
# NAVIGATING MATERIALITY

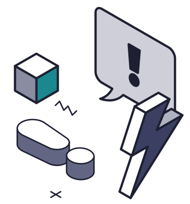
SIFA STRATEGY

Many companies will be facing the challenge of renewing their materiality assessment or undertaking it for the first time in response to their exposure to ISSB and/or CSRD. Even companies who feel they are not subject to these frameworks and directives will need to prepare for the increasing level of demand for more in-depth reporting and disclosure from stakeholders across their value chain. A proper test of materiality and the collection of the relevant data will soon become inevitable.

As companies embark on their materiality assessments, we have listed key takeaways from programmes we have completed for clients across different sectors recently.

## 1. INVOLVE REPRESENTATIVES FROM THE BOARD AND EXCO FROM THE BEGINNING

In the past, many sustainability materiality assessments were undertaken from a siloed position within the company. Often, the Board and ExCo had minimal engagement apart from a presentation to review and sign off the findings once the materiality exercise was complete. This lack of involvement from senior management can result in limited buy-in for the findings, and, as a consequence, little follow up in decision-making and organisational change. As the potential impact of climate, environmental and social factors increase, having early involvement and input from the Board and senior leadership will increase its relevance and enable a closer link to corporate strategy and decision-making. It also encourages greater stakeholder involvement, when championed from the top.

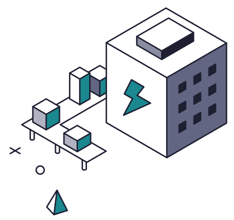


## 2. SET UP A WORKING GROUP WITH REPRESENTATIVES FROM KEY DEPARTMENTS ACROSS THE BUSINESS, INCLUDING FINANCE

A materiality assessment should not be delivered by one internal function. If approached properly, its relevance should reach across the business. All key functions covering areas such as operations, finance, risk, legal, sustainability, and HR should be looped in early in order to benefit from their understanding of stakeholders, and their perspective of potential impacts on the business. It is difficult to bring them in at a later stage and retrofit their expertise. This is especially the case with the finance and risk functions when you are looking to link the ESG materiality to financial materiality and your existing risk framework. Equally, when setting thresholds for materiality, that in-depth business knowledge is key.

## 3. CREATE A METHODOLOGY WHICH IS RIGHT FOR YOU

There are many different recommended approaches to materiality, including implementation guidance from EFRAG, which is still being evolved. It is easy to get overwhelmed by the technical language and requirements of these processes and to forget that the aim of a materiality assessment is to improve understanding and to enable decision-making and action. However, you do need to consider the requirements of CSRD and ISSB, and in particular, what they will demand from you in disclosure. In both cases, the outcomes of materiality will determine the scope of your disclosure. So, you want to get it right. Your approach to materiality should be tailored and adapted to your business and flexible enough to generate the best results. As long as you can substantiate the choices you make, you can define the process. You do not need to reinvent the wheel. What data already exists in your business? What other information-gathering processes can you piggy-back on? Are there subject matter experts available to you? What do you already know? Can the materiality process support other stakeholder engagement or feedback mechanisms?

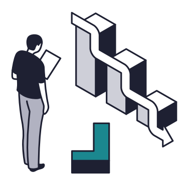


## 4. INVOLVE YOUR STAKEHOLDERS AND AS MANY AS POSSIBLE

With the growth in relevance of ESG and the transparency and influence that stakeholders now have, we recommend engaging with as many stakeholders as possible and suitably early in your materiality process. Ensuring a broad representation of stakeholders supports the validity of the output and the acceptance of the findings. Equally, in our experience, a materiality test done properly with a large stakeholder sample can be reputationally enhancing to the business. If approached properly, with the understanding that the exercise is being led from the top (see point 1), stakeholders value being asked and listened to. We also see senior management putting much greater influence behind materiality and embedding the outcome in the business when they have seen the strength and depth of stakeholder involvement.

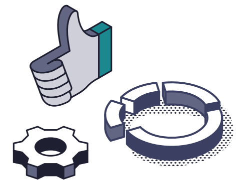
## 5. DON'T RELY ON QUAL OR QUANT – DO BOTH

As well as deep stakeholder involvement, it is important to find a good balance between the use of quantitative and qualitative data. Quantitative input facilitates measurement and comparators across different stakeholders and topics. Quantitative elements are also always well received at the Board and ExCo. However, the qualitative element is essential to the process. It adds important context, colour and understanding, especially when you are looking into the future and dealing with intangible factors that so often crop up when discussing climate, environmental, and social factors. In our view, start with the quant element and then use the qual to dive deeper into themes and trends.



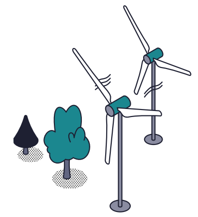
## 6. REMAIN ENGAGED

To undertake a materiality assessment to meet the demands of CSRD and ISSB frameworks properly is undoubtedly a time- and resource-heavy exercise. It should support decision-making from a strategic and operational basis which can in turn influence positive change within the business. So, if you are going to do it, approach it properly. This means, when completed, don't put it on a shelf and tick the box. Build the outcomes of the materiality assessment into your corporate strategy, ESG initiatives and stakeholder engagement programmes. As we have seen many times, you can generate more return on your investment if you use the outcomes to enhance your stakeholder engagement and apply your learnings across the business, and continually feed back into your materiality discussions. Keep the materiality process alive.



## 7. LAST BUT NOT LEAST, START EARLY

Prepare to meet regulation, don't wait for it to hit you. The ISSB standards are already in effect and - while currently voluntary - will likely become part of UK regulation in the near term. Looking to the EU, CSRD is being phased in from 2024 through to 2028 depending on scale of business, presence in the EU and other criteria. While this may feel like a long way away, preparation is key, and some organisations have already published their initial efforts. Whether because of looming regulatory deadlines or increasing stakeholder demands, conducting a proper materiality assessment is inevitable. Starting sooner, will enable you to get a fuller understanding of what conducting a more granular materiality assessment will mean for your business and will allow you to be in control of the process. It will also help you to bring your organisation along for the journey. You do not want to be rushed into undertaking an assessment and publishing the associated results and targets.



## WANT TO KNOW MORE?

SIFA Strategy supports organisations to identify, understand and measure the material drivers of ESG to their business. We tailor and implement double and financial, multi-stakeholder, materiality assessments. We incorporate both quantitative and qualitative inputs so an organisation can better understand impacts and identify priorities to enhance performance. We believe this is key to a successful long-term ESG programme.

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