

GETTING MATERIALITY RIGHT

A WHITEPAPER BY BROWNFLYNN



Introduction

In this paper, we present the “why” and “how” of getting materiality right. We affirm that a materiality assessment can help companies focus on the environmental, social or governance (ESG) issues that matter and put necessary resources towards those efforts. We present the benefits of undertaking a materiality assessment whether a company is new to sustainability or already a leader. Finally, our guide outlines the necessary steps for determining a company’s material impacts in a way that is both systematic and customizable.

Why Materiality Matters

Deciding which ESG issues to focus on is difficult for any company. Should the company spend time petitioning for sustainable food options in the cafeteria or increasing workforce diversity? Which is more important to the business, and why? With so many ESG topics to consider, organizations are often persuaded into pursuing pet programs that either generate quick returns or appease upper management but fail to address core business impacts.

Trying to address every ESG issue also poses another problem: depth. If a company tries to pursue every issue, it will likely miss an opportunity to give the most material topics the necessary attention. To sufficiently address ESG topics, a company needs to properly vet the impacts, understand areas of influence and narrow in on opportunity areas. Such an analysis requires time and resources.

To get strategic about sustainability, a company needs to focus on what matters. Conducting a materiality assessment is a systematic way to provide a company with honest, responsible answers about which ESG impact areas should be actively managed. Additionally, a materiality assessment forces a company to say “yes,” “no” or “not now” to each impact area, giving the company and its stakeholders clarity and substance with each answer. Sandy Nessing, Director of Sustainability & ESH Strategy & Design at AEP found the company’s first materiality assessment to be an eye-opening experience. Her team began to see how impacts brought up by stakeholders aligned with AEP’s strategy and risks. The result allowed her team to assign resources where there is the greatest opportunity while managing potential risks.¹

With so many ESG topics to consider, organizations are often persuaded into pursuing pet programs that either generate quick returns or appease upper management but fail to address core business impacts.

¹Nessing, S. (17 June 2013). GreenTie: NAEM’s Blog for EHS and Sustainability Leaders. Retrieved from <http://www.thegreentie.org/voices/using-materiality-to-clarify-sustainability-priorities>



Benefits at Every Stage

A materiality assessment is not just for large companies with substantial budgets. Companies of all sizes and levels of sustainability knowledge can benefit. Whether a company is looking at sustainability for the first time or reevaluating its current positioning, a materiality assessment can help companies obtain a more holistic perspective and generate necessary internal support. The trick is customizing the assessment to each business' unique needs.

For companies new to sustainability, the first question is often—where do we start? The sustainability team may be made up of volunteers who have limited knowledge of corporate sustainability and may not yet understand where the potential benefits lie for the organization. A materiality assessment allows these companies to open up the lines of communication internally, build on expertise and hone in on what matters. The result minimizes unnecessary investments and maximizes potential for success.

Companies with mature sustainability programs struggle to keep momentum and maintain a leadership position on ESG topics. These companies usually have a good grasp of the major ESG impacts surrounding its operations but would benefit from an external perspective to evolve the strategy. A materiality assessment provides these organizations an opportunity to see ESG issues from various stakeholder viewpoints—driving innovation and supporting collaboration outside the organization.

Guide to Getting Materiality Right

Our guide provides insight on ways to customize a materiality assessment—light or robust—while maintaining a systematic approach that will position a company for success. Our guide draws upon the Global Reporting Initiative’s (GRI) G4 Implementation Manual framework and provides tips for getting it right at any stage.

STEP 1: PRIORITIZE STAKEHOLDERS

Given the limited level of resources, engaging every stakeholder group is impossible for most companies. Targeted stakeholder engagement will broaden the scope of a sustainability strategy by providing a valuable outside perspective without a big investment. By systematically prioritizing stakeholders, a company will be able to capture the most relevant impacts and create a targeted plan to manage them.

To prioritize stakeholders, a company needs to first gather an exhaustive list of stakeholders that are influenced by and can influence the company’s operations. Examples include communities where the company has ongoing operations, suppliers, customers, investors and non-governmental organizations. Key questions to ask when determining relevant stakeholder groups:

- ➔ Does this group strongly influence the performance of the company?
- ➔ Is this group strongly influenced by your performance?
- ➔ Will this group strongly influence or be strongly influenced in the future?

An entry level tactic to determine which groups merit priority is to compile an internal consensus. Gathering opinions from a cross-functional executive team on which stakeholders are most relevant is effective in determining priority. The discussion should be on what stakeholders influence and are influenced by the company’s daily activities.

A more robust approach will include a survey or will enlist a third-party to audit external stakeholder groups to determine priority. Many NGOs or consulting firms provide external stakeholder engagement services and enable a company to minimize internal bias while considering outside perspectives.

Targeted stakeholder engagement will broaden the scope of a sustainability strategy by providing a valuable outside perspective without a big investment.

To see how BrownFlynn guides organizations through stakeholder prioritization, visit the link to the right.

<http://bit.ly/1fjKqab>

STEP 2: IDENTIFY IMPACTS

Collecting a comprehensive list of potential ESG impacts will provide a company with a complete understanding of its relationship to the outside world and allow it to see key areas of risk or opportunity. Whether a company completes this step through a simple audit of current internal documents or engages in stakeholder discussions, a systematic approach is crucial for success.

GRI advises organizations to consider all internal and external factors that are both positive and negative:

- ➔ Financial impact
- ➔ Mission and strategy
- ➔ Stakeholder concerns
- ➔ Societal expectations
- ➔ Value chain
- ➔ International standards

Determining how to go about collecting this information and what sources to reference can be overwhelming for many organizations. We recommend beginning with what the company knows. Gathering information from customer surveys, competitor reports and industry news coverage are great places to start. Reviewing internal resources reminds a company of what it is already doing but through an ESG lens. For example, the financial services industry actively tracks its interaction with local communities. A bank is well aware of its performance as some are blocked from expanding into new neighborhoods due to poor loan performance with low-income families. Community related impacts, such as loan performance, are an example of an ESG impact that is material to a bank.

Once a company has examined all of its existing sources of information for potential impacts, reviewing GRI's aspect list can ensure balance as well as completeness. For example, a company may not be aware of its impact on local populations in remote locations. Maybe 30 percent of the company's operations are in the Australian Outback but there has never been a violation and therefore the topic is not actively managed. In the GRI G4 Guidelines, the rights of indigenous people are listed as an ESG aspect. Reviewing the GRI G4 Guidelines can stimulate conversation and help further identify impacts that may have been overlooked through internal documents or industry news alone.

Companies pursuing a more robust materiality assessment may want to enlist more in-depth impact identification methods. Targeted interviews with key stakeholders identify important ESG impacts through conversation. By asking open ended questions, interviews provide a venue to identify potential opportunities in ESG. Interviewees often offer crucial insights on current sustainability practices throughout operations and the value chain. As an added benefit, stakeholder interviews serve as a valuable engagement tool by gaining more buy-in for sustainability internally and trust externally.

To see how BrownFlynn helps organizations identify material impacts, visit the link to the right.

<http://bit.ly/16fgqLp>

STEP 3: PRIORITIZE IMPACTS

Before reaching Step 3, those individuals leading the effort may be overwhelmed—how can one organization possibly manage all of these impacts and do it well? Here, companies will begin to sort the ESG impacts into varying levels of priority that allow for targeted sustainability management.

Clarity and distinction are important in ranking and prioritizing impacts effectively. A company should begin by reviewing all of the impacts identified in Step 2 and merge similar impacts together to remove redundancies and ensure there is enough clarity between each topic. To accomplish this step, methods such as surveys, focus groups and workshops are useful in determining priority.

Method A – Survey Stakeholders

Surveying a broad base of stakeholders is a useful initial approach for prioritizing impacts. For a company to engage with a cross-divisional, cross-functional group of stakeholders, surveys provide access with minimal effort. First time and on-going materiality assessments often use a survey method to reevaluate impacts with new products or stakeholders in mind. Questions and sentiments often change over time and surveys allow a company to stay on track easily.

When designing a survey, a few tips to keep in mind to maximize results:

- ➔ Use a forced ranking survey to build consensus around critical impacts. For example, list every potential environmental impact and require the respondent to make the choice—is fuel efficiency more important than waste? This allows the company to clearly delineate where the impacts fall in the minds of its stakeholders.
- ➔ State questions as facts to guard against survey bias. For example, “Does this statement relate to the company mission?” Phrasing the questions as fact-based limits bias and strengthens the results.
- ➔ Have open ended questions. Open ended questions provide an opportunity to catch a topic missed during the identification step.
- ➔ Determine tie-breakers by leveraging the results from Step 1. For example, if a company ranked employees as its primary stakeholder, the company has a systematic way to decide between two highly ranked impacts. An illustration of this might be that employee benefits are a higher priority than water use because employees have ranked benefits over water use.

Surveys are limited in determining the reasoning behind the results. A best practice is coupling surveys with interviews or focus groups to better understand what was behind the ranking. Understanding why will strengthen the materiality assessment with deeper evidence and further focus a company’s efforts to mitigate those impacts.

To see how BrownFlynn helps organizations prioritize material impacts, visit the link to the right.

<http://bit.ly/1bwwYQ0>

Method B – Focus Group with External Stakeholders

Refining and finalizing a company's priority ESG impacts will require open dialogue about sustainability issues, challenges and opportunities with external stakeholders. Engaging external stakeholders through focus groups is part of a robust materiality assessment but provides useful and a more holistic perspective on the company's operations through a qualitative assessment. Additionally, discussion can spark ideas for better management on priority areas.

Here companies should engage with key stakeholder groups identified in Step 1 and/or around surprising results from the survey. Suggested discussion topics include:

- ➔ Topics about which stakeholders want more transparency
- ➔ Topics about which stakeholders want improved performance
- ➔ Perceptions of current sustainability practices and impacts throughout the value chain
- ➔ Perceptions about the relative priority of sustainability topics
- ➔ Opportunities for additional responsible practices

When conducting focus groups, it often helps to bring in an independent third party to manage the engagement and allow stakeholders to speak openly and honestly. Tempered feedback fails to assign an accurate weight to impact areas and has the potential to skew the results.

Method C – Workshop with Core Team

To complete the materiality assessment, we recommend companies synthesize the findings in a workshop setting. Workshops allow the sustainability team, task force or executive committee to collectively review the results from the survey, interviews, and focus groups and finalize the company's priority areas. The workshop promotes ownership and buy-in from a cross-functional team.

Final Word

There are many ways to conduct a materiality assessment, but it should fit the company's unique situation. However, remaining systematic and unbiased in the approach is important to get useful results. Our guide builds off of GRI's framework but gives companies specific tips for better execution and presents valuable methods to get meaningful outcomes.

Through a materiality assessment, a sustainability team has the confidence to focus on what matters and provide evidence as to why. A company is protected from passing fads and can concentrate resources for the greatest effect. Done right, a materiality assessment guides a company to be proactive about sustainability versus reactive.

ABOUT BROWNFLYNN

BrownFlynn is a leading, award-winning corporate social responsibility and sustainability consulting firm. All of BrownFlynn's business is derived from sustainability consulting, communications and training services. The Firm advises Fortune 500 and privately held companies on how to integrate responsible practices into their business strategies, and how to communicate these practices internally and externally for bottom-line impact. BrownFlynn conducts workshops, webinars and on-site trainings to educate companies on sustainability strategies, trends and reporting. BrownFlynn is the first U.S.-certified training partner for the Global Reporting Initiative (GRI) and a U.S. Silver Consultancy Partner with the Carbon Disclosure Project (CDP). To learn more visit www.brownflynn.com.

