The Importance of Materiality in Strategy

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Summary
A material sustainability opportunity is something that can positively impact a company's business model, revenue or profits. A material risk is that could negatively impact a company's operating or financial performance.

As the world is pivoting to a more sustainable model, we are seeing an increasing number of companies adopting sustainability strategies, including ports and terminals. In most cases these strategies seek to define those sustainable practices and commitments that a business might adopt, this could be using less paper, separating waste streams, or changing to renewable electricity supply. But how does a company come up with these objectives and targets and are they addressing the material issues?

Keywords: Materiality, Sustainability, Strategy, Stakeholder Engagement

Introduction
How does one define the material issues for a company and who determines what issues are material?

To an extent every choice we make has an effect or impact on someone and therefore it is important to determine who those "someone's" are.

In business these "someone's" are classified as stakeholders.

In developing an effective sustainability strategy, it is imperative that a company not only consider the topics that are important to it and that it can control and influence, but also those topic areas that matter to its stakeholders. This process to identify, understand and prioritise these material topics can be referred to as a materiality assessment.

Social license is a term that has been used for many years. In its simplest form it refers to the acceptance granted to a company or organisation by the local community. Such a licence is based on trust and confidence and can be hard to win and easy to lose.

Through including the local community in the materiality assessment corporates and organisations can start to understand those material issues that are most important to this key stakeholder group

Approach
If a company already has in place an ISO aligned or accredited work health safety, environmental or indeed integrated management system or standalone stakeholder engagement strategy, then it is likely to have already defined its key stakeholders.

If this is not existing, then as a first step it is important to identify who those stakeholders are.

Stakeholders can include those parties that directly or indirectly have an influence on or are influenced by the company and should included both internal and external stakeholders.

Stakeholder mapping helps identify those stakeholders and helps prioritise them according to their vested interests as well as their overall impact and influence on the company.

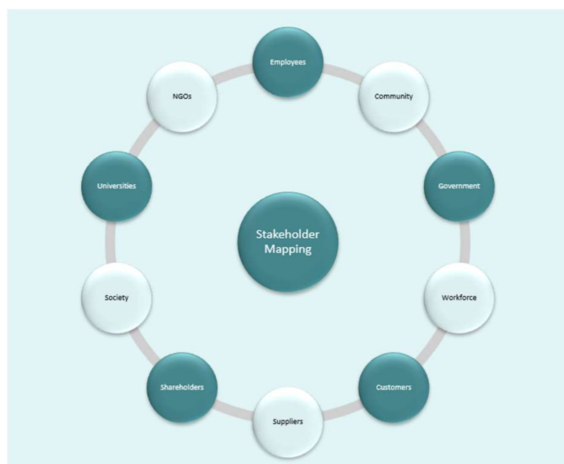

Figure 1: Example stakeholder group identification.

The local community can play an important role in materiality. They are often influenced by the activity of a company and have the ability to directly influence a company's social licence to operate.

Engaging with the community can be undertaken in a number of ways. It may be that a company has in place an existing community liaison group. These groups often have key community members that represent local community groups.

Where there is not an existing company community liaison group a good place to start is to map out the local community, understand who the local community groups are, who are traditional land owners, what educational institutions may be affected by the company.

Having identified key stakeholders, it is then important to take a step back and complete a landscape analysis to understand global mega trends, industry trends, competitors, internal and external information with a view to defining a suite of sustainability topics that are relevant and important to the company.

The third step is where stakeholder engagement comes in, to enable companies and organisations to validate synthesise and prioritise these sustainability topics. It is also an opportunity to identify if any key topics have been missed.

There are several approaches to stakeholder engagement, the key ones for a materiality assessment include surveys and interviews to confirm how important each material topic is to each specific stakeholder group.

Once the level of materiality for each topic for the stakeholder groups has been established this can be plotted on a matrix against the level of materiality of each topic for the company. Here the company is also able to include its ability to influence or control each topic.

Output

As shown in Figure 2, a materiality matrix allows a company to clearly visualise the importance of material topics to the company itself and also its key stakeholders. It also enables the company to understand its ability to influence each of those topics.

This information can then be used to form the basis of an effective sustainability strategy and provide the framework against which a company will disclose its commitment and performance.

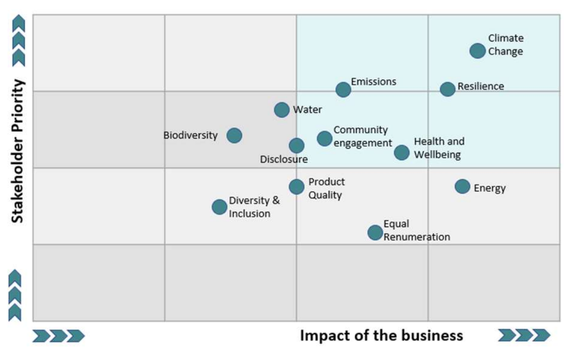

Figure 2: Example materiality matrix

Discussion and Conclusion

Materiality has many benefits in corporate sustainability and strategy development:

- It helps to identify meaningful business opportunities, risks and trends
- It provides a methodology for evaluating and prioritising sustainability topics
- It provides a clear framework for decision-making and resource allocation

Local communities are key stakeholders as many of the decisions we make as a company have direct and indirect impacts on our communities.

Failing to effectively engage with community stakeholders can lead to distrust and fear and ultimately opposition.

Through involving the local community in the materiality assessment process companies can:

- Gain a better understanding of the local communities needs and resources
- Account for these needs in its strategy
- Create a sense of involvement that will ultimately lead to support for the business – social licence to operate

Through public disclosure of its material issues and performance against commitments set, corporations are held to account and can begin to increase its legitimacy, credibility and trust.