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Sustainability & Disclosure: Materiality. Granulated

Material issues are core for sustainability disclosure but how detailed does a materiality assessment need to be in order to be meaningful?

Submitted by: **Elaine Cohen**
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By Elaine Cohen

Part of the [DōShorts](#) series.

It sounds simple. Define your material issues and off you go, deliver your Sustainability Report in line with the new Global Reporting Initiative (GRI) G4 guidelines.

The complications show up when you try to understand what material actually means. Much has been written over the years about materiality in a sustainability context. The opening quotation, for example, in a recently published report by AccountAbility titled [Redefining Materiality II](#) goes like this:

"Materiality is like packing a backpack for a hike: you can only bring the supplies that are absolutely critical, otherwise the weight will slow you down and eventually bring you to your knees." - Gary Niekerk, Director, Global Citizenship, Intel Corporation

This report is a fascinating overview of the relevance of materiality, its drivers, the key players that are leading change in the materiality space and the application of the AccountAbility materiality framework, which was developed a few years ago.

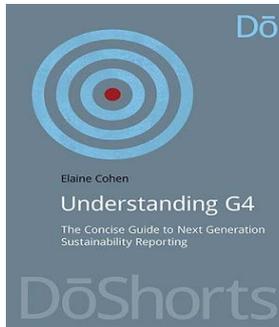
Then there are the many definitions of materiality as it relates to sustainability, including the GRI definition published in the G4 guidelines:

"Material Aspects are those that reflect the organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders."

In G4, however, Material Aspects should be boundary specific – this means, the place where the impact occurs must be identified.

Context: Material Aspects

For example, Unilever declared that the greatest greenhouse gas impact of its personal care products occur when they are used by consumers. In G4 terms, this would place the material aspect boundary outside Unilever's organization and in the



marketplace. While this does not mean that Unilever can ignore its accountability for the greenhouse gas impact of the use of its products, this is quite different from the issue of greenhouse gas emissions, which Unilever generates in actually producing and transporting these personal care products.

Declaring "greenhouse gas emissions" to be a material issue, may be misleading. The real issue here instead is "greenhouse gas emissions generated through use of personal care products."

Another example is health and safety.

Employees vs. Contractors: Making Health & Safety Material

Many large corporations have vast infrastructures to address health and safety in the workplace, with safety committees, officers, employee training, and all forms of protective devices on production floors and in offices. For these companies, where the accident and work injury rate is low, health and safety has become a way of doing business, and procedures are followed, the material risk is low.

However, the same companies who report extremely favorable worker safety results for permanent employees almost always report far worse results (if they report these results at all) for contractor employees working on site. In some cases, the difference between employee accident and contractor accident rates, not to mention fatalities, are incredible.

Case in point: [the safety record reported in Royal Dutch Shell's Sustainability Report for 2012](#). Three employees lost their lives on the job in 2012, while five contractors died. In 2011, one employee and five contractors died. In 2010, the company reported zero employee fatalities but 12 contractor fatalities. Although Shell does not include a set of material issues in matrix form, the main topics of Shell's sustainability approach include, simply, "safety".

Another example: [Weyerhaeuser reported zero fatalities](#) among employees in both 2011 and 2012. In each of these years, however, two contractors lost their lives. Isn't talking about health and safety, without going granular and referring to contractor safety, missing the point then?

Checklists: Defining the Scope of Corporate Disclosure

The question, then: how do you define a material issue, and what level of detail can we expect a company to adopt when identifying material issues?

Much has already been published about the new G4 Sustainability Reporting framework and its pivotal focus on materiality. The framework requires reporters to first define the material issues and then disclose the management approach and relative performance indicators for those issues. GRI makes life easy by defining a list of "material aspects" which are typically relevant for most businesses, including topics such as "emissions" and "occupational health and safety."

The Sustainability Accounting Standards Board, (SASB), has also published a first set of [material issues for the healthcare industry](#). In the list of material issues for the pharmaceutical sector, emissions give way to "Energy, water and waste efficiency" but "employee health and safety" is right up there with the other 11 issues. It would be easy for all reporting companies to check the boxes of these headline material issues and use these to shape their reporting and disclosure, without truly exposing the more detailed underlying issues, which are sector, company, geography, market and/or site specific.

Sometimes you need to get really granular in order to identify the true material risk and impact. How does that go again? *For the want of a nail...the kingdom was lost.*

Let's hope that these ready-made checklists of material issues will not be seen as backdoor materiality, masking more underlying issues which companies may be reluctant to disclose.

As ever, we, the stakeholders, must be vigilant and understand new reporting approaches, including G4, to know how they are used and how they might be abused.



Elaine Cohen [@elainecohen] is founder and managing consultant of Beyond Business Ltd, a CSR Consulting and Sustainability Reporting firm. She is a leading expert on sustainability reporting, and writes prolifically on the topic. This blog draws on her latest book [Understanding G4: The Concise Guide to Next Generation Sustainability Reporting](#) published by Dō Sustainability.

CSRwire readers can use code **CSR15** to save 15% on the book or any other 90-minute read in the **DōShorts Sustainable Business Collection**. To attend Elaine Cohen's G4 master class on October 22, 2013 in London, visit [DoSustainability](#).

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Kate Schrank · a year ago

Great article! We see the "materiality" focus in CSR reporting calling for a tri-level inquiry by companies : (1) "standard" material issues for all cos. (GRI), (2) "industry specific" (SASB) , and (3) company specific (Stakeholders) issues.

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elaine cohen → [Kate Schrank](#) · a year ago

Hi Kate... thanks! Yes. These are three good groupings. In addition to company specific, there are also regional or country specific issues which may be relevant for all companies in a specific geography. Is that part of your third grouping or a separate group? Elaine

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