7 secrets to the perfect Materiality Analysis in record time
About Datamaran

Datamaran is a powerful solution for tracking the Environmental, Social and Governance (ESG) issues critical to your business. Datamaran fully automates previously manual processes for benchmarking, materiality analysis and ESG risk identification saving you time, money and delivering better insights.

Datamaran’s proprietary Artificial Intelligence technology scans and sifts vast lakes of data for 100+ non-financial issues, from climate risk to diversity, from geopolitics to innovation and technology. Sources include company reports, major news outlets, regulators and social media. Our specialised team of Data Scientists quality-check, guide and provide depth and context for the information delivered. When you access Datamaran you receive analytics tailor-made to your precise company profile that monitor the issues most critical for your business operations around the world.

A fast-growing client-base of multinationals have incorporated Datamaran to replace the dated and expensive manual processes that they used for benchmarking, revolutionised their materiality analysis process and increased the visibility of ESG risk and opportunities within their business.
Introduction

This e-book is for sustainability professionals, corporate responsibility professionals, risk managers and those involved in corporate reporting. It will give you the key information you need to create the perfect materiality assessment.

Material issues have significant implications for a company’s risks and opportunities, making them critical elements for decision making and strategy setting. And in the non-financial context, material issues can have financial implications too.

But what is materiality?

The concept of materiality applies in a wide variety of contexts: accounting, reporting, business, financial, legal, risk and, more recently, non-financial issues. Material issues have significant implications for a company’s risks and opportunities, and are therefore critical elements for decision making and strategy setting. And in the non-financial context, material issues can have financial implications, depending on the timing.

Recent studies show that about 80% of the world’s largest 250 companies are already identifying material sustainability issues in their reporting, demonstrating that non-financial issues can be material. In the last 15 years, 52% of the Fortune 500 Companies have gone bankrupt, merged or been acquired. Identifying and monitoring material non-financial risk effectively is essential for companies today.

The risk horizon is changing fast: there are 20 times more non-financial disclosure requirements today than there were five years ago, and voluntary disclosures are quickly becoming mandatory provisions. There are a number of new regulatory developments and responsible investment drivers putting non-financial issues at the forefront of corporate strategy and reporting, such as the EU Directive on non-financial reporting. With CSR moving from voluntary into compliance frameworks, we observe through our data that reporting on non-financial issues is increasingly becoming the law.
Materiality analysis: the process

The materiality analysis is a process in which you identify the environmental, social and governance issues that are most important, given the operating context of the business. The results can be used to align business strategy, reputation management and corporate reporting to minimize risk and create value.

It has a number of benefits for the business. A reliable, comprehensive materiality analysis means you can:

- Make better decisions about investment in sustainability (know what is material and where you can have the biggest impact or mitigate the biggest risk)
- Integrate non-financial issues into reporting to present a more complete picture to stakeholders
- Enhance business strategy by using materiality assessment input to reflect new business risks and opportunities
- Strengthen the foundation of sustainability work by embedding these issues across departments and supply chain
- Enhance stakeholder engagement by presenting them with viewpoints on issues that illustrate long-term value
- Stay ahead of continuously evolving stakeholder and regulatory demands on these issues

While there is much uncertainty in predicting future risks and opportunities, the materiality analysis process lets you make predictions in the most robust way possible. Ultimately it is about ensuring your company is as resilient as possible and ready to tackle the future.

Five years ago, the business community wouldn’t have expected the topic of ‘air emissions’ to trigger one of the largest corporate scandals of recent years, or that it would become an enduring topic for the media and consumers. But following the VW scandal, expectations of companies reporting on this topic have changed dramatically.

Material issues should both reflect your significant corporate ESG impacts, and influence the opinion and decision making of your stakeholders. They are not static: throughout the entire materiality analysis process, you need to monitor what is changing, and how issues are being framed across the industry, region, and public sphere. Not all material issues are of equal importance. Broadly speaking, material issues are expected to be prioritized, to some extent. The process can be simplified by identifying all high priority, medium priority and low priority issues.
It is advisable to consider the following to ensure your materiality assessment is robust:

- Rely on experts and non-financial reporting frameworks to make sure you have a comprehensive understanding of the subject matter, and how this might be impacting your business.

- Disclose the major impacts your business has – both positive as well as negative effects.

- Explain which reporting frameworks you have used – and to what extent you have applied them.

- Make sure you include the opinions of key internal stakeholders, i.e. employees.

- Review the key challenges and focus areas of your key peers – the industry leaders – and the industry at large.

- Make sure you understand the regulatory landscape and how these issues are increasingly being regulated – and where penalties may sit.

- Align the priority issues identified within your corporate strategy, your values and your strategic priorities to be most impactful.

- Make sure you balance positive information with negative information: it’s sometimes more important to address the challenges than shouting about your success stories (although of course you should do that as well!).
The seven secrets of success

 Whatever approach you take to your materiality analysis, there are some tried and tested ways to help you make it as perfect – and fast – as possible.

Secret 1  Understand materiality

Because of the importance of materiality across this range of contexts, defining the concept has proven challenging. The Corporate Reporting Dialogue Consortium was established in 2014 with the aim of creating greater coherence and comparability between the reporting standards and frameworks available for non-financial issues. Mainstream and non-financial standard setters joined the dialogue and published a Statement of Common Principles of Materiality, pointing out that:

- Materiality is used in the financial and non-financial domains for reporting and other business purposes
- Some countries have a legal concept of materiality, established by either case law, statute, or regulation
- The definition of materiality is tailored to each organization’s mission, so it is relative to manager’s contextual judgement, stakeholder validation and actual commensurability
- In terms of non-financial issues, members of the IIRC, IASB, GRI, FASB and SASB have agreed that: “Material information is any information which is reasonably capable of making a difference to the conclusions stakeholders may draw when reviewing related information.”

1Source: International Integrated Reporting Council (IIRC)
Expand your horizon of sources

Materiality assessments that use stakeholder surveys as the main (or only) source of information are only capturing the tip of the iceberg. The truth is that there is a whole array of supplementary information that should be analysed if you want to produce the perfect materiality assessment.

Corporate reports and regulations that impact corporate disclosure make up the first important layer to consider. Companies also need to factor in how their peers, industry leaders and regulators are shaping the issues relevant to their industry.

Beyond the competitive and regulatory pressures, there are also the fast-changing and dynamic voices of the public and the media. In an increasingly digital age, corporate reporting must reflect the agility of social and traditional media and integrate the issues raised into any materiality analysis.

To ensure you have a comprehensive view of the company’s material issues, it’s important to listen to as many different voices as you can – not just through surveys, but also by monitoring what’s happening across a range of channels.

“In 2016 BBVA has taken a great step forward in materiality analysis to make it more solid and ensure that the focus is on the most relevant aspects for both the stakeholders and the BBVA business. This involved carrying out a review of the material issues based on the data collected from a variety of sources, providing a broad information base that is auditable and objective, ensuring that the analysis is more robust than in previous years. During this process, analysis has been conducted on the current and emerging issues from the perspective of different stakeholders and BBVA’s strategy.”

Antoni Ballabriga, Global Head of Responsible Business at BBVA

Standard manual research: 150+ hours; Datamaran research: 15 hours

You don’t have to do it all manually! With Datamaran, a larger selection of available data sources deepens the analytical scope, enables detailed trends analysis, and makes the assessment more data-driven.
Draw from the standards
(but don't be confined by them)

International organizations that produce the guidance and standards for managing and reporting on material issues have spent decades working with a wide variety of stakeholders to make sure their guidance is comprehensive. You don’t need to reinvent the wheel here – tap into their expertise and take their lead, if it’s right for your company.

You may be familiar with some of the available reporting bodies, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and International Integrated Reporting Council (IIRC). They provide standards and guidance on how to manage and measure your material issues. Their frameworks all recommend a materiality analysis process in order to identify which issues matter most to the business and its stakeholders. There may be alternative frameworks you wish to align parts of your assessment to, like the Sustainable Development Goals (SDGs) or Task Force on Climate-related Financial Disclosures (TCFD). Whatever frameworks you choose, it is important to be clear about which you have used, and to what extent you have applied them.

While these frameworks give guidance on how to manage and measure your material issues, some of the issues that are material to your business might sit outside of their scope. Don’t feel constrained by the standard or framework you use; they should serve as a support beam rather than a fence.

Familiarise yourself with the available frameworks and standards, and use them in the best way possible for the company. But don’t feel confined by their limitations!

- globalreporting.org/standards/
- oecd.org/corporate/mne/
- unglobalcompact.org/
- integratedreporting.org/
- www.sasb.org
- iso.org/iso-26000-social-responsibility.html
Benchmark against leaders and laggards

A robust materiality analysis now requires you to benchmark against your direct peer group, the sector as a whole, industry leaders and region. What are the leaders in these areas looking at as material issues, and what are the laggards doing differently?

The issues that the leaders are focusing on are likely to be the issues that you also need to think about. Their ambitions may influence the goals you set yourselves, and the laggards provide an important baseline to work from.

The result of extensive benchmarking will be a more accurate reflection of your company’s position, giving you a more realistic picture from which to set targets and base the company’s strategy.

Manual: **80 hours**; Datamaran: **2 hours**

It’s no longer necessary to sift through corporate reports and benchmark manually. Datamaran lets you benchmark your company against more of your peers than has ever been possible, and to export and share the insights with relevant stakeholders as the materiality analysis progresses.
Observe your regulatory position

More and more regulatory initiatives that impact corporate disclosure are being introduced, and these regulations are fast becoming an important component of a detailed materiality assessment.

Since 2010, there has been an increase of more than 20-fold in the number of recorded ESG regulations. There are now more than 4,000 regulatory initiatives – current and draft – that need to be considered. And this trend looks set to continue.

Furthermore, as we have seen in recent years, large financial penalties are attached to some of these regulations. The legal penalties often hold financial sanctions, and this needs to be factored into a company’s materiality analysis.

Including regulations in your materiality analysis helps you keep ahead of developments that could have a significant impact on your company, today and in the future.

“In 2017, we will undertake a new review of AEP’s priority issues working with Datamaran… [The platform] helps us benchmark and analyze data on regulatory, competitive and reputational risks related to the latest economic, environment and social (ESG) issues. We regularly discuss our priority issues with our Enterprise Sustainability Council and external stakeholders, as well as reviewing the company’s risk reports to seek alignment.”

Sandy Nessing,
Managing Director, Corporate Sustainability at American Electric Power
Secret 6  Use the materiality analysis as a conversation starter

The reputational and competitive risks covered in the materiality analysis makes it a crucial and undervalued tool; it gives CSR and sustainability teams the chance to engage with senior management and other internal teams, such as risk and compliance.

As the field of sustainability becomes increasingly connected with risk management, communicating with risk and compliance is becoming a larger part of the agenda. Even if this is already the case in your company, the assessment is a useful tool to continue the conversation.

To get the most out of this approach, frame your materiality analysis in a way that you can gain buy-in from the people that can increase the impact of the assessment. Speak their language, rather than falling back on sustainability jargon. Avoid talking about ‘CSR’ and ‘ESG’ – explain what it is you mean, expand abbreviations and don’t assume everyone knows what SASB is. Before you share something with colleagues outside of the sustainability department, ask yourself: “would an old man at the bus stop or a 14-year-old girl understand the terms I’m using?” If not, consider rephrasing.

Better yet, if there’s a way to visualize what you’re sharing clearly and concisely, that will help communicate the issues more widely. For many, the materiality matrix that results from the analysis will be the key mechanism that links material issues with corporate strategy. It’s the tool to convey the competitive, regulatory or reputational risks for the business.
What will it look like? Here’s your opportunity to get creative: take time to think how the presentation of the data will best suit your business.

Using the materiality analysis as a conversation starter can help you create or strengthen links with other internal departments, such as risk and compliance; speak their language and get visual to make the most of the process.

Datamaran’s Materiality Module in action

The European Commission recognizes the importance of speaking plainly, and has come up with a list of jargon alternatives – this could be a useful starting point for you as you prepare to share your work.
Secret 7  Ongoing monitoring

And breathe. The completion of a materiality assessment is always a good time to pause. You’ve deserved it.

The hard, analytical work might be over, but the material issues you identified, and the context in which the business operates, will continue to change. Their pace of evolution means the materiality analysis is no longer as valuable as it could be if it remains an annual exercise. How will you keep on top of changes in the months to come, before your next full analysis?

There are various elements to keep an eye on:

- Are there new regulations or updates to existing regulations?
- What issues are your stakeholders (including media) focusing on?
- What are your competitors and peers talking about?

Make time to keep on top of the changes that affect your material issues after your matrix is complete, and record the information.

Manual: **100+ hours**. Datamaran: **automatic alerts**

You could set aside a couple of hours a day to trawl through your sources for updates, but Datamaran does it all automatically: you can set up alerts on your material topics, keeping you up-to-date on how they evolve.
The Datamaran approach

“Datamaran is a powerful tool which saves me a lot of time in terms of collecting material business information. It is the most important tool I have available to me at this point in time... every time I show colleagues what Datamaran can do they are blown away.”
Cora Olsen, Global Head of Corporate Reporting, Novo Nordisk

Technology is an enabler to speeding up how you track the information sources on which your materiality analysis is based, providing you with more reliable data. Best practice examples show companies tracking changes in real-time to be more proactive and resilient.

Studies have shown that linking ESG concerns with strategy can improve long-term corporate performance. The National Association of Corporate Directors (NACD) recommends the creation of an ESG early warning system at board level. It is therefore unsurprising that we have seen an increase in clients seeking ways to professionalize their materiality assessment process.

“Data-driven materiality helps us to make better strategic decisions.”
Global Head of Responsible Business, BBVA

Our response is Datamaran’s Materiality Application, which will change the way companies do their materiality analysis. Fully automated, fast and robust, the Materiality App replaces the work of whole teams of consultants, producing even more reliable results in less time. As well as identifying the company’s material topics, Datamaran 4 also comes with enhanced continuous monitoring to track important topics and trends throughout the year.

Datamaran harnesses technology to support decision makers with a revolutionary materiality analysis process based on:

- Credibility – confidence in results that are data driven and evidence based
- Reach – analysis of a broader range of data sources and stakeholder voices
- Efficiency – time and resource effective without compromising quality and accuracy
- Transparency – an auditable trail of evidence supporting the analysis
- Relevance – analysis that can feed into key business processes, including risk management

Datamaran data sources represent the different stakeholder voices; large volumes of data are available for each source, so the materiality assessment can be based on thousands of data points from corporate reports, regulations, news and social media posts.

“With Datamaran, we can get ahead of emerging regulation, industry trends and public sentiment, and make decisions based on credible insights.”
Jennifer Leitsch, Director of Corporate Responsibility, CBRE
While the system does all the analytical legwork, ensuring objective consistency in the methodology, the user is always in control of the key parameters that drive the outcomes – peer groups to benchmark, jurisdictions to analyze, news and social media influencers to track – and they can apply a different weight of importance to each component.

The Datamaran approach is not intended to replace stakeholder engagement and surveying; it empowers and integrates the process. Engaging stakeholders is a key activity for monitoring the pulse of the closest communities of stakeholders, and Datamaran has dedicated functionalities to survey internal and external stakeholders.

“Santander has made inroads in benefiting from new developments incorporating Datamaran at the center of processes in prioritizing sustainability issues.”
Etienne Butruille, Deputy Global Head of Sustainability, Banco Santander

The Datamaran approach is also dynamic, so users can stay one step ahead of their evolving material issues. The datasets on which the analysis relies are updated continuously, with new reports, regulations, news articles and social media posts added every day.

“Technology more than ever before gives us that capability: to predict what we need to do.”
Amanda Gardiner, VP Sustainability and Social Innovation, Pearson Plc.
Datamaran’s data-driven materiality assessment follows 7 steps:

1. **Identify** – choose all the relevant topics and sources to analyze across Datamaran’s four datasets; the sources represent different stakeholders’ voices.

2. **Customize** – set the criteria for analysis tailored to your needs: which peers, jurisdictions, news and social media channels should be included? Compare results and adapt the criteria.

3. **Prioritize** – which stakeholder sources are most important? Prioritize and weight them to create an External View of material issues. The External View is plotted on the Y axis of the final matrix.

4. **Validate** – provide scores to measure the extent to which each issue impacts on corporate strategy. Validate your results and integrate scores from stakeholders into the weightings assigned in step 3. This Internal View is plotted on the X axis of the final matrix.

5. **Visualize** - your materiality matrix provides a visual representation of your material non-financial risks.

6. **Communicate** – you can use your matrix and further information from the fully exportable information to communicate your material issues to all your internal and external stakeholders.

7. **Monitor** – set up alerts tailored to your material issues and check your dashboard to remain up-to-date and monitor your material issues.
Rapidly-evolving business intelligence technology means that more and more companies are using artificial intelligence and big data analytics to streamline their materiality analysis process. Datamaran 4’s powerful new Materiality Application revolutionizes the materiality analysis process, making it more robust, data-driven and faster.

We would be delighted to give you a personalised demonstration of Datamaran, tailored to your specific interests, helping you with benchmarking or materiality analysis. Simply request your demo session below.

Get in touch with us by using the contact details below.

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