StanleyBlack&Decker

Connecting Materiality Assessment to CSR Strategy

Dec 2017

Materiality Process at Stanley Black & Decker

Stanley Black & Decker regularly updates its understanding of its key material issues through a variety of activities including internal stakeholder engagement, peer networking, and operational review. In 2016, we engaged an external advisor to carry out research, including interviews and surveys with internal and external stakeholders, for the purpose of identifying and understanding the issues of importance to our stakeholders and how they might impact on the business. This will help us confirm, refresh, and if necessary, reframe our understanding of the issues that are important to SBD, in line with changes to stakeholder concerns.

ECOSMART Is Our Commitment To A Sustainable Future

Material Issues Identification

The following process was used to arrive at the priority list of issues for SBD, drawing on the material issues identified through research and engagement.

Issues identified by external ratings and reporting frameworks	Risks identified by SBD's internal risk management processes	Issues reported as material by peers	Issues highlighted by multilateral and membership organisations	SustainAbility trends analysis and experts

Long list of issues facing the industry

Consolidate and group in relevant categories

List of material issues

Assess stakeholder interest and business impact

Materiality assessment

Materiality Assessment Methodological Approach

Stakeholder interest and business impact were assessed using interviews and surveys with internal and external stakeholders.

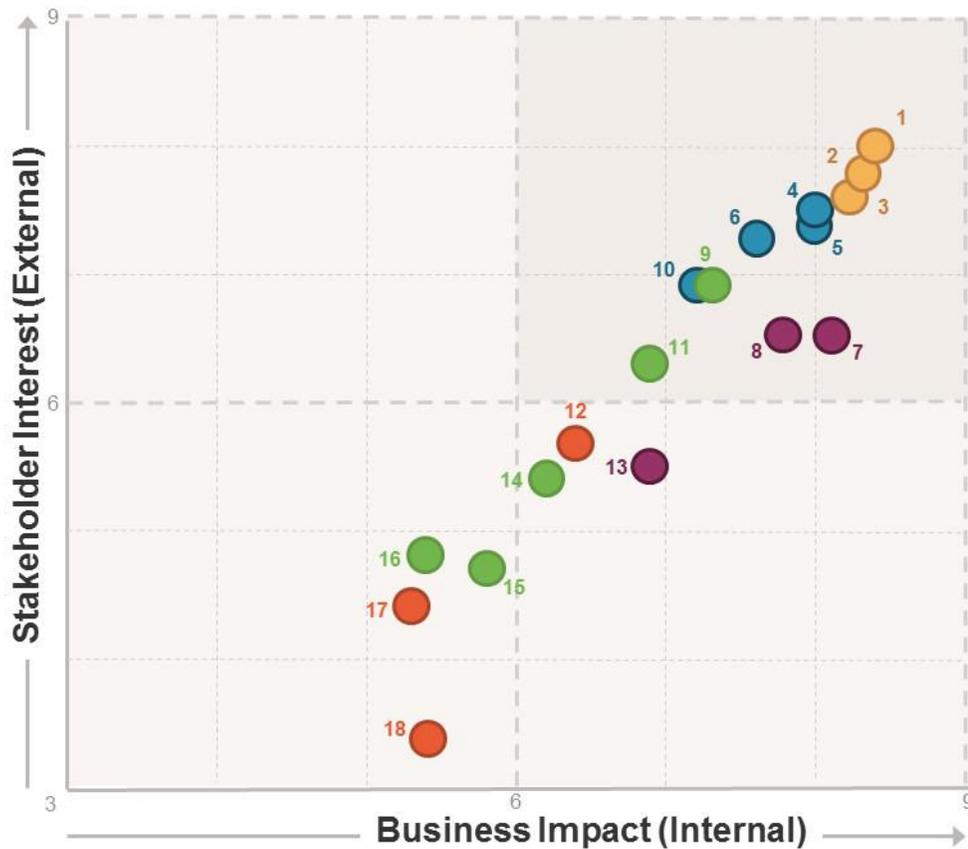| Dimensions of Analysis	External Stakeholder Interest	Business Impact

Data Collection	• 29 external responses including:
	  • 19 survey responses
	  • 7 interviews
	  • An additional 3 external stakeholders completed both survey & interviews
		• 133 respondents to internal survey
		• Interviews with 6 internal stakeholders

Assessment Approach	• Each issue was assigned a score of 1-3 (low/medium/high) based on degree of importance stakeholders placed on the issue during interviews. • The sum of all scores for each issue was brought to a scale of 0-9 giving each issue's position on the vertical axis of the matrix.	• Key issues were assigned a score of 1-3 (low/medium/high) assessed by three types of impact (Financial, Operational, Reputational). • The sum of all scores for each issue was brought to a scale of 0-9 giving each issue's position on the horizontal axis of the matrix.

Materiality Assessment Results

Material issues plotted on a matrix based on the assessed stakeholder interest (Y-axis) & business impact scores (X-axis). The color coding indicates the issue categorization.

- *The materiality assessment has enabled SBD to conduct a deep and extensive engagement process with internal and external stakeholders which resulted in positive and constructive feedback.*

- *Insights gained on key issues for stakeholders has enabled the company to refine and strengthen its strategic sustainability approach.*

- *Priority recommendations have been used by SBD to further leverage and refine its approach.*

Summary of Priority Material Issues

The issues reported in the Materiality Matrix are briefly described below in priority order:

1. **Customer satisfaction:** *Delivering an industry-leading customer experience.*

2. **Product safety:** *Ensuring all products are in compliance with relevant safety rules and regulations.*

3. **Product innovation:** *Creation of new industry leading products and services that remain aligned to our customers' expectations and needs, including improved performance, aesthetics, and sustainable attributes.*

4. **Responsible business practices (anti-trust, anti- corruption, and taxation):** *Complying with applicable competition (or anti-trust) laws to ensure our products and services are judged solely on their merits. This also includes promoting high standards of business ethics, working against corruption, extortion and bribery, payment of tax contributions in accordance with local legislative requirements, and a transparent approach to tax reporting.*

5. **Intellectual property, data privacy, and information security:** *Respecting and protecting intellectual property rights, adopting secure data capture, storage and transfer approaches that protect the privacy of personal and business information, and promoting transparency in the processing of personal data.*

6. **Transparency, accountability and responsible marketing:** *Openly disclosing strategic sustainability approach and performance against measurable targets, as well as marketing products and services honestly and avoiding negative implications for the customer and end user.*

7. **Health and safety / wellbeing at work:** *Maintaining compliant and industry leading Health, Safety, and Wellness programs that have a positive effect on the health and wellbeing of our employees and value chain.*

8. **Employee satisfaction and engagement:** *Promoting professional growth and learning among all employees and promoting two-way dialogue with employees through company activities, which include performance reviews, career development, and strong internal communication to improve employee satisfaction.*

9. **Restricted materials and hazardous substances:** *Ensuring the absence/ removal of restricted content from products in line with regulatory standards and customer requirements. Eliminating the use of hazardous substances from manufacturing processes in compliance with RoHS and REACH standards.*

Summary of Priority Material Issues cont.

10. **Supply chain responsibility:** *Ensuring our suppliers' environmental, health, safety, labor, and ethical practices meet SBD standards. Ensuring the diversification of the company's supply chain through inclusion of diverse suppliers (e.g., those that are small and underrepresented, or that are owned by women, minorities, or military service veterans).*

11. **Waste:** *Reducing waste and optimizing opportunities for recovery, reuse, or recycling of by-products throughout our operations.*

12. **Partnerships:** *Investing in and establishing partnerships and collaborations with global leading industry stakeholders, companies, universities and research organizations to support research that advances sustainability.*

13. **Global diversity, inclusion and non-discrimination:** *Establishing a workplace where all employees are treated fairly, with dignity and full respect for their private lives — without discrimination in employment, wages and occupation as well as ensuring that the company workforce (at all levels) reflects a diverse workforce pool in our countries of operation.*

14. **Air pollution:** *Reducing non-GHG emissions including NOx, SOx and other significant air emissions in alignment with national and local legislation.*

15. **Water:** *Sustainable management of shared water resources within direct operations and across the value chain.*

16. **Climate change:** *Reducing carbon footprint (CO_2 and GHG emissions) across the value chain and supporting adaption and mitigation efforts to address the negative impacts of climate change.*

17. **Socio-economic development:** *Ensuring that the company positively contributes to socio-economic development through societal participation and improving access to employment, housing, healthcare, and education.*

18. **Philanthropy and volunteering:** *Enabling employee volunteering for social and environmental projects. This includes financial and in-kind contributions to NGOs and charitable organizations for underserved communities.*

Mapping Materiality Assessment to CSR (ISO 26000 Standard)

BS ISO 26000:2010
ISO 26000:2010(E)

Table 2 — Core subjects and issues of social responsibility

Core subjects and issues	Addressed in sub-clause
Core subject: Organizational governance	6.2
Core subject: Human rights	6.3
Issue 1: Due diligence	6.3.3
Issue 2: Human rights risk situations	6.3.4
Issue 3: Avoidance of complicity	6.3.5
Issue 4: Resolving grievances	6.3.6
Issue 5: Discrimination and vulnerable groups	6.3.7
Issue 6: Civil and political rights	6.3.8
Issue 7: Economic, social and cultural rights	6.3.9
Issue 8: Fundamental principles and rights at work	6.3.10
Core subject: Labour practices	6.4
Issue 1: Employment and employment relationships	6.4.3
Issue 2: Conditions of work and social protection	6.4.4
Issue 3: Social dialogue	6.4.5
Issue 4: Health and safety at work	6.4.6
Issue 5: Human development and training in the workplace	6.4.7
Core subject: The environment	6.5
Issue 1: Prevention of pollution	6.5.3
Issue 2: Sustainable resource use	6.5.4
Issue 3: Climate change mitigation and adaptation	6.5.5
Issue 4: Protection of the environment, biodiversity and restoration of natural habitats	6.5.6
Core subject: Fair operating practices	6.6
Issue 1: Anti-corruption	6.6.3
Issue 2: Responsible political involvement	6.6.4
Issue 3: Fair competition	6.6.5
Issue 4: Promoting social responsibility in the value chain	6.6.6
Issue 5: Respect for property rights	6.6.7

Core subjects and issues	Addressed in sub-clause
Core subject: Consumer issues	6.7
Issue 1: Fair marketing, factual and unbiased information and fair contractual practices	6.7.3
Issue 2: Protecting consumers' health and safety	6.7.4
Issue 3: Sustainable consumption	6.7.5
Issue 4: Consumer service, support, and complaint and dispute resolution	6.7.6
Issue 5: Consumer data protection and privacy	6.7.7
Issue 6: Access to essential services	6.7.8
Issue 7: Education and awareness	6.7.9
Core subject: Community involvement and development	6.8
Issue 1: Community involvement	6.8.3
Issue 2: Education and culture	6.8.4
Issue 3: Employment creation and skills development	6.8.5
Issue 4: Technology development and access	6.8.6
Issue 5: Wealth and income creation	6.8.7
Issue 6: Health	6.8.8
Issue 7: Social investment	6.8.9

Employees
- Health and safety / wellbeing at work
- Employee satisfaction and engagement
- Global diversity and non-discrimination

Environment
- Restricted materials & hazardous substances
- Waste
- Air pollution
- Water
- Climate change

Ethics
- Responsible business practices
- Intellectual property, data privacy & information security
- Transparency, accountability and responsible marketing

Customers
- Customer satisfaction
- Product safety
- Product innovation

Communities
- Partnerships
- Socio-economic development
- Philanthropy and volunteering
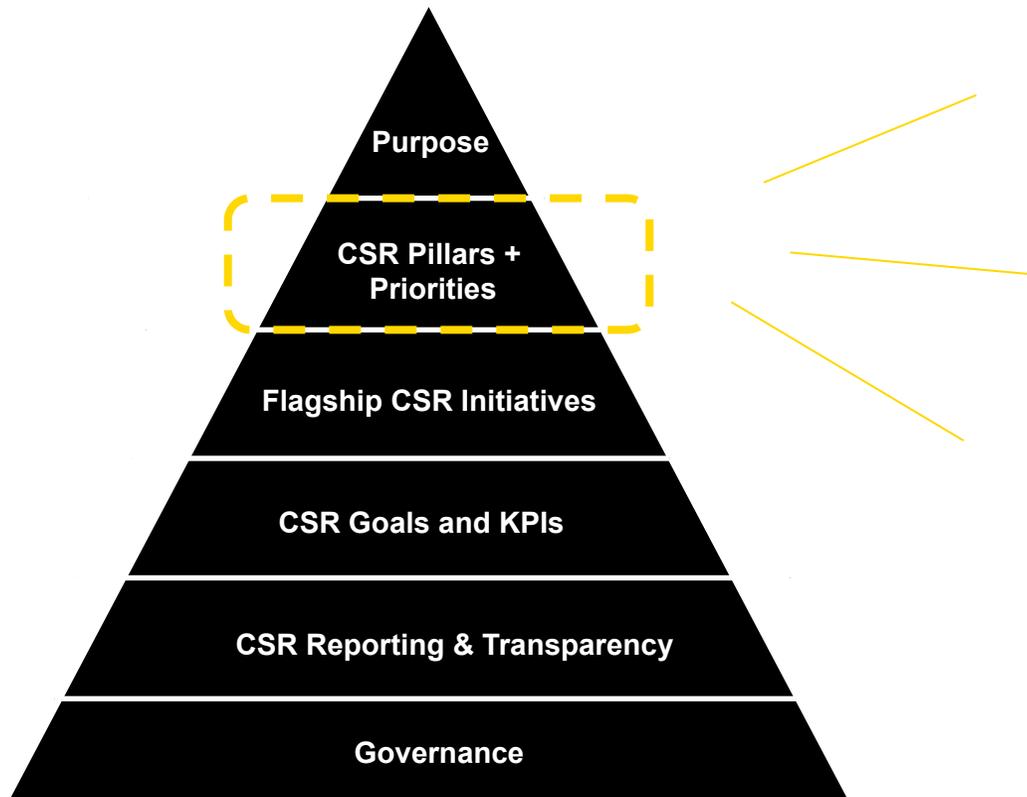
Building SBD's CSR Strategy: Objectives

Learnings from the four inputs inform our development of key success factors, structure and potential focal areas of SBD's CSR strategy.

CSR Strategy will Deliver…	By…
✓ A robust strategy and roadmap delivering on purpose *For Those Who Make the World* ✓ Flagship initiatives to drive impact ✓ Leading engagement and communications to demonstrate sustainability leadership	✓ **Leveraging and refining existing strong performance** and strengths including ECOMSART, EHS, and community efforts ✓ **Aligning with areas of ambition** including skills/education development, eco-friendly products, community impact, and GEM impacts ✓ **Excelling across all aspects of strategy,** establishing 3-4 pillars of focus and embedding CSR into the core business strategy ✓ **Engaging employees across businesses and geographies** by including GEM issues and causes, translating messages to field workers, and providing clear terminology ✓ **Differentiating from peers with ambitious goals and flagships,** but collaborating on certain efforts e.g. STEM education ✓ **Addressing relevant global challenges** such as Skills Deficit, Rising Inequality, Climate Change Resilient Infrastructure, Rising Consumption, and Environmental Degradation

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Building SBD's CSR Strategy: Key Steps

There were three steps to build the framework for SBD's strategy:

Our CSR Strategy Framework

A pyramid diagram with levels from top to bottom:
- Purpose
- CSR Pillars + Priorities (highlighted with dashed box)
- Flagship CSR Initiatives
- CSR Goals and KPIs
- CSR Reporting & Transparency
- Governance

1. Establish Priority Issues

Based on the 2016 set of material issues, insights from the internal interviews, market review, and external trends analysis.

2. Set Pillars

Based on insights from market review of leader's frameworks, SBD's purpose, and existing organization structures.

3. Organize into Framework

Mapping the issues into pillars to construct an organizational strategy framework.

Highest Priorities: Mapping the Issues into Pillars

Internal

1. SDB Current State Overview

- Current People, Planet, Product, and ECOSMART efforts

- 2016 materiality assessment

2. Internal Interviews

- 21 interviews with leadership

External

3. Benchmark + Peer Review

- 5 CSR leaders, 14 peers, 4 retailers

4. External Trends

- Top external issues relevant for SBD

- External stakeholder perspectives from 2016 materiality assessment

CSR LEADERSHIP BRANDS
Who are some CSR leaders?

IKEA · Unilever · GE · Ford · salesforce

PEERS
What are the opportunities for SBD to lead its peer group?

BOSCH Invented for life · Honeywell · SECURITAS · LIFCO · Atlas Copco · tyco · United Technologies · serimax · PennEngineering · ARCONIC · Snap-on · SHAWCOR · makita

RETAILERS
How can CSR drive commercial benefits for SBD?

Kingfisher · amazon · THE HOME DEPOT · LOWE'S

BENCHMARK ASSESSMENT

CUSTOMER REVIEW

FOURTH INDUSTRIAL REVOLUTION

The speed of advances is unprecedented with emerging technologies, causing shifts across almost every industry, and will require major societal adjustments as well as offering huge economic opportunities.

URBANIZATION & TECHNOLOGY

By 2030 ~60% of the population will live in urban areas; 95% of urban expansion will occur in the developing world. Urbanization presents challenges and opportunities, with technology and 'smart cities' playing a role.

SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals define 17 global priorities and aspirations for 2030. Their mission is to mobilize global efforts around a common agenda.

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ECOSMART Is Our Commitment To A Sustainable Future

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Highest Priorities: Mapping the Issues into Pillars cont.

Priority Issues

- Employee Health and Wellness
- Employee Engagement
- Diversity and Women Empowerment
- Human Capital Development
- Upskilling Tomorrow's Workers
- Developing Secure, Resilient Communities
- Delivering healthcare solutions
- Sustainable (ECOSMART) Products/Services
  - Sustainable sourcing/lifecycle/materials design
  - Customer satisfaction, Product/service safety
  - Product/service innovation
  - Digitization
- Sustainable Operations: Waste, Water, Carbon, Energy
- Ethics
- Governance
- Transparency
- Information security

Criteria for selecting highest priorities

- ✓ Deliver on purpose
- ✓ Align with ambitions heard in interviews
- ✓ Align with material issues
- ✓ Contribute to solving global challenges
- ✓ Place SBD in CSR leadership group

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Our 2030 Global CSR Strategy

INSPIRING MAKERS AND INNOVATORS TO CREATE A MORE SUSTAINABLE WORLD

Pillars

Empower Makers	Innovate with Purpose	Create a More Sustainable World

Our 2030 Ambition

Enable 10 million creators and makers to thrive in a changing world	Innovate our products to enhance the lives of 500 million people and improve environmental impacts	Positively impact the environment through our operations

Our Priorities

- Upskill our employees who are displaced by technology
- Empower citizens with vocational training, STEAM education and access to maker spaces

- Create and use products to meet underserved societal needs
- Improve the lifecycle impact of our products and sourcing and reduce supply chain GHG emissions

- Improve our environmental impacts related to GHG emissions, water and waste

Foundational Issues

Business Ethics | Customer Satisfaction | Diversity | Employee Engagement and Wellbeing | Employee Health and Safety | Governance | Green Building | Intellectual Property, Data Privacy & Information Security | Human Rights | Local Community Engagement | Philanthropy and Volunteering | Product Innovation | Product Safety | Transparency, Accountability, Responsible Marketing

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Strategy Overview: Pillars, Ambitions and Goals

Empower Makers	Innovate with Purpose	Create a More Sustainable World
2030 Ambition: Enable 10 million creators and makers to thrive in a changing world	*2030 Ambition: Innovate our products to enhance the lives of 500 million people and improve environmental impacts*	*2030 Ambition: Positively impact the environment through our operations*
Goal 1 Employee Career Mobility: Prepare employees for career mobility relevant for Industry 4.0 by supporting them in re-training and re-purposing	**Goal 5 Addressing Unmet Societal Needs**: Deliver 'innovation with purpose' projects which address unmet societal needs, improve the lives of 500 million people, and contribute 10% of SBD revenue	**Goal 9 Carbon Positive Operations:** Set science-based carbon reduction targets by 2018 and become carbon positive in our operations
Goal 2 STEAM Education: Enable people to access STEAM education and training to improve livelihoods and help support the workforce of tomorrow	**Goal 6 Circular Design**: Design products for circularity across material selection, use and end of life considerations	**Goal 10 Sustainable Water Use**: Sustainably use water by mapping water risks and setting context-based targets
Goal 3 Vocational and Trade Skills: Help people develop cutting-edge vocational and trade skills required for employment	**Goal 7 Sustainable Supply Chain**: Source all raw materials, finished goods, components and services from suppliers that meet environmental and social sustainability criteria; reduce supply chain emissions by 35% by 2030, based on a 2017 baseline	**Goal 11 Zero Waste to Landfill**: Achieve zero waste to landfill in operations
Goal 4 Makerspace Training: Enrich the education, creativity and hands-on job experience for people through makerspaces around the world	**Goal 8 New Business Models**: Decouple revenue from resource use by increasing the share of revenue from services vs. products	

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