# Building trust with systematic stakeholder engagement

**2023 Materiality assessment methodology**
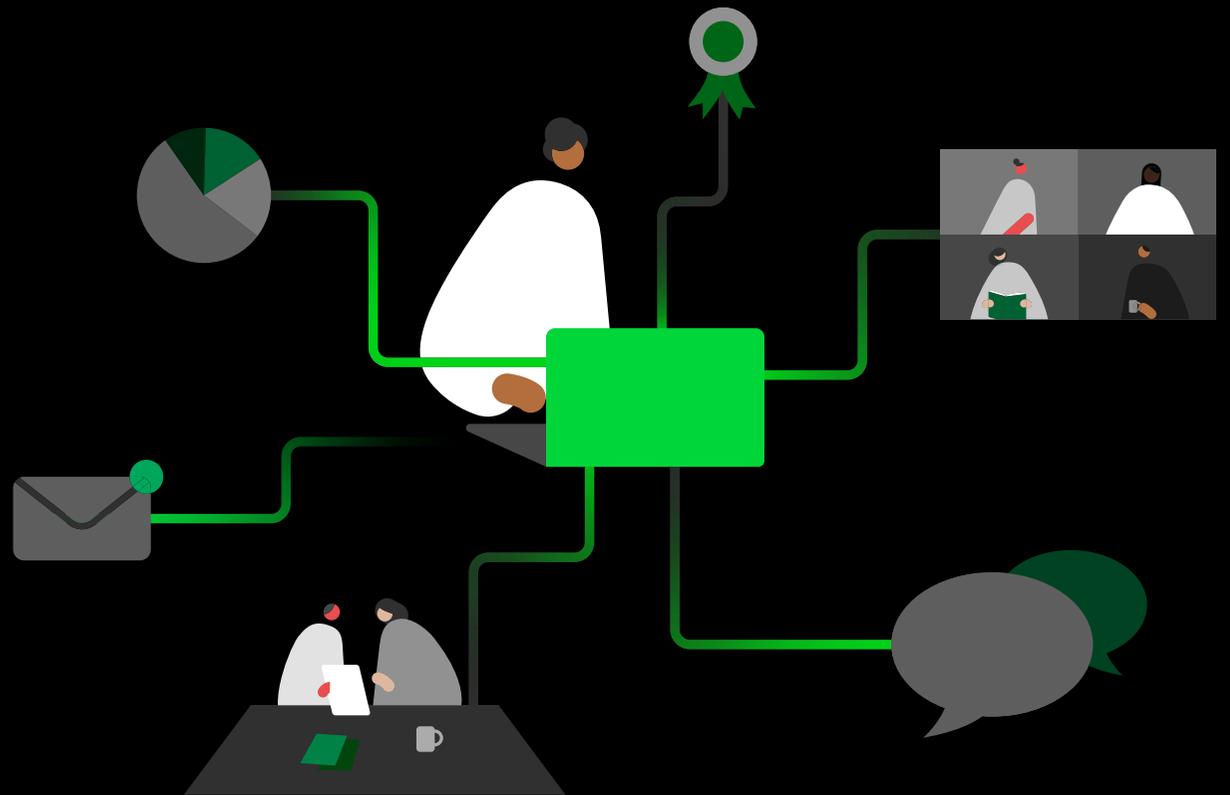
Sage

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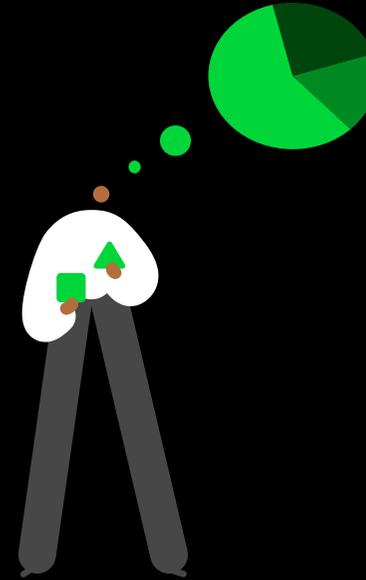
## Our reporting ecosystem

**Building sustainable growth**

**Annual Report and Accounts (ARA)**

**The Multiplier Effect**
Sustainability and Society Report 2023

**Sustainability and Society Report (SSR)**

**Climate Report 2023**

**Climate Report[1]**

**ESG Databook 2023**

**ESG Databook[2]**

**UK Gender Pay Gap Report 2023**

**UK Gender Pay Gap Report**
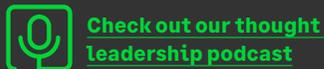
**UK Ethnicity Pay Gap Report 2023**

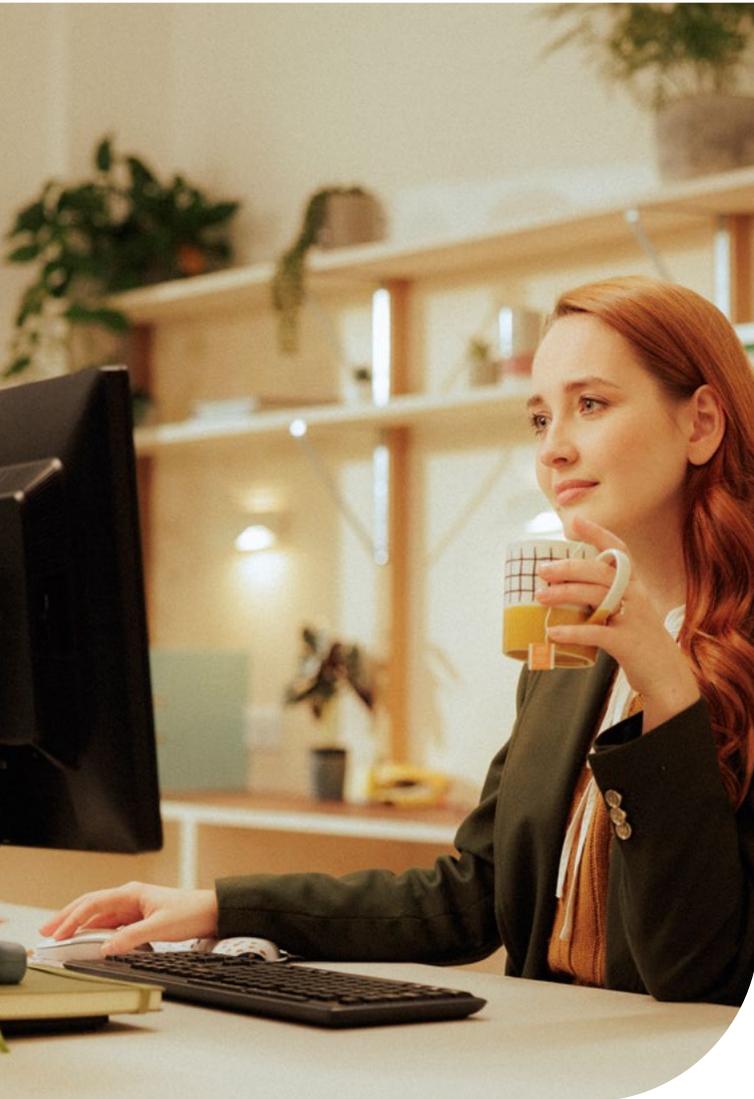**UK Ethnicity Pay Gap Report**

**UK Modern Slavery Act Statement**

**Check out our thought leadership podcast**

1.  Includes Task Force on Climate-related Financial Disclosures (TCFD), and Transition Plan Taskforce (TPT) disclosures.
2.  Includes GRI and SASB data and indices, and UN Sustainable Development Goal (SDG) progress.

# Introduction

At Sage, we know that a robust materiality assessment is the bedrock of a strong sustainability strategy. We are therefore committed to regularly conducting materiality assessments and tailoring the process and the engagement practice to ensure we capture relevant insight and the changing perspectives of our stakeholders.

In FY21, we conducted our first formal materiality assessment following the GRI 2016 Standards, which enabled us to better understand our stakeholders' expectations and identify emerging sustainability issues.

This year, to help us prepare for regulatory requirements such as the EU Corporate Sustainability Reporting Directive (CSRD) and the underlying European Sustainability Reporting Standards (ESRS), and to respond to voluntary standards such as the GRI 2021 Standards, we strengthened our assessment by following the principles of "double materiality".

We intend to use the results of our materiality assessment in four different ways:

1. **Inform our strategy:** Weight material topics within the revised Sustainability and Society strategy and prioritise business investment and action.

2. **Structure our disclosures and prepare for upcoming regulations:** Focus our report and data on what is material to enhance transparency and align to new regulatory expectations.

3. **Inform ESG risk review:** Deepen our understanding of the impacts, risks and opportunities of our material topics.

4. **Provide insight:** Conduct ESG horizon scanning to inform strategic decisions and ensure we keep up to speed with trends.

# Methodology and results

GRI 3-1

In line with evolving regulatory requirements and to better understand our business's impacts, risks and opportunities, in 2023 we conducted a double materiality assessment. A double materiality assessment explores the business's impacts on people, the economy and the environment, and the impacts of these factors on the business. It involves engaging with internal and external stakeholders, as well as examining the business's operating context.

We have followed a six-step process to analyse double materiality and each one of these is discussed in detail below:

**1** Horizon scanning

**2** Value chain mapping

**3** Stakeholder engagement

**4** Impact, risks, and opportunities mapping

**5** Topic prioritisation

**6** Validation

# Phase 1:
## Horizon scanning

The first step was to identify a broad universe of sustainability issues that could potentially be significant for Sage. This was important to minimise the risk of overlooking possible current and emerging issues, and to ensure a thorough and credible analysis.

As a starting point, we used our 2021 materiality analysis. We then performed a combined desk-review and AI-enabled analysis of the following:

- **Sustainability trends analysis:**
  We reviewed sustainability trends and frameworks to identify external sustainability themes relevant to Sage's sector, and then mapped these against our initial 2021 topics list.
- **Regulatory review:**
  We conducted a review of upcoming sustainability regulations for Sage's key jurisdictions.
- **Peer topic review:**
  We used an AI data platform—Datamaran—to identify and monitor material sustainability risks and opportunities, and to review how a broad range of Sage's industry peers are ranking sustainability topics.

# Phase 2:
## Value chain mapping

Understanding our business material impacts, risks, and opportunities beyond our own operations is a key element of double materiality.

GRI 2021 Standards expect businesses to assess and understand the whole value chain, including business relationships (upstream—with suppliers and shareholders, and downstream—with customers and communities). We acknowledge that this increased demand in transparency goes hand in hand with a growing number of global regulations related to supply chain and human rights issues.

We held a cross-function session with participants from Risk, Internal Audit, Product Development, Legal, Investor Relations, DEI, Procurement, Strategic Transformation, Reward and Recognition, Sage Earth, Sage Foundation and the Sustainability team, to discuss the potential impacts, risks and opportunities that may occur within each segment of our value chain. We mapped existing key relationships across the value chain and, in groups, we unpicked the potential impacts, risks, and opportunities that the list of material topics may present at each stage of the value chain.

The final output of this exercise was developing Sage's value chain map and a list of initial impacts (positive and negative) as well as risks and opportunities associated with Sage's value chain—including upstream (our supply chain), own operations, and downstream (our customers and partners). It was critical that we bring in representatives from across the business to initiate these conversations and have a more holistic view of our relationships.

# Phase 3:
## Stakeholder engagement

This next phase entailed a comprehensive internal and external stakeholder engagement exercise to gather their perception of each topic's impact on the environment/society and on the business.

### Internal stakeholder engagement
**Two internal stakeholder groups** were identified to determine Sage's material priorities.

- **Executive Leadership Team members and senior leaders:** 14 senior leaders including all 10 Executive Leadership Team (ELT) members were interviewed through one-to-one interviews.
- **Sage Group colleagues:** An online survey was distributed to a sample of Sage colleagues across a variety of functions including Risk, Finance, Sage Foundation, Procurement, Reputation (PR), Public Policy, Investor Relations, Customer Marketing, Sage Earth, ESG/Sustainability, Service Transformation, Reward, People, DEI, Product, Data Privacy, Legal, Partner Strategy, Internal Audit, Business Transformation. We also distributed the survey across geographies including Africa, the Middle East, Asia, Australia, Central Europe, North America, Northern Europe, and Southern Europe. 154 colleagues responded anonymously to the survey. Responses identifying impacts, risks, and opportunities were quantified and ranked.

## Methodology and results—continued
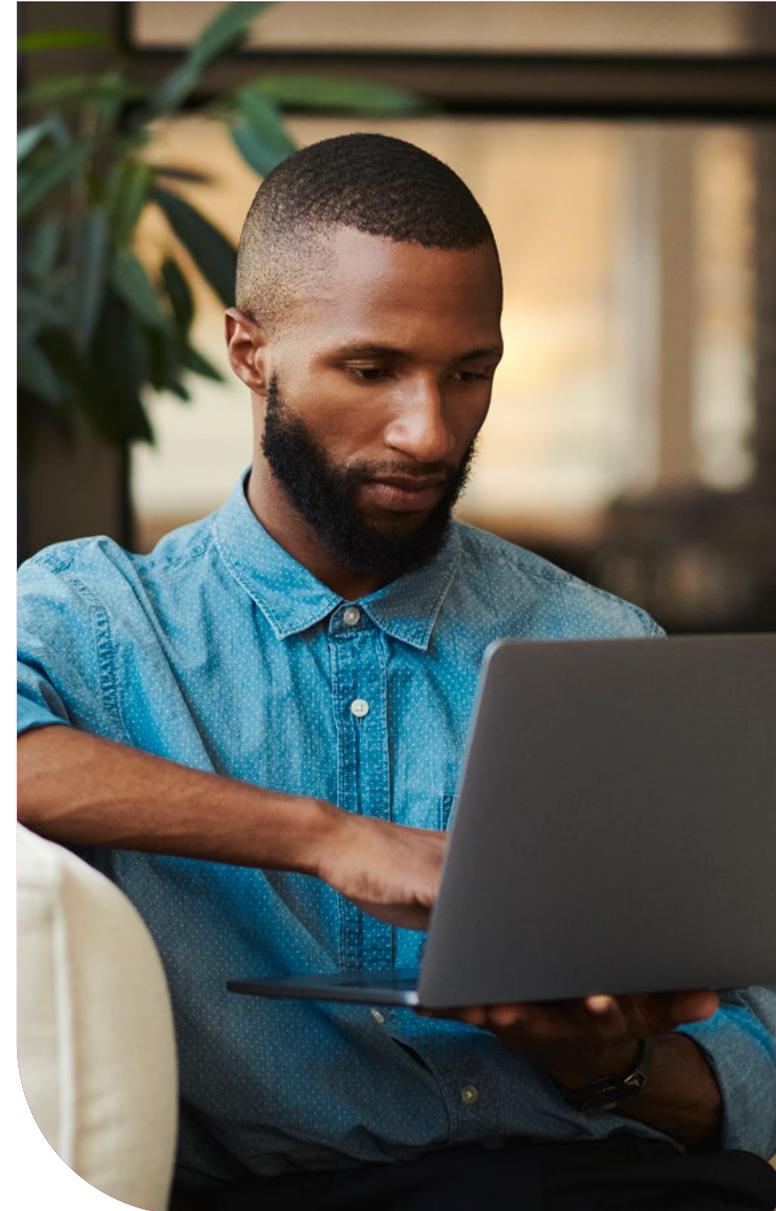
### External stakeholder engagement

**Five external stakeholder groups** were identified to determine Sage's material priorities.

- **Customers:** Customers were interviewed through one-to-one interviews. In order to gain insights from a wider sample of customers, Sage supplemented the customer interviews with additional research from Datamaran into the ESG topics identified by Sage customers by looking into publicly available reports.
- **Investors:** Investors were interviewed through one-to-one interviews.
- **Suppliers and partners:** Suppliers and strategic partners were interviewed through one-to-one interviews.
- **NGOs, communities and regulators:** We used a range of sources representing regulatory and "civil society" stakeholders including ESG Legal, Tech Legal, World Business Council for Sustainable Development (WBCSD) and the World Economic Forum (WEF) reports.

**Phase 4 and 5:**

# Impacts, risks, and opportunities (IROs) mapping and topic prioritisation

We then conducted a granular analysis and mapping of all identified IROs associated with the 17 topics. For each topic we have identified a number of related IROs.

This phase allowed the Sustainability team to deepen our understanding of ESG risks. Working with the Risk team, we (1) reviewed Sage's existing 12 Principal Risks and identified connections with the 17 topics, (2) updated the list of IROs and (3) identified the relevant owners for these. An online survey was developed, every owner was allocated their relevant impacts, risks, and opportunities, and were presented with a scoring system for each. The scoring has been designed to be consistent with Sage's enterprise risk management approach and policy.

# Methodology and results—continued
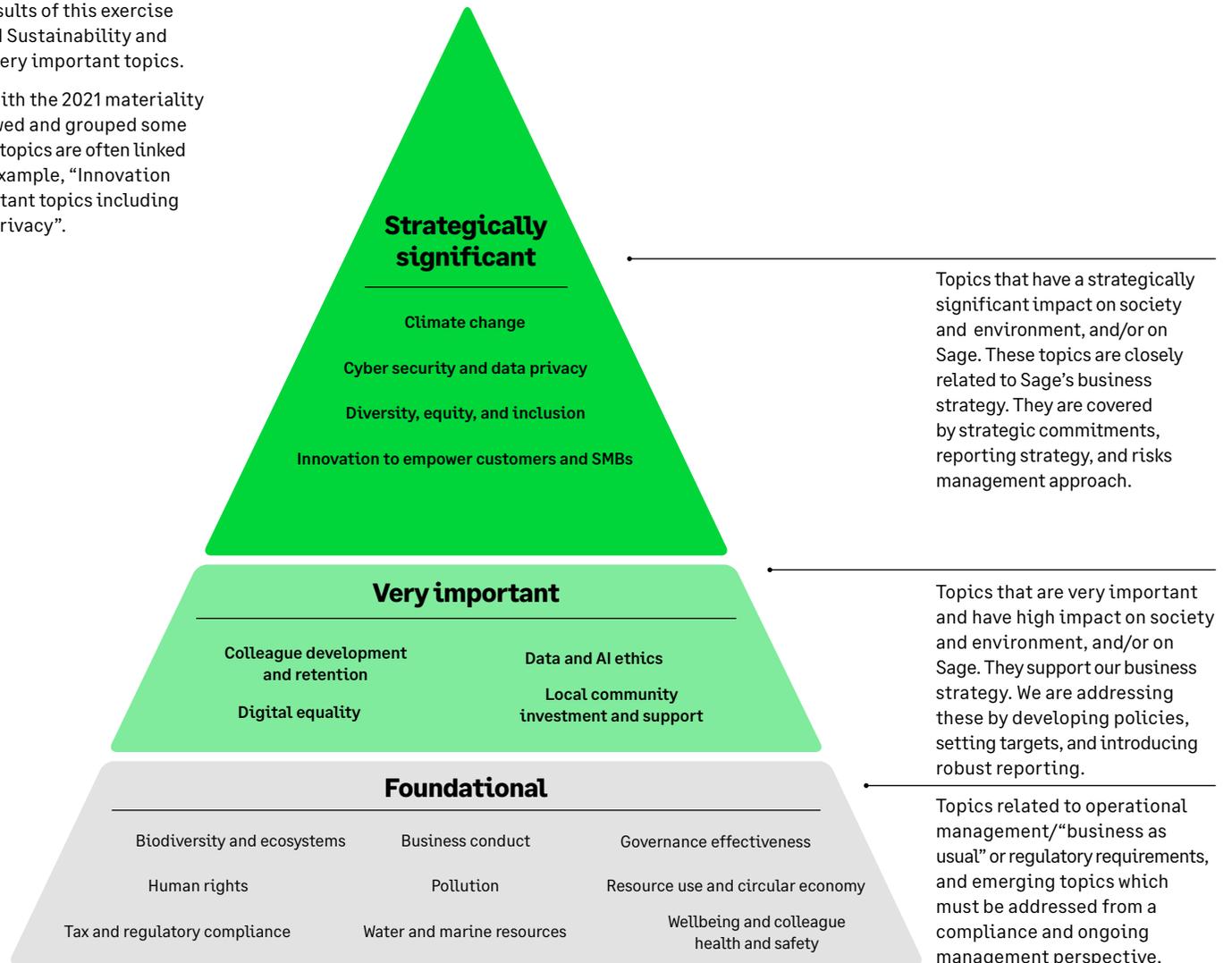
**GRI 3-1, 3-2**

## Phase 6:

# Validation and results

The results were presented at the ELT meeting in October 2023. The results of this exercise and stakeholder engagement process have confirmed that our updated Sustainability and Society strategy is focused on the most strategically significant and very important topics.

It is important to note that a like-for-like comparison is not possible with the 2021 materiality assessment, as we have evolved our approach to materiality and reviewed and grouped some of the topics, while also considering new emerging topics. Moreover, ESG topics are often linked to one another, and their interdependencies must be considered. For example, "Innovation to empower customers and SMBs" sits in the intersection of many important topics including "Climate change", "Data and AI ethics", and "Cyber security and data privacy".

**Key updates:**
- **"Business ethics" and "Tax transparency":** These were classified as Foundational topics in 2023. They are an integral part of our approach and how we conduct business every day, rather than a specific target to be achieved.
- **"Data and AI ethics":** Previously described as "Ethical technology", this topic has emerged strongly throughout our stakeholder conversations this year, in particular Sage's role in providing AI-powered solutions that drive productivity and improve resilience.
- **"Local community, investment, and support"** and **"Digital equality":** Previously described as "Supporting local communities and philanthropy" and "Tackling digital inequality", these topics have been elevated to reflect a more strategic focus of our Sage Foundation activities.
- **"Human rights":** Previously "Collective bargaining and labour relations", this year, we have broadened the scope of this topic, acknowledging our respect for human rights across the value chain and evolving regulation.
- **"Water"** and **"Biodiversity":** These topics emerged from the requirements of the Global Reporting Initiative (GRI) Sustainability Reporting Standards and the European Sustainability Reporting Standards (ESRS), and we are monitoring external expectations and regulatory requirements.



**Strategically significant**

Climate change

Cyber security and data privacy

Diversity, equity, and inclusion

Innovation to empower customers and SMBs

Topics that have a strategically significant impact on society and environment, and/or on Sage. These topics are closely related to Sage's business strategy. They are covered by strategic commitments, reporting strategy, and risks management approach.

**Very important**

Colleague development and retention

Data and AI ethics

Digital equality

Local community investment and support

Topics that are very important and have high impact on society and environment, and/or on Sage. They support our business strategy. We are addressing these by developing policies, setting targets, and introducing robust reporting.

**Foundational**

Biodiversity and ecosystems

Business conduct

Governance effectiveness

Human rights

Pollution

Resource use and circular economy

Tax and regulatory compliance

Water and marine resources

Wellbeing and colleague health and safety

Topics related to operational management/"business as usual" or regulatory requirements, and emerging topics which must be addressed from a compliance and ongoing management perspective.

*Topics within each layer of the pyramid are listed in alphabetical order and do not reflect a hierarchy of importance.*

# Next steps

GRI 3-1

The granular detail gained through the identification of impacts, risks, and opportunities will help us prioritise the material issues within our strategy and calibrate our level of ambition appropriately for each issue. Several additional ESG risks and opportunities were identified, and we will work with the business to further understand and map the implications of these. In addition, we will use this work to further develop our ESG risk register, which will support our business to better manage risks and impact and enhance the opportunities . This is also a core deliverable to how we demonstrate the "hardwiring of sustainability".

# Material topics—definitions

| Strategically significant | Definition |
| --- | --- |
| Climate change | Managing physical climate-related risks and minimising Sage's carbon footprint and opportunities to reduce greenhouse gas emissions across the value chain, hence seeking to manage climate transition risk. In addition, helping customers reduce carbon emissions associated with the use of Sage products by providing energy-efficient software and carbon accounting solutions. |
| Cyber security and data privacy | Managing and mitigating risks related to the use of customer data and the collection, retention, and use of sensitive, confidential user data. Issues can arise from incidents such as data breaches involving personally identifiable information. |
| Diversity, equity, and inclusion | Ensuring zero tolerance for discrimination of any kind across Sage's business and creating meaningful opportunities for colleagues and communities. |
| Innovation to empower customers and SMBs | Developing products and services that will advance developments in the technology software industry and increase the value we deliver for Sage's customers. |

| Very important | Definition |
| --- | --- |
| Colleague development and retention | Attracting, engaging and retaining a highly talented workforce, by providing the right conditions for Sage's colleagues to carry out their work to the highest standard. |
| Data and AI ethics | Managing ethical issues surrounding data and AI to ensure that biases within algorithms are reduced and data is used to support positive environmental and social outcomes. This includes designing products and services that help tackle inequality in technology. |
| Digital equality | Promoting digital equality to ensure the benefits of digitisation are realised across all levels of society and ensuring our products are accessible, supporting people with disabilities and removing barriers. |
| Local community investment and support | Leveraging Sage Foundation to engage with, and support, local communities in which Sage operates. This includes charitable giving, partnerships, or volunteering programmes to foster social equity, financial inclusion, and mobility. |

# Material topics—definitions—continued

**GRI 3-2**

| Foundational | Definition |
|---|---|
| Biodiversity and ecosystems | Identifying and monitoring negative and positive impacts on biodiversity in Sage's value chain. Contributing to the conservation of natural resources and ensuring sustainable development through Sage's day-to-day operations. |
| Business conduct | Upholding Sage's shared values, beliefs, and behaviours that characterise Sage and define its identity. Demonstrate, through Sage's business operations, a commitment to ethical, responsible, and transparent business practices. |
| Wellbeing and colleague health and safety | Creating a culture across Sage that aims for no harm to Sage's colleagues, relating to employee wellbeing and mental and physical health. This includes providing staff training at all levels to ensure occupational health and safety. |
| Governance effectiveness | Ensuring that Sage has the appropriate mechanisms, procedures, and rules in place concerning the Company's internal control, supervision, reporting, and decision-making system. This also relates to ensuring that there are sufficient governance bodies and structures in charge of managing and assessing an organisation's ESG dimensions. |
| Human rights | Ensuring freedom of association and collective bargaining arrangements for our colleagues. Working closely with our suppliers to promote positive social outcomes in the supply chain by focusing on human rights due diligence, fair terms, and prompt payment. |
| Pollution | Identifying, monitoring and managing pollution generated by Sage's operations and supply chain. |
| Resource use and circular economy | Repurposing, reusing and recovering hardware and electronics waste within Sage. This helps minimise the amount of virgin raw materials that are used. |
| Tax and regulatory compliance | Ensuring that Sage complies with all applicable corporate laws, sector-specific regulations, environmental and health and safety regulations, as well as applicable tax laws. |
| Water and marine resources | Managing Sage's water use, consumption, wastewater generation and other impacts relating to Sage's operations and use/cooling of data centres. It includes management strategies on water efficiency, intensity, and recycling in Sage's value chain and marine habitat impacts. |

# Get in touch

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