

# MATERIALITY ASSESSMENT GUIDE



## INTRODUCTION

A materiality assessment aims to gauge the importance of specific sustainability issues to both your business and your stakeholders, with the intention of providing key insights to guide company strategy and communication. Regulations such as the <a href="European Directive on non-financial reporting">European Directive on non-financial reporting</a>, are leading companies to consider what non-financial information matters most to their stakeholders, and what they should report on.

### A materiality assessment can:

- Ensure organisations are prioritising issues that matter most to stakeholders, and reporting on them accordingly.
- Help businesses to identify new trends on the horizon.
- Allow businesses to take advantage of new opportunities.
- Help to identify where a company is creating or reducing value for society.

## WHAT IS "MATERIALITY"?

Materiality is a measure of how important a piece of information is when making a decision. When we think about "what is material" in terms of sustainability factors for a business, what we really mean is: what matters most, and how important are these issues to stakeholders?

**Example**: The issue of food waste may be important, or "material", to a chain of restaurants, but not at all material to a sportswear manufacturer. This doesn't mean the topic of food waste is not important for businesses in any sector to consider. Most businesses are responsible for some food waste as part of their general waste, even in small quantities, so encouraging employees to reduce food waste still remains of value across all industries. It is not likely to be "material", however, to businesses that do not supply, produce or serve food and beverages.

### **DOUBLE MATERIALITY**

Double materiality is a concept in sustainability reporting that recognises the interconnectedness of financial and non-financial factors. It emphasises that a company's sustainability performance can significantly impact its financial performance, and vice versa. Double materiality is one of the most important principles introduced by the Corporate Sustainability Reporting Directive (CSRD):

**Financial materiality:** Refers to the impact of sustainability factors, such as climate change, resource depletion, or human rights violations, on a company's financial performance (an outside-in perspective).

**Impact materiality:** Refers to the impact of a company's operations and activities on the environment and society (an inside-out perspective).



# HOW TO CONDUCT A MATERIALITY ASSESSMENT

Materiality assessments are an essential practice for organisations seeking to identify and manage the sustainability topics that matter most to their business and stakeholders. There is no standard way to conduct a materiality assessment. Your approach will depend on the types of information you want to gather as well as your industry. Generally the process follow the following steps:

#### 1. DEFINE YOUR OBJECTIVES AND SCOPE

Understand what you intend to achieve as an outcome of the materiality assessment. This may include identifying key Environmental, Social and Governance (ESG) risks and opportunities, refining sustainability strategy, or informing wider business strategy, among others.

Define the organisation boundaries, regions, entities and assets that will be included in the materiality assessment. For organisations spread across multiple regions and business units, prioritising core business processes and activities, or activities with the most significant environmental or social impact, is key.

#### 2. IDENTIFY MATERIAL TOPICS

Compile a list of potential topics. If you're not sure where to start, <u>FutureInsights</u> is a free-to-use tool that provides suggestions for material topics based on your company size, sector and geography. The FuturePlus team is also happy to help: <u>info@future-plus.co.uk</u>.

Review different sources such as media reports, internal data and financial reports, as well as researching relevant industry trends, best practices, and regulatory developments. Ensure the list of topics is compiled in consultation with relevant individuals beyond the sustainability team, e.g. senior management and other employees, as well as relevant external stakeholders.

#### 3. IDENTIFY STAKEHOLDERS TO SURVEY

Prioritise stakeholder engagement by identifying stakeholders with the greatest influence on your business and those most significantly impacted by your business activities. By actively seeking input from both internal and external stakeholders, you can uncover critical priorities that may not be apparent to business leaders.

This two-way consideration of impact ensures a comprehensive understanding of stakeholder needs and perspectives, leading to more informed and sustainable business decisions.



#### 4. CONDUCT THE ASSESSMENT

The assessment itself usually takes place in the form of a survey, requesting selected stakeholders to rate or rank the range of topics you have chosen in the order of importance to them.

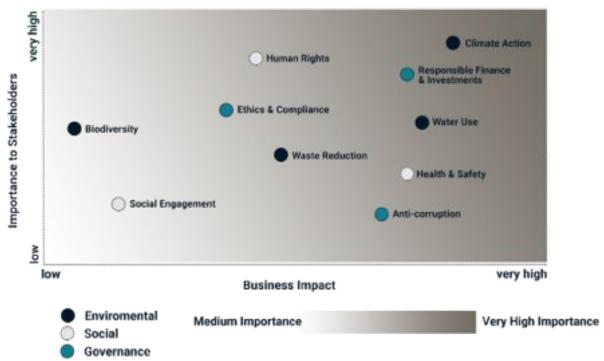
At the same time, evaluate and rank the significance of the same ESG topics to the company by assessing actual and potential impacts. Consider how each topic influences:

- The successful execution of the company's strategic objectives.
- The management of current and emerging risks.
- The pursuit of new market opportunities.
- The development of innovative products and services.

#### 5. PLOT YOUR FINDINGS

Once your own analysis is complete, you can combine your findings with the stakeholder survey results, plotting them onto a materiality matrix. We have provided an example of what this might typically look like below.

The x-axis shows the priorities of the business. The y-axis shows the priorities of the surveyed stakeholders. Topics that appear in the upper right corner of the matrix are the most important for both you and your stakeholders, and should therefore be considered the most pertinent material sustainability issues to integrate into your sustainability strategy and reporting.





## **CHALLENGES**

Materiality assessments can be resource-intensive, requiring significant time and effort. Effectively addressing these challenges can lead to more meaningful and impactful sustainability outcomes.

#### **BUSINESS ISOLATION**

To maximise the value of the assessment, it is crucial to foster cross-functional collaboration. Involve representatives from diverse departments, including operations, finance, legal, and human resources, to ensure a holistic understanding of material issues.

#### LACK OF BUY-IN

**From senior management:** Actively engage senior management throughout the assessment process. Clearly communicate the business benefits of the materiality assessment, such as identifying and mitigating risks, enhancing reputation, and unlocking new opportunities.

**From other stakeholders:** The success of a materiality assessment is dependent on receiving sufficient responses from surveyed stakeholders. Clearly communicate the purpose of the assessment, tailoring your communications and outreach.

#### **OVERABUNDANCE OF MATERIAL TOPICS**

Avoid an overly extensive list of material topics. Prioritise the most relevant topics, based on their significance to the company's strategic objectives and stakeholder expectations.

## **NEED MORE HELP?**

This guide aims to provide an overview of the materiality assessment process, which can be complex. We offer consultancy services if you would like more comprehensive and tailored support with undertaking a materiality or a double materially assessment.

Please let us know if you would like more information: <a href="mailto:info@future-plus.co.uk">info@future-plus.co.uk</a>.

