Enhancing the Value from the

With sustainability reporting now standard practice, this article explores how the sustainability reporting process can create business value, in particular through a robust materiality assessment.
The state of the art in sustainability reporting has evolved quite a bit over the years. In particular, there is better use of technology to manage data internally and share the content externally and more involvement of internal and external stakeholders in the design and development of the report—not to mention evolving standards, guidance documents, and external rating and ranking schemes to factor into the process. There is also an increased recognition by the companies themselves that, aside from the publication of the report itself, the process of developing it can create significant business value.

Creating Value

Part of what drives the value-added benefits from the reporting process is the formation of cross-functional teams, an increasingly common practice, that results in people getting to know each other and working together that previously haven’t been connected in a meaningful way. Another driver is the significant amount of stakeholder engagement that may happen during the report development process. Of course, a careful review of performance data across a range of environmental and socio-economic aspects that are core to sustainability reporting certainly raises the profile of those issues and any performance improvement opportunities. And since most sustainability reports typically have a CEO letter or some other articulation of the company’s sustainability strategy, we often find the reporting process helps drive a better definition and refinement of the sustainability strategy, and in a way that closely aligns with the needs of the business.

One of the key ways the reporting process can create real value is through the materiality assessment process. A robust materiality assessment not only provides the foundation for a credible sustainability report, it helps focus attention on issues with the greatest potential to impact business value, both positively and negatively.

Defining Materiality

According to the International Accounting Standards Board (the standard-setting body of the International Financial Reporting Standards Foundation), “Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.” This definition is focused primarily on providers of financial capital (e.g., investors, lenders). From a sustainability perspective, materiality is considered in a larger context, recognizing the interests of a much broader range of stakeholders (e.g., customers, communities, non-governmental organizations, suppliers, employees, etc.). The Global Reporting Initiative (GRI), publisher of the GRI Guidelines, the de facto international standard for sustainability reporting, defines material aspects as “those that reflect the organization’s significant economic, environmental and social impacts, or that would substantively influence the assessments and decisions of stakeholders.”

Stated simply, material issues or aspects are those that people do or should care most about. They differ by company and business context, but there are issues common to specific sectors. Earlier this year, GRI published a useful reference document, Sustainability Topics for Sectors: What Do Stakeholders Want to Know?, that lists out potentially material issues for approximately 50 different industry sectors.

Why the New Attention on Materiality?

The recently launched GRI G4 Guidelines place new focus on and expand requirements for materiality assessments. Instead of a company being able to limit its reporting boundary to its activities and operations, it must assess its environmental, social, and economic impacts across its entire value chain, both upstream and downstream. By focusing attention on the most important aspects both inside and outside of the organization’s fence line, the company will be able to develop strategies and...
marketing and sales, investor relations, procurement, and public affairs can be good proxies for the views of customers, investors, suppliers, and the community. While direct engagement is ideal, internal surveys can be an effective tool as well (especially if you want to engage a large number of stakeholders with only a modest level of effort).

Oftentimes, these individuals will provide fresh insights on what their most important external stakeholders are saying and asking. Moreover, conversations may not only lead to new insights, but also uncover potential solutions, such as ideas for more effective cross-functional collaboration, a list of potential new champions for innovative initiatives, and even the removal of some obstacles to existing initiatives.

The External Perspective

In the same way that dialogue with internal leaders can lead to significant insights, dialogue with external stakeholders can help companies understand the nature and extent of stakeholder concerns on an array of topics. By engaging key external stakeholders on their goals, needs, and concerns, companies gain information that can help them further their strategies to mitigate risks or identify business opportunities, while also strengthening relationships.

For example, conversations with supply chain partners can lead to a better understanding of the nature, extent, and regional profile of a company’s upstream environmental, social, and economic impacts, as well as provide a clearer picture of supplier capacity with regard to controlling and managing those impacts. Through this process, companies are able to proactively consider third-party burdens or benefits, which they would traditionally treat as externalities. Similarly, conversations with customers and other downstream stakeholders can lead to relationships with new businesses, partnership opportunities, or product/service innovations that may not otherwise surface.

Without this type of proactive engagement, organizations may only learn about or address issues as a response to an incident or negative attention such as media coverage or activist activities. This engagement-centered approach provides
organizations with a greater appreciation for externalities and may point to smarter, more cost-effective and more enduring ways of addressing them before they become a reputational or financial problem.

**A Practical Approach**

A typical materiality assessment process involves generating a long list of potentially material issues and then assessing them against some criteria to identify which are actually material. Ideally, this will involve desktop research (e.g., competitor benchmarking, media research, etc.), internal and external stakeholder engagement (as described above), a prioritization scheme, and workshops to collectively vet the outcomes. GRI provides some useful publicly-available guidance on this, including their well-known matrix for displaying the results (i.e., importance to stakeholders, importance to the business).

But what’s the best way to prioritize and rank potentially material aspects? Many different approaches are used and a careful review of sustainability reports will illustrate lots of examples. However, the prioritization must be an inclusive process that ensures a common sense approach and not blind application of a scoring scheme (ISO 14001 significant environmental aspects anyone?). This is most effectively done by engaging individuals across the organization. However, many functions are more accustomed to doing things for each other rather than with each other; they may not be used to or appreciate co-creation and co-ownership and that can be uncomfortable. But addressing some of some today’s challenging issues (e.g., supply chain performance, Scope 3 greenhouse gas emissions, life cycle-based product stewardship, ethical marketing) require that various functions collaborate to be successful.

**Summary**

Sustainability reporting has become standard practice in industry for various reasons, but, in part, as a response to drivers for transparency and to protect and enhance reputation with key stakeholders. Nevertheless, the process of developing these reports can create additional value along the way, in particular through a robust materiality assessment process. The GRI G4 Guidelines’ emphasis on the full value chain and requirements for disclosure of the material aspects has raised the bar and companies are responding by enhancing their materiality assessment processes. An inclusive and collaborative materiality assessment process by its nature helps get alignment on what the key issues are, while also providing opportunities for functional representatives to learn from and with each other. This inevitably leads to team members finding new opportunities to work together or challenge each other in productive ways to make the business more successful and sustainable.

**References**

1. International Accounting Standards Board. See www.ifrs.org.