

Sustainability Fundamentals: A Guide to Materiality in Sustainability

Overview

This guidance document introduces the concepts of materiality and stakeholder engagement and is meant for people within organisations involved with sustainability and sustainability reporting. It is a starting point for Sustainable Business Council (SBC) members who are beginning their journey to explore materiality and stakeholder engagement. This document includes key definitions, a suggested approach to the materiality process, an overview of materiality assessments and best practice examples to help bring it all to life.

There are great consultancies out there that support the work outlined within this document. This document was developed to provide an overview of the process and is not a substitute for utilising experts.

There are several key drivers for organisations to consider when exploring their material issues:

1. Identify long term opportunities and risks

Engaging in robust stakeholder materiality conversations enables organisations to identify long term risks and opportunities for these key stakeholder groups which may have been unknown to the organisation. Organisations can then begin to make long-term strategic plans to minimise risk, build resilience and enhance growth.

2. Enhanced stakeholder engagement

Stakeholders hold various environmental and social concerns relevant to organisations and are demanding greater involvement and knowledge of an organisation's sustainability practices. There are multiple benefits to organisations from engaging with stakeholders including building trust and commitment, enabling organisations to focus on communicating what matters most, improving mutual trust, enhancing relationships and growing a strong reputation with stakeholders through the materiality process. A well-executed materiality process prioritises stakeholder buy-in and creates a platform for ongoing dialogue. here

2. Support strategy development

Materiality supports the development of an organisations sustainability and business strategy to ensure it identifies the issues a business needs to address for an uncertain low carbon future – specifically issues which are material to all stakeholders. This connection between materiality and strategy enables businesses to better position themselves for long term success. If undertaken regularly, it is a useful measure to track the outcomes and effectiveness of the strategy and to incorporate new issues which arise over time as a strategy is delivered.

4. Shape relevant and useful reporting

Once materiality has informed strategy development, it can then be utilised to support the development of regular internal and external reporting to track progress.

SBC Membership & WBCSD Insights

Whilst materiality is not a requirement of SBC membership, reporting is a requirement of SBC membership, and materiality is a critical driver for developing relevant and useful reporting.

The World Business Council for Sustainable Development (WBCSD) have been tracking materiality progress of their members using their Reporting Matters criteria since 2019, including tracking the top 12 material issues across organisations. You can see an overview of 2022 top material issues [here](#) (pg 16). WBCSD's report shows that most members (98%) undertake materiality assessments, with most (86%) disclosing an overview of the process and publishing a matrix of results. Significant progress has been made from 2019 to embed materiality assessment outcomes into report content. This is increasing evidence of the trend globally to utilise and embed materiality assessments in organisation strategy and reporting.

A note before beginning the materiality journey, an organisation must be willing and gain executive agreement to utilise the insights to inform strategy development. If organisations are doing materiality as a tick box reporting exercise it is a costly and redundant process.

Now that you have heard some of the drivers to engage in materiality assessments, let's dive into understanding what materiality and materiality assessments are.



Materiality and Materiality Assessments: What are they and why are they important?

The Global Reporting Index (GRI) describes Material Issues as 'topics that represent an organisation's most significant impacts on the economy, environment and people.' ([GRI3: Material Topics, 2021](#)).

A materiality assessment is the process to identify, test and confirm material issues for an organisation.

The sustainability challenges businesses currently face are numerous, complex and interconnected. To tackle them, it has become essential to hold both material issues and financial performance in balance. As our member organisations continue their journey to embed sustainability, it's important for them to determine which sustainability areas to prioritise. The areas where action would create the biggest impact are those considered of high materiality.

Each firm's sustainability materiality is as unique and diverse as their sector, industry, stakeholders, markets, maturity, and the firms themselves. For an issue or factor to be material, it must *simply be relevant or significant*.

To determine what is material, organisations engage in *materiality assessments*, which assist them to narrow down and focus on sustainability issues that are uniquely material to them and are most likely to impact the business and therefore need to drive decision-making. Materiality assessments help to identify what is important in terms of strategy, performance, what the future is likely to bring, and social and environmental commitments. The material issues identified through materiality assessments then support strategy development and the shaping of content (issues) for reporting.



Stakeholder Engagement Best Practice

Engaging well with stakeholders enables you to find out what matters most to those people and organisations interested in your company – it also helps you understand how the issues affect stakeholders' decision-making and what they believe you need to address to be successful in the future. These stakeholder insights underpin a good materiality process. By engaging genuinely and robustly with both internal and external stakeholders, an organisation can better position itself in the future, build trust, enhance relationships and focus on communicating what matters most.

Nikki Wright from Wright Communications shares her top tips for materiality assessments and stakeholder engagement with SBC members [here](#). These insights are important for multiple steps of the materiality process, which we will outline now.

Internal stakeholders could include; executives, business units, branch managers, employees, contractors.

External stakeholders could include; customers, suppliers, governmental agents, industrial boards, associations, unions, iwi, local community groups, youth groups.



The Steps of Stakeholder Engagement within the Materiality Process

Materiality assessments are complex, and the way in which each organisation approaches materiality will be unique. There are multiple methodologies for approaching materiality and no one best process to follow. For those beginning their materiality journey, it may be a good idea to work with a consultant, as they will have significant experience in sustainability and stakeholder engagement and can help codesign and deliver materiality assessments. The seven steps below are an example of an approach to materiality to demonstrate what is involved. The aim is to enable organisations to plan an approach to materiality which has the right resources, timeframes and support.



1. Identify and prioritise what you want to measure:

This step can come at different points in the materiality process. [Downer](#) goes through this as a first step to ‘develop the universe of potential material issues’ from which they then have a consolidated list of issues for review and discussion with stakeholders. For organisations completing this step early in the process, there are tools and mapping applications such as [SASB’s materiality finder](#) that can help to determine what is important for them. Media scanning and reviewing executive and board meeting agendas can also be done to build a picture of potential issues. For organisations who want to understand stakeholders’ broader issues, this step would occur later in the process alongside the materiality interviews, surveys and workshops.



2. Identify internal and external stakeholders:

Start by defining key stakeholder groups, ensuring that you are engaging with a broad range of stakeholders, as this will enable you to develop robust materiality insights. Once these groups are identified, narrow down potential key contacts for each group. Each key contact must be someone with perspective and relevant insights towards your firm’s strategy and sustainability goals. Utilising this information to develop a communications/engagement plan can be useful for planning and tracking your stakeholder engagement. You can see an example list of stakeholders and methods of engagement from [Downer here](#).

3. Set up preliminary outreach to all stakeholders:

There are two elements to consider in this outreach step: content and medium. Initial communication should include information about why your organisation is carrying out this work, why the person’s insights are important, what will be involved in the process, and timeframes. How you reach out to stakeholders is important, and it might be different for different stakeholder groups. Lastly, think about who is best within your organisation to connect with the stakeholders, as the people carrying out the materiality process may not be the best initial contact point.



4. Organise the materiality assessment:

We will provide an overview of three mechanisms for materiality assessment: surveys, one-on-one conversations and workshops. Organisations can choose one method or a mix of all three, but asking the same questions is important to ensure comparability.

- a. **Survey:** the format should be formal, structured and targeted to material issues identified in step 1. [Here](#) is a materiality survey template. Surveys utilise scales to help understand prioritisation of issues (example: 1 to 10 or highly unlikely to most likely).
- b. **One-on-one conversations and workshops:** these can be formal or informal, depending on who the stakeholder is and how you want to structure the conversation. The session should be facilitated to ensure you obtain meaningful insights – utilising external facilitation enables frank sharing from stakeholders. Whilst conversations and workshops can provide a greater depth of answers, it can be harder to understand priorities and trends across issues, so ensure that you structure these conversations and workshops to understand participants priorities for top issues. You could consider utilising a scale like the survey questions to support comparability.



5. Launch the materiality assessment & collect information: Now that your stakeholders have been engaged and materiality assessment developed, it's time to launch the assessment and collect the information:

- a. **Surveys:** if you have set up a survey instrument for materiality, invite identified stakeholders to complete it. Set up a link to the survey, give them a contact person within the organisation to approach for questions or queries and provide a deadline to complete the survey. Always check their willingness to participate and, if necessary, have them accept this willingness on the survey instrument. Closer to your survey's deadline, send participants a reminder to complete. If you are only completing a survey and no workshops, you might want to include it in the communication outlined in step 3.
- b. **Workshops and conversations:** make sure that you have enough support in these sessions to capture all the insights. Making people feel comfortable is important to ensure you get the greatest value from their insights. We recommend setting the context for the conversation up front (similar to the content of your original communication) and take time to build rapport. We suggest recording the session. Ensure you have permission for recording and participants understand how the recording will be used. There are great consultancies out there that can help you with materiality and materiality workshops.



6. Analyse information and create insights:

Once your surveys, conversations and workshops are completed, you will have raw data that outlines what issues are most material to your stakeholders. This raw data needs to be analysed to create meaningful insights. A materiality matrix is a common insights tool that allows visualisation of interests and engagements of stakeholder groups (see an example below). A materiality matrix plots issues into quadrants, between 'importance to stakeholders' on one axis and 'importance to firm' on the other axis. Check out NZ Post's materiality matrix [here](#) they focused on the top 8 material issues.

Table 1 Materiality Matrix

Important to Stakeholders	QUADRANT 1 (high importance to stakeholders, low importance to business)	QUADRANT 2 (high importance to stakeholders, and business)
	QUADRANT 3 (low importance to stakeholders and business)	QUADRANT 4 (low importance to stakeholders, high importance to business)
	Important to Organisation	



7. Turn insights into actionable outcomes:

The next step to actioning materiality insights is to share the results with stakeholders, the public and other interested parties, for strategy development and to identify long term opportunities and risks. Communicating your findings and seeking feedback becomes the backbone of initiating further conversations and maintaining engagement and momentum. It is also important to reflect on how to integrate the resulting insight outputs into governance, risk management, decision-making, planning and reporting. NZ Post share how they integrated materiality insights into their [organisation](#) in conjunction with their rebranding and strategic vision. You can see materiality issues embedded throughout their [Integrated Report](#). Remember that the materiality process is not something that is completed once, but instead requires semi-regular reengagement with stakeholders to ensure the priorities identified remain true. It is suggested that materiality should reviewed every 12-24 months. Ensure this is embedded into your planning early. Global events can change materiality for some organisations – for example, COVID-19 had a significant impact on Ports of Auckland's material issues because of supply chain disruptions.

Top tips on materiality, materiality assessments and stakeholder engagement

- **Focus on the process:** Try to take in the journey and learning that comes from the process rather than solely focusing on the final reporting cycle. [This webinar](#) by thinkstep-anz and Waste Management- Materiality: Connecting the dots provides useful insights.
- **Choose to be transparent and authentic:** At the end of the day, your organisation's material issues, materiality and stakeholder pool are as unique as you. Be open and honest about your sustainability activities and initiatives. Let the focus be on transparent communication of results and learning for a sustainable future.
- **Be specific about material issues and materiality:** Often companies are generic and ambiguous with their materiality issues. This narrows the scope of the insights that can be gained from stakeholders, as they may not always understand what the materiality issues listed for prioritising are and/or how they impact them.
- **Remember that quality data is hard to find:** Remember that good quality data is hard to come by. Prioritise what you are looking for, align the search to your organisation's strategy and use the opportunity to set up data mechanisms for clarity and consistency.
- **Remember materiality isn't a box ticking exercise:** To support meaningful materiality assessment, organisations must be clear on how issues relate to their value chain and strategy. Materiality is an important part of telling the value creation strategy.
- **Prioritise stakeholder engagement:** How you engage with your stakeholders will help to ensure you obtain useful insights in your materiality assessments. Think about your stakeholder experience as you plan your materiality process. Consider the use of experts in evaluating material issues.
- **Beware of the challenges of materiality:** Materiality isn't easy. WBCSD provide some useful information about the challenges of materiality in their document 'The reality of materiality' found [here](#).

Integrate sustainability and enterprise risk management: Evidence shows that there is limited connectivity between material sustainability topics and enterprise risks (WBCSD, 2016). Understand that this is a risk of materiality and work to structure your approach to enable greater connection between insights and organisational risks.



The Evolution of Materiality

The process above is a useful overview of a standard approach to materiality focused on current stakeholders and immediate issues organisations have. However, we are seeing an evolution within materiality – firstly, there has been a shift away from 'assessing ESG issues based on perceived importance and towards understanding their impact on the business and externally' (WBCSD, 2022). This speaks to the concept of double materiality which takes materiality one step further to include not only how material issues impact a company but also vice versa. Secondly, organisations are focusing more on the component within GRI's definition of materiality which emphasised the need to consider economic, environmental, and social impacts **within the context of the needs of future generations**. To consider future generations, an organisation would need to bring a longer time horizon into stakeholder materiality conversations and utilise advancing scientific research around the state of natural, social and financial capital across various time horizons – and as you might imagine, this can be tricky.

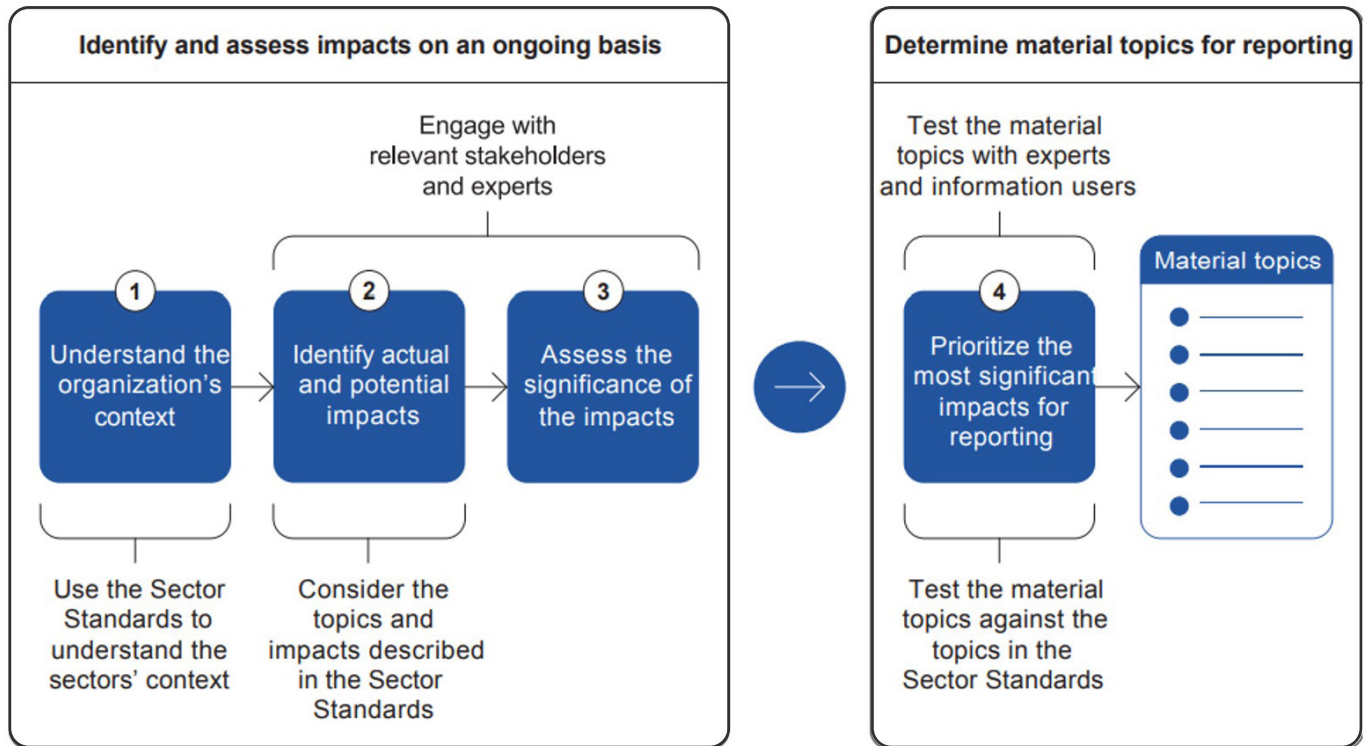
[Waste Management](#) included five high school students in their 2018 materiality process to capture the voice of the next generation. Adam Weller Sustainability Manager for Waste Management said the following about this work:

"The Manurewa High School students provided a unique and important perspective on what a future waste company should look like, such as recycling education and activities which engage youth and are 'made to be fun, useful, relevant and targeted towards young people'. All of this helped formed Waste Management's Sustainability Strategy Goals and actions, such as the Kiki the Kiwi kids book on recycling we produced alongside Keep NZ Beautiful – and which we purchased to put in every primary and intermediate school throughout Aotearoa."

Because it can be tricky to harness the opportunity to engage with future voices, another approach is to utilise resources which outline various anticipated future scenarios to engage stakeholders and gain an understanding of their issues and views for themselves within those scenarios.

In 2021 GRI provided new guidance on materiality and material topics. The four-step process (below) provides a useful overview of how GRI suggest approaching the identification of material topics, their impact and prioritisation within an organisation. You can see a full overview of GRI's guidance [here](#).

Figure 2: Process to determine material topics



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