Determine material issues, listen to right people

By Reana Rossouw

8 Dec 2011

In the first of a two-part series, I take a look at the essential need for meaningful stakeholder engagement and materiality identification as the *cornerstone* for a good sustainability or integrated report.

Two governing principles

Two principles govern the excellence of modern organisations' sustainability or integrated reports: materiality and stakeholder inclusiveness. These principles dominate the current reporting landscape and will intensify as the Global Reporting Initiative (GRI) prepares for its fourth generation reporting guidelines (GRI 4) and the proposed local and international framework for integrated reporting gains momentum.

A high quality report no longer reports on every possible issue that affects the organisation. It only discloses an organisation's most material and relevant sustainability issues. The days of reporting on everything and the kitchen sink, only to confuse report readers, are over.

The industry is moving away from doorstopper reports towards a new benchmark for sustainability reporting: concise, to-the-point, contextualised, content, which is aimed at *specific* stakeholders and answers to the organisation's most material sustainability issues.

Directing business strategy, informing the reporting process

The content of a sustainability report needs to reflect an organisation's most significant economic, environmental and social impacts, challenges, risks and opportunities, as well as the issues that substantively influence stakeholders' decisions about the future sustainability of the organisation.

The materiality principle prioritises these economic, social and environmental issues in terms of business sustainability and in such a way inform stakeholders' decisions.

By determining its most material issues, an organisation can clarify sustainability issues that drive the long-term success of the business and maintain a strong brand reputation. Materiality identification also provides organisations with a competitive business edge, enabling them to anticipate and manage change and assess their performance over a period of time.

If a sustainability report is not directed by a sustainability strategy and does not provide an organisation's materiality matrix, it partially fails.

Report readers aren't fools

Report readers aren't fools. They will ask how an organisation determined what to focus on in the report and what to leave out. A sustainability report should be exceptionally clear on how it arrived at the content, why it included certain issues and left out others. It should be clear on the organisation's progress on its sustainability journey, its future plans and its performance target commitments.

When reporting on materiality issues, a materiality matrix provides a robust basis for issues identification. It gives assurance to stakeholders that the organisation covered the key issues. The principle of materiality enables greater integration between sustainability and annual reporting, and translates into shorter, more focused reports.

But how does one determine an organisation's most material issues?

In this lies the essence of 21st century business. What the board thinks is material no longer solely determines an organisation's most material issues. All the people that have a stake in the organisation have a voice. Organisations need to listen to and engage with these people to recognise the substantial issues that have an effect on their business future.

Society grants licence to operate

The world has become connected and everyone has an opinion. Whether organisations care to listen or not, conversations about their brands and services continue. They are no longer only accountable to shareholders, but also to everyone else who has a stake in the business: their customers, their employees and the communities impacted by their operations.

It is these people who grant organisations their licence to operate. If organisations don't engage with them, these people will engage without them - exposing such organisations to a significant amount of reputational risk.

Stakeholder engagement provides different perspectives on an organisation's strengths and weaknesses. It equips organisations to avoid unexpected criticism from the outside world. Proactive engagement enables an organisation to know which attributes give it a competitive edge, and which issues threaten its licence to operate. Through engagement, companies can proactively identify complex problems and act on them before they become crises, eliminating the risk of reputational damage.

From a business perspective, getting insight from stakeholders on such complex issues and risks improves the organisation's decision-making processes and accountability. When a business needs to implement a change-initiative, the answer lies in stakeholder responses. These answers help the organisation to prioritise and to seek an understanding and solution to issues of mutual concern, combining resources and competencies and sharing the risks and benefits.

Examples of executing properly

Executed properly, stakeholder engagement is likely to result in on-going learning about and improvement of the organisation. It provides more knowledge on specific sustainability and business topics and challenges.

A mining company may think that its emissions are an environmental concern, but through engagement with communities, it may find out that communities view emissions primarily as an issue related to respiratory diseases. The material issue is therefore a health issue, not an environmental one. The actions to mitigate impact must focus on community health improvement, rather than environmental intervention.

Additionally, a bank may think reputation is everything, investing all its resources in environmental issues, only to find that its stakeholders are concerned about one thing only: bank charges. The bank's efforts to alleviate environmental problems become immaterial if its primary stakeholders perceive its business unsustainable because of escalating fees.

The focus therefore needs to be on socio-economic intervention to provide affordable banking services and make bottomof-the-pyramid groups part of the bank's service offering, rather than on saving the environment.

Golden link

In this lies the golden link between stakeholder engagement and materiality. If organisations engage meaningfully and effectively, they will be able to respond proactively to the material social, environmental and economic risks and opportunities that underpin their business, to ensure a sustainable financial future.

Part II looks at stakeholder engagement as a critical component of King III and conclude with an excellent case study from Gap on how the clothing retailer used the principles of engagement and material issue identification to save its face, give it political clout and enhance its public image.

For more:

- Bizcommunity: [Stakeholder engagement II] Reputation gains far outweigh effort

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