Journey to Materiality

A guide to achieve corporate goals by applying materiality to environmental, social and governance issues

Future Leaders Program 2014

Enabling tomorrow's sustainability business leaders

wbcsd future leaders

FUTURE LEADERS PROGRAM

"The Future Leaders Program is an unparalleled learning experience for managers of WBCSD member companies. They have the opportunity to understand the benefits of integrating sustainability issues into the day-to-day business decisions and to develop a high-potential and high-performing international professional network. Sustainability is a complex subject in some cases, and it is therefore crucial for multinational companies to collaborate, enriching their work with other companies' experiences.

This year's program was about "Bridging the Capitals – Accounting for Natural & Social Capital in Business Decision Making" since understanding and accounting for natural and social capital has become critical in order for business to be successful and sustainable.
The following report reflects this project team's learning experience and work. It is not the work of experts or consultants.

The project team members from Sonae, Italcementi, Accenture, Siemens, EY and Solvay took this opportunity to engage with key people across functions and geographies within their companies. In doing so, they have deepened their understanding of common challenges – across sectors – and shared best practices. Above all, they experienced what is recommended here: engaging people on sustainability issues. We are convinced that they brought back valuable knowledge and information to their jobs.

Congratulations to Sofia Altmann, Giulia del Cane, Pablo Garate, Dirk Grund, Anne Munaretto, Teddy Roche and to all participants of the Future Leaders Program 2014."

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EXECUTIVE SUMMARY

This publication aims to come up with a new company-centric methodology to help WBCSD companies define materiality. The audience for this report is sustainability department leaders, to provide guidance and talking points for discussion with the C-suite and other functions. This proposal is in response to our increasing awareness of roadblocks companies face in defining materiality, which is an important step on the pathway to integrated performance management and reporting.

The proposal offers different views, a definition, and a methodology on a subject that currently, due to the variety of stakeholders and their expectations, meets a pressing need for guidance and assistance. Our proposal aims to enable the global business community to create a sustainable future for business, society and the environment.

For the purposes of this report, the team reviewed the findings from a detailed analysis of WBCSD's 2013 Reporting Matters project and does not refer to any other documentation on materiality in detail.

1. Introduction

Why is materiality such a hot topic when we talk about sustainability?

Many companies are developing sustainability programs and publishing annual sustainability reports, or integrated reports, all of which increasingly cover major sustainability trends. But in WBCSD's 2013 publication "Reporting Matters," which analyzed 175 sustainability reports by member companies, including on materiality, only 21 companies, or less than 12%, limited their reporting to sustainability issues considered material to the business

"Reporting Matters" found the average length of a stand-alone sustainability PDF report was about 100 pages and included a huge number of sustainability indicators beyond material topics. Finding the material information was difficult. For these reasons, this report provides suggestions for how to better apply the concept of materiality to improve sustainability performance management Wand sustainability reporting.

Materiality is a major sustainability trend. It is about being more concise, and tightening the focus on what is important to the business and to stakeholders. By taking into account different stakeholder perspectives, and clearly identifying material issues, companies will limit their reporting to criteria that help readers understand what could positively or negatively influence the organisation's capacity to deliver on its strategy and serve its stakeholders.

The purpose of a materiality analysis is four-fold:

1. Aligning sustainability strategy with corporate strategy
2. Identifying and prioritizing business opportunities
3. Improving decision making processes by incorporating key sustainability criteria
4. Reporting relevant information concisely

Due to the role materiality plays in enterprise macro- and micro-level issues, the sustainability report must disclose the materiality process for greater transparency and to help the company and its stakeholders focus on the material issues.

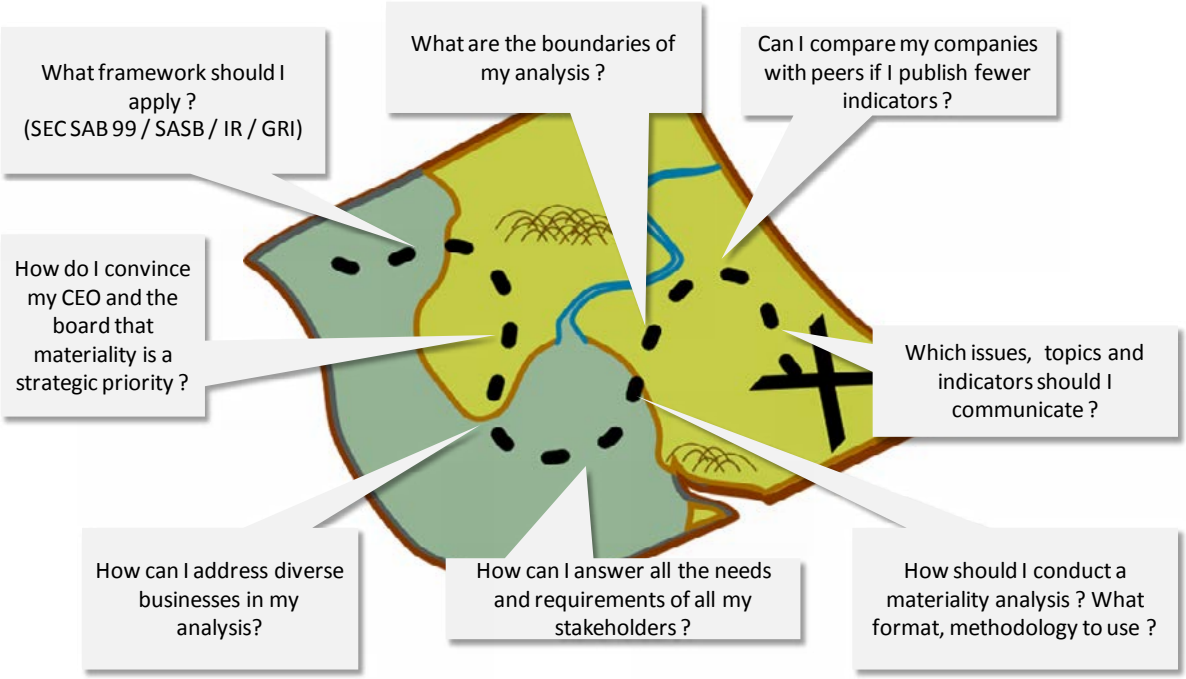
2. Six roadblocks to materiality

To identify the most significant environmental, social and governance (ESG) risks and opportunities, a company uses strategies such as stakeholder engagement or materiality assessment. Both approaches are essential components of any sustainability report. If used effectively, they can help focus a company's strategic approach beyond reporting and into embedding sustainability in operations.

A materiality assessment helps companies produce a report that is concise and focused only on key topics, with standardized and aligned metrics, that clearly describe the objectives and the performance of the organization to its stakeholders.

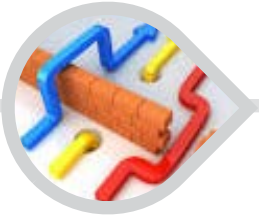
Although in accounting it is a mature concept, materiality has only recently been applied to ESG management and reporting. Roadblocks on the journey to ESG application have made the ride bumpy at times, which is why in the Reporting Matters analysis so few companies reported only on material issues (see results from WBCSD's 2013 "Reporting Matters").

The Journey to Materiality – a few roadblocks on the way



Definition

Sustainability reporting uses many definitions of materiality, sewing confusion.



Processes

Processes are a la carte, a structured methodology is needed.

Boundaries

Should I limit the analysis to legally owned entities, or include joint ventures? Should I include the entire value chain? What is my end marker?

Communication

What do we communicate externally, and how do we communicated it – through an integrated report? On the Internet? There are too many indicators.

Organization

How well-equipped is the company to conduct the analysis? How far along is the organization – has it integrated social, environmental, and governance capital into decision making? Do departments work in silos on the analysis?

Geographical Scope

Local or global?

2.1 Definition

Definition

Sustainability reporting uses many definitions of materiality, sewing confusion.

Materiality is important to all sustainability reporting standards, frameworks and guidelines. All actors in sustainable development reporting, such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and integrated reporting frameworks, are concerned with materiality and publish their own definitions of it (see graphic **below**).

Each organization defines materiality to suit the purpose and objectives of its reporting framework. These varying definitions pose the dilemma for companies performing a materiality analysis of which definition to choose. The most common reason why these definitions diverge is they focus on different groups of stakeholders.

For example, the G4 Global Sustainability Guidelines comprise all stakeholders, while SASB focuses on investors. Despite this, all definitions target the same outcome: identify what is most important to do and to report.

Until you know who the user is and what the user's needs are, it is hard to develop a single definition of materiality. Without this, these definitions are incompatible with and confusing to a company implementing a materiality analysis.

In **sections 3.1 and 3.2**, we propose a single definition and methods to identify and work with the report's user.

What is Material?

SEC SAB 99

- A matter is material if there is a substantial likelihood that a reasonable person … relying upon the report would have been changed or influenced by the inclusion or correction of the item … financial management and the auditor must consider both "qualitative" and "quantitative" factors in assessing an item's materiality

SASB

US Supreme Court definition of material information

- Presenting a substantial likelihood that the disclosure of the omitted fact would have viewed by the reasonable investor has having a significantly altered the "total mix" of information made available
- (TSC Indus v Northway Inc. 426 US 438 (1976))

GRI G4

- Material aspects are those that reflect the organisations significant economic, environmental and social impacts: or substantively influence the assessments and decisions of stakeholders

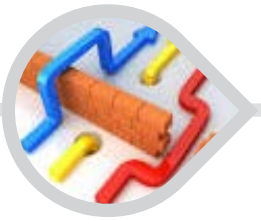
Integrated Reporting <IR>

- A matter is material if it is of such relevance and importance that **it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value** over the short, medium and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals it uses or affects.

wbcsd redefining value

Source = Based on information available on following websites (www.sec.gov / www.globalreporting.org / www.sasb.org / www.theiirc.org) originally presented by Deloitte at a SASB Delta Series event in New York, October 2013

2.2 Processes



Processes

Processes are a la carte, a structured methodology is needed.

The second roadblock for a company is that no official materiality procedure exists. So a company has to design its own process, tools and format. Current published guidance is "a la carte", providing direction only on some areas of the process.

The consequences from a lack of such a standard procedure are two-fold: First, processes vary from company to company; there are issues of interpretation for several processes, and a company may have limited resources to sort them out.

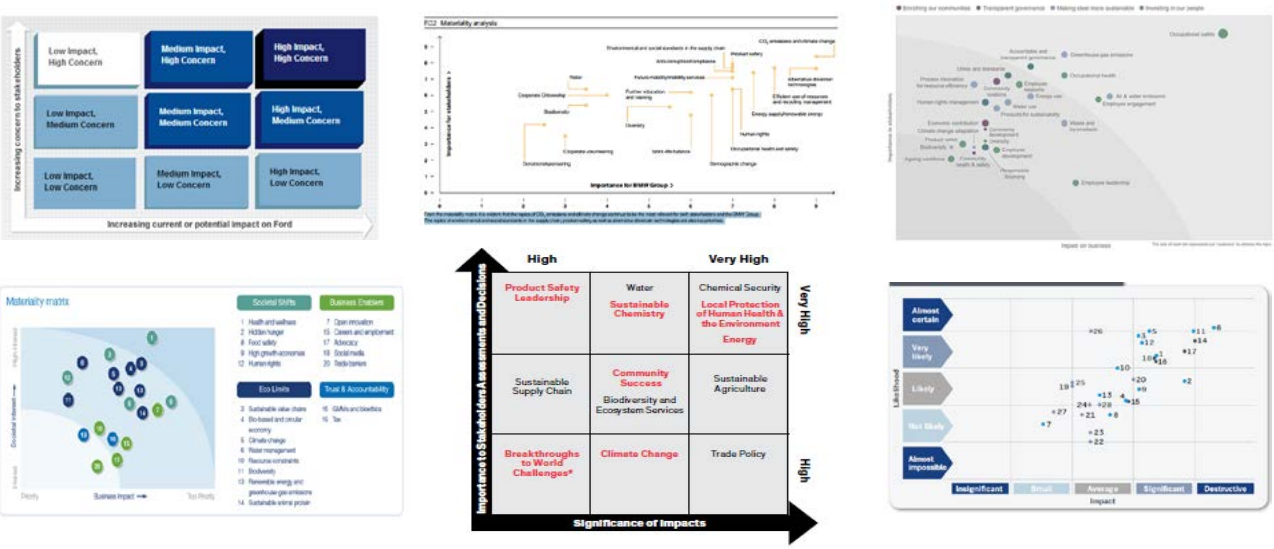
To illustrate, consider the materiality matrix formats in publication (see graphic **below**) :

- Shapes used for the matrixes are squares, bubbles, and others forms
- Scales for the horizontal and vertical axis of the matrices can be low, medium, or high, or expressed numerically
- Definitions of each item included in the matrix are precise or generic
- Topics to be covered in the report are highlighted or not in the matrix

An end-to-end solution is needed, that can be adapted to stakeholder needs with key steps, minimum requirements, vital information and consistent formats. The information must be validated by a third party, such as by external audit or quality assurance departments, to guarantee the company's process and published materiality matrix are robust.

We propose the main components of the solution to this roadblock in **Section 3.2.**

Our journey to Materiality…. Materiality matrix formats



Source: materiality matrixes of companies published on their websites

2.3 Boundaries

Boundaries

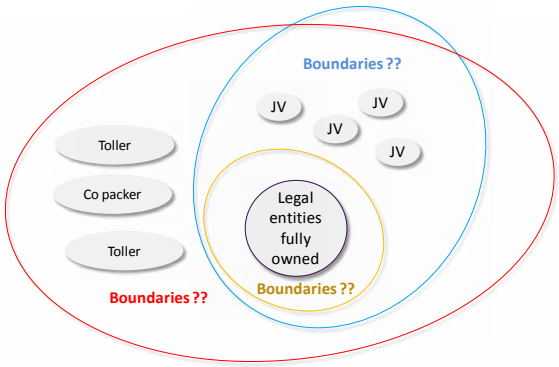
Should I limit the analysis to legally owned entities, or include joint ventures? Should I include the entire value chain? What is my end marker?

A company often does not know where to set the boundary markers of its business for materiality analysis. The word boundary here refers to those issues to include in the materiality process, based on where impacts occur from each issue. For each issue identified (sometimes referred to as an aspect), the impacts can occur inside or outside the organization. For example, child labor practices at a major supplier could be a risk if suppliers fall within the boundary that has been set. But if the boundary is legal entities only, this would fall out of range. Many companies are grappling with where to lay boundaries and are not sure where their materiality analysis should end.

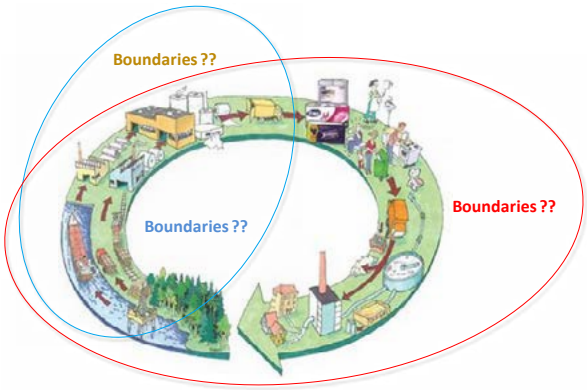
Should the boundary be broadened or limited?
i) Extended to joint ventures and subsidiaries, or restricted to fully-controlled entities?

ii) Should impacts across the value chain be included?

Our journey to Materiality…. Materiality and boundaries (legal organization)



Our journey to Materiality…. Materiality and boundaries (supply chain)



A company needs to set its own boundaries to better serve the purpose of the report and the needs of the report's user. If the objective of a corporate report is to inform readers of the company's impacts on the world, by definition the company will include issues outside the legal boundary. In contrast to ESG boundaries, the reason financial reporting boundaries are so clear and tightly drawn is because the objective is to limit companies from counting profits other than their own, such as the profits of suppliers. With ESG issues, much of the onus lies with high-profile B2B or branded B2C companies, and stakeholders see it as the responsibility of these firms to assess their impacts along the entire value chain.
Greater clarity on boundary-setting is crucial since the outcome of a materiality analysis depends on where a company draws these lines. Financial reporting has clear boundaries linked to legal parameters. But non-financial reporting is increasingly documenting impacts across the value chain, since these impacts are much bigger than impacts falling within legal boundaries.

Our proposal on boundaries is found in **section 3.2.1.1.**

2.4 Communication

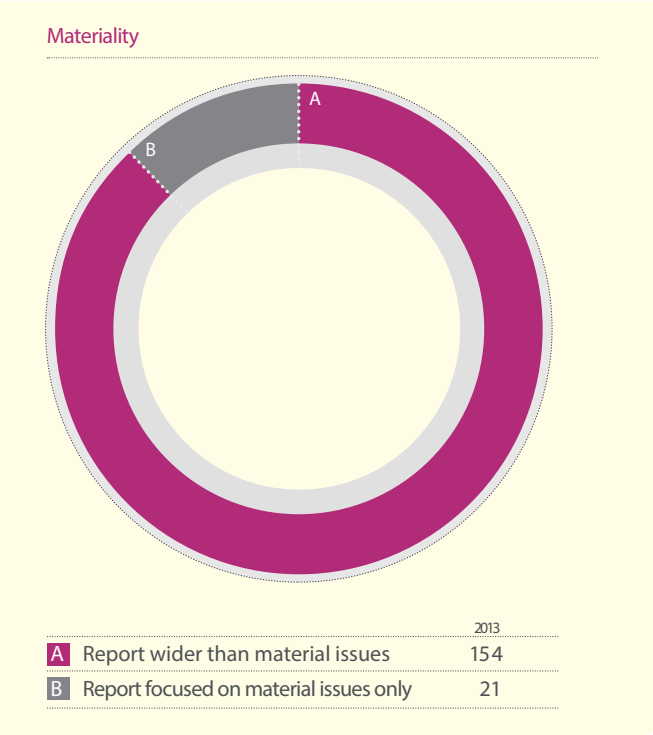
Communication

What do we communicate externally, and how do we communicated it – through an integrated report? On the Internet? There are too many indicators.

How and what to communicate from a materiality analysis externally is a problem for many companies. Some companies conduct the analysis internally to create the materiality matrix, but do not disclose it. Others publish a matrix and communicate performance on non-material topics in their sustainability report.

There are no clear rules about communication once you have completed the process of materiality analysis. Should the annual sustainability report focus only on material issues? Should companies treat non-material topics, or include them in ad hoc documents other than the annual sustainability report? Should companies publish more indicators than their competitors? Does a company risk too much exposure if it is the only one to publish its performance on a specific item? All companies are confronted with these questions, which may explain why only 21 out of 175 companies in the analysis of Reporting Matters limited their reporting to material issues.

Another communications challenge is that material issues common to a sector are not aligned, so it is complicated to make comparisons among peer companies. SASB is working to address this, and we expect integrated reporting to provide more guidance in the years ahead to help remove this roadblock.



Source = WBCSD – "Reporting Matters"

2.5 Organization

Organization

How well-equipped is the company to conduct the analysis? How far along is the organization – has it integrated social, environmental, and governance capital into decision making? Do departments work in silos on the analysis?

The application of materiality for ESG management and reporting is new, so many companies do not integrate the three kinds of capitals, financial, social and natural into their strategy or performance management process. Sustainability reporting is often seen as separate from company operations, the sole responsibility of the sustainability department. To engage the whole organization in the journey to materiality, and use this output to guide company strategy, the commitment of top management is paramount Silos must be broken down between sustainable development, leadership, and other functional teams.

The best way for a company to become engaged on materiality is to start the process. Begin the materiality journey and consult internal stakeholders along the way. In time, clearly communicate the business benefits of materiality. Read more about this in **section 3.1** of and the platform for addressing key material issues.

Our journey to Materiality…. Materiality and organization

Department SILO 1 | **Department SILO 2** | **Department SILO 3** | **Department SILO 4**

2.6 Geographic Scope

Geographical Scope

Local or global?

A company's diverse geographic footprint can act as another barrier on assessing materiality. This diversity adds complexity on what geographic approach the materiality matrix should cover: a local or global materiality matrix (see graphic **below**). Should material issues be set by the corporation as a whole or by geographical unit?

There are few clear pointers and guidance in applicable reporting guidelines, standards, and framework.
Approaches to geographic scope are discussed in **section 3.2.1.0.**

3. Proposal for a company-centric approach

3.1 Definition of materiality

Given WBCSD's mission to galvanize "the global business community to create a sustainable future for business, society and the environment," we propose a business-forward perspective to materiality. With this underlying principle, we suggest ways to overcome roadblocks, to empower an organization to use materiality as a strategic planning tool, with the ultimate goal of becoming a company that can create profit in perpetuity, i.e., long-term responsible profit.
To answer the question as to whether or not we can we create a single definition of materiality? Our view is yes:

Material issues threaten a company's ability to operate its business model and execute its strategy

This definition underlies many of the existing definitions of materiality, but with a business-forward focus: keeping long-term profit at the forefront of decision-making. The main questions to ask when considering whether or not an issue is material include:

Q
Does this issue really matter to your business?

Q
Why is this issue material to the company's providers of financial capital?

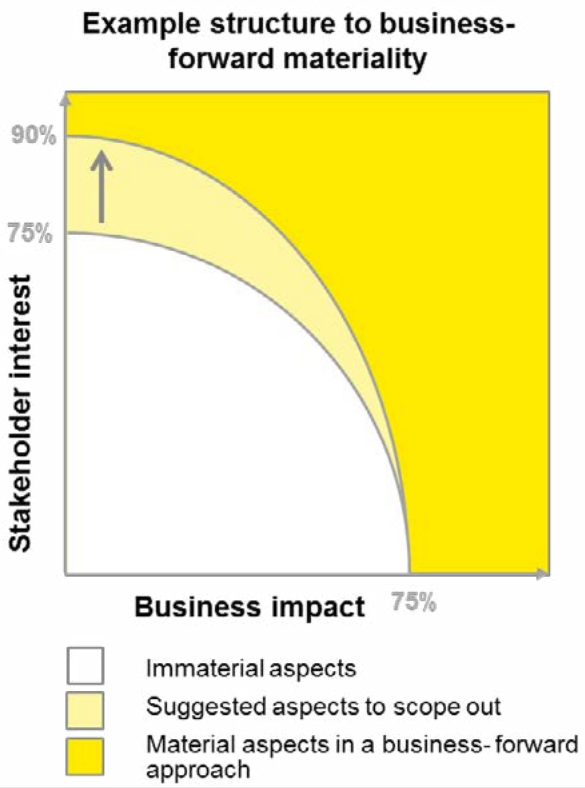
Q
Will focusing on this issue be accretive to the business strategy?

ESG factors are noticeably absent from this list. But our opinion is a company cannot generate profit in perpetuity without managing them. Focusing on long-term profit will streamline its handling of ESG factors. For example:

E Environment
If a company consumes natural resources faster than it replenishes them, it will lose its ability in the future to buy materials to generate revenue.

S Social
If a company follows exploitative labor practices, then it is likely that friends, relatives or concerned citizens of the labor contingent may also be employees, customers, shareholders, suppliers or other stakeholders. These key stakeholders will put up obstacles and constrain the company's ability to operate.

G Governance
If the company lacks values that hold it to a higher standard, eventually a lower standard will become modus operandi, and the competitive advantage used to create profits will dwindle.



Note: percentages included here for illustrative purposes only

Our approach involves making small changes to existing processes. For example, a current materiality assessment might give equal weight to stakeholders and business impact, but stakeholder views must be weighted in the context of business strategy. A business–forward materiality approach would give more weight to issues with greater business impact. The rationale for this shift is to put less emphasis on issues relevant to external stakeholders that may not be as relevant to the business, especially when materiality assessment is used as a strategic planning tool. Consider the approach, illustrated at left.

What Deploy a business forward approach to materiality as strategic planning tool

How Consider stakeholder input more narrowly but focus on business impact more broadly

Result Develop a strategy tied to the overall business strategy that will deliver business results while considering stakeholder input. The overall goal is to focus efforts on issues so the company can create long-term responsible profit.

3.2. A company-centric methodology for materiality analysis

In **sections 2.1 and 2.2**, we discussed that there were roadblocks for materiality related to definition and a la carte solutions. In **section 3.1**, we proposed a definition. But how should companies apply this definition? This section proposes a methodology to address the a la carte roadblock. Before beginning the materiality process, define your purpose. The following table summarizes three ways companies utilize materiality: reporting-focused, interaction-driven and strategically connected.

	1. Reporting-focused	2. Interaction-driven	3. Strategically connected
Materiality perspective	• Define reporting boundaries	• Specific risks and opportunities gathered from stakeholders	• Structured input for a variety of subsequent processes (communications, R&D)
Method of stakeholder collaboration	• One-directional stakeholder survey • Increased stakeholder collaboration, e.g. through web-based engagement throughout the year	• Bi-directional stakeholder involvement, expert workshops • Blogs or other web-based communication • Sustainability day	• Continuous development of sustainability management • Internal process to connect priority issues with corporate strategy
Time frame	• Past	• Present • Direct communication	• Forward looking
Strategic connection	• Ex-post facto plausibility check of strategic direction • Connection to given targets, if applicable	• Continuous development of sustainability management • Issue-based connect to further organizational units	• Established internal process to connect priority issues with corporate strategy & business units • Basis for target development • Sustainability valuation
Level of effort	• Low to mid	• Mid	• Mid to high

The proposed methodology below pools the best practices of WBCSD member companies. It is intended to be flexible and easy for any company to adapt to suit its challenges.
Applying this company-centric methodology will increase business impact, make sustainability initiatives more effective and further a company's objectives:

1. Identify and prioritize sustainability issues that have an impact on the business and company stakeholders
2. Connect strategically with corporate strategy, to prioritize key value drivers for improving decision-making processes and ultimately for maximizing results
3. Determine issues covered by the reporting and by internal and external communications

In this section, we lay out a common framework for the materiality analysis, which can serve as a baseline for a tailored and company-centric methodology.

3.2.1 Methodology - proposed process

To identify and prioritize material issues, we propose the following process:

Materiality analysis

3.2.1.0 Setting the scene for materiality analysis

First, the company must ask these strategic questions to identify the breadth of its issues and the desired outcomes from the materiality analysis:

Q
What is the purpose of the materiality analysis?

Q
Which tools and documentation are available?

Q
How will the approach effectively engage stakeholders?

To prepare for the materiality analysis, see the graphic below for more ideas.

1 What is the purpose of the materiality analysis results?
- Identifying key value levers for business
- Performance and Reporting (GRI, CDP, SASB,…)
- Internal/External Communication (CSR, IR)
- Ideas for innovation
- Other

2 How often is the materiality analysis done?
- One-off
- Repeatedly (annually, bi-anually,)
- Continuously

3 Who will be involved (internally and externally)?
- Employees
- Government
- Suppliers
- Clients
- Society
- Investors
- NGOs, others

4 What is the scope of the analysis?
- Geography oriented
- Materiality development over time
- Interdependences between material issues
- Investors
- NGOs, others

5 How are issues selected?
- Internal workshop
- Previous year's issues
- Desk research
- Industry relevant (SASB, etc.)
- Competitor Benchmark
- Interviews with key stakeholder
- Open online surveys

6 How are results presented?
- Materiality Matrix
- Dashboard on survey-results per issue
- Deep insight generation per issue
- Interactive portal solution

This exercise helps a company determine the scope and outcomes of the analysis, and the resources required to perform it. For example, through this process the company evaluates whether more analysis is needed, such as geographically-based materiality analysis. This decision may require involving more stakeholders by geographic unit and is a pre-requisite for completing the next steps of the methodology.

	1. Identify possible issues	2. Develop scoring criteria	3. Issue impact evaluation	4. Conclude Material Issues
Goal	Qualitative pre-selection of issues	Define the scoring methodology and criteria	Quantitative evaluation of issues by a set of stakeholders	Deriving updated Materiality Matrix
Activities	• Internal identification of relevant issues • Preparation & execution of interviews with key external stakeholders • Structuring of issue and validation	• Define the scoring criteria for both importance de business and importance to stakeholder • Value drivers identification to assess the importance of each issue on business • Stakeholder panel selection and weighting • Definition of the method of results aggregation	• Development of suitable questions & questionnaire • Identification of stakeholders per region / type of stakeholder & build distribution list accordingly • Quantitative evaluation elaboration	• Closing qualitative interviews with key stakeholder • Identification of the material issues • Creation / update of the Materiality Matrix • Engage internal stakeholders and experts in one-on-one discussions to verify outcomes • Analyze insights to sense-check and refine workshop outcomes
Expected Results	• Key stakeholders identified Issues identified for further quantitative survey analysis • Brief issue description	• Detailed scoring methodology and criteria	• Content of questionnaires/ workshops defined • Questionnaires/workshops conducted • Questionnaires/workshops results available	• Materiality Matrix created / updated • Illustration of the development of issues over time • Materiality matrix breakdown by geography/ type of stakeholder/ organization, etc.

3.2.1.1 Identify issues

First, the company must ask these strategic questions to identify the breadth of its issues and the desired outcomes from the materiality analysis:

To do list

1 Identifying relevant issues internally

- Review internally the existing materiality analysis and any business documentation, policies and other sources to identify long-list issues in past few years

Tip: *How does the company acquire knowledge? Science-based, academic, internal versus external management?*

- Expand upon the issues by adding other trends and topics from relevant reports, such as WBCSD's "Vision 2050" and the United Nations Global Compact.
- Describe the issue

Tip: *Map material issues across the company's value chain so that every issue with a large impact along the value chain is considered*

2 Preparing and executing interviews with key internal and external stakeholders

- Engage any major external stakeholder who wishes to make informed decisions and judgments about the company's commitment to ESG progress, such as, customers, communities, suppliers, investors, and NGOs
- Prepare interviews with key internal & external stakeholders
- Conduct interviews with key stakeholders to pre-select issues

3 Structuring issues

- Gather the information received
- Structure the issues adequately, based on the main pillars of the business strategy
- Group issues into a short list and validate

Tip: *Using sector experience, group issues into categories with the same relevance. The issues list should follow the principle of 'mutually exclusive and collectively exhaustive.'*

Expected Results

1 Key stakeholders identified and engaged

- Initial contact with key internal and external stakeholders for further quantitative analysis.

2 Possible issues selected

- Long list of possible issues, created as preparatory input for expert interviews
- Short list with pre-selected issues to be evaluated, including brief individual descriptions of:

✓ Issue
✓ Qualitative and quantitative impact to business and to society (see graphic below)
✓ Boundaries: where the impact occurs: inside or outside the organization

Societal Value	Environmental Value	Economic Value
• Develop and retain talent • Enhance quality of life • Inclusive socio-economic development	• **Efficient use of resources** • **Carbon emission mitigation** • **Reduced life cycle impacts**	• Reduced costs • **Increased revenues** • Reduced risks • Reduced life cycle impacts

3.2.1.2 Scoring criteria

To do list

1 Define scoring criteria

- By measuring the importance to business (X-axis) and the importance to stakeholders (Y-axis).

Weight importance to business by synthesizing the views of business representatives through

- ✓ Workshops and interviews.
- ✓ Assess importance to stakeholders by combining and scoring stakeholders (customers, providers, government, NGOs), media activities and other industry relevant documentation by issue.

SCORE	Low				High
	1	2	3	4	5
Awareness	No awareness of the issue	Low awareness of the issue	Moderate awareness of the issue	High awareness of the issue	Very high awareness of the issue
Impact	No impact on business	Low impact on business	Moderate impact on business	High impact on business	Very high impact on business
Action	No action taken	Action taken if it supports another initiative	Action taken if cost effective	Action taken if possible	Action is mandatory

2 Assess how important an issue is to business

- Select the value drivers to assess the importance of each issue on business. Define the importance of each value driver according to business strategy.

Tip: *take into account revenue growth, cost reduction, brand and reputation and risk mitigation.*

- Select scoring level to assess and prioritize each issue (1 to 10, 1 to 5) and define the scoring range, consulting the graphic above.
- Define the business representatives to score each issue and to assign weight to each representative.
- Define the method to aggregate results, to arrive at a single score per issue, and to assign value for it in the X-axis.

3 Gauge how important an issue is to stakeholders

- After identifying the key external stakeholders, define for each a priority and assess the stakeholder's power and influence on the company's business
- If media activity or industry relevant analysis are included, such as SASB or other reports on consumer trends and attitudes, define the method for weighting these inputs
- Develop the scoring criteria. Note: it is not always easy for stakeholders to have enough information about the impact of each issue. For this reason, scoring criteria is usually simplified and limited to prioritizing issues.
- Define the method to aggregate results, to arrive at a single score per issue, which becomes the value in the Y-axis.

Expected Results

1 Detailed scoring methodology and criteria

- Importance to business
- Importance to stakeholder

3.2.1.3 Evaluating impact by issue

To do list

1 Develop questions and questionnaires
- for internal and external purposes

2 Identify stakeholders and begin outreach
- Identify external stakeholders by region and stakeholder type, and build a distribution list
- Identify internal stakeholders by region and by stakeholder type and build a distribution list

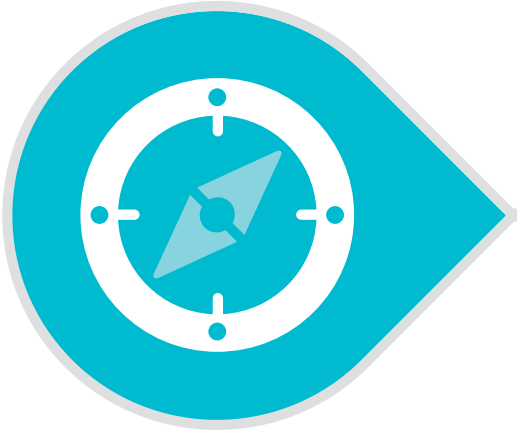
3 Quantitatively evaluate stakeholder feedback
- Conduct workshops, one-on-one interviews, online surveys, as defined in step 0

Results

1 Content of questionnaires, workshops developed
- Questions identified to be included in online survey
- Internal and external stakeholders identified and agreed

2 Questionnaires, workshops completed
- Questions to stakeholders finished, workshop held, typically internally
- Online survey launched globally, with communications and partner support from outside

3 Initial results available
- Results, answers from survey



3.2.1.4 Conclude material Issues

To do list

1 Develop materiality matrix

- Analyze feedback from questionnaires and workshops with stakeholders by geography
- Aggregate results as defined in Step 2 "Defining scoring criteria"
- Create, update materiality matrix using x- and y- values for each issue
- Identify most relevant issues for stakeholders by geography
- Identify most relevant issues by type of stakeholder, organization
- Use input from small and medium enterprises to validate and refine scores
- Review and finalize

2 Discuss and validate results with stakeholders

- Show results to internal and external stakeholders to discuss any necessary adjustments
- Using sector experience, identify any anomalies. (what is an anomaly in this context? Can you give one or two very brief examples?)

Results

1 Materiality matrix created/updated

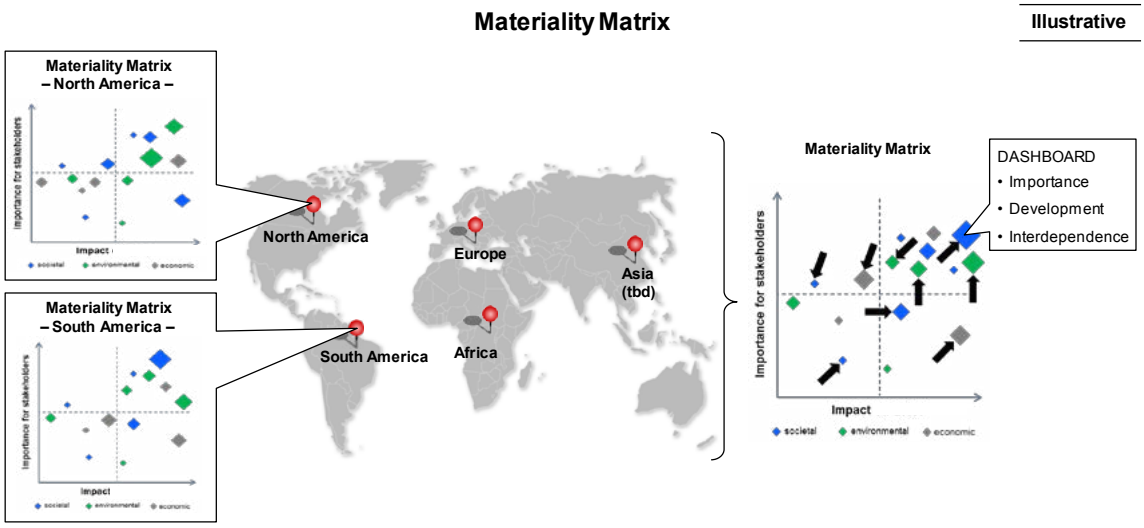
- Materiality matrix created with up-to-date view of company stakeholders on the most important issues
- Breakdown of materiality matrix to several criteria: internal and external, by region or by type of stakeholder, organization

Tip: *Regional materiality matrixes improve understanding of local impacts. The standard global, one-dimensional materiality matrix cannot identify risks for specific, localized business activities.*

2 Development of issues identified over time or by geography

- Major developments and interdependencies of issues identified
- Details for each issue available

Example: outputs from the analysis, detailed by region geographies, timescale



3.3. How to overcome the six roadblocks

In this section, we analyze the 21companies (referred to as example companies or example reports) identified in Report Matters that limited their reporting to sustainability issues material to the business. We look at how they overcame the six main roadblocks highlighted, and how they could apply the definition and methodology proposed in this report. Some example companies used solutions common to them all, whereas each example company addressed the roadblocks in its own way. We looked for explicit evidence in these 21 reports of how a company overcame the six roadblocks.

Definition

The example companies mainly adopted a definition of materiality close to the ones used by the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). GRI addresses all stakeholder expectations; IR refers mostly to stakeholders interested in the economic value of a company. But IR considers as well all the six capitals contributing to the economic value of the company (financial, manufactured, intellectual, human, social and relationship, natural).

About 90% of the example companies defined and listed the topics they consider potentially relevant according to their impact on financial, social and environmental capital, and on the decisions of stakeholders. It was not possible from reading these reports to determine whether these companies used a company-centric approach, as proposed in **section 3.1**, weighting company impact more than stakeholder interest, because criteria were not defined and precise data were not disclosed.

Processes

All 21 company reports used a combination of internal and external factors to determine whether an issue is material, including the views of stakeholders. This approach is consistent with the methodology we propose in **section 3.2.**

Disclosure of materiality analysis was limited. The majority of example companies did not explain the process they followed to identify and evaluate stakeholder opinions referred to in the materiality analysis. Only around 20% of example companies gave some information on stakeholders by category and how they collected stakeholder feedback.

In most cases, the example companies collected these opinions through global or online surveys, consistent with our methodology in **section 3.2.** Some companies took actions outside the scope of the proposed methodology. For example, some used a panel of external experts or specialists on topics such as climate change, environmental issues, and community and human rights. Other companies gathered opinions by sharing information with political decision makers. Most example reports did not explain clearly how the example companies estimated the impact of material issues on their business performance, or on financial, social and environmental capital and ranked by likelihood and impact.

Consistent with our methodology, the materiality matrix was the most frequently-used tool to represent results graphically, because it allows for a quick and clear way to understand and compare parameters and their interconnectedness. The axis commonly represented, in a range from least to most important, the value attributed to each topic by the stakeholders (usually y-axis) and the company (x-axis). Contrary to what we recommended, the prioritization of the significant matters identified does not automatically mean a prioritization of the topics in the example Company strategies.

Boundaries

None of the example companies clearly defined the boundaries in their materiality analyses. While there was no definition of boundaries, the example reports used a tacit definition to include issues from the entire value chain rather than focusing only on operations. This practice is consistent with the approach we propose in **section 3.2.** One element our methodology proposes that the example reports didn't follow is to assess and report impacts on the value chain in the short-, medium- and long-term.

Communication

All example companies communicated the results of their material analysis. They also identified and prioritized issues based on this analysis, and then mainly emphasized information on the most material issues. The indicators they used to track and report company sustainability performance were typically taken from the GRI-G3 guidelines (GRI-G4 was not fully available), especially those relating to the most significant topics highlighted in the materiality analysis. This approach is consistent with our methodology in **section 3.2.** Although we also advise separate reports for material and non-material issues, according to instructions from management.

Organization

The organizational roadblock was hard for the example companies to overcome. The companies generally did not provide enough information on how they integrated the financial, social and environmental capitals into their strategy and performance management process. We were unable to discover if the materiality analysis was done directly by the sustainability department, shared with top management, or integrated into all operations. Companies could remove this roadblock by conveying business relevance as noted in **section 3.1,** and by engaging top management and other key internal stakeholders, as noted in **section 3.2.**

Geographical Scope

All example companies conducted a materiality analysis that was global in scope. Most set up a single materiality matrix, and gauged the effect and the message on the company as a whole. Global footprints did not appear to prompt materiality analysis locally (CHECK FOR ACCURACY). Our proposed methodology in **section 3.2** focuses on a holistic company footprint, but notes companies can generate localized materiality analyses anywhere deemed important.

4. Conclusion

As business rapidly evolves in the 21st century, ESG factors are becoming increasingly important to long-term and short-term profitability. Company leadership should view materiality as a strategic priority for their businesses, and sustainability practitioners as instrumental in bringing this issue to light. In this report, we suggest a business-forward approach to incorporate ESG factors into strategy, decision-making and reporting.

With this report, we challenge WBCSD member companies to apply the proposed definition and methodology to bridge the capitals and manage highly relevant ESG factors, to drive success for the company and its relevant communities. We then also challenge WBCSD to analyze the impacts from this change.

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