



Communications

# How to measure what matters

By **Kathee Rebernak**  
**Companies should report on issues that matter to stakeholders, but many still don't**

Oscar Wilde once said: "It is a very sad thing that nowadays there is so little useless information." Unfortunately, a look at today's non-financial reporting finds the opposite to be true.

The Global Reporting Initiative Sustainability Reporting Guidelines (G3) highlight "materiality" as one of three key principles in defining report content, along with stakeholder inclusiveness and sustainability context. Put simply, materiality means reporting on what matters to stakeholders in your business.

In applying this principle, some sophisticated reporters have begun to focus on the issues that stakeholders truly care about. Unfortunately, these reporters are relatively few, and an even smaller number use a materiality analysis to inform sustainability strategy. This exposes for many a missed opportunity to improve both reporting and performance.

The G3 defines material issues as "topics and indicators that reflect the organisation's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders". While the definition of materiality is similar to the definition of materiality for financial disclosures, the context is much broader because stakeholder concerns are (presumably) more varied than investor concerns.

A "materiality analysis" to determine what stake-

holders want can help companies avoid a major reporting pitfall: “kitchen sink” reporting, also known as “carpet-bombing”. This is the tendency to include in a report a detailed discussion of every possible sustainability-related initiative the company has undertaken. Whether the product of company politics or a dread of leaving even the most marginally relevant stone unturned, kitchen-sink reporting yields huge, unwieldy reports that no one really wants to read.

By using a materiality analysis to identify and prioritise issues, the company is better able to allocate space in its reports to those issues that are truly important to stakeholders and, by extension, the organisation itself. The result is often a shorter, more focused, and better balanced report. If warranted at all, discussion of those issues not considered material can be relegated to the company’s website or to other communications materials and channels.

A materiality analysis will also give companies a leg-up in the event they seek assurance for their reports. Assurance providers using the AccountAbility AA1000 assurance standard look at three primary reporting elements: completeness, responsiveness and materiality. Done well, a materiality analysis will help facilitate the assurance process by assisting the assurance provider in its quest to determine whether the report adheres to the principles of completeness and is responsive to stakeholder concerns. The analysis will also go a long way towards fulfilling the purpose of assurance: to give stakeholders confidence that the company is addressing their concerns.

### The process

The benefits of the materiality analysis extend far beyond streamlining and balancing report content. A rigorous analysis can give the company a clearer picture of not only its successes and opportunities but also its impacts, challenges and failings. In this sense the materiality analysis is more strategy tool than communications aid and can lend reporting itself more of a strategic role.

Of the few companies that have conducted a materiality analysis, most prioritise issues by examining several factors, including the levels of stakeholder concern, societal concern, and impact on the organisation; company policies and objectives, and the level of control the organisation has over the issue. Of these, the two primary factors are stakeholder concern and impact on the organisation.

Stakeholder concern is a significant determinant of whether an issue will be considered material. For that reason, companies undertaking a materiality analysis typically begin by compiling a comprehensive list of stakeholders and the issues those stakeholders are most concerned about.

Engagement with stakeholders is key to this



Not just good news

process. A successful materiality analysis will extend far beyond the company’s perception of itself to incorporate stakeholder input through direct interaction, surveys, studies, conversations, and broader research on public perceptions around relevant issues. Ideally, this effort takes place over a period of several months and becomes an ongoing, iterative process.

Because not all stakeholders are equal, some companies determine materiality based not only on the level of stakeholder concern over an issue but also by how many stakeholders express concern over that issue. Another measure is to rank stakeholders based on their influence over and dependency on the company, which helps the company gauge the level of responsibility it has to individual stakeholder groups. Some combination of both approaches is likely to be best.

Having identified stakeholder concerns, the company then assesses the impact of each issue on the organisation. The company will usually consider impact in terms of the effect the issue has on its ability to execute its business strategy. In making this determination, the company usually considers the issue in the context of overall business objectives and strategy, policies, risks, and current processes and programmes. Some companies also factor in the amount of control they have over an issue to determine whether the issue is material.

Several veteran reporters, and a few newcomers, use a materiality analysis or assessment to define report content. Few, however, disclose “the specific methods or processes used for assessing materiality”, as recommended by G3; most describe their process for assessing materiality in general terms. What’s more, few seem to be using their materiality analyses to inform and shape sustainability strategy, a missed opportunity.

### Materiality analysis as strategic tool

A materiality analysis can lend rigour, depth, and stakeholder insight to an organisation’s sustainability strategy and can help the organisation to:

- identify, prioritise, and address risks;
- identify and capture opportunities;
- align sustainability and business strategies;
- build and maintain a strong brand and reputation;
- gain competitive advantage;
- anticipate and manage change; and
- assess performance over time.

*A rigorous materiality analysis can give the company a clearer picture of its impacts, challenges and failings*

### Starbucks

In its fiscal 2006 corporate social responsibility report, Starbucks considers three criteria in determining the materiality of its issues: significance or potential impact on Starbucks, significance to external stakeholders, and the amount of “reasonable control” Starbucks has over a particular issue. Starbucks discusses in its printed “abridged” fiscal 2006 report only those issues over which it has “reasonable control” and are of greatest importance to stakeholders. The company discusses lower-priority items in its web-based report.

In discussing the materiality assessment process, Starbucks seems to imply that the issues of greatest concern to stakeholders are also ones over which Starbucks has “reasonable control”. What is unclear, however, is how Starbucks addresses those issues over which it has relatively little control but are of great importance to stakeholders. Future reports might clarify this issue.

### Ford Motor Company

In its 2006/07 sustainability report, Ford defines material issues as those that have significant current or potential impact on the company (in three to five years), those that are of significant concern to stakeholders, and those over which Ford has a reasonable degree of control. Unlike in the Starbucks assessment, however, the level of control in Ford’s analysis does not appear to influence the determination of materiality.

Ford discusses in its printed report only those issues that rate “high” with regard to both stakeholder concern and company impact. Other issues are discussed on its website.

Of note is that Ford has expanded the number of issues included in the analysis for the 2006/07 report to 505 from the 34 evaluated for 2004/05. This illustrates both the level of detail that can be attained through a thorough materiality analysis as well as what an eye-opening experience the process can be.

### BT

In evaluating an issue, BT considers its policy, the financial impact on the company, and the degree of stakeholder as well as societal interest. BT’s CSR leadership panel, a panel of external experts, and the company’s CSR steering group, comprising senior BT managers, together determine whether and how BT will report on issues identified as material. This seems a sensible approach and one that will help to preserve objectivity in what is, essentially, a process driven by subjective interests.

BT discusses issues identified as “most material” in both its printed and online reports “material issues” only in its online report. The company does not address, either in its report or online, those issues identified as “not material”.

Companies that do undertake a materiality analysis can follow various approaches. BT, the UK telecoms firm, for example, invites a panel of external experts to assess how it should report on matters considered “material”. In the US, Starbucks defines material issues as those over which the coffee company has “reasonable control”. Carmaker Ford takes a similar approach.

Both identify issues through external and internal stakeholder input as well as through a consideration of company policies and strategy and the G3. But of the three companies discussed here, only Ford expresses an intention to use the materiality analysis “as an input to sustainability strategy development”.

Although several companies have applied the G3 guidelines, released more than a year ago, in their most recent reporting cycle, few companies actually employ materiality analyses to inform either their reporting efforts or business strategy. One can imagine the reasons: lack of time and resources, uncertainty regarding the process, fear of the unknown. Whatever the reason, an incremental beginning is better than none at all.

Odds are that, like most companies, you already have some idea of what your critical issues are, but be sure to seek outside perspective. Start by understanding your universe of stakeholders and your relationship to them. Begin the engagement process; learn their concerns. Avail yourself of the



BT seeks clarity from advisory panel

experience of others: consider what other companies have done, and engage expert counsel to guide you. And fear not the results; what you learn can only help you. ■

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### Top non-financial reporters

Companies that ask stakeholders what they want in reports include: **Allianz, Barclays, BMW, BP, BT, Exxon Mobil, Ford, Gap, GE, Pfizer, Repsol, Rio Tinto, Starbucks, Telefónica** and **Volvo**.