

Whitepaper



7 success factors for a good materiality analysis

The materiality analysis - the foundation of sustainability strategy

Background

Concepts and frameworks such as the Sustainable Development Goals (SDGs)ⁱ, Planetary Boundariesⁱⁱ, Natural Capital Accountingⁱⁱⁱ, or the EU Sustainability Reporting Directive introduce new demands to sustainability management.

The materiality analysis plays a central role in the development of a sustainability strategy. It determines which sustainability topics are of particular importance for the company and should therefore be the focus of sustainability management.

To determine the materiality of the topics, a combination of internal and external factors should be included in the analysis.

Regarding sustainability reporting, the main sustainability topics are based on the following two dimensions^{iv}:

- **Relevance for the company** – assessed in terms of the significant economic, ecological and/or social effects of the company (positive and negative)^v
- **Stakeholder relevance** – often determined through surveys or expert interviews

The assessments of these two dimensions are often combined in a materiality matrix (Figure 1). Topics of high relevance can in theory easily be identified when using such charts.

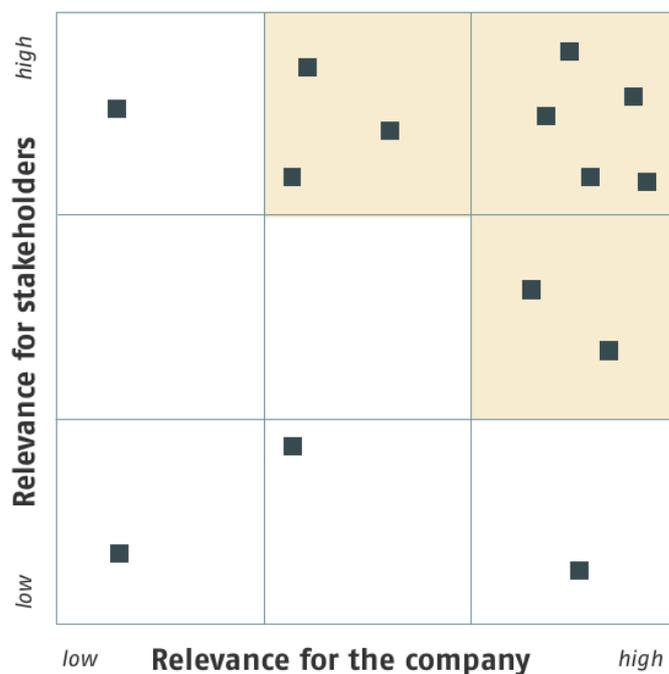


Figure 1: Schematic illustration of a materiality matrix

Unfortunately, in reality the identification of essential topics is not always successful. Not all materiality analyses provide clear and reliable findings. However, if some key points are taken into consideration when carrying out the analysis, operational resources can be saved and the effectiveness of the materiality analysis can be significantly increased.

Based on many years of experience in developing sustainability strategies and conducting materiality analyses, we have identified the following seven success factors.

1. Create a complete and mutually exclusive list of topics

Many materiality analyses include related aspects such as climate change and CO2 emissions as separate topics. Other topics, such as data protection, remain outside the scope, as the company does not identify them as sustainability issues.

The list of topics in a materiality analysis should always be complete and mutually exclusive.

Listing and structuring the topics is a central first task of any materiality analysis. Only if all topics were clearly identified at the beginning and are described without overlapping in their scope do the results of the materiality analysis form a good basis for a strategy. It is also a prerequisite for the smooth execution of the materiality analysis. If topics are overlapping, no clear priorities can be derived. Missing topics, on the other hand, cause "blind spots" in the materiality analysis. Various sources such as reporting standards, rating agency requirements, media analyses, and competition observations, as well as interviews and workshops with stakeholders, can be used to identify the topics. Additional restructuring and analyses is then often necessary to ensure completeness and mutual exclusivity.

2. Examine challenges instead of solutions

In many materiality analyses, challenges and possible solutions are mixed together. As a result, solutions such as "renewable energies" or "energy efficiency" are often included as topics together with challenges such as "climate change".

By focusing on challenges, clear prioritization is ensured and misjudgments are avoided

The materiality analysis should focus on challenges. The identification of solutions, on the other hand, should only take place at a later point. Because of the complexity of their business models, companies usually know better than their stakeholders what adequate solutions to challenges should look like. Last but not least, an early restriction to certain solutions can restrict creativity. Of course, challenges and solutions are closely related – however, if challenges and possible solutions are not separated, no unambiguous prioritization of individual topics can be achieved.

3. Consider the value chain for every topic

The supply chain is often listed as a separate topic in the materiality analysis. However, the supply chain is much more than just an issue; it is an important part of the value creation process and thus has ties to many sustainability aspects of the company (Figure 2). Separating the supply chain out as an individual topic is a simplification which will impair the quality of the analysis. In our opinion, all topics should therefore be described using a matrix structure covering the value chain.

Considering sustainability aspects along the entire value chain ensures holistic and complete results

The impact of a topic on the company can vary considerably, depending on the stage of the value chain – such as supply chain, own company, product use – where they occur. The ability to implement measures also differs between the levels of value creation. For example, the ecological effects in the supply chain are usually greater than within the own company; on the other hand, it is usually easier to implement measures at within the company. The GRI also states that impacts within and outside the company must be considered and that companies should identify where the impact occurs. These requirements can be met far better if the structure of the value chain is already taken into account during the materiality analysis.

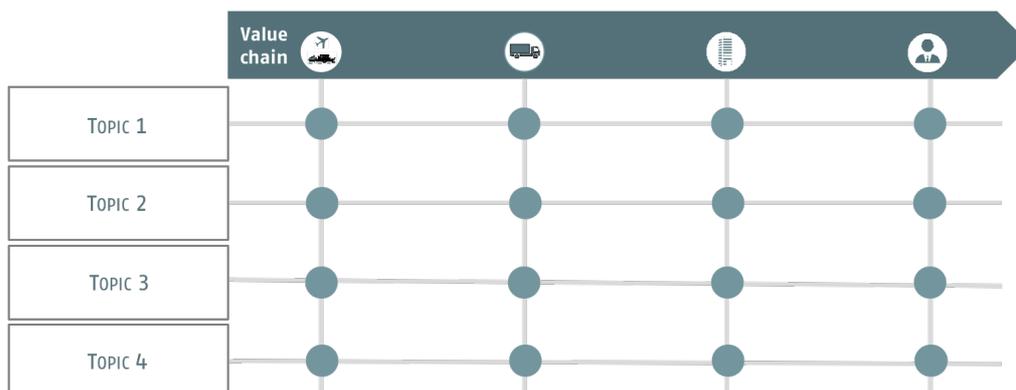


Figure 2: Matrix structure for the determination of sustainability topics

4. Identify real priorities with your stakeholder surveys

Many stakeholder surveys require stakeholders to evaluate individual topics on a scale, e.g. between 0 and 5. However, due to social expectations, stakeholders tend to classify almost all topics as important. Thus, answers prescribing little relevance to a topic are rare. As a result, the topics end up differing only marginally in terms of their relevance and many topics are given high priority.

The aim of the materiality analysis is to identify priorities – directly querying topic priorities produces significant results and ensures a more successful materiality analysis

A stakeholder survey should therefore specifically inquire on the priority between individual topics. For this reason, our self-developed, web-based survey tool makes use of a simplified conjoint procedure, which compares two topics and invites the stakeholder to prioritize them (Figure 3). This prevents answer bias and allows a much clearer separation between relevant and less relevant topics. In addition, this type of survey is user-friendly and delivers higher response rates than the traditional approach.

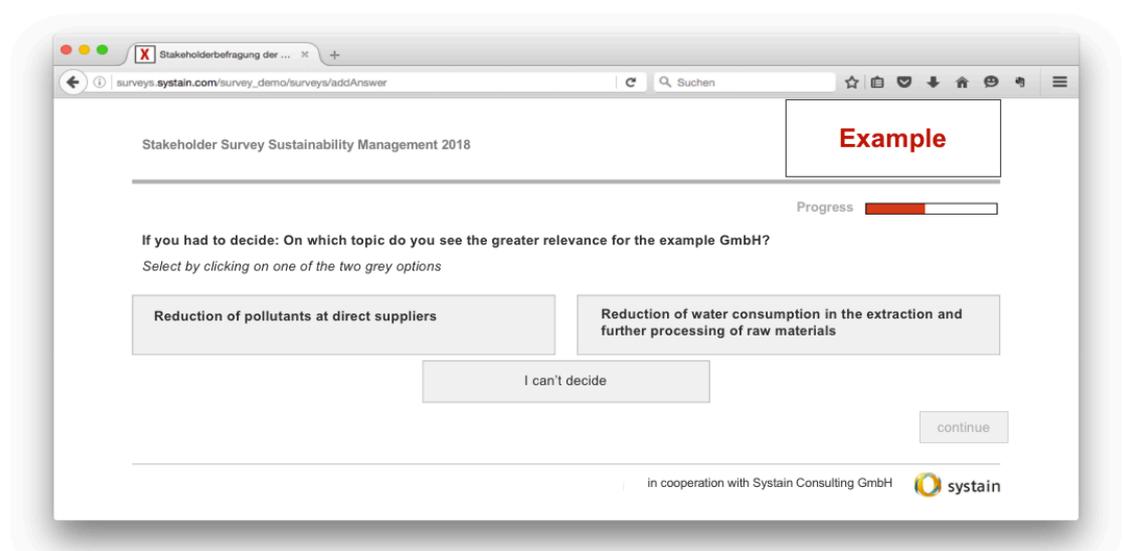


Figure 3: Illustrative presentation of a stakeholder survey using the conjoint method

In addition to surveys, workshops and interviews with stakeholders can also be considered to determine the materiality of topics. However, only a limited number of stakeholder opinions can be investigated with these methods. It is also difficult to evaluate the findings quantitatively. We believe that these approaches are better suited for the identification of topics and a deeper content-related discussion in the context of strategy development. Surveys of a large number of stakeholders are recommended for quantitative prioritizations. Furthermore, they allow response data to be evaluated according to different properties (e.g. country of origin, stakeholder type, ...). The survey can also be expanded to include further aspects that allow for additional insights – e.g. the underlying causes for prioritization decision.

5. Gain a precise understanding of your company's perspective through the business case

In numerous materiality analyses, the perspective of corporate relevance is explored using the same questions as the stakeholder analysis – e.g. with the same survey. The only difference usually is that the management is questioned instead of external stakeholders. The drawback: the management or other internal stakeholders tend to express their opinion as private individuals in such a survey, possibly mixed with the company view. The perspective of the company is not specifically emphasized, although it is fundamentally different from that of (external) stakeholders. While stakeholders voice external expectations, the company perspective can assess how crucial the topics are for the company's success.

A crucial aspect of materiality is missing if the business case is not included

We therefore recommend to explicitly ask management for their business case assessment: how strongly do the topics or a strong commitment with regard to the topics contribute to company success? We differentiate between brand value, efficiency, resilience and innovation (Figure 4). The survey is either conducted online or in the form of management workshops. In addition to producing insights, a workshop also ensures a stronger commitment from management, as the importance of sustainability for the core business is highlighted.

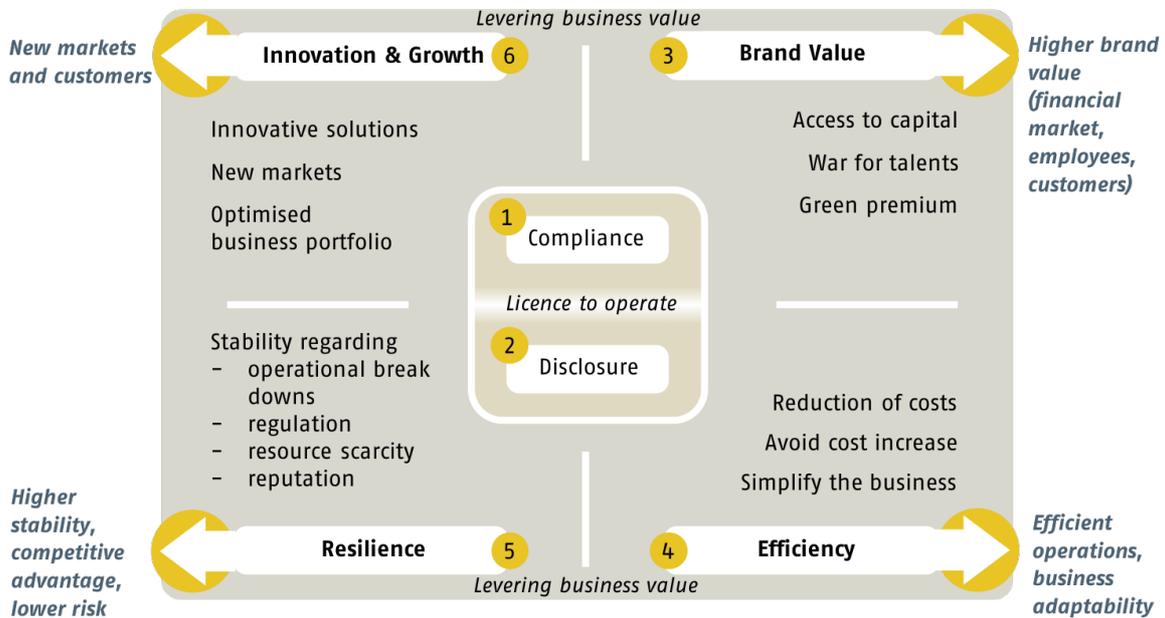


Figure 4: Value drivers within the company derived from sustainability management

6. Supplement opinion with model-based data analytics

It is important to ask internal and external stakeholders as well as management for their views. But these surveys reach their limits:

- External stakeholders usually know the company only superficially and do not understand the business model and the value chain of the company sufficiently
- Within the debate around sustainability there are always certain trends that are gladly and at times haphazardly applied to all companies. Whether such trends really apply to the company or constitute a case of the bandwagon effect should be evaluated
- A survey covers problems that have already reached the consciousness of society; it excludes issues that have not yet been identified as a challenge.

We therefore recommend that the opinions of internal and external stakeholders be supplemented by a quantitative survey of environmental and social impacts. In this way, many impacts can be objectively measured on the basis of recognized valuation approaches and material topics below the public's consciousness might be discovered. The GRI also calls for the company to take environmental and social impacts into account, in addition to stakeholder opinions.^{viii}

The shortcomings of surveys can be compensated by model-based data analyses

Model-based data analyses measure environmental and social impacts and allow fact-based prioritization. For this purpose, we use an analysis tool ("estell") specifically designed for such purposes. It determines the effects on the basis of economic methods, using multi-regional input-output accounting as well as company data from the annual report or corporate accounting. Alternatively, technical analyses such as life cycle assessments can be used. Their insights provide important information for shaping the sustainability strategy, e.g. from which part of the value chain the impacts originate (Figure 5).

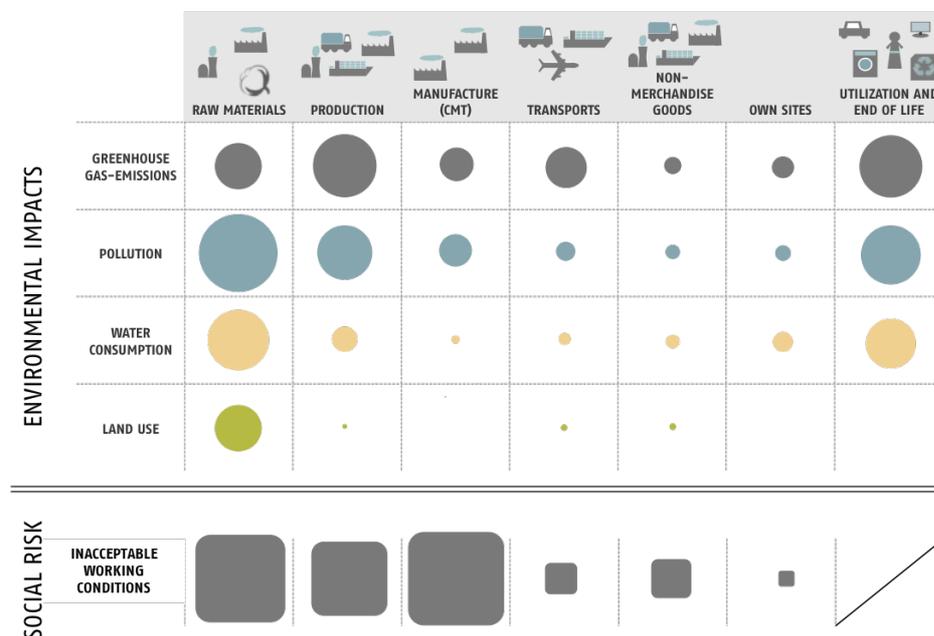


Figure 5: Schematic representation of the findings of a quantitative impact analysis

7. Tolerate contradictory views

There are clear conflicts of interest between society's demands towards companies and their business interests. In many materiality analyses, however, almost all topics are regarded as being of equal importance in terms of both company relevance and stakeholder expectations. There are usually no or very few topics whose importance differs from one perspective to another. In our opinion, such findings suggest that the distinction between stakeholder survey results and the determination of the company's material effects was insufficient.

A good materiality analysis deals with possible conflicts of interest

Contrasting views provide important insights for the sustainability strategy. Issues in the top left and bottom right corners of the materiality matrix represent conflicts of interest between stakeholders and company management. Knowing these topics helps to draw the right conclusions when dealing with them. Topics that are only important from an internal perspective require less focus in external reporting but play an important role for corporate strategy. For topics that are primarily relevant to stakeholders, however, communication plays an important role, while ambitious measures are likely to be difficult to implement.

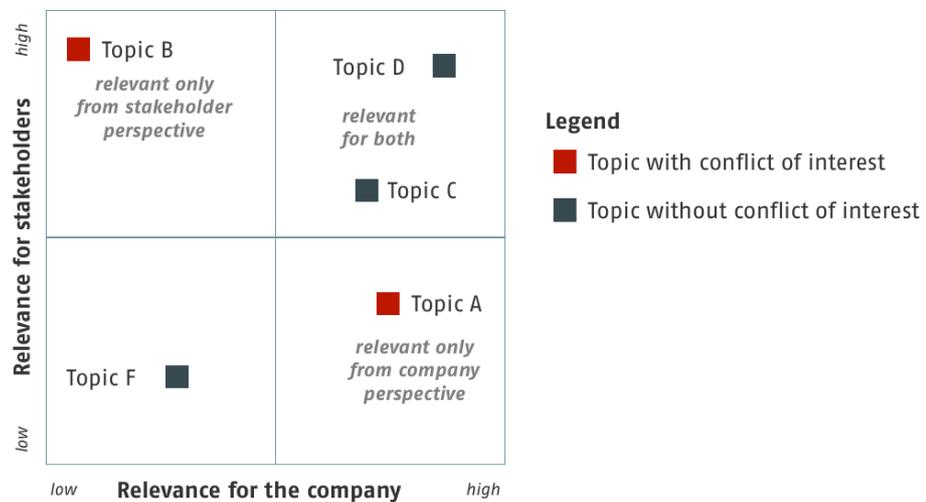


Figure 6: Example of a materiality matrix with conflicts of interest

Résumé

If the seven success factors are considered, the materiality analysis delivers far more than just the prioritization of sustainability issues and the materiality matrix.

A good materiality analysis increases the punch of your sustainability management

- Clear priorities help to use the limited budgets on the issues that really matter and increase the effectiveness of sustainability management
- Knowledge on whether a topic is important along the entire value chain or only in the supply chain, for example, creates immediate starting points for managing the challenges. This also makes the responsible contact persons in the company apparent, whether they can be found in purchasing, product development, production or sales.

- The web-based survey of a large number of stakeholders provides statistically sound data as to which topics are particularly favored by which groups. These are important insights for the development of solutions.
- Quantitative models extend the subjective survey with a scientific, fact-based perspective and allow for opinion-independent and future-oriented topic definition.
- Considering the business cases of sustainability topics does not only help to produce a clear definition of their importance, but also improves management commitment

Analyzing materiality in such a way is in fact the ideal starting point for further steps towards effective sustainability management or a sustainable corporate strategy.

Systain: who we are

Systain is an international CSR strategy consultancy. As an expert for global and complex value chains, we find solutions to borderless challenges related to environmental, working and manufacturing conditions for our clients. With the application and continuous further development of innovative methods and models, sustainability is anchored and implemented as a strategically relevant topic in organizations.

Systain serves private companies, civil society organisations and public sector clients. Our services range from strategy development to the implementation of concrete measures in international supply chains, with particular expertise in training production companies in emerging and developing countries.

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References

ⁱ <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

ⁱⁱ <http://www.stockholmresilience.org/research/planetary-boundaries/planetary-boundaries/about-the-research/the-nine-planetary-boundaries.html>

ⁱⁱⁱ <https://naturalcapitalcoalition.org>

^{iv} z.B.: <https://www.globalreporting.org/standards/>

^v „In general, 'significant impacts' are those that are a subject of established concern for expert communities,...", GRI Standard 101 Foundation

^{vi} "Relevant topics, which potentially merit inclusion in the report, are those that can reasonably be considered important for reflecting the organization's economic, environmental, and social impacts, or influencing the decisions of stakeholders. In this context, 'impact' refers to the effect an organization has on the economy, the environment, and/or society (positive or negative).", GRI Standard 101: Foundation