



# White Paper – Materiality Explained

## **What is materiality?**

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A materiality process is used to identify and prioritize material (or most important) issues. In the context of sustainability reporting, these are the environmental, social and economic risks and opportunities that matter most to a business and its key stakeholders.

Materiality is fast becoming an essential component of any sustainability report, helped in part by the increased emphasis placed on material issues in the new G4 sustainability reporting guidelines from the Global Reporting Initiative (GRI).

However, the relevance of materiality extends beyond the GRI G4 guidelines and is a fundamentally valuable concept to help inform a company's strategic approach to sustainability and reporting. If done correctly, it ensures that there is both a focus on the most important issues as well as an open dialogue about them with stakeholders.

Ultimately, the World Business Council for Sustainable Development (WBCSD) believes that materiality can not only guide investment and resource allocation decisions, but is key to scaling up sustainable solutions.

## **But aren't all companies doing that already?**

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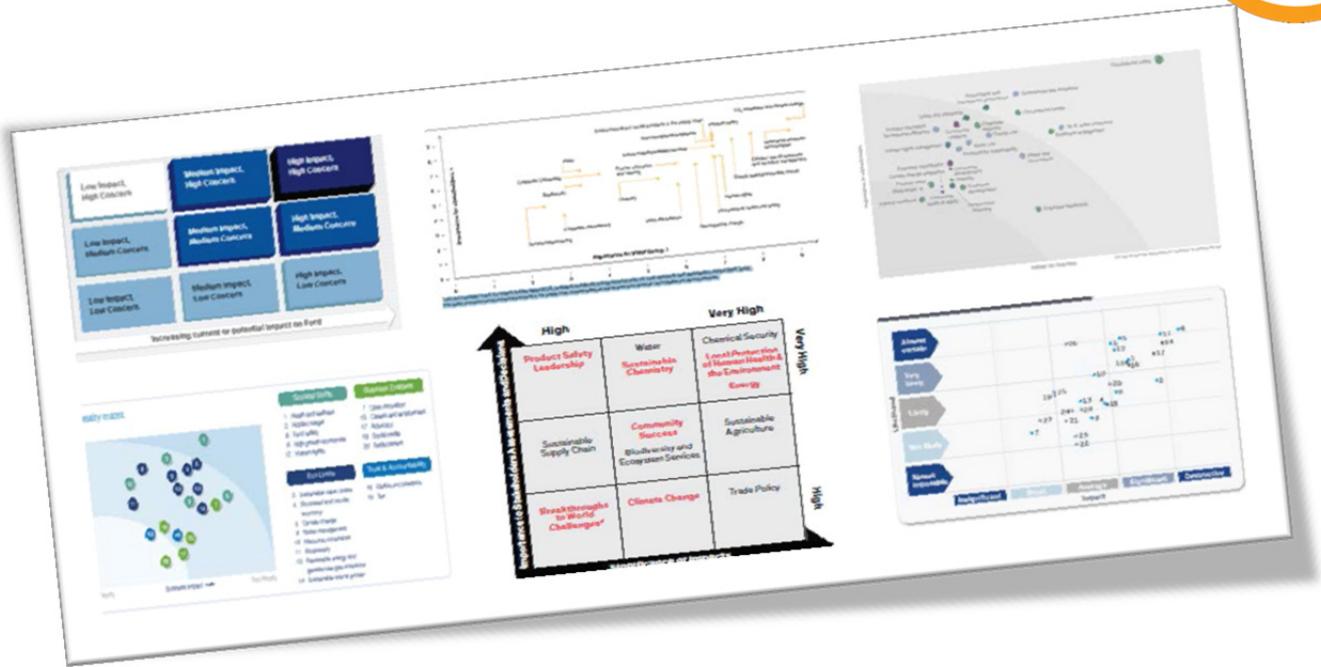
Although more and more companies are talking about materiality, relatively few are getting it right. Research by the WBCSD showed that less than 12% of all the reports of their 175 members limited their reporting to those sustainability issues considered to be material to the business, suggesting that most businesses are not using materiality as a way to make their reporting more concise.

Many businesses do not explicitly identify material issues but rather provide a generic list of sustainability issues that are in some way relevant. Often the process used to define material issues is rarely explained and, in some cases, material issues are derived based on what the business *thinks* its stakeholders would say, without actually going to the effort of asking them in person.

## **So what does a good materiality process look like?**

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According to the WBCSD, materiality best practice involves providing a clear description of the materiality process applied, including stakeholder involvement, as well as outcomes from this process. Furthermore, it includes visualisation of industry specific issues in a materiality matrix, which describes their relative importance for the business and its key stakeholders.



Example materiality matrices

All of this requires a materiality assessment to be undertaken prior to reporting; a process that will be new for many, is currently poorly understood and documented, and which involves several practical challenges that are yet to be widely debated. From our experience, it also requires a change in mindset when it comes to reporting. No longer can a business determine in advance the contents of its sustainability report. Instead, the contents evolve as a result of a dialogue between the company and its stakeholders. To many businesses, this level of uncertainty and stakeholder involvement is unnerving, and it means that it might be required to report on some issues that it would prefer not to.

But that, in a nutshell, sums up the true value of materiality. No longer can a business only report on good news. It must instead report on a set of mutually-agreed material issues, leading to a more engaging, focussed and balanced assessment of progress.

### How should I undertake a materiality assessment?

At IMS, we agree with GRI that selection of material issues must be a balance between issues that are **important to the business** and issues that are **important to stakeholders**. This dual perspective is crucial – it combines detailed internal intelligence about business strategy and priorities with external perspectives about wider sustainability impacts and opportunities.

The starting point is a long list of all sustainability issues that are relevant to the business, and hence potentially material. This list should additionally include issues that are relevant to the sector as a whole, as well as to the territories within which the business operates.



### **What do you mean by “important to my business”?**

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Issues that are important to the business are usually interpreted to mean those issues that the board or senior management perceive as most significant. These are likely to include issues that do or will have a significant financial impact on the business, as well as those issues that are seen as crucial to its future success.

From our experience at IMS, a workshop of key managers is usually the most effective way to understand the importance of these issues to a business, where interactive exercises and group discussion can be used to assess the relative importance of different issues.

### **How can I find out what issues are important to our stakeholders?**

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Much of the value of the materiality process comes from the spectrum of different perspectives provided by stakeholders. These would typically include both employees of your business as well as external stakeholder groups (e.g. suppliers, customers, partners, NGOs, regulators, investors, etc.). In our experience, stakeholders relish the opportunity to be able to engage with a business outside of usual business relationships.

However, the views of stakeholders will be many and varied, and without careful planning, a stakeholder engagement exercise could easily end up simply reflecting the views of those stakeholders that are most vocal or easiest to engage. Plus, of course, stakeholders are likely to be geographically diverse. One emerging solution is online engagement, which allows a large number of stakeholders to contribute their views, regardless of location, and gives each respondent an equal voice.

## **IMS Consulting’s Materiality Service**

### **How to analyse both the relevance *and* importance of material issues**

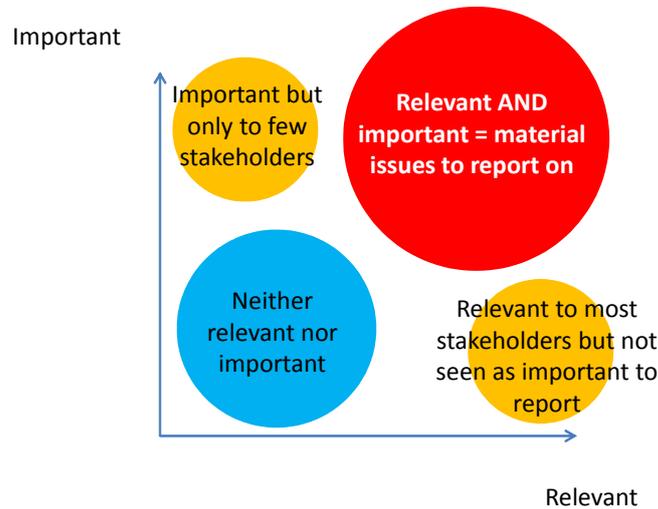
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Using our experience of materiality in practice, IMS Consulting has launched a materiality service that combines online consultation with an inbuilt statistical analysis to help businesses understand which issues matter most to their stakeholders. The main benefits of using the service are that it:

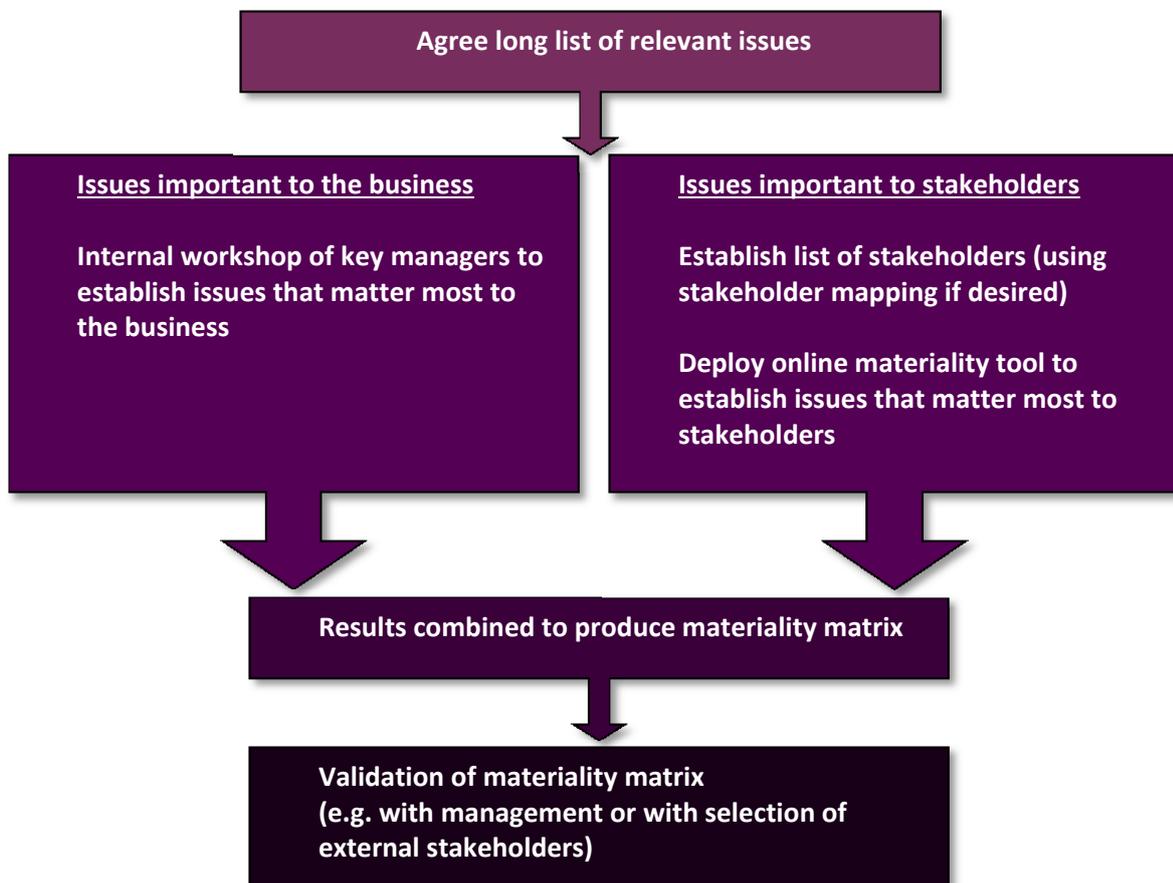
1. uses a standardised online consultation tool that is open to all (IMS’ StakeholderTALK);
2. is based on a tried and tested statistical analysis;
3. provides a simple output that allocates individual issues into groups that are more or less likely to be material to stakeholders; and
4. is complemented by the knowledgeable IMS team who can help extend the results or undertake further analysis.



The service uses a statistical method, developed based on our experience of conducting materiality assessments in practice. The assessment of material issues to stakeholders is based both on the number of stakeholders who identify a particular issue as relevant as well as the average importance score stakeholders assign to that issue. The combination of these two elements ((i.e. the red zone in the graph) determines which issues are most likely to be material to stakeholders.



### The process





### **Want to know more?**

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Visit:

<http://materiality.imsplc.com>

To find out more about best practice in materiality and the IMS Materiality Service options.

Contact one of our materiality consultants to arrange a FREE desk review of your organisation's current methodology and approach.

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