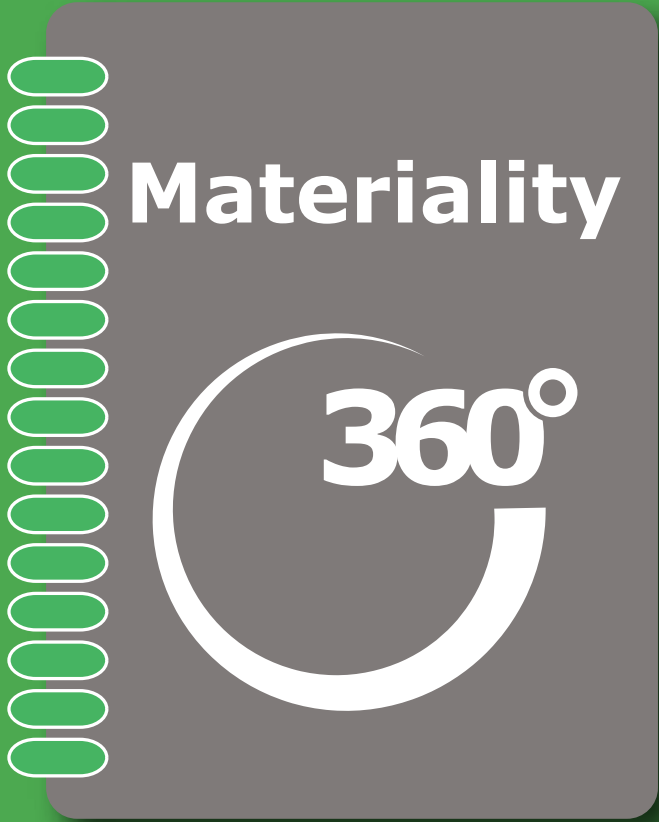
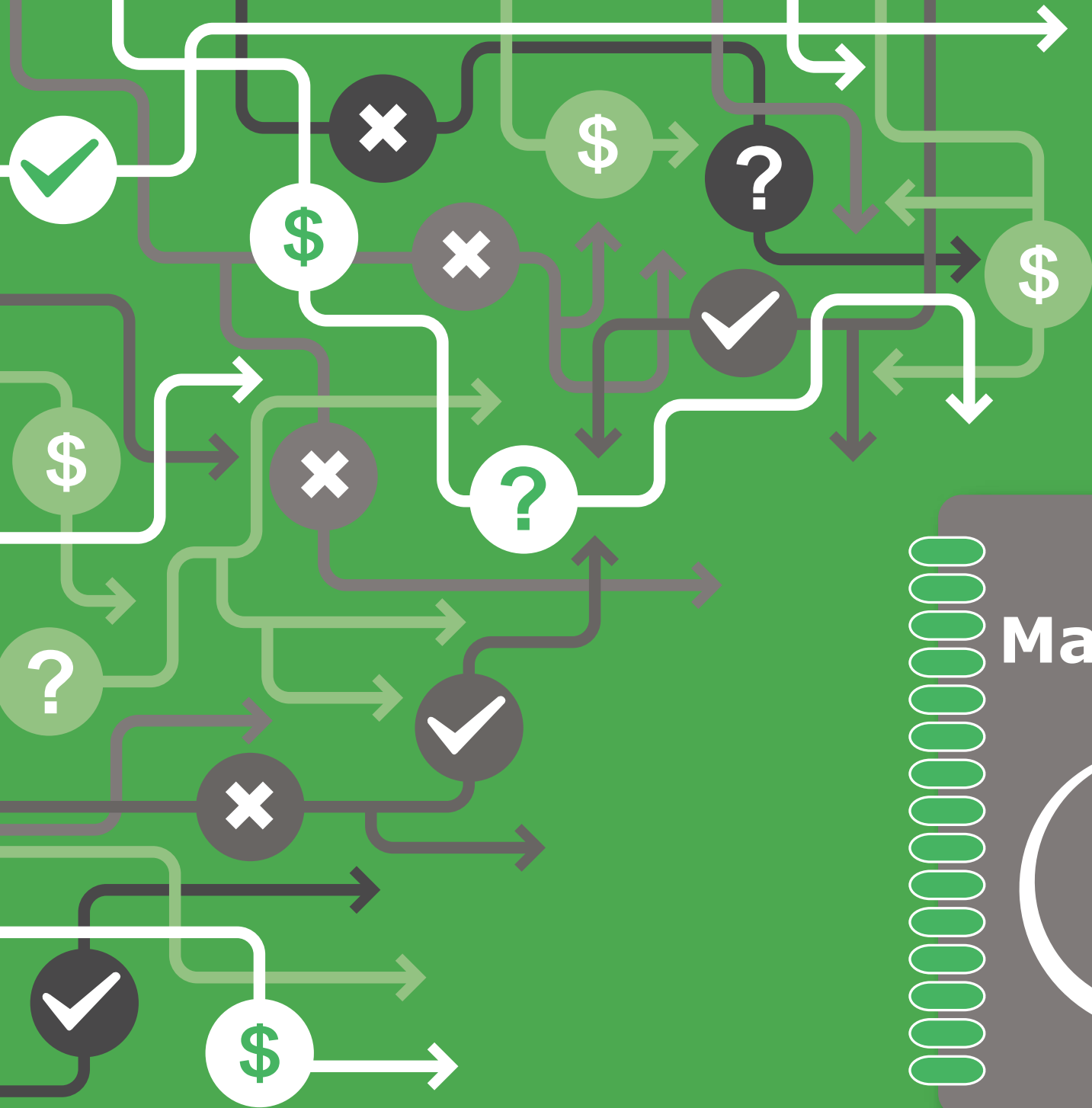


# engageability

engage and  
create opportunities



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## Abstract

229 company sustainability reports

41 companies' practices

15 external stakeholders

### Abstract

The awareness that sustainability issues can materially impact a company's ability to successfully do business is an area of growing importance in the 21<sup>st</sup> century. The business case for integrating materiality into strategy, therefore, is clear. So too the benefit of involving stakeholders in the analysis and review of material issues. Selected across a spectrum of internal and external perspectives, this implies a *Materiality 360°* process.

*engageability*, a centre of excellence for sustainable development and stakeholder engagement, undertook comprehensive research in 2014 to identify best practices in the conduct of materiality reviews, with a specific focus on *how* companies assess material issues and involve stakeholders in the process.

The study was conducted in two phases. The first involved the analysis of 229 company sustainability reports published in the first half of 2014, the overwhelming majority of which report according to Global Reporting Initiative (GRI) guidelines.

These results describe a company's existing stakeholder engagement practices with respect to material issues' review up to a 2013 year-close. Following the initial phase, in-depth assessment was undertaken of 41 companies' practices, and incorporated the views of 15 external stakeholders.

Findings and conclusions arising from both phases of the study indicate that a company open and willing to accept stakeholder input and feedback into the development of its strategy shall be a significant benchmark of engaged and sustainable business in the 21<sup>st</sup> century. Further, a systematic 360° materiality review process shall be the main feeder mechanism into such practice. Early adopters are already making the business case, and the trend is growing all the while. The time is more than ripe for all companies to ask themselves:

- What is material for us?
- What trends are observed in our industry and regions?
- What type of stakeholder engagement methodology should we invest in?

## Introduction

### Introduction

The awareness that sustainability issues can materially impact a company's ability to successfully do business is an area of increasing importance in the 21<sup>st</sup> century. Companies should consider fully integrating materiality into strategy and management. The World Business Council for Sustainable Development (WBCSD) recommends to its members:

*"A materiality process should be used to identify and prioritise the most significant environmental, social and economic risks and opportunities – from the perspective of the company and its key stakeholders."* (Reporting Matters, 2013)

With the launch of the *GRI G4 guidelines* and the *Integrated Reporting Framework*, the focus on materiality continues to grow. To define materiality, companies need to assess the significance of an issue to the business as well as expectations and relevance of the topic to stakeholders. It is a challenging process in which companies need to determine the best methods to systematically identify materiality, include stakeholders' perspectives and compare results over time.

*engageability*, a centre of excellence for sustainable development and stakeholder engagement, undertook comprehensive research in 2014 to identify best practices in the conduct of materiality reviews, with a specific focus on *how* companies assess material issues and involve stakeholders in a 360° process of analysis. With the support of students from the One Planet MBA at the University of Exeter, UK, the following research aspects were considered:

- Disclosure of materiality process
- Approaches and tools used to define the relevance and significance of material topics
- Methodologies used to select and consult stakeholders during the process
- Challenges faced

### 1. Methodology

During an initial research phase, the team focused on the analysis of materiality processes disclosed in company sustainability reports published in the first half of 2014. In total, 229 reports were analysed of which 206 (90%) followed GRI guidelines in the production of their reports (of these 184, 80%, were GRI

G4 reports). Additionally 18 (8%) reports were reviewed which followed the International Integrated Reporting Council (IIRC) guidelines, and a further 5 (2%) Swiss companies were included in the research universe.

The analysis covered a comprehensive 33 industry sectors from all regions. However, European-headquartered companies made up the bulk of sustainability reporters, with other regions fairly evenly spread. Overwhelmingly, financial services companies made up the greatest proportion of reporters (37: 16%), with energy, energy utilities, mining, food and beverage, and telecommunications being the other most represented sectors in the study.

Based on the desk research, companies which disclose their materiality process were invited to complete an online questionnaire, and selected stakeholders who had been consulted during materiality reviews were asked to participate in a separate online survey. 41 (26%) companies and 15 stakeholders participated in this second phase. Findings and conclusions arising from both phases of the research study are included in this report.

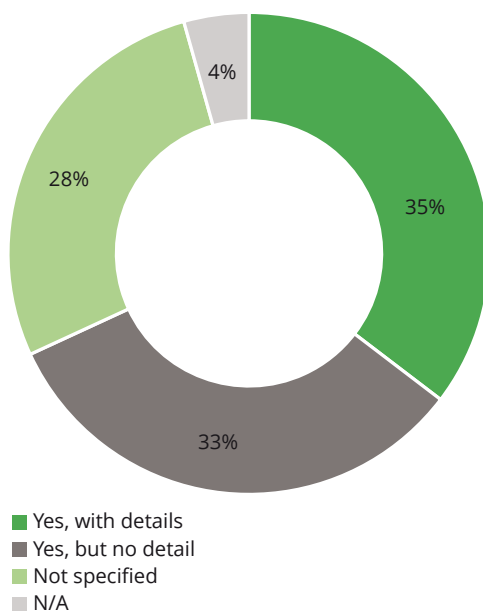
## Research Results

### Research Results

#### 1. Materiality disclosure

Of the 229 reports included in the research, two-thirds (68%: 156) disclosed a process by which materiality was reviewed in the company. Of these, slightly more than half (35% of total 229: 81) included details of what this process involved; the remainder (33% of total 229: 75) included no details.

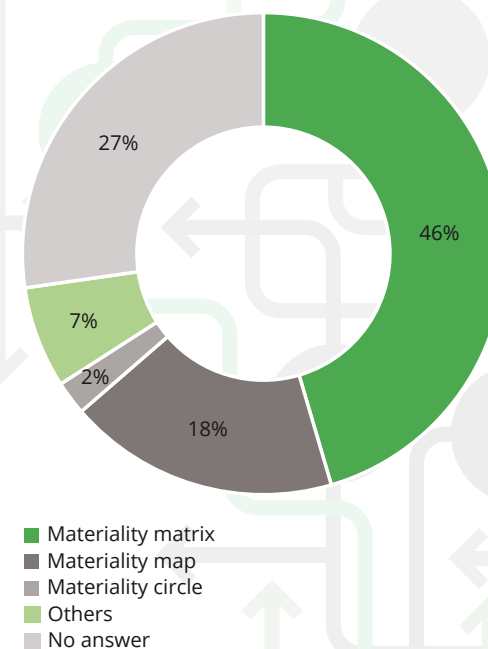
Figure 1: Disclosure of materiality process



To build on these results, as well as drill deeper into the reasoning behind a company's investment in a materiality review process, the online survey asked companies to indicate why materiality reviews were conducted (multiple answers could be provided). Two-thirds (66%: 27) stated their reasons as to track issues of concern, to inform and prioritise the company's sustainability, CR program, and to support reporting objectives. Other reasons included: to establish meaningful KPIs and sustainability targets (61%: 25), to guide the company's business strategy (41%: 17), and to identify new business opportunities (29%: 12).

The preferred method used by organisations to disclose their material issues is by way of a matrix (46%: 19). In this form, an issue's perceived importance to, or impact on, the company is ranked on the x-axis, while the perceived importance to stakeholders is ranked on the y-axis. Other methods include using a materiality map (18%: 7), or a circle (2%: 1). However as these also rate material issues according to internal and external perspectives, their use seems to be design-driven relative to the sustainability report.

Figure 2: Best ways to disclose the results of materiality assessments



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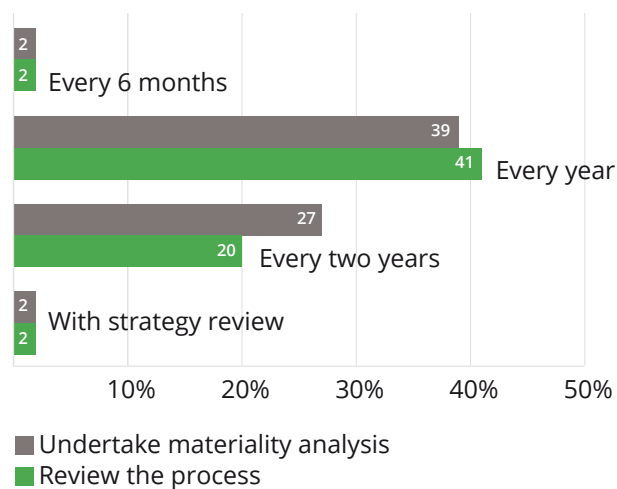
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## Research Results

A significant observation made during the research was companies' acknowledgement of the need to regularly review existing material issues as well as identify new issues which could become material to the business. Companies indicated that anywhere between each six months to two years was the most likely time horizon for such analysis – a finding which confirms the speed with which business decision-making is increasingly exposed to impacts from emerging sustainability trends. The following chart documents this finding:

Figure 3: Materiality reviews are done regularly



### 2. Materiality process and stakeholder inclusiveness

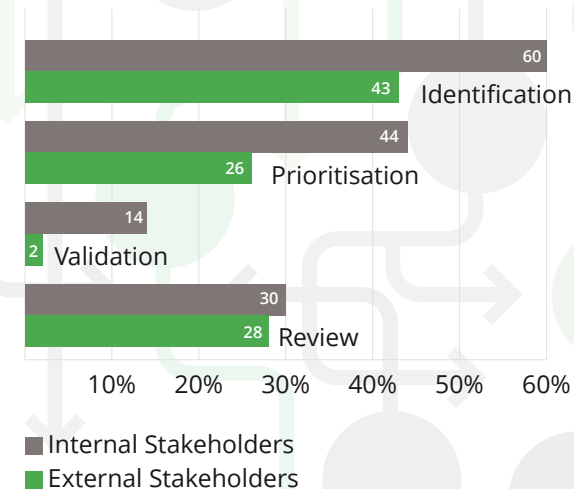
According to GRI sustainability reporting guidelines, a materiality process should include four stages, with stakeholder inclusiveness recommended in each:

- Identification
- Prioritisation
- Validation
- Review

Once again, the result of the first phase of *engageability's* desk research was enriched by the in-depth feedback received through the online questionnaire in the second phase, in order to analyse companies' approach according to GRI's stakeholder inclusiveness criteria.

Of the 81 (35%) companies that included details in their sustainability report, most consulted stakeholders in the issue identification stage of the process. Both internal and external stakeholders were consulted, as demonstrated in Figure 4.

Figure 4: Stakeholder inclusiveness in a company's materiality process



In the second phase of the study, *engageability* asked for more information about how they identify material issues – internally and externally. Many respondents used a variety of methods to identify material issues. However, the most common sources of internal information are by way of survey (78%) and business operations reports (68%), followed by feedback provided by the company's business risk register (63%) or an analysis of the value chain (59%). Other methods used include the analysis of product lifecycles (24%).

## Research Results

Meanwhile, the most common sources of external information are GRI aspects and indicators (90%) as well as regulatory requirements (73%). Nevertheless, a majority of respondents also indicate their use of multiple methods which also include external surveys (61%), benchmarking against best practices (59%), media/press focus (59%) and the Dow Jones Sustainability Index (54%). Less common but still relatively significant is information sourced from an industry-specific perspective (46%) as well as considering the context of prevailing macro-economic policy (44%). Less relevant is the FTSE4Good Index (20%) or the Morgan Stanley Capital International Index (12%), among others.

Respondents were asked about the interconnectivity of their company's material issues identification process with business risk management – only 22% indicated that it was part of the same process, while 29% said that the results of materiality assessment were integrated into business risk management post-fact. A further 25% responded that there are plans in place to improve the interconnectivity between the two areas in future.

As shown in Figure 4 on page 4, fewer companies involve stakeholders in the prioritisation of material issues than in the first stage of issues' identification. However, of those who do involve stakeholders, the preferred internal method is by way of meetings, workshops or surveys; while externally, surveys – either online or by phone – are used as well as stakeholder dialogues or, in some instances, inputs provided by a standing stakeholder panel.

The low result for external stakeholder involvement at the validation stage (again, see Figure 4) is mainly due to the fact that the validation of materiality assessments is considered to be an internal responsibility for management, the company's sustainability committee or its CR function. Only a few involve the Board of Directors, for example, or an external stakeholder panel in this stage of the process.

Finally, in the review stage of the process (again, see Figure 4), it is most likely for a company to use established communication channels to receive feedback from internal and external stakeholders rather than institute a new methodology. Preferred forms include email or specific questionnaires.

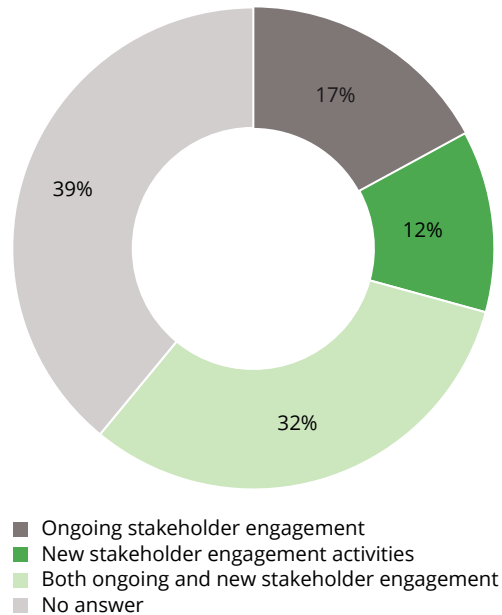
### 3. Effective stakeholder methodologies

As the previous section demonstrated, stakeholder inclusiveness is the clear goal of any well-structured and thoroughly conducted materiality process, and one which a vast majority of those companies included in the study take seriously. Of the 229 reporters in phase one, 80% confirm their commitment to ongoing or new stakeholder engagement activities. Specifically, of the 81 companies disclosing details of their materiality process, 88% confirm that stakeholder perspectives are included in the review of issues. The results of the online survey showed that 32% engage with stakeholders via both ongoing and new methods to review material issues, while 17% maintained a focus solely on ongoing activities or 12% with new (see Figure 5).

The reasons given by those who maintain ongoing activities include the fact that the system benefits from being well-established, sufficient and comprehensive, thus helping to reduce cost amongst other things. Nevertheless, respondents admit that this approach raises challenges, such as reducing the scope for collaboration or having less opportunity to take account of a changing stakeholder mix, outreaching to different stakeholders as relevant issues arise.

## Research Results

Figure 5: Ways of involving stakeholders in the materiality process



Meanwhile, those who invest in new stakeholder activities gave as their reasons the fact that no formalised or suitable engagement processes previously existed in their organisation, or alternatively that the opportunity to source new perspectives is highly valued. They find that the enthusiasm inherent in a changing mix of stakeholders engenders a more focused and effective discussion process, where thinking outside the box as well as the ability to capture a large number of diverse viewpoints is assured. However, respondents also acknowledged that challenges to this methodology include stakeholder willingness or fatigue, a narrow or inadequate view of the company which hampers quality feedback, or that the process does not meet stakeholder expectations – offering a corollary to their initial enthusiasm.

Overall, surveys and interviews are the preferred methodology by which companies include stakeholder perspectives in their materiality review process. In order of ranking, these are followed by

focused group discussions, one-on-one meetings or stakeholder panels and dialogues. According to the desk research as well as the online survey, some 15% of companies assessed received feedback on their materiality process from an external stakeholder panel or via expert opinion. As corporate responsibility and sustainability increasingly become core to business decision-making, it can be expected that the use of stakeholder panels will further grow.

Whichever stakeholder inclusiveness methodology is used by a company, the requirement to demonstrate responsiveness to feedback received, as well as invest in follow-up activities, is essential. Yet only 25% of external stakeholders who had been involved in a materiality process and participated in the online questionnaire indicated receiving any follow-up after the engagement activity. This is certainly an area where business could do more to improve its responsiveness, at the very least as a mark of respect for and acknowledgement of the value-added stakeholders bring to their process.



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## Conclusion

### Conclusion

The results of **engageability's** research study comprehensively demonstrate the growing importance of materiality reviews – both from a company perspective as well as stakeholder. Nevertheless, despite the guidance provided by organisations such as GRI and the WBCSD, challenges remain. Companies should consider fully integrating materiality into strategy and management; this will then lead to more relevant prioritising of issues as highlighted by the process, enabling focused actions to flow on from there. Further, while recognising the need to balance internal and external viewpoints in materiality assessments, stakeholder engagement must be undertaken on a basis which values the feedback received. An appropriate stakeholder methodology is, by necessity, responsive before, during and after a company's discrete or ongoing engagement activities.

Overall, the research points to the opportunity for companies to systematically disclose details of their materiality process as an outreach methodology in the first instance. A simple-to-navigate design

is part of the picture here – the preferred method is by way of matrix. By integrating materiality assessments into business risk management, as well as ensuring internal and external stakeholder inclusiveness is taken into account in all four stages, the process itself will become more systematised and streamlined, thus aiding its continued evolution as an integral management tool.

Being open and willing to accept stakeholder input and feedback to grow strategy shall become a significant benchmark of an engaged and sustainable business in the 21st century – and a systematic 360° materiality review process shall be the main feeder mechanism into such practice. Early adopters are already making the business case, and the trend is growing all the while. The time is more than ripe for all companies to ask themselves:

- What is material for us?
- What trends are observed in our industry and regions?
- What type of stakeholder engagement methodology should we invest in?

As a centre of excellence for sustainable development and stakeholder engagement, **engageability** assists companies in the development of integrated materiality review processes, undertakes stakeholder surveys to identify diverse perspectives, and moderates external report review panels; and the results of this comprehensive research further build on **engageability's** portfolio of services.





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