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How-to Guide: Materiality

## Material or not material? That is the question.

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Context  
sustainability

Sustainable  
business models

Integral  
materiality

Climate change  
strategy

## Introduction

Materiality is the process which supports a business to determine the relative importance of Environmental Social and Governance (ESG) issues. It is an evidence-based approach that enables a business to focus time and resource on what really matters, rather than everything all at once.

The principle is a vital one in corporate sustainability because it recognises that efforts are more successful when they focus on tackling a smaller number of priority (or material) issues really well, rather than diluting attention and resources by trying to focus on too many things.

There are various approaches and techniques but generally-speaking it involves a process of gathering data, insights and intelligence – from desk research and stakeholder engagement for example – and then analysing this to determine priority issues.

The concept of materiality has been around in corporate sustainability for over 20 years but in our experience, it is often underused, undervalued and hasn't significantly evolved in that time. This guide presents materiality in a new light with insights into how to enhance the process and its value to the business so that it becomes a cornerstone of transformative approaches to corporate sustainability.

## Increasing complexity

We live in a time of unprecedented pace of change and rapidly evolving stakeholder expectations which has put the spotlight firmly back on materiality.

Companies must track and understand an ever-increasing number and range of issues. Not only are new issues emerging into the mainstream – such as single-use plastics and air quality to name two recent examples – but also that established issues are changing and evolving rapidly as we understand more about them and respond accordingly. [Climate change](#) is a good example here.

Added to this, stakeholders – investors, employees, customers and the public in particular – are much more aware of these issues. Both factual and anecdotal information is more easily accessible than ever before and they have heightened expectations as a result. This makes every issue a potential reputational and strategic risk and opportunity for business.

This means it's more important than ever that companies have a robust process to track these issues and manage their response.

## Why materiality?

Done well, materiality provides a structured process to navigate this complexity and helps us to focus efforts and resources around what really matters. But more than that, it ensures independence. A robust methodology and an outward-looking approach are all really important to remove biases from the approach. We often think we know what the issues are or can hazard a good guess. We may prioritise issues that are close to our own values, that we know that the company is good at tackling, or those that are easier to address. This may result in a company focusing its energies in the wrong areas.



## Material or not material? That is the question.

### The value of materiality

Many companies undertake materiality because of **disclosure** requirements. It is a fundamental principle in the most widely-used sustainability reporting frameworks, [Global Reporting Initiative \(GRI\)](#) and the [International Integrated Reporting Council \(IIRC\)](#) integrated reporting framework. Using materiality to inform disclosure is important but we must also recognise that reporting is an output of sustainability and if companies are using it merely to satisfy disclosure requirements ('ticking the box'), this can seriously limit its value to the business. Indeed, the value of materiality should be much more intrinsic than that. For example:

- Materiality underpins a **strategic and focused approach to sustainability** where the strategy develops and evolves around priority issues and strong themes for which there is a clear rationale and which will resonate with company's stakeholders. In this way, it provides much needed evidence for why a company takes a particular approach and justification for investment in sustainability.
- It is fundamental to a company's approach to **risk and opportunity management**, helping it to identify and track pre-financial risks. The insights and information gained from good materiality are invaluable to a business with sustainability teams working alongside colleagues in risk, compliance, strategy and other functions.
- It should be used to **engage across the business** by raising the profile of sustainability issues and the business's understanding of these. We should be communicating the results of good materiality far and wide.
- **Stakeholder engagement** itself sends out a hugely important message that the company is willing to listen to the people that rely on and are impacted by the business. Used well, this is a big (often untapped) opportunity.

### How to approach materiality assessment?

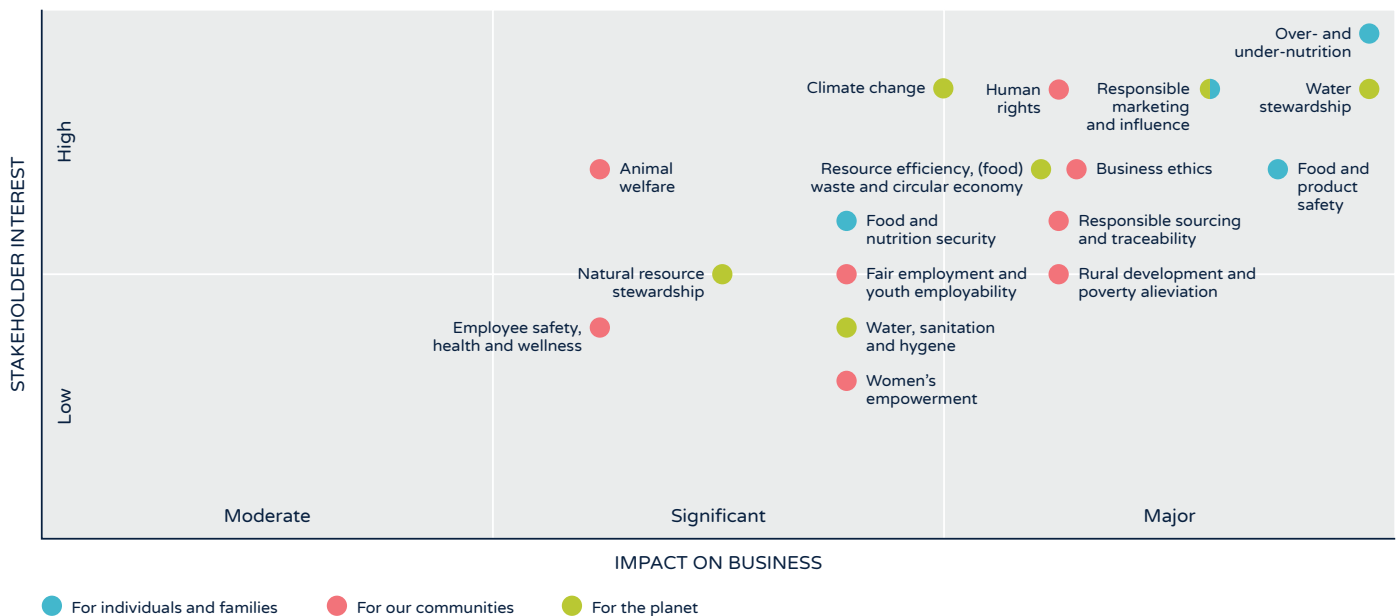
While materiality is perhaps most commonly associated with taking account of stakeholder concerns and expectations, there are in fact a number of other (often overlapping) sources and considerations that companies should take into account:

- **The regulatory environment**  
We have seen a surge in regulation and disclosure requirements related to responsible business and sustainability in recent years. In the last 3 years alone, ESG-related regulations have grown by more than 100% across the UK, US and Canada<sup>1</sup>. Companies must stay on top and ahead of these changes.
- **Geography**  
Companies must understand issues and impacts at different levels: local; sector, regional and national levels; and lastly global. These will look very different and all too often companies are ignoring the forces that will shape the world – and therefore the business – in the longer-term. This includes whether company impacts are at risk of overshooting social and environmental thresholds.
- **Sector challenges and competitors**  
This explores the biggest challenges facing the sector, with a view on what competitor and peer companies are prioritising.
- **Risks and opportunities**  
The things that will significantly affect value creation over the short, medium and long-term.
- **Core competencies and company purpose**  
This considers how much influence a company can exert on an issue and whether the issues align with the company's purpose and values.

<sup>1</sup> Datamaran, Global Insights Report: [The Rise of ESG Regulations](#)

## Material or not material? That is the question.

The graph below is an example of a traditional materiality matrix, often used to display the results of a materiality assessment. It plots some form of 'importance to stakeholders' on the y axis and 'importance to the business' on the x axis. This can be a blunt instrument and, in our experience, can indicate that some of the considerations above have not been included in the assessment and that materiality is not being used to its full potential.



In fact, there is much more that we can do to enhance the value of materiality and make it a crucial strategic tool for the business. Here are our key recommendations:

### 1 Be broad

The wider you consult the better the insights you'll glean. Consider societal groups that perhaps previously haven't been consulted. For example, we have run focus groups for our clients with the general public that have really opened their eyes to how they're perceived and the issues people care about. This way you can understand the company's broader impacts on society, not just a few priority stakeholders.

### 2 Make it relevant

Use materiality to understand issues and company impacts at a local, sector, regional, national and global level. Don't just consider local issues and current industry challenges but also the forces that will shape the world in the longer-term by integrating the [UN Sustainable Development Goals](#) into the process.

### 3 Make it continuous by harnessing technology and big data

Conducting a materiality assessment every few years or even every year, as is common, is no longer sufficient. It should be seen as an ongoing process. 80% of the world's data is now online and social media. Harnessing the power of Artificial Intelligence enables the continuous monitoring of social, economic and environmental data; mining and analysing unstructured big data from sources such as news, social media, regulations and company reports. This can take much of the legwork out of materiality and leads to a more in-depth and informed assessment, highlighting important trends, regional variations and how issues develop over time.

### 4 Use it to assess current performance

This is one way to use stakeholder engagement more effectively to explore whether a company is doing enough to tackle an issue and overlaying that information in the analysis. This can start to improve the definition and identification of what is material.

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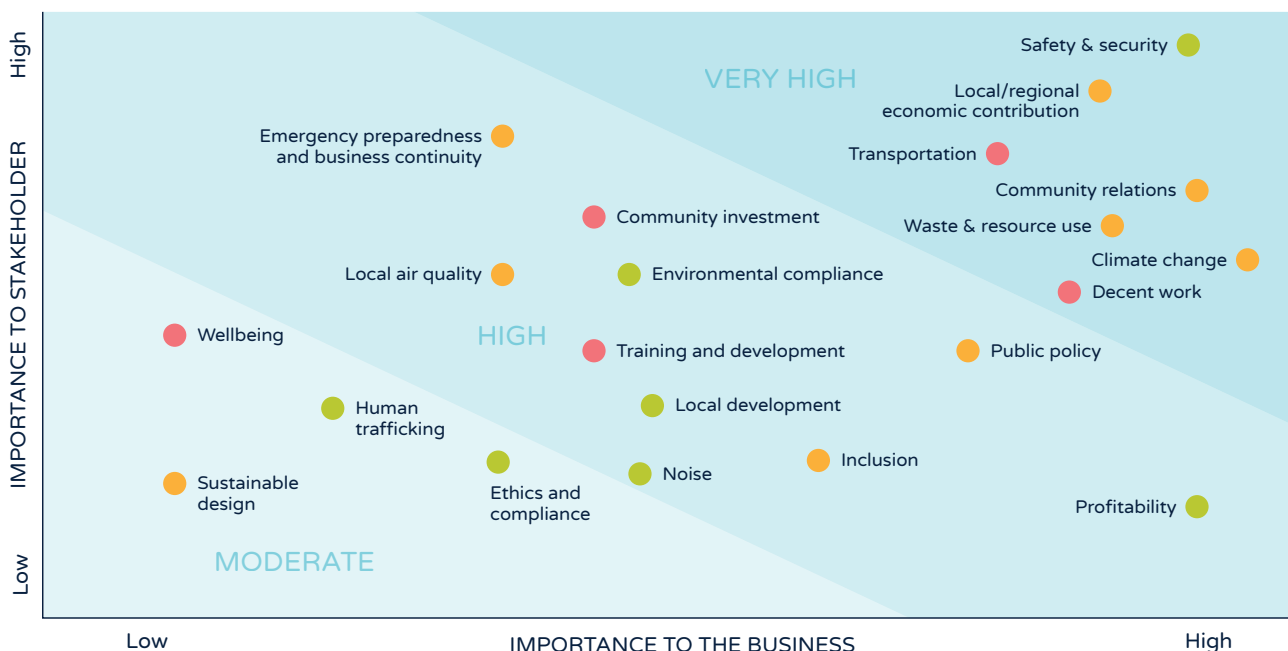
### 5 Use it to explore limits and boundaries

This describes the use of materiality to understand and explore if company impacts compromise defined ecological and social thresholds. If an issue and a company's impact is far removed from this risk, then it may be deemed less material; if an impact is closer to compromising a known threshold, then it is by definition material. In this way, it is changing the definition of what is material and using materiality to build much-needed [context into sustainability](#).

### 6 Be collaborative

Materiality should be a collaborative, outward-looking process. There are various ways to use stakeholder engagement more meaningfully to collaborate and work with stakeholders to explore solutions to some of the issues and challenges a business is facing.

The figures below start to show how this information can be overlaid onto more traditional materiality diagrams to give a more in-depth picture of what matters most to the business and why.



#### PERCEIVED PERFORMANCE COLOUR KEY

- Performing relatively well
- Performing moderately well
- Performing below expectation

#### SDGs PRIORITISATION



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## Summary

In summary, enhancing the process and quality of materiality assessments and analysis by applying the recommendations above will help to make it a crucial strategic tool for the business. Not only will it deliver value to the business on a number of different levels but it sets the foundations for companies to move from incremental to transformative approaches to corporate sustainability.

## About Simply Sustainable

Simply Sustainable is an award-winning consultancy offering top class, bespoke advice on all aspects of sustainability. We offer tailored solutions and thought leadership to help our clients build sustainability into their operations and maximise the opportunities of doing business sustainably. Our services are built around the areas of:

- Sustainability Strategy Development & Integration
- Impact Measurement & Performance Improvement
- Sustainability Communications & Reporting



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