

The background features several light-colored wooden human figures of varying sizes scattered across a dark blue surface. Overlaid on this are several speech bubble icons. One is a solid green bubble on the left, and others are semi-transparent white and grey bubbles in the upper right. The text is centered over a dark blue horizontal band.

Materiality Assessment

Determine the sustainability topics that matter to you and your stakeholders

Materiality Assessment

A materiality assessment is a process of identifying which specific environmental, social, and governance sustainability topics matter most to an organisation's internal and external stakeholders.

The assessment can form the basis of an organisation's ESG strategy and help prioritise the information reported to stakeholders to meet their expectations better. It is an important process to ensure that you are focusing and communicating on the right sustainability topics. It also contributes to the analysis of risk factors and the identification of the measures to address them.

The growing focus on materiality in reporting frameworks (e.g. GRI, IR, SASB, NFRD) has pushed many large organisations to start strengthening their materiality assessment processes. However, our experience shows that this process can be significantly improved and better integrated into the overall performance and risk management activities.

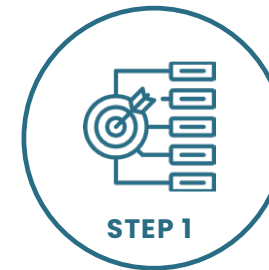
Beyond meeting reporting requirements, we believe that there is value for all organisations to consider a materiality assessment. The more companies understand how sustainability topics interrelate with their strategy and operations, the better they can adapt their model to realise opportunities, address risks and communicate their impact.

We encourage all organisations to embark on a materiality assessment and have designed this short guide to inform them about the steps to follow. If needed, we are also here to help at each stage of the process.



Process

We have developed a 5-step approach to conducting materiality assessments



STEP 1

Confirm Objectives, Scope & Approach

Agree on the purpose, use, scope and audience of the materiality assessment and define what materiality means for the organisation.



STEP 2

Identify internal & external stakeholders

Determine the list of stakeholders with which to engage, internally and externally.



STEP 3

Identify materiality topics

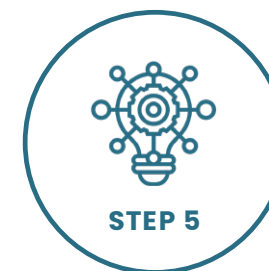
Create a list of topics to be assessed and then group and define them clearly.



STEP 4

Collect & analyse data

Assess and prioritise the materiality topics based on their importance to the organisation and the stakeholders.



STEP 5

Put your insights into action

Review/update the results of the assessment with the senior leadership, communicate and agree on the next steps.

Step 1

Agree on the purpose, use, scope and audience of the materiality assessment, and define what materiality means for the organisation



Key Steps

- 1. Mobilise project team and agree on roles**
 - Responsibility for compiling the long list of material topics
 - Teams to be involved outside the project team, e.g. products/ services, finance, risk, HR, senior management
- 2. Define the objectives of the materiality assessment**
 - How the outcome of the process will be used and the audience targeted (i.e. key audience for the outcomes of the materiality process)
- 3. Define what 'materiality' means for the organisation**
 - Is the topic of importance to the stakeholders
 - Does the topic have a social, economic, or environmental impact on the value chain
 - Is the topic of strategic relevance to the organisation
- 4. Define the organisational scope of the material topics**
 - Geographical, divisional, value chain
- 5. Decide how the outcome of the materiality process will feed into reporting**
 - Standalone sustainability reporting or integrated reporting



Outputs

- Project scope document
- Detailed project plan



Tools

- Materiality Assessment Objectives Checklist
- Project Scope Document Template

Step 2

Determine the list of stakeholders with which to engage, internally and externally



Key Steps

Materiality assessments are most valuable when informed by many internal and external stakeholders. The key steps are:

1. Use the reasons for completing the materiality assessment to map internal and external stakeholder groups within the organisation's ecosystem. Leverage the initial list done and the Materiality Assessment Stakeholders Sample List to inform the exercise
2. Among them, select and prioritise the stakeholders whose feedback will be relevant to the process as it may be unnecessary to gather input from all stakeholders. We need at this stage to consider the international footprint of the organisation and the different geographies, sectors and communities
3. Identify key contact(s) within each stakeholder or stakeholder segment as well as the best way to engage with them (e.g. surveys, group discussions, interviews)
4. Conduct initial stakeholder outreach to let them know that you want their participation. It is essential to communicate to them the rationale for their involvement and how their perspective will be used to inform the organisation's sustainability/ESG strategy and ways of working
5. Update the work plan and the project cost based on the engagement model chosen



Outputs

- Mapping of internal and external stakeholder groups
- List of stakeholders to be involved in the process, and those who have confirmed their involvement
- Updated plan and costing for next phases based on the engagement model



Tools

- Materiality Assessment Stakeholders' Sample List

Step 3

Create a list of topics that are to be assessed, group them and defined them clearly



Key Steps

1. Create a long list of potential material topics by scanning sources such as media reporting, social media posts, external reports from main peers, customers and suppliers, information about regulations, sector-specific regulations and standards, ratings and rankings, research on broader social and environmental trends and challenges and internal data
2. Cluster topics into a limited number of higher-level categories (e.g. Economic, Social and Environmental) and refine the list of potential materiality topics
 - o It should be noted that the clustering is organisation-specific as some topics could sit in various categories
 - o Test that the topics are enabling the three MA objectives set out by the organisation
3. Clearly describe each topic and category. Everyone involved in the process must understand each topic's specific risk or opportunity.
4. Finalise list of topics to be tested with stakeholders



Outputs

- o Document listing the materiality topics by categories, with a clear definition of each topic



Tools

- o Sources to Identify Potential Materiality Topics
- o List of Standard Materiality Topics
- o ESG reports, news and social media scanning for key topics

Step 4

Assess and prioritise the materiality topics based on their importance to the organisation and the stakeholders



Key Steps

1. Define the methodology to score each topic (prioritisation based on the strategic importance to the organisation, importance to stakeholders and the social, economic and environmental impact of each topic in the value chain)
2. Collect information about the relevance of each topic to internal and external stakeholders
 - o Identify the relevant stakeholders for each topic
 - o Assess the importance of each topic to the stakeholders, through the most appropriate form of engagement (e.g. survey, meeting, group discussion)
3. Assess the importance of each topic to the organisation, by considering how critical each topic is for the organisation in terms of executing strategy, financials, current and future risks, market opportunities and product innovations
 - o Quantify the economic, environmental and social impact where possible
4. Apply the agreed methodology to score each topic and rank them
5. Summarise outcomes in a short document with a detailed methodology and results



Outputs

- o Document summarising the methodology used and the prioritised materiality topics



Tools

- o Data collection tools
- o Scoring and prioritisation methodologies and templates

Step 5

Review the results of the assessment with senior management, communicate and agree on the next steps



Key Steps

1. Review the materiality assessment with senior management and get sign-off.
2. Present materiality assessment to the relevant internal stakeholders:
 - o Managing Committee
 - o Internal committees
 - o Key internal stakeholders
3. Ensure that the key outcomes/learnings from the materiality assessment feed into the sustainability strategy and the broader organisation strategy.
4. Communicate externally about the materiality assessment.
 - o Engage with external stakeholders who have been involved in the process
 - o Communicate more broadly e.g. announcements on social media/website, press releases, newsletter, inclusion in relevant presentations/events



Outputs

- o Signed off materiality assessment document
- o Communications
- o List of learnings/insight for internal strategies



Tools

- o Communication templates



Double & Dynamic Materiality

Materiality Assessments are increasingly dynamic and include double materiality considerations

Double materiality

On the 5th January 2023, the Corporate Sustainability Reporting Directive (CSRD)EN••• entered into force. This new directive modernises and strengthens the rules concerning the social and environmental information that companies have to report. A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability – approximately 50,000 companies in total.

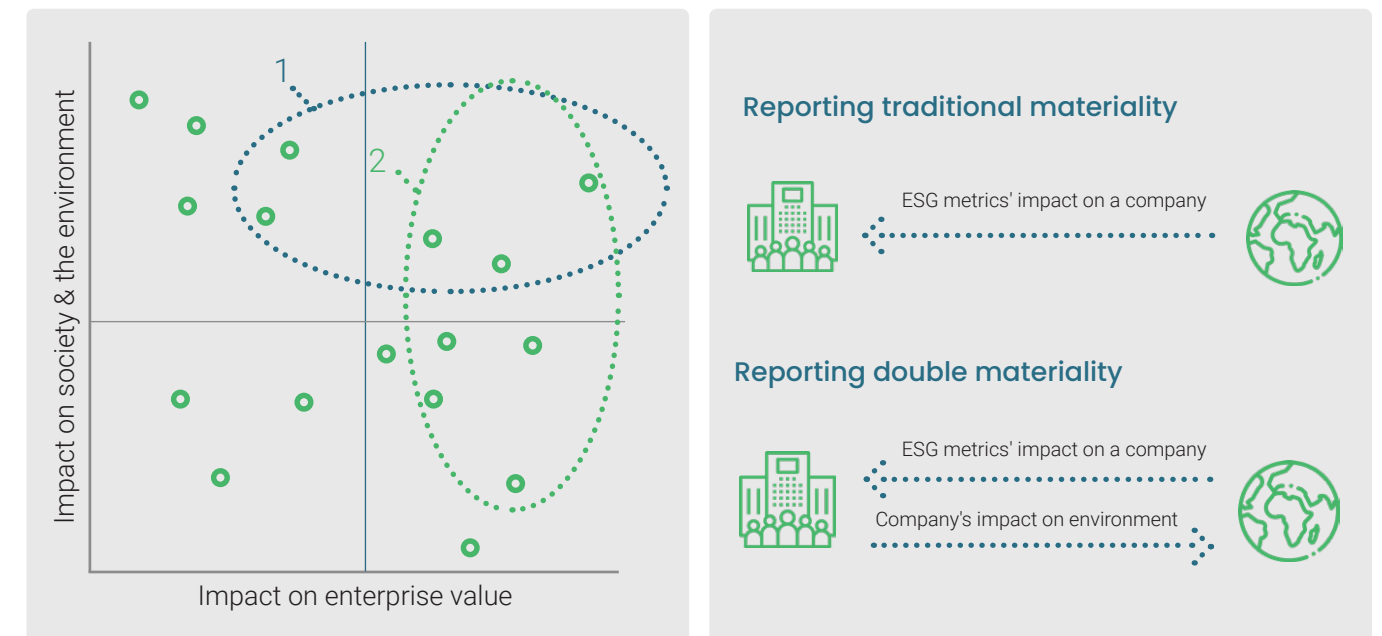
The new rules will ensure that investors and other stakeholders have access to the information they need to assess investment risks arising from climate change and other sustainability issues. They will also create a culture of transparency about the impact of companies on people and the environment. Finally, reporting costs will be reduced for companies over the medium to long term by harmonising the information to be provided.

The companies which will be required to apply the new rules, will have to do so for the first time in the 2024 financial year, for reports published in 2025.

Notably, EFRAG's new standards require organisations to report sustainability matters on the basis of the double materiality principle, i.e., to disclose both how sustainability matters affect their own performance and position and how they impact the environment and society. Double materiality is the union of impact materiality and financial materiality and the concept provides criteria for the determination of whether a sustainability topic or information has to be included in the undertaking's sustainability report. According to EFRAG, a sustainability topic or information meets the criteria of double materiality if it is material from the impact perspective or from the financial perspective or from both.

The goal is to ensure that organisations publicly provide sufficient, adequate information about their risks and opportunities, as well as their impact on people and the environment.

- A sustainability topic or information is material from an impact perspective if the undertaking is connected to actual or potential significant impact on people or the environment and is related to the sustainability topic over the short, medium or long term. This includes direct and indirect impacts, i.e. linked to the value chain.
- A sustainability topic is material from a financial perspective if it triggers financial effects on undertakings, i.e. generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short, medium or long term but are not captured by financial reporting at the reporting date.



1. Issues with outward impact should be presented in public ESG reports for a wide audience of stakeholders

2. Issues with business impact should be reported in annual reports to investors and lenders

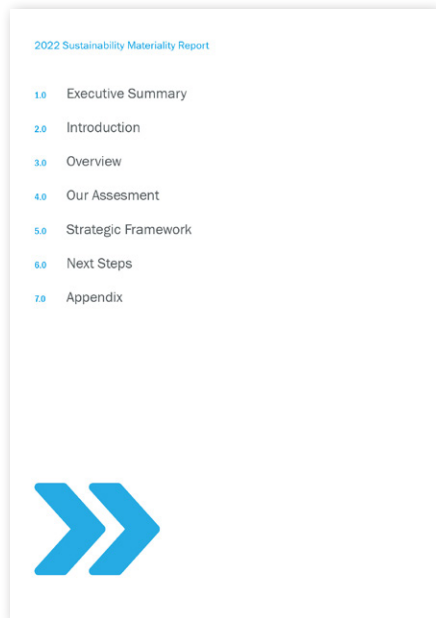
Dynamic Materiality

At the rate at which issues, that are currently immaterial become material, is accelerating, the World Economic Forum and other organisations have been advocating for a more dynamic review process. Materiality assessments should rely on an early identification of any drivers of materiality through horizon scanning, scenario analyses and stress-testing, and a regular monitoring of such triggers.

Far from being a static reporting exercise, materiality assessment is becoming a tool to identify and monitor risks and opportunities. By considering how rapid changes in the macro environment are driving stakeholder concerns, organisations are in a better position to address them and adjust their strategy accordingly.

Communication

Communicating the results is a key part of the stakeholders engagement



How to effectively communicate a Materiality Assessment

Start by defining the purpose of the communication

What are you trying to achieve by communicating your Materiality Assessment? Are you trying to inform stakeholders of your key sustainability priorities? Are you trying to demonstrate your commitment to ESG? Once you know the purpose of your communication, you can tailor the content and format accordingly.

Use clear and concise language

Your Materiality Assessment should be easy to understand for a wide range of stakeholders. Avoid using jargon or technical language that your audience may not be familiar with.

Be transparent about your process

Explain how you conducted your Materiality Assessment, including the stakeholders you engaged with and the criteria you used to identify material topics. This will help to build trust with your stakeholders and demonstrate that your assessment is credible.

Use visuals to communicate your findings

Charts, graphs and other visuals can help to make your Materiality Assessment more engaging and easier to understand.

Link your Materiality Assessment to your overall strategy

Explain how your material topics align with your business objectives and how you plan to address them. This will help to show that your Materiality Assessment is not just a compliance exercise, but a valuable tool for driving business performance.

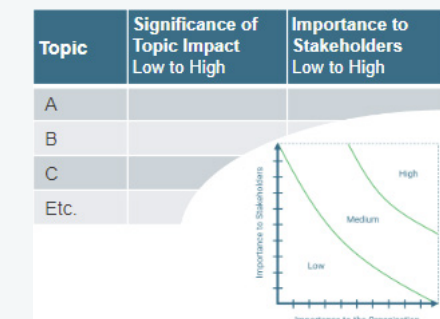
Effective visualisations

Here are three examples of diagrams that make the Materiality Assessment more engaging and easier to understand.



Stakeholders' Priorities

Stakeholders' perspectives can be mapped in a diagram to illustrate the differences by segment and explain how the overall 'importance' of a topic has been estimated.



Impact Materiality Matrix

The traditional way of defining priority topics is in the form of a two-axes matrix; the X-axis plots each topic's 'Impact on Business', as determined by senior management. The Y-axis plots 'Importance to Stakeholders'.



Relevance to SDGs

The results can also be mapped against the SDGs which are relevant to the organisation and the sector in which it operates. This can help to inform an ESG strategy.

Best Practice

A materiality assessment can be a challenging task. Below are practical tips from recent projects

Best practice for assessment

Due to the broadness of the engagement and the technicality of the topics, a materiality assessment can be a challenging task. Nevertheless, here are a few best practices derived from our recent projects:

Involve senior management to obtain support for the process and outcomes

It is critical to involve senior management early in the process through interviews and meetings to get their buy-in and get their insight into key trends affecting the strategy and business model of the organisation. In addition, as their sign-off on key materiality topics is required at the end of the process, they need to have been part of it and be comfortable with the approach.

Integrate your materiality assessment process into wider risk management processes

Rather than being a one-off exercise, the materiality assessment should be included in the broader risk and opportunity management process of the organisation. It will help raise its importance internally and make it a regular topic for consideration by senior management.

Ensure your materiality topics are exhaustive, covering all topics of importance to your organisation

It is challenging to introduce new topics through the assessment. Therefore, you need to have a thorough list at the start of the exercise. Topics cannot be too broad or overlap. It is best practice to avoid mixing different levels of topics and have topics that are too high-level.

Define your materiality topics to be easily understood and specific enough to reduce overlap between topics

Some subjects can be pretty obscure or confusing to your internal and external stakeholders. Clarity of definition is essential to ensure a robust identification, selection and assessment of the topics.

Develop a simple yet robust method for prioritising topics

The methodology needs to be clearly defined at the beginning of the process so that the required information can be collected throughout the assessment e.g. desktop research, surveys, interviews and workshops.



Case Study

Priority topics for a responsible law firm



Materiality Assessment for Law Firm

A national law firm recently voted internally to focus on ensuring that they are a responsible company. They asked Aleron to help them develop a materiality assessment to start a dialogue on responsibility internally and externally, and inform their ESG strategy.

Leveraging our research in ESG materiality, we identified 125 potential topics for consideration which were reduced to 31 topics following an initial review and prioritisation. We then identified and engaged with over 3,000 stakeholders through interviews, meetings and surveys.

As a result of this process, the following materiality assessment was produced.

The leadership team was pleased to see that there was a lot of consistency between the opinions of internal and external stakeholders. Quality of services and advice was the number one priority, followed by social and governance topics. Most environmental topics were deemed less important given the limited environmental impact of the organisation.

Sample pages from the report delivered by our design team



Support

We bring a unique set of analytical tools to identify online trends, survey stakeholders and analyse results

We bring a unique set of expertise, methodologies and tools to support you at each step of the materiality assessment process and outcomes.

We recognise that while most companies understand the principles of materiality, some find it challenging to define and implement a robust process. Aleron's specialist consultants work with organisations to support them in conducting their materiality assessment, leveraging our experience in engaging with various stakeholders and our proprietary materiality assessment tools.

Leveraging over 12 years of sustainability consulting, we have developed a materiality methodology and toolkit to successfully help our clients through materiality assessments. Our structured, yet flexible, approach ensures a rapid, tailored, collaborative and effective execution. Together, we engage with internal and external stakeholders to produce meaningful insights and actions. Our process ensures that you identify what matters most to you and your stakeholders and develop an ESG strategy and reporting that helps you achieve your sustainability ambitions. Although we have our own technology, we are also able to work with other software solutions and provide guidance on each step of the materiality assessment process and outcomes.

Aleron

Aleron was established to bring a new approach to creating positive and sustainable change

About Us

In 2010, Aleron was established to bring a new approach to creating positive and sustainable change around the world. After over a decade of working in social impact and sustainability, we have seen the incredible benefits carefully targeted action can have on society and the environment and how to make sustainable change happen at scale.

We actively partner with our clients to co-create strategies and capabilities that deliver positive and sustainable economic, environmental, and social impact. No matter the industry, Aleron helps organisations define and achieve their purpose.

Through our work we have enabled critical advances in medical research, build resilience in local vulnerable communities, accelerate investments towards alternative ways to generate electricity or guide organisations to achieve net zero emissions.

Collaboration is key to tackling complex social and environmental challenges. At Aleron, we believe public, private and non-profit actors must work together to be effective forces for good. We work across sectors, bringing public bodies, corporates, non-profits, social enterprises, foundations and investors together to address and achieve the UN's Sustainable Development Goals (SDGs).

Our Services

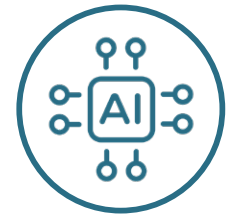


Purpose

Stating your intended contribution to our society and planet

The purpose of an organisation is the very reason why the organisation exists –beyond simply making a profit. Purpose gives direction and informs your decisions and culture.

Leveraging over 12 years of experience in social impact and sustainability, our approach helps you clearly define your purpose and embed it in your organisation and decisions.



Research

Generating the insight required to develop impactful strategies

Our team brings unique expertise in primary and secondary research, data analysis, and real-world experience to identify solutions to complex social and environmental issues. We use a combination of surveys, interviews, focus groups, data collection and site visits to conduct our primary research. Our analytics team leverages the latest techniques and tools in machine learning and generative AI to generate actionable insights.



Strategy

Developing impact and ESG strategies to create social value and achieve your purpose

We provide insight to stimulate thinking, generate new ideas and guide our clients towards making the right ESG strategic choices. Beyond our research capabilities, we offer a wide range of proprietary tools and services that support every element of strategy development. Our reputation for collaborating with clients to achieve exceptional results is unmatched in the social impact and ESG industry.



Transformation

Building the capabilities to drive action, and accelerate impact

We help organisations identify their potential for ESG transformation through a proprietary suite of diagnostics and tools. With this informed evidenced-based view, we work with our clients to design and implement the operating models, capabilities and ways of working they need to deliver their strategy and purpose. Our transformation approach follows an agile model to ensure rapid and realistic change.



Impact

Evaluating and communicating the impact of ESG initiatives

Our team brings extensive experience in social impact and ESG reporting, including social return of investment (SROI), health economics (including QALY), impact evaluations and sustainability reporting standards (SECR, ESOS, SASB, SFDR, etc.) We help you gain the insight to make ongoing informed decisions about your purpose, strategy and operations.



Funding

Raising and investing funds to implement ESG and impact strategies

Because of our corporate finance and investment banking heritage, we are passionate about supporting the growth of the sustainable investment market, from helping entrepreneurs to raise capital from impact investors, and embedding ESG practices in private equity to designing social impact bonds.



Training

Building the knowledge and skills to drive an ESG agenda

Leveraging our on-the-ground experience and conscious of the need for greater workforce development across the sector, we offer bespoke training support across the ESG spectrum from culture and DEI assessment, social impact measurement to decarbonisation and carbon emission life cycle analysis.

Get in Touch



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