

# Materiality

Confused by materiality? Are you wondering which issues to prioritise or how to create a materiality matrix? Mastering materiality is straightforward.



**CORPORATE CITIZENSHIP**

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**Sustainability, Simplified**

# Materiality

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*“Materiality is a principle used in decision making to define whether an aspect or issue is sufficiently important to warrant attention.”*

## Materiality Assessment in a Nutshell: The 3 Ps

A robust materiality assessment begins with the definition of a strong Purpose which will help frame the internal and external Perspectives within a structured Process.

### Purpose

A clear understanding of objectives helps manage expectations and drives the optimisation of results.

### Perspectives

Balancing internal and external viewpoints is the mark of a leader and need not be resource intensive.

### Process

A robust process brings confidence and improved decision making.

## A Strong Purpose

Materiality will specifically help with:

- Developing a 360 degree perspective on your business and learning about how others see you.
- Understanding the breadth and depth of stakeholder opinion.
- Identifying relevant issues and challenges.
- Comparing the importance of issues between different stakeholder groups, such as customers and employees.
- Weighing different issues against one another and breaking down issues into detail.
- Developing an evidence trail to support decision making.

## Building a Broad Purpose

Materiality assessment can form an important tool in these agenda areas:

### **Understanding trends and future issues.**

Materiality assessment can be effective at identifying issues bubbling up in society that could affect your business by stimulating new business directions, innovation and building differentiation.

### **Sustainability strategy and programme implementation.**

Are your sustainability strategy and programmes designed to take into

consideration and tackle the issues identified as most material? Gap analysis between the findings of the materiality assessment and your strategic and tactical frameworks will identify weaknesses and areas of opportunity.

### **Positioning and communications.**

Materiality plays an essential role in formulating effective corporate positions and shaping stakeholders' communications programmes.

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*“The principle of materiality is essential in understanding sustainability priorities”*

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## The Business Perspective

Across businesses, the depth of understanding of sustainability issues varies widely. Individual functions e.g. in supply chain or human resources will have strong opinions on issues affecting their remit, but for most materiality assessments an aggregate perspective is required. Existing risk management processes will provide

insight, but this may only identify the very highest risks that affect business continuity. Sustainability risks and opportunities can be more diffuse, operating indirectly or at lower magnitudes and likelihoods. A specific, granular risk analysis designed for materiality assessment may be needed to identify and illuminate relevant issues.

## Stakeholder Perspectives

External stakeholders' perspectives are vital in materiality assessments. The first step is to methodically define your stakeholders and their importance to the business. It is also important to identify stakeholders without a voice, such as the environment, and

determine how these may also be included in the assessment. Be alert to the tendency to marginalise the perspectives of antagonist stakeholders. Although these groups may be more demanding they frequently offer more stimulating perspectives than allies.

## Capturing Perspectives

A combination of qualitative / quantitative research methods will give a balanced view of which issues matter and their relative significance both for the business and stakeholders. Assessments typically make use of:

**Desk-based research** - Review and prioritise existing and emerging trends and concerns using secondary sources, such as the media and public policy debates.

**Survey and interviews** - The direct or indirect survey of opinions can be facilitated

by using a third party to ensure responses are as candid as possible.

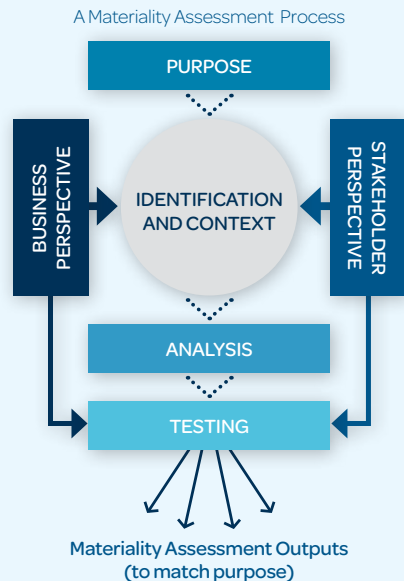
**Roundtables and online forums** - Selected stakeholders are brought together in a hosted discursive environment.

**Collaboration and deeper engagement** - Stakeholder and other panels, convened over time, offer the opportunity of getting to really know your impacts and issues.

## A Strong Process

The exact processes undertaken and outputs will be matched to specific purpose and perspectives. At the **identification and context** stage relevant issues are defined and examined in light of the research into business and stakeholder norms and perspectives. At the **analysis** stage issues are scored, weighted and compared using various techniques typically leading to a materiality matrix. **Testing** initial outputs against expectations and, if appropriate, for impact across the value chain and over time will ensure robust outputs that match objectives.

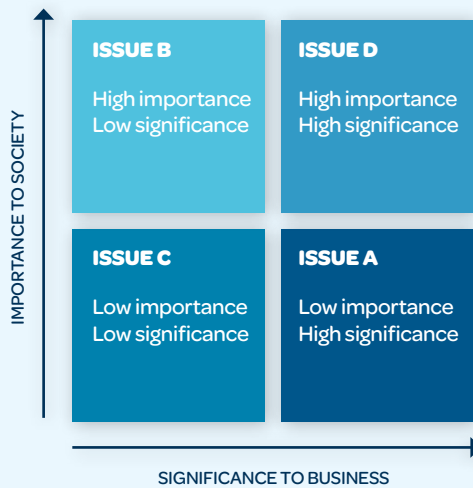
Sensitivity and professional judgment is needed to amalgamate, weight and interpret research findings for each issue from different perspectives. An important output from this stage is a pair of scores for each issue which may be plotted as co-ordinates against the vertical and horizontal axes of a materiality matrix.



The key format for presenting materiality assessment is the materiality matrix. These will differ in size, complexity and sophistication. Best practice reporters seek out additional value through

adding a third dimension (axis) to their matrices, such as significance over time, stakeholder segmentation or communications approach (as in Fig. 3 over the page).

Figure 2: A Materiality Matrix



## Using Materiality Assessments in Reporting

Corporate Citizenship's clients regularly use materiality in sustainability reporting to:

**Make sure** reporting keeps up with the wider stakeholder agenda.

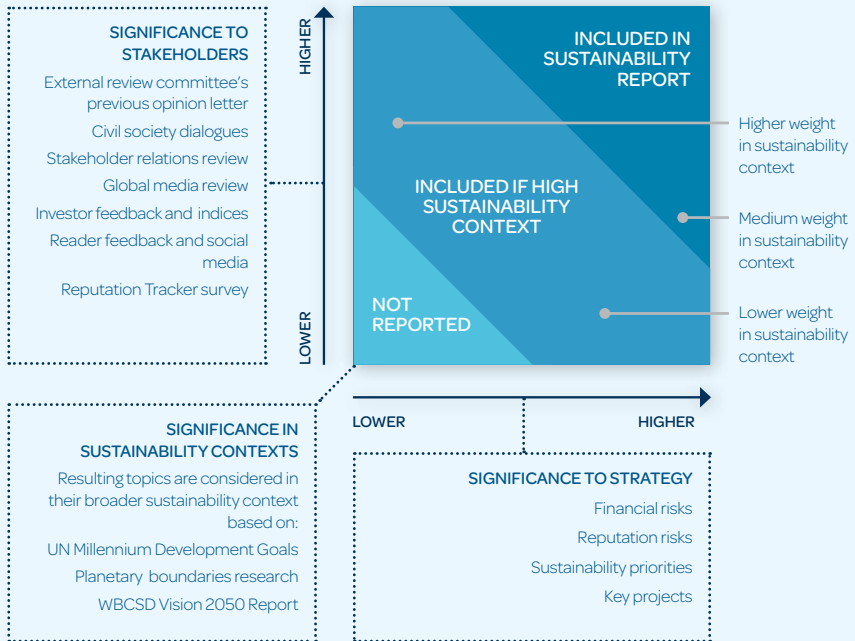
**Demonstrate** that stakeholder opinions on all aspects of reporting are considered and used in a responsive way to build alignment with stakeholder needs.

**Refine** reporting and optimise resource inputs so that reporting outputs are as efficient and effective as possible.

**Establish** integrated suites of communications, matching issues with stakeholders using the appropriate media.

**Demonstrate** compliance with national and international legislation, listing requirements and the Global Reporting Initiative (GRI) G4 Guidelines.

**Figure 3: Using Materiality Assessment**



## Materiality and Standards

The importance of materiality in sustainability reporting has been underscored recently by the greater emphasis placed on it by the Global Reporting Initiative in its 2013 G4 Guidelines. The G4 requires that a materiality assessment is undertaken by the business to define which 'Specific

Standard Disclosures' and issues or 'aspects' it should report on. Materiality assessment is also an excellent approach to support decision making in territories as far apart as Denmark and India where 'report or explain' legislation or listing requirements require companies to report on sustainability issues.

## Taking the Next Steps

Take our materiality quick quiz to see how you could improve or call any of our offices for more specific advice on materiality and reporting.

### Checklist: How Good is Your Materiality Assessment?

1. Can you define who all your stakeholders are?
2. Can you define the method you used to identify your stakeholders?
3. Have these stakeholders been systematically engaged during the past two years?
4. Have you included the views of your most challenging stakeholders?
5. Have you defined the issues relevant to your business?
6. Have you reviewed where each issue impacts your value chain, subsidiaries and joint ventures?
7. Have you considered the risk from, or impact of your business?
8. Do you have a materiality matrix?
9. Have you compared issue significance to a single scale or baseline?
10. Have you linked your assessment approach to business benefits?

### Your Score

#### *Less than three ticks*

Lots of opportunity to get materiality working for you and your business. Making sure the link between materiality and the business case is well understood is a great place to start from.

#### *Four to six ticks*

Room for extending the usefulness of your materiality assessment. Increasing the granularity of assessment will build the robustness of your approach.

#### *Seven or more ticks*

You're a leader but there's no time for complacency. Regular updates and a watching brief on issues, stakeholder opinions and techniques can will help maintain your position.

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