

# REPORTING INSIGHTS

# SUSTAINABILITY

# MATERIALITY AND

# METRICS



# INTRODUCTION

Defining what is and is not material to report on to stakeholders can often be complex and challenging. Understanding which environmental and social factors will have the most direct impact on your business's future growth, costs and risk profile is not a simple exercise.<sup>1</sup>

This is often exacerbated by the different approaches that standards take to assess sustainability-related materiality: some focus on the relevance to the company, commonly referred to as enterprise value, while others consider broader impacts the company has on the environment and society, increasingly referred to as impact or double materiality.

In addition, stakeholders, including investors, are often interested in different topics and metrics. This can lead to a disconnect between the sustainability metrics disclosed externally and the metrics used for internal decision making.



**In an uncertain and constantly changing world, materiality helps us identify and focus on the issues that matter most to our business. An issue is material to Unilever if it impacts our business significantly in terms of growth, cost, or risk, now or in the future. We undertake our analysis using internal expertise supplemented by a wide range of views from external experts in various relevant fields and our assessment considers the impacts across our value chain so that we can understand the full picture. The output from the materiality assessment has been important to the development of the Unilever Compass strategy and to making choices around the priorities for our sustainability reporting. We update our assessment regularly to make sure it reflects changes in our business and the external environment.**

LYSANNE GRAY,  
EVP SUSTAINABLE BUSINESS  
PERFORMANCE, UNILEVER

76%

**of companies include sustainability data in annual reports globally<sup>2</sup>**

48%

**of finance leaders regularly interact with chief sustainability officers on the organization's performance against material environmental metrics.<sup>3</sup>**

1. We go into this in more detail in the A4S [Essential Guide on Enhancing Investor Engagement](#) (pages 48-51).

2. KPMG, [The KPMG Survey of Sustainability Reporting 2020](#) on 5,200 companies in 52 countries

3. EY, [2021 Corporate Reporting Survey](#), with more than 1,000 Chief Financial Officers, controllers and finance directors of large organizations

# TOP FIVE QUESTIONS TO CONSIDER

**1**

Has your organization clearly defined what materiality means to you, and documented this?

**2**

Have you identified key stakeholders for sustainability reporting and undertaken a consultation with them to determine material issues and relevant environmental and social metrics?

**3**

For sustainability metrics reported and disclosed externally, are you regularly reporting these internally and do they form part of the decision-making process?

**4**

Is your approach and assessment of materiality clearly disclosed in your external reporting with sufficient detail to enable report users to understand the judgements made?

**5**

Have you clearly established that your sustainability materiality assessment is in compliance with requirements and guidance from the frameworks and standards you are adopting?

## KEY ELEMENTS TO ASSESS MATERIALITY AND DEVELOP APPROPRIATE METRICS

- **A management framework** is utilized to consider materiality based on enterprise value and societal impact, recognizing that sustainability issues can quickly move across the materiality spectrum. Enterprise value and societal impact should be considered over the short, medium and long term when determining what is material.
- **Materiality assessments** are performed on a regular basis to ensure emerging environmental and social issues are considered. In some instances, organizations are supported by an independent third party every few years.
- **Stakeholder groups beyond investors** are consulted to broaden the organization's perspective and understanding of potentially material issues.
- Material sustainability issues have **well-defined metrics** that are collected on a timely basis and used in performance management and decision making, as well as reporting.
- The company's approach to **evaluating and assessing materiality is externally disclosed.**

## CURRENT STATUS OF SUSTAINABILITY MATERIALITY AND METRICS

There is an apparent gap between published guidance on sustainability-related materiality and the practical application followed by organizations. Without a universal definition of materiality yet being adopted by the different frameworks and standards, many organizations are taking an incremental approach, starting with the less complex areas of materiality assessments, before extending further as the data and external standards mature. Consequently, organizations are adopting significantly divergent approaches to establishing material issues and metrics.

The following pages explore these areas in more detail along with suggested practical actions for finance teams:

1. Approach to defining materiality
2. Stakeholder engagement for the materiality assessment process
3. Internal use of externally reported sustainability metrics

## MATERIALITY DEFINITIONS

<b>Financial materiality<sup>4</sup></b>	A topic is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value.
<b>Impact materiality<sup>5</sup></b>	Information on the reporting company's impact on the economy, environment and people for the benefit of multiple stakeholders, such as investors, employees, customers, suppliers and local communities.
<b>Double materiality</b>	A topic is considered material if necessary for an understanding of the company's development, performance and position and therefore in the broad sense of affecting the value of the company, AND when the company's activities have impact on a broad range of stakeholders (eg consumers, society, employees).
<b>Dynamic materiality<sup>6</sup></b>	Different groups of stakeholders will have different views on which information is material that can change over time, with issues that might at first be material through the lens of impact on the economy, environment and people rapidly changing to be material for enterprise value creation.

# 1

## Approach to defining materiality

**There is a broad range of approaches applied for materiality assessments. As such, there tends to be significant divergence among organizations in their approach to identifying and assessing their view of the material issues that inform their strategic priorities and performance reporting.**

Most organizations currently report under multiple sustainability reporting frameworks and standards in order to meet divergent requirements. This means being mindful of the differing concepts and definitions of materiality used. For example, an organization may opt to be guided by the enterprise value focus of the International Sustainability Standards Board (ISSB), or the broader stakeholder focus of the European Union (EU) and Global Reporting Initiative (GRI), encompassing the organization's relationships with the economy, environment and people.

4. Definition provided in [SASB's Conceptual Framework](#)

5. Definition provided by [GRI](#)

6. For further reading refer to the Materiality section in our guide on [Navigating the Reporting Landscape](#)

Organizations have developed their approach to materiality assessment through an iterative process, with significant evaluation at the outset enabling a shortlisting of potentially material environmental and social matters. Traditionally, materiality assessments have been performed by sustainability teams with limited involvement from the rest of the organization. Such assessments have historically focused on the external impact on people and planet with less consideration of enterprise value. More recently, other parts of the organization have been brought into the process, which has led to additional perspectives being incorporated as well as typically a greater emphasis on enterprise value. Some organizations go further by analysing the likelihood and magnitude of potential internal and external impacts associated with identified environmental and social risks and opportunities. However, when the materiality assessment process has been embedded into existing risk management processes, this is often limited to risks to the organization. The risks that the organization poses to the environment and society are sometimes yet to be fully considered, or are undertaken as a standalone process for sustainability reporting purposes only, rather than being linked to strategy or risk management.

A consistent theme across organizations is the scale of change they identify in the set of environmental and social matters that are deemed material year on year. This nearly always leads to an expansion of metrics reported in each reporting cycle. While some of this change may be mitigated by a more thorough materiality assessment at the outset, the evolving nature of the organization's understanding of materiality, and the level of engagement with key stakeholders that represent the main users of sustainability reporting, also lead to changes in metrics year on year.

Notably, some organizations disclose their approach to materiality assessment in external reporting and disclosure. Some provide a very high-level explanation of the stages in the process, while others go into detail about each stage, identifying stakeholders consulted and the resulting assessment of material sustainability-related topics.

## **ACTIONS FOR FINANCE TEAMS**

- Work with your sustainability team on the materiality assessment, incorporating both enterprise value considerations and environmental and societal impacts.
- Disclose your approach to materiality assessment and provide information on your judgement and any relevant changes.
- Link your materiality assessment to your overarching risk reporting, strategic priorities and reporting on sustainability performance.
- Consider the impact that differing materiality definitions in upcoming regulations may have on your organization's materiality assessment approach.

## 2

### Stakeholder engagement for the materiality assessment process

**Organizations increasingly recognize that consultation with external stakeholders is a valuable part of the materiality assessment process. This should include direct external consultation with investors and creditors on sustainability materiality, although this is not currently consistently applied.**

Various external guidance on establishing materiality emphasizes the need for active stakeholder analysis and engagement, including to identify the organization's key stakeholder relationships that define the primary intended users of the sustainability or integrated report. Organizations need first to identify which stakeholders are the intended users of their disclosures. This will be key to then inform the approach taken to assessing material matters for reporting purposes. For example, the SASB's focus is on investors and other providers of financial capital. On the other hand, the GRI's conceptual basis advocates the use of an expanded stakeholder view.

When selecting the information to be included in sustainability reports, many organizations consult internally with their investor relations (IR) team to understand the nature of queries they are receiving. The quality of input through this method relies on the nature of engagement between the investor relations team and investors. Some investor relations teams directly raise sustainability matters with investors to gather their feedback. This may even extend to running dedicated sustainability investor roadshows with IR teams leading the engagement. Other organizations, however, are reliant on investors proactively raising sustainability matters with them.

In respect of broader stakeholders, there are examples of direct engagement, eg with suppliers and customers, to determine material environmental and social matters. However, many organizations appear to rely primarily on a process that is largely informed by their own judgement, in some cases undertaking internal consultation. Identifying the right personnel (internally and within the stakeholder organizations) is critical to understanding the different information needs and obtaining credible results from the assessment. Furthermore, materiality processes should go beyond stakeholder engagement to include steps such as the identification of potential topics, analysis to assess the relevance and potential impact of identified issues, and prioritization.

Finally, some organizations use, in the first instance, the guidance provided by some sustainability standards and frameworks (for example, the SASB materiality map) to guide them on the selection of metrics to include in external reporting, in lieu of adopting a stakeholder engagement approach for the organization.

### **ACTIONS FOR FINANCE TEAMS**

- Engage with a wide range of key stakeholders to help shape or test your materiality assessment. This exercise may include benchmarking peer company disclosures.
- Consider using a 'materiality matrix' to plot the outcomes of your engagement with stakeholders and internal priorities to support your materiality assessment.
- Consider investing functional expertise in stakeholder engagement best practices.
- Leverage artificial intelligence (AI)-driven technology and social media to understand the focus areas of the broader stakeholder group.



## Internal use of externally reported sustainability metrics

**Some organizations point to a disconnect between the sustainability metrics they disclose externally and the metrics used internally for decision making. This may be attributable to a lack of management reporting systems capacity to process the key environmental and social metrics efficiently and in a timely manner, or to management not perceiving as material some of the key performance indicators that are included in the organization's periodic external reporting.**

By definition, where materiality is a key lens used to determine information that gets reported, there should be a close nexus between the sustainability performance metrics that are used in internal management and decision making, and the metrics that feature in the organization's external reporting. While there is general acknowledgement from organizations that their externally reported metrics should be tracked internally and used as part of the internal decision making process, somewhat surprisingly, this is not always the case.

Such a disconnect may arise when the organization's management information system is not designed to process material sustainability performance metrics on a timely basis to support decision making aligned to the strategic objectives. Also, some externally reported metrics may be subject to data collection challenges that make timely reporting difficult. This is rooted in the early-stage development of the control environment for sustainability reporting within many organizations. In addition, management may not understand or fully appreciate the relevance of sustainability data and the value of using it for decision making.

Counterintuitively, the organization's externally reported sustainability information may sometimes not reflect the organization's most material environmental and social issues. These broadly fall into two categories: metrics required by regulation and metrics requested by specific stakeholders. The former is largely dependent on the regulatory environment, where the metrics reported result from requirements for a sector, stock exchange, national regulator or policy maker. The latter is where a stakeholder (eg individual investor), standard (eg SASB materiality map) or rating agency (eg MSCI, Sustainalytics etc) makes a disclosure request that is met by the organization, but that is not considered material by management.

### ACTIONS FOR FINANCE TEAMS

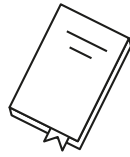
- Ensure all metrics related to material areas are considered as part of both internal decision making and external reporting.
- Leverage existing systems where possible to provide timely and relevant information to support decision making.
- Build a robust control framework around externally disclosed metrics to improve accuracy, completeness, timeliness and relevance to external users as well as decision makers.
- Support your management's understanding of sustainability-related issues and the relevance to decision making and corporate strategy.

# FURTHER RESOURCES



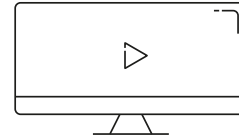
## Explore

The A4S [Essential Guide to Navigating the Reporting Landscape](#)



## Read

The A4S [Essential Guide to Enhancing Investor Engagement](#) (Box 7: The tricky issue of materiality)



## Watch

[Developments and trends in sustainability-related reporting and practical actions to respond.](#)

## The A4S Newsletter

Sign up to receive the [A4S newsletter](#) to get monthly news and updates on our reporting resources, including guidance, workshops and webinars.

## The A4S Academy

The A4S Academy is a learning and implementation programme for finance leaders on embedding sustainability. The programme empowers and equips finance teams with the skills needed for their businesses to succeed in the face of environmental and social risks and opportunities. The Academy is for senior finance professionals, sponsored by their CFOs.

[Find out how you can join the Academy.](#)

## Sustainability Reporting Insights

The A4S Sustainability Reporting Insights series is written to equip CFOs, reporters, investors, boards and other stakeholders with a better understanding of current approaches to sustainability reporting, highlighting some of the key actions finance teams can take to respond to future sustainability reporting requirements.

A4S has established a reporting project to discuss the current status of sustainability reporting practice with key stakeholders including members of the A4S [CFO Leadership Network](#) and the A4S [Accounting Bodies Network](#) and other large multinational organizations (both private and publicly owned).

The A4S Sustainability Reporting Insights series consisting of four briefs reflects the findings from these discussions.

### Disclaimer

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