Are the SDG Impact Standards a viable model for Italian SMEs?

Yes, ambitious is not so far from reality.

1. Context and References

The United Nation Development Program issued on October 2020 the first public consultation draft on how enterprises may implement the SDG's Goals into their policies.

Obliviously, economic players as enterprises, NGOs, investors and banks are key elements in reaching the 17 goals set out by the NU 2030 Agenda and, definitively, a booster for civil society to achieve the targets.

It is not so obvious, the way UN decided to pursue these results: as the nature of enterprises span from public listed companies to SMEs, from profit organizations to NGOs and from industrial groups to IT services.

Notwithstanding the difficult to embrace such large number users, the UN does not give up the idea to provide a *common language* and a clear system to fully integrate the SDGs into all business and investment decision making process. The output is definitely acceptable (in terms of transaction costs for the enterprises, mainly) and **ambitious** in a view of implementing a standardized and comparable approach.

The document is significantly a step forward to promote integrity and avoid impact washing as it set a clear road map for managers in order to include (and not over or under estimate) impact outputs into business policies and products.

The framework from which the document originates are – of course – the Goals set on SDG Agenda together with the (i) Sustainable Development Goal Disclosure (Adams,Druckman, Picot, 2020) (ii) the ABC Impact Classification; (iii) the UN Guiding Principles for Business and Human Rights and the (iv) Ten Principles of the UN Global Compact. These documents are useful tools for an easy compliance with the guide set forth into the UN Standard for Enterprises and – overall – the complexity of the documents and of the glossary used remains low (comparing with the model adopted in the UE see below).

2. Approach and Structure

The approach followed by the UN reinforce the importance of involving Stakeholders in decisions that impact them. Also, a particular focus is set on the correct assessment on what impacts matter and what are the implications of tradeoff. Coherently, the result of this acknowledgement has to be integrated into decision making through integrated thinking,

This leads to the identification as foundational elements of the standards the following: a) contributing positively to sustainable development and achieving the

SDGs b) which cannot be achieved without demonstrating respect for human rights and other responsible business practices c) and is realized through effective impact management and decision making.



Therefore, four standards are set according to the picture below where

Standard 1 (Strategy): Embedding foundational elements into purpose and strategy Standard 2 (Management Approach): Integrating foundational elements into operations and management approach Standard 3 (Transparency): Disclosing how foundational elements are integrated into purpose, strategy, management approach and governance, and reporting on performance

Standard 4 (Governance): Reinforcing commitment to foundational elements through governance practices

3. Rules and Standards

Having set main principles of the standards, the practice indicators are not so complex to be implemented. Standards 1 and 2 are divided in three sub sections, and the overall number of rules do not exceed the number of 20 items for section.

Some of the standards deserve to be mentioned for the innovation that they are able to purport.

Particularly, Standard 1 (Strategy) emphasizes the need of involving Stakeholder on an ongoing basis to understand impacts that matter to them, and sustainable development issues in context.

Also, the Standard provides that the enterprise embeds contributing positively to sustainable development and achieving the SDGs into its purpose, strategy and business model, including:

a) linking its approach with how it creates *long term value* for the Enterprise and for Stakeholders;

b) specifying the type(s) of impact it intends to achieve and

c) accounting for the impact of sustainable development risks and opportunities and changing its business model to take advantage of opportunities for creating long term value through contributing positively to sustainable development and achieving the SDGs

Long term assessment and a real change of business model are milestones in create a new enterprises with the ability to disrupt traditional business model.

In the same path, Standard 1.2 requires that the purpose and strategy of the enterprises on sustainable goals are *realistic and ambitious* even if commensurate with the enterprise's size and that they relate with most relevant and material issues and SDG's goal.

This point is crucial in order to prevent the risk of green/impact washing.

As for management approach (Standard 2) a particular focused is set on the ability of the enterprise to integrates accountability for sustainable development (including respect for human rights and other responsible business practices) and impact management into organizational *culture*, *business operations*, *day-to-day roles* and cross-functional teams and decision making processes, including by: a) developing its integrated thinking and decision making capabilities using mechanisms such as appropriate culture, communication systems and training; b) allocating adequate budget and people resources (including capability, training and leadership) to deliver its strategy and impact goals.

Some issues in terms of transaction costs may arise with respect to Standard 3 and Transparency matter, which can be relatively high and not cost-effective. The Standard requires the adoption of the Sustainable Development Goal Disclosure Recommendations and the use of ABC Impact Classifications that still require a work-intensive approach generally not affordable by SMEs.

Finally, Standard 4 deserve credit for centering to the governing body (executive directors and top management) the role of identify the Stakeholders and their involvement into decision making process as well as the determination of relevant and material sustainable development issues, including risks and opportunities, impacts and dependencies, assessing how these are integrated into the Enterprise's purpose and strategy.

Finally, particular focus is set on the need to incorporate impact goals into business purpose, strategy and business model and assess the compatibility of its impact goals with financial return targets, financial risk appetite and tolerance.

4. Conclusions: UN vs UE and Italian do it better

Are the SDG Impact Standards a viable model for Italian SMEs? Yes. They can definitively be a model for Italian SMEs at an acceptable transaction cost. Some further work has to be done in order to reduce the transaction costs for the measurement of the impact and transparency following the path that impact outputs may be better comparable using a low number of rules highly diversified for economic/industrial segment.

As it happened for Principle for Responsible Banking issued by UN, the work done by the UN tends generally to have an higher ratio of applicability and a more realistic approach with respect to the standard produced by the UE (i.e. taxonomony of green bonds). In this view the need to unify the two different approach is nowadays a matter of urgency.

In the scenario above described, the Italian law on Benefit Corporation is still the model that better fit with the Italian economic environment and with the ability to incorporate the inputs coming from UN Standards.

As a matter of fact, Italian Law 208/2015 provides a definition of benefit corporations in the terms of "a company which pursuing an economic activity, beyond the scope of share the relevant profits, pursues one or more than one scope of common benefit and which acts responsibly, in sustainable and transparent way with the people, communities, lands and environments, cultural assets and activities, entities and associations and other stakeholders".

For the same regulation, "common benefit" is defined "as the pursuit, in the exercise of an economic activity of the benefit corporation, of one or more than one positive effect or reduction of negative effects".

We can easily note that many of the Standards drafted by UN are incorporated into the Italian Law, particularly the need of incorporating impact goals into business model and purpose and the need to measure positive and negative impact.

Francesco Stocco