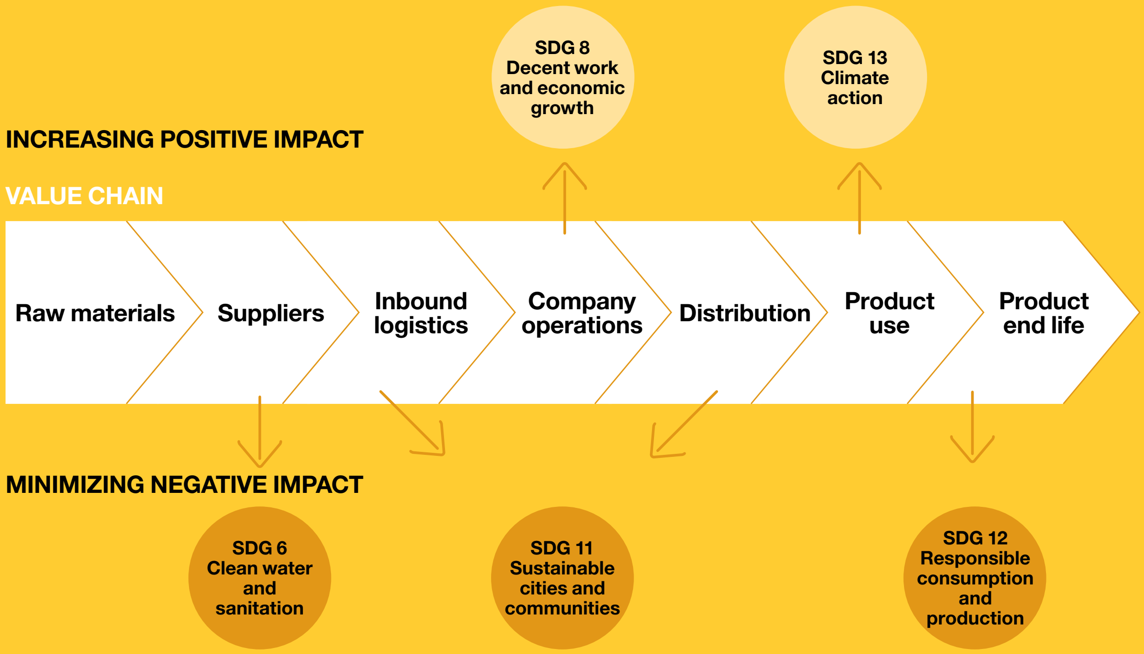
– Your company's core competencies, technologies and product portfolio currently or potentially contribute positively to the implementation of one or more of the SDGs;

– Your company's activities directly or indirectly across the entire value chain may have current or potential negative impacts on one or more of the SDGs.

In action: Mapping the SDGs against the value chain

Company identifies as a priority to increase its positive impact on SDG 8 in its operations by providing a living wage to all employees at all sites globally.

Company identifies as a priority to increase its positive impact on SDG 13 for use of its products by developing and delivering products that allow customers to reduce their energy use and related GHG emissions.



Company identifies as a priority to reduce its negative impact on SDG 6 in its supply chain by working with suppliers to reduce its water consumption in water stressed regions.

Company identifies as a priority to decrease its negative impact on SDG 11 in its inbound and outbound logistics by improving road safety for its drivers.

Company identifies as a priority to reduce its negative impact on SDG 12 at its products end of life by improving the reusability and recyclability of its products.

The three actions suggested in this step are designed for impact assessment at entity level, but may be applied at product, site or regional level as required. Whatever choice is made, it is important to be transparent about the boundaries that have been selected and clear about whether and why certain geographies or businesses are excluded.

During the mapping process, it is recommended to take context into account, such as the proximity of operations and other segments of the value chain to geographical areas that have a low performance related to the SDGs. For example, if your company has labor-intensive operations or supply chains in regions with low wages and poor enforcement of labor rights and standards, this will likely define an area of potential high impact. Similarly, current or potential operations in countries where there are human needs that the company's products can help to address – such as medical needs or access to sustainable energy – may also indicate an area of potential high impact.

In some cases, industry sector data is available to help identify high impact areas and additional tools can also help this process (see 'Tools for mapping high impact areas across the value chain').

The mapping process includes engaging with external stakeholders to identify views and concerns which relate to the company's current or potential impact across the SDGs. Stakeholder engagement should be inclusive with due concern for the perspectives of marginalized and vulnerable groups.

Stakeholders will not always provide a complete understanding of all potential high impact areas, particularly with regard to the potential positive impacts the company may have. Therefore, the mapping of high impact areas also involves an internal assessment of existing and potential linkages between the company's activities and the themes covered by the SDGs.

Tools for mapping high impact areas across the value chain

A number of tools and methodologies are available to help companies map high impact areas. Many companies use Life Cycle Assessment (LCA) methodologies and environmentally-extended input-output (EEIO) models.

Some tools can be applied to specific SDGs. Examples include the **GHG Protocol Scope 3 Evaluator**, the **Social Hotspots Database**, the **Human Rights and Business Country Guide**, the **WBCSD Global Water Tool** and the **Poverty Footprint Tool**.

These and other tools for impact assessment can be found at: **www.sdgcompass.org**

Engaging stakeholders

Inclusive internal and external stakeholder engagement is key to the three-action process. Paying close attention to their issues, interests, concerns, and expectations will help identify and build a full understanding of your company's impact on the SDGs. Stakeholders can also provide relevant information and inspiration for exploring business opportunities related to the SDGs.

It is recommended that your company prioritizes stakeholders who may be adversely impacted by its decisions and activities. Prioritize the remaining stakeholders by the effect the company has on them and the potential influence that they have over the company.

It is vital to make a special effort to understand the interests and concerns of stakeholders who are unable to articulate their views (such as future generations or ecosystems) and to give due consideration to disadvantaged or marginalized groups and other vulnerable stakeholders such as women, children, indigenous peoples and migrant workers.

Select indicators and collect data

Mapping high impact areas will help your company understand where to concentrate its efforts. For each of the areas of potential high impact, identify one or more indicators that most adequately express the relationship between your company's activities and their impact on sustainable development, so that performance can be tracked over time.

To this end, the SDG Compass website **www.sdgcompass.org** contains an inventory of business indicators mapped against the 17 SDGs and their targets. The inventory contains existing business indicators from relevant and widely-recognized sources such as GRI, SASB, ILO, OECD and CDP, among others. Your company can select the most relevant indicator(s) for each potential high impact area or use them as an inspiration to define its own indicators.

To understand how your company impacts the SDGs, it is important to realize how business activities translate into economic, environmental and social impacts. A five-step process, often referred to as a Logic model, traces the path from inputs through activities, outputs, outcomes and impacts. It is often helpful to develop such a model together with stakeholders, including those affected. The Logic model can be used to understand which data should be collected. For example, if your company cannot collect data on outcomes and impacts, it may be able to collect data on outputs instead.

⋎ See below for an example in action

In order to select the appropriate indicators for the impact assessment, your company should first choose a combination of indicators that offer a balanced and adequate reflection of the company's performance and impacts in a given area. This includes considering different types of indicators, expressing inputs, activities, outputs, outcomes and impacts and ensuring a balance between lagging indicators (those that measure outcomes and impacts) and leading indicators (those that predict the outcomes and impacts).

The next action is to identify and collect data for each of the selected business indicators. It is not always possible to collect data directly, because of impacts occurring further up or down the value chain and also the complexity of the value chain. The cost and complexity of measuring must be proportional to the value that measuring helps to create.

Using existing business systems and processes for data collection, for example extracting the required data from purchasing or sales systems, will be more efficient than developing new processes. If the required data is not available through existing systems, other general methods of collecting and aggregating data include implementing reporting systems (for company operations and/or suppliers), performing field visits, questionnaires, focus groups, interviews and so on. For each data collection action, it is suggested that your company identifies the risks of misreporting and puts in place controls to ensure data quality and integrity. Internal and external verification will help increase the reliability of the data.

In action: The logic model

An example will help demonstrate how a Logic model works. A company that is investing in the development of water purification tablets has the potential to reduce incidence of water-borne diseases, which contributes to SDG Goal 3, target 3.3: "by 2030 end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases."

This company could understand its contribution to SDG target 3.3 by going through the following steps:

Clearly the further down the Logic model, the more difficult it is to collect accurate data. Many organizations therefore choose to measure inputs, activities and outputs, and use those as proxies to estimate outcomes and impacts.

More guidance can be found in **WBCSD's Measuring socio-economic impact guide for business**.

Inputs: What resources go in that could positively or negatively affect the SDG?	**Activities:** What activities are undertaken?	**Outputs:** What is generated through those activities?	**Outcomes:** What changes in the target population occurred?	**Impacts:** What are the changes as a result of those outputs?
Example: R&D, manufacturing, marketing spend ($ spent).	**Example:** Water purification tablet sales (qualitative description of marketing and distribution efforts).	**Example:** Tablets sold (# sold and demographic information regarding consumers buying the tablets).	**Example:** Purified water consumed (% of total water consumed).	**Example:** Reduced incidence of water-borne diseases (% reduction vs. pre-sales).

Define priorities

Your company should now have an understanding of its current and potential, negative and positive impacts on sustainable development. The next action is to define your priorities across the SDGs. The following non-exhaustive criteria can help this process:

- Consider the magnitude, severity, and likelihood of current and potential negative impacts, the importance of such impacts to key stakeholders and the opportunity to strengthen competitiveness through resource efficiency. Additional considerations include the likelihood that new regulation, standardization, market shortages (of materials or labour), supply chain disruptions, stakeholder pressure or changing market dynamics over time may translate these negative impacts into costs or risks for the company.
- Assess the opportunity for your company to grow or gain advantage from its current or potential positive impacts across the SDGs. This may include opportunities to innovate, develop new products and solutions or target new market segments.

When working through the three actions of **step 02**, it is important to note that assessing impacts and determining priorities are not scientific processes but require subjective judgments. For this reason, transparent documentation of this process is encouraged. It is recommended that the three actions are repeated periodically, for example annually, to keep track of how impacts and priorities constantly evolve. If your company already has a system in place to assess impacts and identify priorities, it would benefit from using the SDGs as the overarching framework and integrating the three-action process into the assessment process. Finally, the priorities defined in this step are on top of the priorities defined by baseline responsibilities, as explained in **step 01**.

An example of indicator selection

Consider a global manufacturing company that uses water in its production process. The company has many factories, some of which are located in relatively arid and high poverty regions. When the company looks at its dependency and impact on water, it will first want to assess which of its factories (or key suppliers) are located in water stressed regions. This can be achieved by using a water risk mapping tool such as **WBCSD's Global Water Tool**, **WRI's Aquaduct** or the **WWF-DEG Water Risk Filter**.

In this case, an appropriate indicator would be "Total and percentage of withdrawals in water-stressed or water-scarce areas". However, the quantity of water used by the company is not the only important measure of its impact on communities and ecosystems. A water quality indicator is also key as it addresses the company's impact on the quantity of water available for all. To determine a water quality indicator, the company could use global guidance (for example by the WHO) or benchmarks set by industry. In order to capture both national and international standards for water quality, the company could select the "Percent of facilities adhering to relevant water quality standards" indicator. It may also select other indicators that help assess its impact on the human right to water – for example, indicators concerned with the availability, accessibility or affordability of water.

Together, these indicators will provide the company with a more complete picture of the dependence and impacts of its factories on local water resources.

The **SDG Compass** online inventory of indicators provides information on commonly used indicators related to water and sanitation, including from the CEO Water Mandate's **Corporate Water Disclosure Guidelines**, which address the complexity and social nature of water resources.

Natural and Social Capital Protocols

The **Natural Capital Protocol** (NCP) and **Social Capital Protocol** (SCP), under development at the time of publication, move the impact assessment from stakeholder dialogue level to a hard measurement. On behalf of the Natural Capital Coalition (NCC), the WBCSD and a broad field of experts are leading the development of the NCP. The call for collaboration to develop the SCP is led by WBCSD with a range of partners.

The NCP and SCP both aim to be standardized frameworks for businesses to measure and value their impacts on natural and social capital respectively, and once published they can be used for more detailed guidance on the elements described in this step.

Step 03
Setting goals

Goal setting builds directly on the outcomes from the impact assessment and prioritization covered in step 02, and is essential to driving good performance.

Setting specific, measurable and time-bound sustainability goals helps foster shared priorities and drive performance across the organization, and is becoming increasingly widespread.

By aligning with the SDGs, companies can set more meaningful goals and communicate more effectively about its commitment to sustainable development.

This step on goal setting consists of four actions:

Define scope of goals and select KPIs

It is recommended that the scope of your company's sustainability goals is guided by the strategic priorities identified in step 02. This will ensure that your company's goals will include opportunities to make positive contributions to the SDGs as well as to reduce current and potential negative impacts. Similarly, this will ensure the goals not only cover your company's own operations but also create opportunities to make improvements across the entire value chain.

For years, many companies have set environmental goals related to issues such as carbon emissions as well as the use of water and other natural resources. However, goal setting related to the social dimensions of sustainable development such as poverty eradication and anti-corruption is less common, partly because such issues can be more challenging in terms of monitoring and measuring success. Regardless of these methodological challenges, the advice to companies is to set goals that cover all their defined priorities across the economic, social and environmental aspects of sustainable development.

Selecting key performance indicators (KPIs) is an essential stage in setting goals that can be used as the basis for driving, monitoring, and communicating progress. Some companies set broad or ambiguous goals that do not in themselves enable progress to be measured, such as an aspiration to become 'carbon neutral' without a clear definition of the goal's scope or end date. In these cases, the recommendation is to select several KPIs that each form the basis for a specific, measurable and time-bound target.

The ideal starting point for selecting KPIs is the range of indicators used to assess impacts, as explained in **step 02 'Select business indicators and collect data'**. For each priority, your company can narrow the selection down to a few key indicators that best express its impact on the sustainable development topic in question.

Whenever possible, your company is advised to select KPIs that directly address the impact or outcome of its activities. For some goals this may be difficult or even impossible, due for example to a lack of relevant and available data. In such cases, select KPIs that can be considered 'proxies for impact' – for example, by addressing the resources, such as capital, that your company will invest or the specific activities, such as training, that it intends to undertake.

A further recommendation is that your company should choose a commonly used indicator as the KPI wherever possible. This will make it easier to aggregate and compare data across companies. As explained in **step 02**, the website: **www.sdgcompass.org** shows the online inventory of commonly used business indicators for each SDG target.

In addition to the KPIs that are adopted company-wide and communicated externally, your company may find it helpful to identify additional indicators to help specific parts of the business monitor progress towards targets.

Define baseline and select goal type

It is important to define the baseline for each goal. This process is closely related to the impact assessment process summarized in step 02. The baseline can be tied to:

– A particular point in time: For example, there might be a goal to increase the number of women on the Board of Directors by 40% at the end of 2020 relative to the baseline defined at the end of 2013;

– A particular period of time: For example, your company could set a goal to decrease average water usage in the three-year period from 2018–2020 by 50% compared to the average water usage across 2006–2008, thereby eliminating the impacts that short-term variability may have.

How your company defines the baseline can significantly impact the likelihood of reaching the goal. It is therefore recommended to be transparent about how and why a particular baseline has been chosen.

In order to monitor progress accurately, it is essential to take into account changes that impact the consistency and relevance of the reported information, such as mergers, acquisitions and divestments. Following such events, the baseline should be recalculated.

Your company should also decide on which type of goal to set. In general, goals fall into one of two categories:

– Absolute goals, which take only the KPI into account: for example, reduce the number of health and safety related incidents by 30% by 2020 from 2015;

– Relative (also called intensity) goals, which compare the KPI to a unit of output: for example, reduce Scope 1 greenhouse gas emissions per unit of company sales by 25% by 2018 from 2014.

Absolute goals best express the expected impact on society, but do not take company growth (or decline) into account. Relative targets on the other hand measure more accurately your company's performance per unit of output, but the impact the goal will have is unsure. Neither type of goal provides a complete picture, so the recommendation is to tell the story of what impact your company aims to achieve.

Set level of ambition

It is recommended to carefully consider your company's level of ambition regarding goals and consultation with internal and external stakeholders for guidance. Ambitious goals are likely to drive greater impacts and better performance than more modest goals. By setting the bar significantly above the performance that is projected relative to the baseline, and by defining goals that no one yet knows exactly how to achieve, your company will spur innovation and incentivize creativity.

The decisions made regarding ambition will also have reputational implications, and industry leaders create pressures on their peers to keep up. For example, if one company commits to a living wage for all employees, others in the same sector will have to follow suit or be left behind.

Traditionally, companies set their ambitions by analyzing current and historical performance, projecting trends and scenarios, and benchmarking with industry peers. However, the combined impact of such goals is not enough to fully address the global social and environmental challenges that the world faces.

In recognition of this, leading companies have recently started to take a more 'outside-in' approach to goal setting. This approach is gaining traction with respect to climate change, as companies commit to set 'science-based' targets, and is emerging in other areas as well.

The SDGs represent an unprecedented political consensus on what level of progress is desired at the global level – and this is an opportunity for companies to apply a similar approach across a wide range of sustainable development challenges. This means setting the level of ambition for your company based on the aspirations of the SDGs and defining what is 'reasonable share' for your company, based on your industry, geographical location and size. Despite inherent methodological challenges, various 'outside-in' approaches to goal setting aligned with the SDGs may well help define corporate sustainability leadership in the years ahead.

Deciding the level of your company's ambition is fundamentally linked to establishing the timeframe for the goals. There is a strong argument for making the time horizon long enough to set goals that represent a major turning point for the industry to create a future significantly different from the reality of today. Making the timeline sufficiently long will enable better communication – a goal of 'Sourcing 100 percent of the company's energy use from renewable sources by 2030' is for example likely to be more inspirational and impactful than a goal of '75 percent renewables by 2025'. The offset is that the longer the horizon, the lower the accountability to deliver. So if your company sets long term goals, for example aligned with the 15 year timeframe of the SDGs, it is necessary to also define short/medium term goals or milestones.

In action: Adopting a goal setting approach

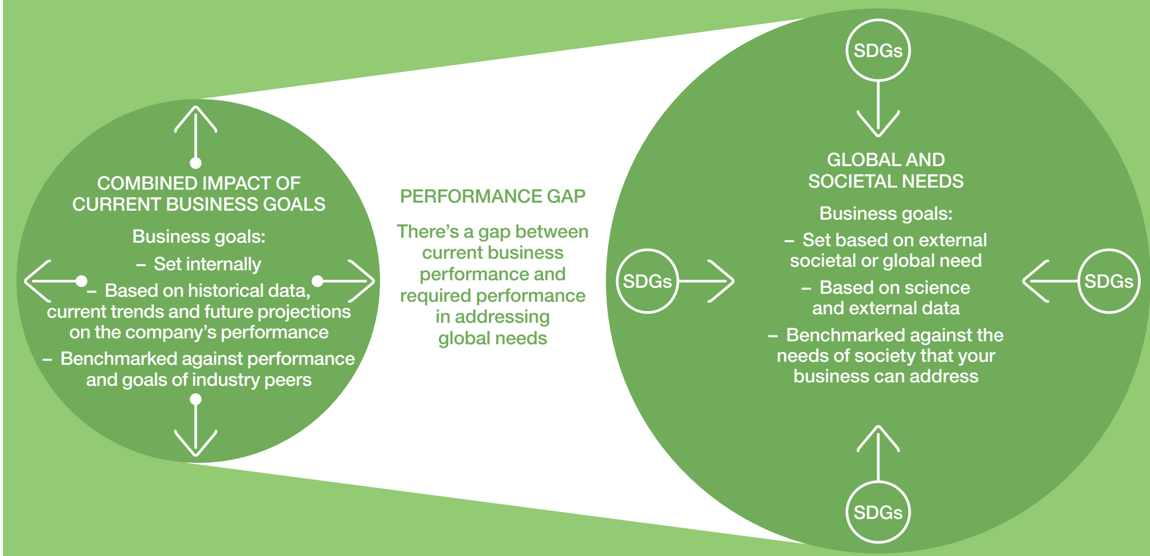
INSIDE OUT APPROACH

Today's internally focused approach to goal setting is not enough to address global needs.

OUTSIDE IN APPROACH

By looking at what is needed externally from a global perspective and setting goals accordingly, businesses will bridge the gap between current performance and required performance.

The SDGs represent an unprecedented political consensus on what level of progress is desired at the global level



Goal setting initiatives

The growing number of initiatives that promote and support an 'outside-in' approach to business goal setting include:

– The **Science Based Targets initiative** by CDP, the World Resources Institute (WRI), WWF and the UN Global Compact, which is developing tools and methodologies for companies to set targets that align with the prevailing scientific consensus that global temperatures should not rise above two degrees Celsius.

– The **Future-Fit Benchmarks** developed by Natural Step which identify a set of 'absolute' goals that are based on social and natural science and that all companies must ultimately strive to reach, irrespective of the products and services they offer.

– WBCSD's **Action2020** which sets the agenda for business to take action on sustainable development to 2020 and beyond. Action2020 defines societal targets, 'Societal Must-Haves' and around nine Priority Areas, based on a scientific review led by the Stockholm Resilience Centre.

In addition, there is inspiration to be found in online databases for business goals and targets, including:

– The **United Nations website** which contains public commitments to goals and targets announced by companies.

– **PivotGoals** by Winston Eco-Strategies which allows users to browse goals and targets set by Global 500 companies.

Announce commitment to SDGs

Making all or some of your company's goals public can be an effective communication tool because they express in simple and practical terms the company's aspirations on sustainable development. Doing so may inspire and engage employees and business partners and can provide a good basis for constructive dialogue with external stakeholders.

The benefits of publicly announcing goals and targets should be weighed against the potential risk of criticism if the company does not meet its targets in time. To manage this risk, your company would benefit from communicating regularly and transparently about the efforts made, progress achieved, and the challenges faced.

Companies can announce goals aligned with the SDGs on the United Nations website, using **www.business.un.org**. This includes a transparency requirement in the form of a commitment to communicate annually – using existing channels of sustainability or integrated reporting – about the progress made towards achieving your goals.

Step 04
Integrating

As an outcome of goal setting, you will have identified specific KPIs and set goals for each of your company's strategic priorities. Integrating sustainability into the core business and embedding targets across functions is fundamental towards addressing these goals.

Integrating sustainability has the potential to transform all aspects of your company's core business, including its product and service offering, customer segments, supply chain management, choice and use of raw materials, transport and distribution networks and product end-of-life.

To pursue shared objectives or address systematic changes, companies are increasingly working with partners to enhance their impact and reach.

In this step we identify how you can integrate the SDGs through the following actions:

Anchoring sustainability goals within the business

Active leadership by the CEO and senior managers is key to the success of any type of significant organizational change. For business integration of sustainability goals – where the business value may not always be fully understood by every part of the organization – the lead given by those at the top is especially important.

There is also strong, and growing, recognition of the important role that Boards of Directors play in the integration of sustainability into long-term strategy. Boards can play an important role by, for example, integrating sustainability goals into the criteria for recruitment and remuneration of executive management.

To make sure that sustainability goals are solidly anchored within the organizations, two principles are especially important:

– Create a shared understanding of how progress towards sustainability goals creates value for the company, in particular by clearly communicating the business case and how it can complement progress towards other business goals;
– Integrate sustainability goals into performance reviews and remuneration schemes across the organization, with additional incentives reflecting the specific role that a function or individual has in achieving relevant goals.

To be most effective, your company's sustainability goals should be an integral part of its full set of financial, strategic and operational goals, alongside goals for areas such as sales and productivity. Ultimately, the sustainability ambitions will also be reflected in the vision, mission and/or purpose statements of the company, thereby fundamentally and prominently tying the company's future success to sustainable development.

Industry-specific examples

In order to showcase industry-specific leadership examples and help identify concrete opportunities for companies to advance the SDGs, while creating value for shareholders, the UN Global Compact and KPMG led the development of an **SDG Industry Matrix** for seven industries.

Embed sustainability across all functions

Although dedicated sustainability teams and professionals can play an important role in achieving the company's sustainability goals, the support and ownership of corporate functions such as R&D, Business Development, Supply Management, Operations and Human Resources are the key to embedding sustainability in business strategy, culture and operations.

Depending on the nature of the company and its sustainability goals, some functions will be more important than others. For example, goals related to suppliers have a better chance of success if they are owned by the department responsible for supply chain management. In all cases, individual accountability for progress on individual goals and targets will help drive success.

Many different practices are involved in driving organizational change and supporting business integration, from awareness raising and training to utilizing knowledge and inspiration accessed through relationships with external experts and stakeholders.

To support the development and implementation of the company's strategy as it relates to sustainable development, many companies have established cross-functional sustainability councils, boards or task forces. In some instances governance structures may also include a sustainability committee at Board level. This allows time for strategic discussions dedicated to sustainability priorities, which can be especially valuable in the early stages of business integration.

In action: Embedding sustainability goals in the organization

CORPORATE MANAGEMENT AGENDA 2016

KPI: CONTRIBUTE TO SDG 12

- Phasing out all harmful* chemicals in products by 2020
- Ensuring that all harmful chemicals are identified and phased out where possible, and alternatives identified by year ending 2016

* Harmful chemicals as identified with input from internal and external experts, which go beyond those that are prohibited by law

ACTIONS DELEGATED

FUNCTION MANAGEMENT AGENDA

R&D

Identify alternative materials for all identified harmful chemicals in products by year ending 2016.

FUNCTION MANAGEMENT AGENDA

SUPPLY CHAIN MANAGEMENT

Identify and phase out where possible all harmful chemicals in purchased products and components by year ending 2016.

ACTIONS DELEGATED

INDIVIDUAL TARGETS

R&D ENGINEER

Identify alternative materials for all identified harmful chemicals in products and components under responsibility by year ending 2016.

INDIVIDUAL TARGETS

COMPONENT PURCHASER

Ensure all supply accounts comply with purchasing policy on harmful chemicals by year ending 2016.

Engage in partnerships

In a 2014 survey, 90% of a sample of 38,000 executives, managers, and thought leaders surveyed, agreed that effectively addressing sustainability issues cannot be carried out in isolation.

This appreciation of the value of collaboration is also explicitly built into the design of the SDGs, with SDG 17 outlining various targets for cross-sector partnerships.

In general, a company can explore at least three types of partnerships:

– Value chain partnerships, within which companies in the value chain combine complementary skills, technologies, and resources and bring new solutions to market;
– Sector initiatives that bring several industry leaders together in efforts to raise standards and practices across the entire industry and overcome shared challenges;
– Multi-stakeholder partnerships, where governments, private sector and civil society organizations join forces to tackle complex challenges.

The SDGs can help bring together partners around a shared set of goals and priorities. Building effective sustainable development partnerships requires a high degree of commitment from those concerned. Partners should aim to set shared goals, leverage their respective core competences, depoliticize projects, develop clear governance structures, create a single monitoring framework, focus on impacts, forecast future resource needs, and create a process for knowledge management. For new partnerships, it is recommended to start small but to design for scale.

Step 05

Reporting and communicating

Over the last decade, the practice of corporate sustainability disclosure has increased dramatically in line with stakeholder demand for information. It's important to report and communicate on your progress against the SDGs continuously in order to understand and meet the needs of your stakeholders.

Many governments, market regulators and stock exchanges have initiated reporting policies and regulation in recent years. At least 180 national policies and initiatives on sustainability reporting exist worldwide, and approximately two thirds of these are mandatory.

Today, most of the world's largest companies disclose their sustainability performance and impacts. Of the world's 250 largest corporations, 93% report on their sustainability performance, see The KPMG Survey of Corporate Responsibility Reporting 2013.

The SDGs make this level of reporting a clear expectation. SDG target 12.6 calls on governments everywhere to 'encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle'.

This step outlines the actions needed in terms of reporting and communicating:

Developing systems to integrate the management of sustainable development issues into everyday business decision-making is a must in the transition towards more meaningful and effective reporting.

Significantly more than simply a piece of communication to key stakeholders, effective reporting creates trust and supports value creation – and it can be a powerful tool to stimulate internal changes and decision-making through integrated performance management. Not surprisingly, the **Reporting Matters** project by WBCSD in partnership with **Radley Yeldar** shows that sustainability information is becoming increasingly important for sound investment decision-making.

The quality of disclosure varies greatly between reporters, but research shows an overall improvement. The development of standards and regulation is central to this move towards better disclosure practice as is an understanding of the role that non-financial data and information plays in continuous success.

In addition to formal reports, companies are increasingly using a variety of channels to communicate sustainability strategy and performance. Large companies as well as SMEs will benefit from publicly reporting and communicating their contribution towards the SDGs. Corporate websites, social media channels, events, product and service labeling, market and advertising are a few of the many effective ways to communicate to stakeholders on sustainability.

While in its origins, sustainability reporting was viewed as a way to build trust and improve reputation, it has now evolved into a strategic tool that is also used to support sustainable decision-making processes, stimulate organizational development, drive better performance, engage stakeholders and attract investment.

A data revolution

By the spring of 2016, the UN will identify a number of global, universal indicators to measure and monitor progress against the SDGs.

As the UN, governments, and research institutions gather and analyze information related to the indicators, it will bring about a data revolution for sustainable development, (see **www.undatarevolution.org**). This means providing high-quality data on the right things at the right time to enable better decision-making.

The data revolution for sustainable development will benefit from changes to the way that the private sector produces data on its sustainable development performance. It will require data that is more accessible, comparable, available in real-time and based on widely recognized standards. By offering an inventory of existing business indicators mapped against the SDGs, the SDG Compass website (**www.sdgcompass.org**) enables companies to start or accelerate this journey.

The private sector will play a key role in achieving this revolution, not only as a producer of data but also as a source of funding and creativity that will facilitate the development of new technologies and innovative solutions to effectively gather, analyze and share data.

Effective reporting and communication

It is important for companies to use internationally-recognized standards for sustainability reporting such as the comprehensive standards offered by GRI and/or issue level reporting mechanisms like CDP and others. Examples of other issue level reporting mechanisms include the UNGP Reporting Framework and the CDSB Framework. The SDG Compass website (www.sdgcompass.org) includes an overview of other standards and frameworks.

Companies can decide to use existing reporting formats and communications, or to prepare a more concise stand-alone report or communication.

As sustainability reporting has evolved over the last 20 years, a number of key principles have emerged. GRI has for example defined ten principles for sustainability reporting: stakeholder inclusiveness, sustainability context, materiality, completeness, balance, comparability, accuracy, timeliness, clarity and reliability. These are helping companies prepare high-quality information on the issues that matter, and are useful for both sustainability reporting as well as communications overall. A number of these principles become even more important and actionable with the arrival of the SDGs. An example is the principle of 'sustainability context' which directs companies to present information on performance in the wider context of sustainability and with reference to broader sustainable development conditions and goals. The SDGs provide a framework for companies to understand their sustainability context.

In the drive towards more effective reporting, companies are advised to focus reports and communications on material issues. Material issues in sustainability reporting are defined as those issues that reflect the company's significant economic, environmental and social impacts (as identified in **step 02**), whether positive or negative, as well as those issues that substantively influence the assessments and decisions of stakeholders, as defined by the **GRI G4 Sustainability Reporting Guidelines, 2013.**

Your company's list of material issues are likely to include the strategic priorities identified as an outcome of **step 02**. Your company should report on both the positive and negative aspects of its performance against these priorities. This will ensure that the report covers how the company meets its baseline responsibilities related to the SDGs; how it addresses (potentially) adverse impacts on the SDGs; and how it utilizes its core competencies, technologies and solutions to further contribute to the achievement of the SDGs.

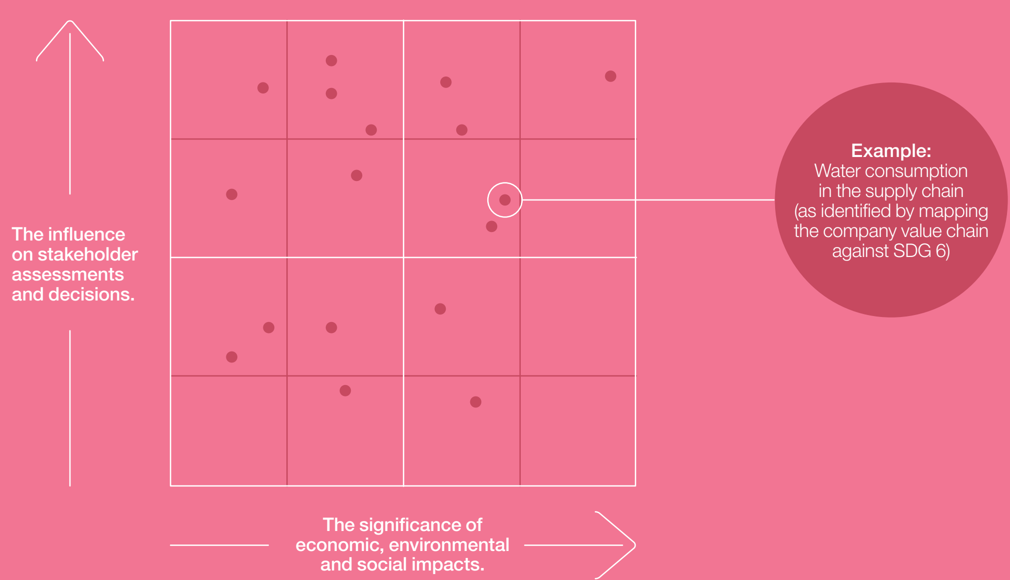
In addition, an effective report will consider issues of high significance to stakeholders. This means responding to the reasonable interests, concerns, and expectations raised by stakeholders (as explained in **step 02**) with regard to the company's actions and responses to the SDGs, even if the SDG in question has not been identified as a priority by the company.

A matrix is an effective way to visualize the materiality assessment in the report, where the priority areas, such as those identified in **step 02** are placed with respect to the 'significance of the company's economic, environmental and social impacts' and the 'influence on stakeholder assessments and decisions'. A priority area does not have to be highly significant in both viewpoints to be deemed a priority for reporting.

Companies can make use of competent and independent external assurance as a way to enhance the credibility and quality of their reports.

∨ See below for an example in action

In action: Mapping SDG reporting priorities through materiality



Communicating on SDG performance

The SDGs provide a common language for reporting. Their common framework for sustainable development may also be helpful in shaping how to prioritize the reporting narrative and the type of performance disclosures a company makes across a variety of communications on its sustainable development performance.

Many companies already report and communicate on topics covered in the SDGs, such as climate change, sustainable water management or employment and decent work. Aligning your company's reporting and communication with the SDGs means both discussing performance in the context of the expectations set by the SDGs, and also aligning disclosures with the language of the SDGs to ensure a common dialogue among stakeholders.

For each SDG identified as relevant, companies can disclose:

- Why the SDG has been identified as relevant and how (for example, describe the process for defining SDG priorities and any stakeholder engagement used);
- The significant impacts, whether positive or negative, related to the relevant SDG;
- Their goals for the relevant SDG and progress made in achieving them;
- Their strategies and practices to manage impacts related to the SDGs and achieve goals through integration across the business (for example, a description of policies, systems and processes such as due diligence).

The KPIs and other indicators that your company has defined in the process of assessing impacts and setting goals – as described in **step 02** and **step 03** – are important starting points for selecting the relevant indicators for reporting. For reporting and communication purposes, those indicators can be supplemented with additional indicators. Both sets can be selected, using the inventory of existing business indicators mapped against the SDGs on **www.sdgcompass.org**

Furthermore, to enable reporting about impacts on disadvantaged, marginalized or vulnerable groups, it is important to use indicators that allow for disaggregation by socio-economic criteria such as by sex, age, race, ethnicity, disability, and other relevant characteristics.

Those companies that choose to produce a stand-alone SDG report can structure and organize the information in the report around the relevant SDGs, clearly directing readers to where they can find the information on the SDGs that matter most to them.

Companies that integrate information on the SDGs into existing types of reports or communications can use visual solutions such as icons for each of the relevant SDGs to highlight the relevant SDG information. In addition, they can also highlight the relevant SDGs in the table of contents. For example, companies using a standard such as GRI to report their contribution to the SDGs can add a column to their GRI Content Index, mapping the relevant GRI disclosures against their list of relevant SDGs.

The SDGs integrate economic, social and environmental aspects and work together to achieve sustainable development in all its dimensions. As such, companies will benefit from acknowledging and articulating the links between these elements in their reports and communications. For example, many issues such as gender equality, health or sustainable consumption and production cut across several SDGs. Your company may find it helpful to explain how the progress made in one area has contributed to progress elsewhere.

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The SDG Compass is the result of a collective effort involving many colleagues from GRI, the UN Global Compact and the WBCSD, including:

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About us

Developed by GRI, the UN Global Compact and the World Business Council for Sustainable Development (WBCSD), the SDG Compass incorporates feedback received through three consultation periods from companies, government agencies, academic institutions and civil society organizations worldwide.

About GRI

GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI's mission is to empower decision-makers everywhere, through its sustainability reporting standards and multi-stakeholder network, to take action towards a more sustainable economy and world.
www.globalreporting.org

About UN Global Compact

The UN Global Compact is a call to companies to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and take actions that advance UN goals. It is the world's largest corporate sustainability initiative, with over 8,000 companies participating in 160 countries.
www.unglobalcompact.org

About WBCSD

The World Business Council for Sustainable Development (WBCSD) is committed to galvanising the global business community to create a sustainable future for business, society and the environment. The WBCSD provides a forum for its 200 member companies to scale up business solutions that change the status quo.
www.wbcsd.org

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Where can I find out more?

On our website you can find resources that will help your company align your strategy with the SDGs.

The website includes:

- This SDG Compass guide (executive summary as a separate download), explaining the five steps to implementation in more detail.
- A live inventory of existing business indicators from relevant and widely-recognized sources, mapped against the 17 SDGs and their targets.
- A live inventory of business tools mapped against the SDGs.
- A two-page overview for each SDG, covering the role of business, and illustrative examples of business solutions, indicators and tools.

www.sdgcompass.org