MATERIALITY
QUICK GUIDE
MATERIALITY
BACKGROUND ON GEMI QUICK GUIDES
The purpose of the GEMI Quick Guide series is to provide a closer look into the methods corporations use to address sustainability topics. These guides feature practices to address real-time issues and sustainability concepts, accompanied by mini case studies from member companies. The GEMI Quick Guides incorporate members’ experiences and support the GEMI mission of “collaborating for sustainable business solutions”.

ABOUT THIS QUICK GUIDE
The GEMI Quick Guide on Materiality is designed to help corporations: (1) understand materiality and its relationship to sustainability; (2) recognize the importance of materiality in defining an appropriate sustainability strategy; and (3) learn what factors may be helpful to consider when undertaking a materiality assessment. This guide is designed to help companies at any level of implementation and, in addition, may provide input to the evaluation process that determines whether or not to start a materiality assessment.

The information and case studies provided in this guide are designed to help define a sustainability strategy that makes sense for a company. This guide may also be helpful to the broader sustainability community and its understanding of materiality assessment. Materiality assessment and the term ‘material issues’ in the context of this quick guide refers to the identification of social and environmental issues that are important to the sustainability initiatives of an organization. DISCLAIMER: The information contained in this document should not be used to identify material issues in compliance with SEC regulations for reporting. Identification of material issues for compliance with SEC financial reporting is outside the scope and intent of this document.

TABLE OF CONTENTS

I. WHAT IS MATERIALITY? .......................................................................................................................... 3
   GETTING STARTED ................................................................................................................................. 4
   MATERIALITY ASSESSMENT METHODOLOGY ................................................................................. 4
   APPLYING THE ASSESSMENT RESULTS ......................................................................................... 7
   CONCLUSION ......................................................................................................................................... 8
   REFERENCES ........................................................................................................................................ 8

II. CASE STUDIES ......................................................................................................................................... 9
   Materiality Case Study: Carnival Corporation & plc .................................................................................. 9
   Materiality Case Study: FedEx .............................................................................................................. 10
   Materiality Case Study: Sealed Air ...................................................................................................... 11
   Materiality Case Study: Smithfield Foods ............................................................................................. 12
   Materiality Case Study: Tennant Company ........................................................................................... 13
   Materiality Case Study: Union Pacific .................................................................................................. 15

ABOUT GEMI ........................................................................................................................................... 16
I. WHAT IS MATERIALITY?

Materiality is the principle of defining the social, environmental and governance topics that matter to a business and its stakeholders. An organization delves deeper into the details of these topics through a ‘materiality assessment’, an in-depth study with actionable results that helps a company focus resources where it matters most. In addition to identifying potential risks and opportunities, a materiality assessment also serves as a means of aligning corporate resources and priorities with corporate strategy. The outcome of a materiality assessment may even result in realigning resources from lesser to higher priorities. For companies considering public reporting, the materiality assessment is an essential first step. However, regardless of whether or not a company plans to publish a sustainability report, a business will benefit from a materiality assessment that identifies what and where to focus valuable resources.

It is important that sustainability managers and executives understand the different definitions of materiality. Once an organization begins to delve deeper into materiality, it becomes apparent that the definition of materiality from a sustainability perspective is not always concise. In fact, several organizations have a definition for it. Three of the most prominent organizations that do are: the Global Reporting Initiative (GRI); the Sustainability Accounting Standards Board (SASB); and, the International Integrated Reporting Council (IIRC).

The most significant difference between the definitions these organizations use is that IIRC and SASB view materiality through the eyes of what is meaningful to investors and GRI looks at materiality in terms of what is relevant to investors and other stakeholders. These organizations define materiality as follows:

- **GRI** – “The report should cover aspects that: a) reflect the organization’s significant economic, environmental, or social impacts, and b) substantially influence the assessment and decisions of stakeholders.” (1)
- **SASB** – “Material issues are matters that either individually or in the aggregate, are important to the fair representation of an entity’s financial condition and operational performance...information that is necessary for a reasonable investor to make informed decisions.” (2)
- **IIRC** – “An integrated report should provide concise information that is material to assessing the organization's ability to create value in the short, medium, and long term.” (3)

It is important that any organization undertaking a materiality assessment understand the different approaches for defining materiality and use them appropriately when defining a framework.
GETTING STARTED
Organizations may wish to consider the following six key steps as they get started with the materiality process, which are each discussed in greater detail in the following pages:

- **Define goals and scope.** How will the assessment be used? What requirements must be met?
- **Identify appropriate resources.** Are internal resources sufficient and capable to meet the company’s needs? Will the company need to hire an experienced sustainability consultant to provide external support and credibility?
- **Identify potential material issues.** What internal and external data is already available to assess materiality? Are there critical gaps in existing knowledge? Seek to identify a robust list of potential material aspects.
- **Identify and engage priority stakeholders.** Who are the most important and relevant internal and external stakeholders to engage? What methods will be used to collect data?
- **Rank and prioritize stakeholder concerns.** How important is the issue to organization? To stakeholders? What is the organization’s ability to influence the issue? A variety of methods may be considered by the company to prioritize results.
- **Apply the assessment results.** How will the results be communicated internally / externally? How will results inform the company’s sustainability strategy and corporate planning processes?

As always, each company will need to assess its unique situation in considering how best to approach this process within its own organization.

MATERIALITY ASSESSMENT METHODOLOGY

I. Define Goals and Scope
The first step of a materiality assessment is to define goals and scope. The primary goal may be to develop and define a sustainability strategy, but there are other needs as well. If a company is conducting an assessment in order to meet GRI requirements, the well-defined GRI framework will help guide the project. Other factors a company should consider regarding goals and scope include:

- How will the company use the assessment for business planning purposes?
- What level and amount of resources are available to conduct the assessment? For example, what is the budget and how many personnel are available to help with the assessment?
- Will the company report the methodology and results of the assessment publicly?
- What level of documentation and types of graphics will be needed?
- How frequently will the company repeat the assessment?
- What geographies will be included in the assessment?
- What stakeholders and stakeholder groups will be included in the assessment?
- What timeframe will stakeholders use when evaluating material aspects?
- How will the results be communicated?
II. Identify Appropriate Resources

As an organization begins planning to conduct a materiality assessment, one of the first points to resolve is whether to outsource or insource the work. There are pros and cons to insourcing and outsourcing resources and each company will need to assess its own unique situation. A company can use a variety of approaches and methodologies based on a number of factors such as goals, assessment boundary and scope, and resources to help make this decision. The materiality assessment itself can be narrow or broad in scope depending on the needs of the company. As an example, an organization could start with a narrow boundary, such as customers, and a limited scope, such as North America, in order to meet time, resource and budget constraints. Over time, the company can expand the boundary and scope of the assessment, using experience gained from earlier work to meet milestones more effectively. This way, efforts could be addressed using internal resources. If the assessment includes a broader spectrum of issues, a company might choose to outsource a portion or all of the efforts.

After determining the goals and scope of the materiality assessment, the company may want to consider outsourcing the project. Several consultancies in the sustainability field offer materiality assessment services. In addition to providing assistance with the assessment, the consultant can offer methodology tools and insights, initiate stakeholder contacts, and lend credibility to the effort. Also, consultants can help conduct workshops to assist with integrating assessment results with business plans and sustainability strategies.

A potential drawback to engaging a consultant is cost. If the company will be repeating the assessment frequently with a consultant, the costs may become prohibitive.

In addition, while consultants can offer confidentiality by keeping stakeholder feedback anonymous, some stakeholders may view the involvement of a third party as a reason to hold back critical feedback.

Figure 1. When to use an external consultant for a materiality assessment.

III. Identify Potential Material Issues

Synergy

During the initial stages of the materiality assessment, the organization should determine if other similar efforts may be occurring within the business. Similar projects are sometimes performed to understand employee engagement or develop business continuity plans by interviewing or surveying employees. Externally, some businesses conduct reputation surveys that may be asking stakeholders questions that overlap with topics in the materiality assessment. Ensuring that previously conducted surveys or concurrent surveys independent of the materiality assessment are factored into the process will help prevent survey fatigue and help keep results current.
Research
The assessment team should determine what data is already available to assess materiality before engaging stakeholders and collecting information. Existing information may be available from internal and sustainability reports, trade publications, sustainability research, and other external publications. Organizations often include sustainability issues when conducting strategic planning, creating business continuity plans, or researching technologies and acquisition prospects. That information can be a good way to initiate the materiality assessment as well as find good connections with the business. Supply chain activities aimed at increasing efficiency or reducing resource consumption may also help identify material opportunities.

Issue Identification
A comprehensive review of existing information will help identify critical gaps in knowledge. The assessment team should consider these gaps when creating a list of potential material aspects. Other sources of information that may add to the aspects list include GRI, SASB, IIRC, and numerous industry-specific sustainability documents.

The materiality assessment should collect information from stakeholders on a wide range of potentially important issues and opportunities. This will help prevent a selection bias in the assessment by allowing stakeholders to consider all dimensions of materiality to the organization.

IV. Identify and Engage Priority Stakeholders

Stakeholder Identification
Potential stakeholder groups include employees, suppliers, customers, non-governmental organizations, trade groups, government agencies, environmental groups, investors, community leaders, and citizens living near the organization’s facilities. In addition, the assessment team should take into account that stakeholders in different regions may have different issues or opportunities. Identifying specific individuals to engage during the materiality assessment can be difficult and may require research on the part of the assessment team. Individuals independent of the assessment team can review the stakeholder list in order to avoid any selection bias in identifying stakeholders. If the list of stakeholders becomes too large, the assessment team should identify and implement a process to hone it to a manageable size. Regarding surveys, the team should identify a large enough survey audience so that in case of a low response rate, the results are still of value and use. If the team will be conducting a statistical analysis of results, the sample size should be large enough to report results of value and use.

Data Collection
After brainstorming potential stakeholder issues and opportunities, a company will need to prioritize these findings using a structured process. The process should be based on areas of stakeholder interest, ability of the company to influence, and impact on the company. A road map can be found in GRI’s G4 guidance document (4). For outsourced projects, the approach will likely follow the selected consultant’s proprietary assessment process. For insourced projects, selecting and following a structured formal process will result in a more comprehensive assessment providing a documented audit trail from brainstorming exercises through the determination of material aspects. The “GEMI Metrics Navigator” tool can help structure the prioritization of issues and opportunities. (5)

The assessment team can collect feedback from stakeholders through interviews, online surveys, and group meetings. Online tools, such as easy-to-use survey software, can facilitate data collection and analysis. The marketing department is a great resource to assist with creating questions that lead to useful data. Simply asking stakeholders, “Is this issue important?” may result in all aspects being rated as material. There are methods, such as the ‘trade off method’ or ‘choice model’ that can help force-rank issues. Before sending the survey to stakeholders, the assessment team should have a third party complete it and provide feedback on any areas of confusion.

Interviews and group meetings can be a good way to collect qualitative information to validate and refine the findings of surveys. Team members or other individuals can conduct interviews before or after surveys, but the results of any tools used in the process should guide subsequent tools and techniques.
V. Rank and Prioritize Stakeholder Concerns

Once the team has collected the responses and results, assigned, trained resources can analyze and rank the material issues. Forced-ranking questions often yield easily interpreted results, but methods such as the ‘choice model’ may require the help of a statistician to analyze the data.

There are many ways to display the results of a materiality assessment. A common way to display the results of the materiality assessment is in a materiality matrix, which is a plot of the sustainability issues sorted by the importance to the organization on the X-axis and the ability of the organization to influence on the Y-axis. The most critical issues are found in the upper right quadrant of the matrix and lesser important issues in the lower left quadrant.

![Example of a materiality matrix. Source: BSR](image)

APPLYING THE ASSESSMENT RESULTS

**Internal**

The materiality assessment provides a list of obvious and not-so-obvious actions:

- The highest priority initiatives should be fairly apparent and provide further confirmation that they are worth pursuing. There is now internal and external context that can direct next steps and relevant initiatives. The GEMI Quick Guide for Cultivating Sustainability within an Organization and Quick Guide for Engaging Employees in Sustainability are both excellent resources for charting the next steps.\(^{(7)}\) The initiatives should be in areas of your greatest focus. If there are projects listed that are not in the areas of greatest focus, the team should discuss whether or not they are of any material value to pursue.

- Lower priority initiatives might also offer opportunities for focus. For starters, assessing which ones are likely to grow in importance will help identify initiatives to begin formulating an action plan for the next 12-24 months. Other items in this list might call for delegation to others who have an interest – those who are the most passionate about a topic may be perfect to take a leadership role with an appropriate amount of oversight.

**External**

Transparency is a critical component of a company’s sustainability journey. The materiality assessment process provides an objective window into how management in a company thinks - strategically. A materiality assessment provides a company with a unique opportunity to leverage transparency in helping external parties in further understanding the depth and breadth of the company’s leadership strategies and management.

There are multiple options for communications:

- A sustainability or citizenship report is the natural place to document the materiality assessment. Explaining the process and results communicates valuable insights for what a company will address first.

- A company that does not produce a formal annual sustainability report should consider a brief overview of its materiality assessment. Whether published online or in a simple pamphlet, the information can be valuable for communicating with leaders in the state and town where operations exist, with people who live near company operations, and with other stakeholders.
• Future communications can reference the materiality assessment. As a company completes tasks that made the top tier of issues in the assessment, discussing this progress demonstrates a strong commitment to priority initiatives. As non-ranking topics emerge from stakeholders, companies can refer to the stakeholder engagement portion of the assessment to remind stakeholders of the comprehensiveness of the materiality assessment.

In addition to forming a valuable checkpoint for future work and initiatives, there are likely many more additional uses for the materiality assessment.

CONCLUSION
Materiality provides corporate sustainability leaders a valuable tool to enhance understanding of the social, environmental and governance issues of highest priority to a business and its stakeholders, and to help ensure strategic alignment with those most critical issues. For companies considering public reporting, the materiality assessment is an essential first step. However, whether or not a company plans to communicate the results externally, businesses small and large can benefit from undertaking a materiality assessment to help the company focus valuable resources where they matter most.

REFERENCES
(4) Global Reporting Initiative G4 Sustainability Reporting Guidelines. https://www.globalreporting.org/reporting/g4/
II. CASE STUDIES

GEMI members have provided the following mini case studies to provide a view into how corporations manage the process of undertaking a materiality assessment.

Materiality Case Study: Carnival Corporation & plc

In 2014, Carnival Corporation & plc conducted an analysis to reevaluate the significant economic, environmental and social aspects of its operations, to further assess the relative impacts of these aspects, as well as to determine the required components to transition from GRI-G3.1 to GRI-G4 sustainability reporting. Known as a “materiality assessment”, this analysis enables the company to determine which aspects substantively influence the assessments and decisions of its stakeholders; recognize and act effectively in relation to sustainability related opportunities and risks; and, determine how these aspects affect its stakeholders, society and the environment. During this evaluation process the company simultaneously conducted a benchmarking analysis of major hospitality, travel and marine industries. These two analyses provided a framework for determining which aspects to focus on in its fourth annual Corporate Sustainability Report.

As part of its materiality assessment process, Carnival Corporation & plc:

- Reevaluated the significant issues presented in its prior sustainability materiality assessments.
- Reviewed the environmental, social, governance and economic aspects and indicators in the GRI G4 sustainability reporting guidelines, as they apply to its business.
- Analyzed the results of stakeholder sustainability engagements, including investor and customer inquiries, questionnaires and surveys from rating organizations, industry reports and analyses, policies and regulatory guidance, among others.
- Benchmarked its sustainability strategy using publicly available information.
- Held internal meetings to discuss company perspectives on sustainability aspects and impacts.
- Examined over 50 aspects and issues, including areas of significant organizational impact, as well as broader sustainability trends (GRI G4 46 Aspects).
- Mapped the full universe of stakeholder and company aspects on a materiality matrix, identifying the mid and high-scoring issues as priorities for its operations. This mapping enabled the company to:
  o Prioritize information on the basis of materiality, analysis of environmental aspects and impacts (ISO 14001), sustainability context, and stakeholder inclusiveness;
  o Agree on the desired content for each metric and the approach to reporting (qualitative vs. quantitative detailed performance tracking, etc.); and,
  o Expand supply chain materiality.

APPLYING THE RESULTS

The chart published in Carnival Corporation & plc’s FY2013 Corporate Sustainability Report summarizes the results of the company’s materiality assessment and shows, for each aspect, its relative concern to the company’s stakeholders and its current or potential impact on the company.

Materiality is about identifying the issues that matter most to Carnival Corporation & plc’s business and to its stakeholders. “High” and “Medium” issues help the company to set the agenda for its sustainability strategy and for what it included in its current and future sustainability reports. “Low” issues, while important and managed by the company, are not currently covered in detail in the company’s sustainability reporting as they are of lesser concern to its stakeholders.

Carnival Corporation & plc plans to perform this materiality and benchmarking evaluation every two years, to make sure it continues to address its stakeholder needs, operational impacts, regulatory landscape and technological developments.
Materiality Case Study: FedEx

In 2014, FedEx undertook a robust materiality analysis to help the company refine its global citizenship strategy and ensure that it is addressing areas of maximum impact. The outcomes of the analysis have helped FedEx to reaffirm, evaluate and prioritize its top material issues at each operating company, as well as across the enterprise. In addition to informing and helping refine its strategy, materiality will help FedEx continue to enhance the relevance of its reporting in the future.

To conduct a truly objective assessment, FedEx worked with an external business and sustainability advisory firm to create a highly customized methodology tailored to the company’s unique structure. The company greatly values the perspectives of its stakeholders and worked to ensure that they were part of the process. FedEx’s assessment comprised:

- A series of discussions with key external stakeholders representing nongovernmental organizations, academics and media, as well as its customers and business partners who were asked both prompted and unprompted questions about their views of environmental, social and ethical issues that represent the greatest risks and opportunities for FedEx.
- Internal stakeholder engagement with executives.
- Workshops at each operating company with cross-functional subject matter experts.
- An employee survey.
- A final enterprise-level workshop to refine and confirm the materiality results.

MATERIALITY RESULTS

The company’s materiality assessment confirmed that its greatest impacts, opportunities and challenges are directly related to its operations. The matrix seen here illustrates a wide range of different issues the company faces that are critical to its global citizenship. Performing well on these issues means creating efficiencies and encouraging innovation in its operations and service offerings while upholding the Purple Promise.

As the company expected, its top issues focus on operations, safety and ethics. When FedEx team members are knowledgeable, safe and trustworthy, they are able to focus on delivering the Purple Promise to customers.

MOVING FORWARD

FedEx views materiality as an iterative process that must be periodically reviewed and refined as its business and the marketplace evolve. In 2015, the company plans to increase its issues-based stakeholder engagement in its analysis. It also plans to again review its goals and metrics around its top material issues to ensure that it is constantly measuring, managing and moving possibilities in its global citizenship progress.

FedEx Enterprise Materiality Matrix (FY14)
Materiality Case Study: Sealed Air

In 2014, Sealed Air reviewed its corporate sustainability strategy and established long-term goals. To make sure it wasn’t creating a strategy in a vacuum, the company collected feedback from suppliers, customers, and non-governmental organizations to gain valuable insights and identify the most material issues to the company and its key stakeholders. The results were Sealed Air’s first materiality assessment and matrix.

Working with an outside expert the company leveraged internal and external sources to conduct 57 interviews. The participation rate and highly engaged feedback from partners reinforced the importance of the work.

The materiality analysis helped Sealed Air understand the social and environmental risks and opportunities that stakeholders see as most critical for the company. The results have helped focus resources and guide the development of a powerful, new sustainability strategy. To ensure the success of its greater sustainability strategy, the company outlined three pillars of measureable, aggressive and impactful sustainability goals called ‘The Better Way for Life Plan’. The Plan and goals focus on helping people around the world live better lives, delivering solutions that meet customers’ sustainability needs and reducing the impact of the company’s global operations.

Internal and external perspectives were well aligned and in agreement that the most material issues across Sealed Air’s business include employee safety, product safety, food security, ethical business practices, product stewardship, and transparency. Sealed Air will continue to engage these stakeholders, and use their feedback to guide the company’s sustainability work in the future. The most exciting part of this process is to see how closely aligned the company’s sustainability strategy is with its overall business strategy. The new sustainability strategy isn’t business as usual; it’s a playbook for the company to live out its vision.

Sealed Air Materiality Matrix (FY14)
Smithfield Foods conducted its first materiality analysis in 2010 to gain a better understanding of the key sustainability issues for its company and its stakeholders. In early 2012, the company conducted a streamlined update to see how concerns over specific issues may have evolved over two years.

For its materiality analysis, Smithfield Foods used a third party to interview 30 internal and external stakeholders. These stakeholders included customers, regulators, NGOs, suppliers, company management, company sales personnel, and employees. Those interviewed were asked about what they considered challenges and successes for Smithfield Foods, as well as what they felt were the most important issues that Smithfield Foods should be addressing.

MATERIALITY MATRIX

Smithfield Foods Materiality Matrix (FY12)

The information collected through this process resulted in the above matrix of the company’s most material issues—those of greatest impact on Smithfield Foods and the highest concern to stakeholders. Those issues appear in the upper right box, and are the issues that are most critical to the company’s ability to create and sustain value today and in the future.

APPLYING THE RESULTS

The company used the results to continue to place high importance on its animal welfare and food safety programs, but also increased its focus on creating value in the local communities where it has operations. Goals are now in place that include stakeholder engagement, community outreach, and educational participation at the local level. As much as is practical, the company weighs discussion around the topics that have been identified as most material to its business and to its stakeholders in its annual sustainability reporting.

An updated materiality analysis is being planned by the company for 2015/2016 to address the new GRI guidelines.

Questions for Interviewees

- What are Smithfield’s most important challenges, risks and opportunities from a corporate responsibility point of view?
- For each challenge, risk, or opportunity, why is it important?
- Does it have the potential to improve business results? How (e.g. by supporting innovation/new products; saving money through operational efficiency)?
- Could it negatively affect business results (e.g. by imposing costs, harming sales)?
- Could it affect Smithfield’s reputation positively or negatively?
- Could it affect Smithfield’s standing in its local communities positively or negatively?
- Could it affect employee productivity or turnover?
- For each challenge, risk, or opportunity, how much control does Smithfield have over it?

Smithfield interviewees only:

- What issues do you perceive are most important to stakeholders and why?
- Which stakeholders are most important to Smithfield?
Materiality Case Study: Tennant Company

In 2013, Tennant Company revisited and evolved its strategy for the next phase of its sustainable enterprise initiative. This was a multi-step process and will be an ongoing activity as the company continuously refines its sustainable enterprise. The first step for Tennant was to identify stakeholder groups and key members of each group. For each group, the company defined its strategies and tactics for engagement. Not all groups were engaged directly or by the same methods. Where direct dialogue was not practical, Tennant employed proxies. Table 1 on the following page – “Stakeholder Engagement Strategy and Tactics” – lists each stakeholder group, the strategies for engaging them, the tactics the company used and their concerns and priorities. The company’s three primary stakeholder groups are: customers, investors and employees. These are also the most active users of its sustainability reporting.

The objective of this stakeholder engagement and materiality exercise was to identify and prioritize stakeholder needs, expectations and concerns. This process resulted in a long list of aspects on which the company could potentially report. The material aspects are covered either in the body of the company’s FY2013 Sustainability Report or the GRI Index.

For the customer stakeholder group, the company directly engaged its Strategic Accounts sales managers and “mined” customers’ Requests for Information (RFIs). Customer’s top three interests and concerns are: Greenhouse gas emissions (carbon and energy), water, and waste. An emerging area of interest is the company’s value stream, both up and down. Human rights, labor practices, safety, ethics and corruption are the core aspects asked about the company’s value stream.

Investor engagement was done through investor meetings with the company’s executives. Investors’ primary interests are economic and governance, aspects covered in the company’s SEC filings. However, there is an emerging interest in the company’s environmental stewardship and carbon reporting.

Tennant engaged its employees in two ways. First, through an all employee attitudinal survey, which the company conducts about every two to three years, and second, through a series of regional materiality workshops.

MATERIALITY WORKSHOPS
During 2013, Tennant conducted six materiality workshops. Workshop participants represented the key activities at each of the company’s major locations globally. The first step was to brainstorm the company’s internal and external impacts on the environment, society, and economy. The company then used a structured prioritization process, based on the GEMI Metrics Navigator™ tool, to prioritize the list of these environmental, social, and economic issues and opportunities. The company plotted each issue or opportunity according to stakeholder’s level of concern against the importance to Tennant’s success.

The company found many issues and opportunities were similar or related. These were grouped through an affinity mapping process. There were two outputs from this exercise:
- Stakeholder materiality analysis matrix.
- Focus areas for the company’s sustainable enterprise initiative. These are: Products, GHG Emissions/Energy, Waste (all forms), and People and Communities.

The final phase to establish objectives, goals and metrics was completed in 2014. For the goal-setting process, the company empaneled several small working groups. Working group members were company leaders who have a key role and impact on achieving results in a given focus area. The working groups established goals for each area that will be tracked and on which the company will focus its sustainability reporting. These objectives, goals and metrics can be found in the focus area sections of the company’s FY2013 Sustainability Report.
### TABLE 1: CUSTOMER, INVESTOR AND EMPLOYEE STAKEHOLDER ENGAGEMENT STRATEGIES, TACTICS AND AREAS OF INTEREST

<table>
<thead>
<tr>
<th>STAKEHOLDER GROUP</th>
<th>CUSTOMERS</th>
<th>INVESTORS</th>
<th>EMPLOYEES</th>
<th>VALUE STREAM</th>
<th>GOVERNMENTS</th>
<th>COMMUNITIES</th>
<th>NGOs</th>
<th>TRADE ORGANIZATIONS &amp; PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engagement Strategy</strong></td>
<td>Know customer’s concerns and needs, meet their reasonable expectations</td>
<td>Proactively share sustainability highlights with investors</td>
<td>Know employee’s concerns and needs, meet their reasonable expectations</td>
<td>Maintain a secure, reliable, balanced and respected partnership with suppliers and distribution channel members</td>
<td>Have policies in place to ensure full compliance with regulatory requirements</td>
<td>Have policies and practices in place to ensure strategies are aligned with forward-looking, responsible and ethical strategies</td>
<td>Partner with NGOs whose mission is aligned with Tennant’s business objectives</td>
<td>Maintain membership in organizations that are aligned with Tennant’s business purpose</td>
</tr>
<tr>
<td><strong>Engagement Tactics</strong></td>
<td>Direct dialogue with customers where feasible</td>
<td>Leverage customer requests for information as proxy for their sustainability priorities</td>
<td>Develop and implement sustainability initiatives</td>
<td>Conduct all-employee sustainability and performance information in investor relations package and on website</td>
<td>Share key points of sustainability initiatives in letter to shareholders</td>
<td>Review all-employee participation in sustainability initiatives</td>
<td>Get supplier’s compliance with Tennant’s sustainability guidelines and expectations</td>
<td>Monitor regulations, react to changes and new regulations as appropriate</td>
</tr>
<tr>
<td><strong>Major Issues and Concerns</strong></td>
<td>GHG emissions, water, water, packaging, supply chain, and end-of-life (EOL)</td>
<td>Return on investment</td>
<td>Security of investment</td>
<td>Variability region</td>
<td>TBD</td>
<td>Regulatory compliance: conflict minerals, emissions, discharges, hazardous materials, safety, labor practices, corruption, and ethics</td>
<td>Employment, compliance with ordinances, taxes</td>
<td>Support and align with their mission</td>
</tr>
</tbody>
</table>

---

**Table 1:** Tennant Company - Stakeholder Engagement Strategy and Tactics
Materiality Case Study: Union Pacific

Union Pacific regularly engages with stakeholders in a multitude of forums across its operations, which span 32,000 miles and more than 7,000 communities, in which our employees live and work. This allows the company to understand the context of the most material issues on an ongoing basis. As a result, Union Pacific has concluded that it has the context necessary to understand material issues for its sustainability management and reporting without a further formal materiality assessment. This approach follows the GEMI materiality assessment flowchart by concluding that internal resources can adequately address the subject.

The company regularly relies on input from community forums, customer surveys, employee engagement tools, and external resources to identify items of greatest value for the company and its stakeholders. This led the company to commit to four key sustainability and citizenship pillars: Operating Safely, Strengthening Communities, Engaging Employees and Preserving the Environment. The company uses the Global Reporting Initiative’s G4 Guidelines to inform reporting on its most material issues. In addition, Union Pacific uses an Enterprise Risk Management process to incorporate input from internal departments, including Strategic Planning, Operations, Law and the Environmental Management Group, to identify risks and opportunities. Each department plays a role in managing risks and opportunities and evaluating materiality and priorities. This work results in 17 primary Key Performance Indicators – pictured below – that the company reports on each spring in its Sustainability & Citizenship Report, along with dozens of supporting initiatives.

Key Performance Indicators

<table>
<thead>
<tr>
<th>OPERATING SAFELY</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail crossing accidents (per million train miles)</td>
<td>2.26</td>
<td>2.22</td>
<td>2.24</td>
</tr>
<tr>
<td>Reportable injury rate* (per 200,000 employee-hours)</td>
<td>1.06</td>
<td>1.10</td>
<td>0.98</td>
</tr>
<tr>
<td>Public outreach</td>
<td>About 8,500 events reached 704,600 people</td>
<td>About 9,000 events reached more than 670,000 people</td>
<td>About 8,580 events reached more than 679,500 people</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRENGTHENING COMMUNITIES</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported net income</td>
<td>$3.0 billion</td>
<td>$4.4 billion</td>
<td>$5.2 billion</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>$20.9 billion</td>
<td>$22.0 billion</td>
<td>$24.0 billion</td>
</tr>
<tr>
<td>Capital program (primary funds, no carrying dollars)</td>
<td>$3.2 billion</td>
<td>$5.5 billion</td>
<td>$4.1 billion</td>
</tr>
<tr>
<td>Spend with minority- and women-owned businesses</td>
<td>$430 million</td>
<td>$484 million</td>
<td>$599 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ENGAGING EMPLOYEES</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of employees unionized</td>
<td>88%</td>
<td>88%</td>
<td>89%</td>
</tr>
<tr>
<td>Workforce diversity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5% Female, 95% Male</td>
<td>6% Female, 94% Male</td>
<td>6% Female, 94% Male</td>
<td></td>
</tr>
<tr>
<td>1% Asian</td>
<td>1% Asian</td>
<td>1% Asian</td>
<td></td>
</tr>
<tr>
<td>1% Black</td>
<td>1% Black</td>
<td>1% Black</td>
<td></td>
</tr>
<tr>
<td>74% Caucasian</td>
<td>74% Caucasian</td>
<td>74% Caucasian</td>
<td></td>
</tr>
<tr>
<td>12% Hispanic</td>
<td>12% Hispanic</td>
<td>12% Hispanic</td>
<td></td>
</tr>
<tr>
<td>2% Native American</td>
<td>2% Native American</td>
<td>2% Native American</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PRESERVING THE ENVIRONMENT</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy usage</td>
<td>45.6 million megawatt hours</td>
<td>45.7 million megawatt hours</td>
<td>46.4 million megawatt hours</td>
</tr>
<tr>
<td>Water use withdrawals</td>
<td>2.29 billion gallons</td>
<td>2.24 billion gallons</td>
<td>2.06 billion gallons</td>
</tr>
<tr>
<td>GHG emissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Locomotive fossil fuel emissions (scope 1)</td>
<td>11,460,036 metric tons</td>
<td>11,153,033 metric tons</td>
<td>11,062,014 metric tons</td>
</tr>
<tr>
<td>Fossil fuel emissions (scope 1 and 2)</td>
<td>11,940,205 metric tons</td>
<td>11,953,671 metric tons</td>
<td>12,669,732 metric tons</td>
</tr>
<tr>
<td>Employee travel (scope 3)</td>
<td>15,232 metric tons</td>
<td>15,210 metric tons</td>
<td>15,977 metric tons</td>
</tr>
<tr>
<td>Waste***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total waste generated</td>
<td>1.12 million tons</td>
<td>1.06 million tons</td>
<td>1.10 million tons</td>
</tr>
<tr>
<td>Tonnage diverted from landfill</td>
<td>76%</td>
<td>76%</td>
<td>77%</td>
</tr>
<tr>
<td>E-waste****</td>
<td>Approximately 401,000 pounds recycled or reused</td>
<td>Approximately 370,000 pounds recycled or reused</td>
<td>Approximately 270,000 pounds recycled or reused</td>
</tr>
</tbody>
</table>

*Revised 2012/2013 to reflect accurate employee-hour misclassifications
**Revised 2014 to remove MTR data
***Revised 2013 to include more data identified through further analysis
****Revised 2013/2014 to exclude packaging
ABOUT GEMI

GEMI is the global leader in developing insights, networking, and creating collaborative sustainability solutions for business.

LEADERSHIP: GEMI is an organization of Director and Manager level corporate sustainability leaders dedicated to fostering global environmental sustainability excellence through the sharing of tools and information.

SOLUTIONS: For 25 years, GEMI has captured the vision and experience of corporate environmental sustainability leaders through the development of a wide range of tools designed to help companies improve the environment and provide business value.

MEETINGS: GEMI provides a forum for global corporate sustainability thought leaders to learn from each other, develop collaborative solutions, and engage with strategic partners to advance solutions to emerging environmental and sustainability challenges.

The guidance included in this document is based on the professional judgment of the individual collaborators. The ideas in this document are those of the individual collaborators and not necessarily their organizations. Neither GEMI nor its consultants are responsible for any form of damage that may result from the application of the guidance contained in this document. This document has been produced by the Global Environmental Management Initiative (GEMI) and is solely the property of the organization. This document may not be reproduced nor translated without the express written permission of GEMI, except for use by member companies or for strictly educational purposes.

FOR MORE INFORMATION
GEMI’s mission is Collaborating for Sustainable Business Solutions. If you would like more information about this Quick Guide, or if you have any suggestions for this guide or future guides, please contact info@gemi.org.

GEMI • 1155 15TH STREET, NW, SUITE 500 • WASHINGTON, DC 20005
P: 202-296-7449 • www.gemi.org • Twitter: @GEMInews