



Climate
Change
Response

Harmonizing Your Materiality

Navigating Beyond the
Matrix: A Forward Strategy



Initiating a Materiality Assessment

Determining an organisation's most critical environmental, social, and governance (ESG) concerns is often encapsulated in a single overarching concept: materiality. The central challenge in shaping ESG strategy and enhancing performance lies in discerning which ESG matters hold greater significance than others.

Within this document, we recognise the novelty of conducting materiality analysis and the multitude of decisions that organisations must navigate, considering both sector-specific and business-specific factors. This "working paper" - a deliberately chosen term - represents our present understanding of the draft standards.

While regulatory changes may typically be perceived as routine matters for many large companies, the impending changes introduce fresh requirements that compel businesses to reevaluate their materiality procedures.

In 2021, the Global Reporting Initiative (GRI) introduced a fresh suite of reporting standards known as the Universal Standards 2021. These standards center on impact reporting tailored for a diverse stakeholder audience and will become applicable for information disclosed on or after 1 January, 2023*

Starting from the fiscal year 2024, the Corporate Sustainability Reporting Directive (CSRD) mandates all large companies in the EU, which are already subject to the Non-Financial Reporting Directive (NFRD), to disclose their sustainability performance. Under this framework, organisations are required to incorporate both impact materiality perspectives (inside-out view) and financial materiality perspectives (outside-in view) in their annual reports.

The imperative to comply with these regulations is compelling numerous companies to reevaluate and enhance their materiality assessment procedures. However, the question remains: **where should you commence, and how should you proceed with this process?**

We've crafted this document to furnish you with a comprehensive understanding of the compatibility between GRI and CSRD materiality concepts and to illustrate how you can tailor the materiality assessment to align with your specific business requirements.

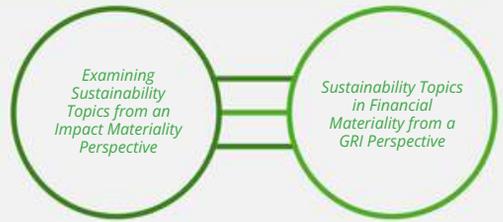
It's crucial to emphasise that the CSRD entails a range of specific disclosure mandates outlined in the European Sustainability Reporting Standards (ESRS). Consequently, in this paper, we will employ the term "ESRS" to denote the CSRD requirements. The ESRS use the terms "topics" and "matters" interchangeably when referring to ESG issues. For the sake of clarity in this document, we will consistently use the term "topic."

Intersection of Standards: GRI and ESRS

In the near future, two non-financial reporting standards will govern reporting: the GRI Universal Standards 2021 and the ESRS.

While GRI and ESRS offer distinct definitions of materiality, the underlying concept of materiality in both standards is essentially harmonised. Impact Materiality

Impact materiality refers to the significant effects an organisation has on the economy, environment, or society, or the effects that substantially influence the assessments and decisions of stakeholders. According to GRI, these impacts are, or will become, financially material over time and serve as the foundation for financial materiality assessments.



The most recent ESRS are structured in a manner that allows for compatibility in the perspective of impact materiality between GRI and ESRS.

Dual Materiality

The concept of double materiality encompasses the significant effects that an organisation has on the economy, environment, and society, as well as the reciprocal influence of society and the environment on the organisation. Both dimensions should be considered independently, recognising their interactions and interdependencies.



Synergy Between Standards: GRI and ESRS

Differences

Aspect	GRI	ESRS
Key Emphasis: Balancing the Significance of Impact Materiality and Financial Materiality	By Prioritising Impact Materiality, Enhancing the Understanding of Financial Materiality	✓
Geographic Relevance: Applicable to Companies Worldwide	✓	EU Mandates with Global Implications
Refining Topic Granularity: Encouraging the Organisation to Categorise Sustainability Subjects into Subtopics and Sub-Sub-Topics	Grouping Impacts into Broader Themes	✓

Similarities

Aspect	GRI	ESRS
Scope: Comprehensive Assessment Across the Entire Value Chain	✓	✓
Sector-Specific Focus: Materiality Assessment Tailored to Industry-Specific Factors	✓	✓
Stakeholder Inclusivity: Materiality Assessment Process Should Consider Impacts on All Stakeholders, While Offering Flexibility on Stakeholder Engagement Guidelines.	✓	✓

CCR's Methodology for Assessing Materiality

While GRI and ESRS exhibit variations in reporting demands, there remains a notable intersection between the two standards. At CCR, we've formulated a broad approach that draws from both standards, ensuring flexibility for tailoring the approach to your specific business requirements, as depicted in the diagram below:

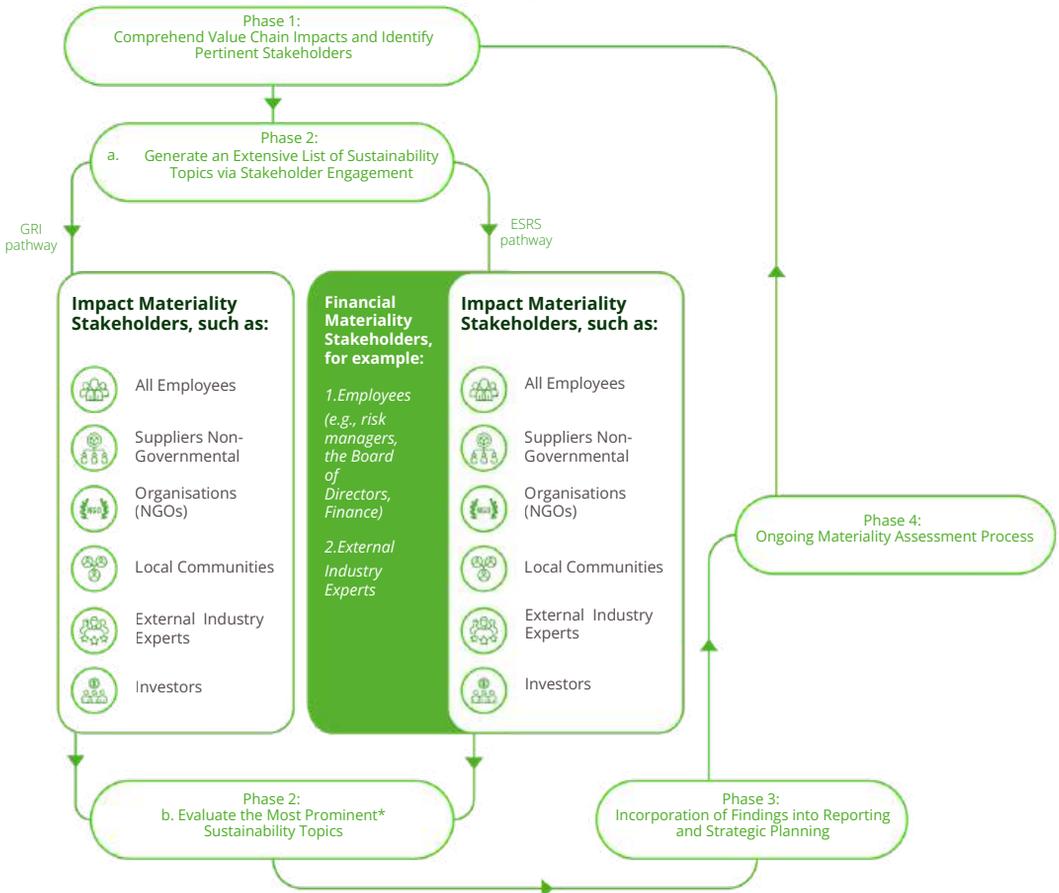
Assessment of Significance

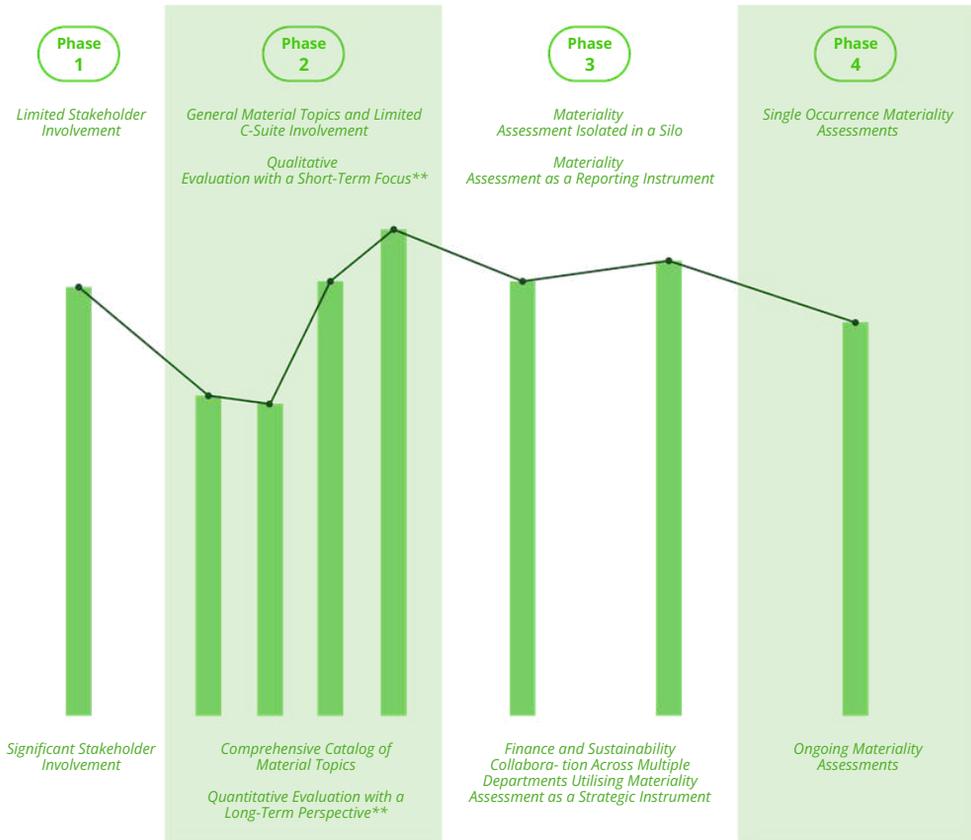
CCR's Methodology for Assessing Materiality

Prior to commencing, establish your equilibrium.

There is no universal materiality assessment that suits all; customisation is imperative. Various constraints, such as budget and the availability of personnel, can impact the process. It is crucial to adapt the approach to align with both your organisation's unique requirements and limitations, as well as the expectations of your stakeholders. We have delineated a set of foundational elements for each of the four phases. It's essential to engage in internal discussions about these elements before initiating the assessment.

Clearly articulating your approach to achieving balance is crucial. Completing the provided framework can be a valuable way to align expectations from the outset. This can involve input from a variety of internal and external stakeholders. The diagram below offers an illustrative example of a company that adopts a balanced approach in its materiality assessment.





Our Perspective on Achieving the Optimal Balance

We believe that a materiality assessment necessitates equilibrium:

- Over emphasising CEO involvement can be inefficient and wasteful, while complete exclusion of the CEO may erode stakeholder trust in the process.
- Engaging thousands of stakeholders in interviews can be impractical, resulting in vague results. Conversely, interviewing only a few stakeholders can lead to information gaps.

An exhaustive quantitative analysis of every material topic can create a false sense of certainty, while reducing the exercise to a purely qualitative assessment may result in inaccurate or subjective scoring.



Assessment of Significance

CCR's Methodology for Assessing Materiality

Phase 1: Comprehend Value Chain Impacts and Identify Pertinent Stakeholders

- For value chain analysis and stakeholder selection, it's crucial to assess the impacts and include a comprehensive array of stakeholders throughout the company's value chain. Restricting stakeholder engagement may result in information gaps. Conversely, extensive stakeholder engagement can be time-consuming and costly.
- The granularity of material topics is essential, striking a balance to avoid making topics too broad (e.g., climate change) or overly specific (e.g., PM2.5 emissions). ESRs offer guidance on topics and their definitions. It's crucial to define each topic from both a financial and impact perspective to establish a shared understanding of each topic among stakeholders.

Challenges and Solutions: Phase 1

Whether it's the first time or not, the materiality assessment process can be inherently challenging, particularly given the evolution of the materiality concept, which now encompasses both the **financial and traditional impact perspectives**. In this section, we highlight the most prevalent challenges we encounter during discussions with our clients, categorised into three main themes: stakeholders, assessment, and reporting & strategy.

How can you choose the most suitable stakeholders for the procedure?

In the realm of materiality assessments, the precise definition of the appropriate stakeholders is paramount. This definition aids organisations in recognising their impacts and correctly implementing associated disclosure requirements. Nonetheless, the list of stakeholder groups can become extensive, especially depending on the size of the company.

Solution

We highly recommend creating a comprehensive roster of individuals and groups whose interests are impacted or potentially affected by the organisation's activities and actively engaging with these defined groups. In accordance with reviewed regulatory standards, it's essential to specify the pertinent stakeholders for each sustainability topic or sub-topic. You can gather this data not only during the materiality assessment process but also by consistently involving stakeholders through various methods, including CRM tools, internal HR data, conferences, workshops, events, and other tailored communication channels for each group. To encourage stakeholders to share their perspectives through designated engagement channels, it's crucial to explicitly explain the purpose of the materiality assessment and the sustainability topics using plain, easily understandable language.

What approaches can be used to involve the C-suite effectively?

Involving the C-suite in the materiality assessment process can be challenging, especially when it's not easy to immediately demonstrate the business value. Consequently, some organisations may confine the process to a single group responsible for executing sustainability-related initiatives.

Solution

We highly recommend providing clear explanations to members of your C-suite about the double materiality process, which now incorporates the dimension of financial materiality. This dimension reveals the impact of ESG issues on the business in terms of risks, opportunities, costs, and benefits, thereby illustrating how ESG issues influence the business. This approach can assist top management in shaping the company's strategy. Initiating the assessment from a risk or financial perspective can help engage the CFO and CEO right from the beginning. Additionally, we suggest designating an individual board member to take ownership of the process and endorse key milestones in the double materiality analysis, such as the selection of topics and definitions, and the validation of stakeholder groups.

Challenges and Solutions: Phase 1

What level of detail is appropriate for material topics?

Organisations often grapple with the challenge of determining the appropriate level of granularity for material topics. There might be a temptation to offer a broad list of material topics for stakeholders' evaluation, attempting to accommodate every group. However, this approach could lead to variations in how the importance of each topic is understood and subsequently cause issues with assessments and comparisons when identifying material sustainability issues for reporting and management. Furthermore, disparities in outcomes and impacts could introduce uncertainty when defining materiality topics.

Solution

Commencing the materiality assessment with the creation of a comprehensive long list of potential material topics is a pivotal step. Subsequently, grouping these topics becomes essential. This approach facilitates the categorisation of related impacts, such as those related to energy efficiency, greenhouse gas emissions, and climate change. We recommend utilising impact pathways for topic grouping, which highlights distinctions between inputs, outputs, outcomes, and impacts. This method enables the management of stakeholder expectations and facilitates the alignment of definitions, including what is included or excluded for each topic. Once topics are clustered, the materiality assessment becomes more streamlined, allowing for the alignment of granularity levels with the preferences of internal and external stakeholders. Moreover, it's important to recognise that the level of external reporting for material topics may differ from their use in internal decision-making processes.

How can we assign robust weights to issues?

Many businesses encounter challenges when interpreting the quantitative data derived from surveys, interviews, and other engagement processes. Frequently, the outcomes may exhibit a bias toward the perspectives of employees, who often comprise the largest respondent group. Conversely, viewpoints from NGOs, local communities, and regulatory bodies are typically under-represented and may be marginalised

during the scoring phase, primarily due to their smaller sample sizes compared to employees. This poses a potential risk where the materiality outcomes may become skewed toward employee viewpoints, rather than reflecting a well-balanced perspective across various stakeholder categories.

Solution

Quantitative assessments of materiality outcomes are not an exact science. Achieving consistent levels of engagement across stakeholder groups can be challenging. To address the issue of outcomes being disproportionately influenced by one specific stakeholder category, one solution is to utilise a weighted average approach. This approach ensures that each stakeholder group is assigned an equal weight when evaluating overall scoring of outcomes.

Phase 2: a. Generate an Extensive List of Sustainability Topics via Stakeholder Engagement

- Establishing guiding principles for stakeholder engagement is vital for a robust materiality assessment process. These principles encompass decisions regarding the choice of stakeholder engagement channels, the extent and type of participation in each channel, the stage at which specific stakeholder groups are involved, methods for validating results from stakeholder engagement, the compilation of a list of material topics, governance of the process, and visualisation of the outcomes.
 - Scoring: Implementing a robust scoring methodology is essential to reduce subjectivity. Moreover, qualitative interview findings can assist in interpreting quantitative results. Ensuring the traceability of assumptions is crucial to prepare for external assurance (as per CSRD, limited assurance will be mandatory in FY24 for companies subject to the NFRD, and in FY25 for all large organisations).
 - Time Horizon: The CSRD mandates organisations to evaluate financial impact over the short, medium, and long-term, recognising that the financial effects of factors like climate change may escalate over time. It's crucial to maintain transparency regarding the chosen time horizon for assessment.
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Our view on quantification

In an ideal scenario, we envision every issue being quantified from both an impact and financial materiality perspective. However, as tools continue to evolve, we acknowledge that many organisations are still far from achieving this ideal. So, the question arises: **what steps can be taken in the interim?**

In evaluating the relative importance of each issue, some pioneering organisations are exploring impact valuation techniques. This involves converting each issue into a social cost or benefit to assess its impact perspective.

Moreover, financial materiality can be evaluated using integrated Net Present Value or risk models, taking into account factors such as likelihood and severity. Nevertheless, it's noteworthy that many organisations are presently relying on proxies to determine severity and assess the likelihood of these occurrences in the future. For example, they might consider historical share price fluctuations due to specific events or changes in expected regulations. In the near future, we anticipate that most organisations will report based on more qualitative assessments over the next 2-3 years. Over the long term, as models become more sophisticated, there will likely be an increased inclusion of quantitative outcomes.

The materiality assessment process is usually not a linear one and often demands multiple iterations before results are well-established. Ideally, it involves input from various stakeholders, including those from risk, finance, and sustainability perspectives.

Assessment of Significance

CCR's Methodology for Assessing Materiality

Here's a fictional illustrative scenario that shows how CCR's approach to 'double' materiality works in practice:

A multinational retail giant, sourcing products from manufacturers in China, Bangladesh, and India, is committed to conducting a comprehensive double materiality analysis in accordance with the ESRS guidelines. In pursuit of a competitive edge as a socially responsible retailer, the company aims to gain a profound understanding of the critical sustainability topics it should prioritise.

Within the spectrum of sustainability topics delineated in the ESRS, this retailer is placing emphasis on key issues, particularly "Working conditions at suppliers," with a specific focus on the sub-topic of "forced labor." This is driven by the escalating apprehensions surrounding human rights in supply chains, particularly in regions identified as high-risk. To facilitate its materiality assessment, the company would follow CCR's methodology, examining the following inquiries:

Phase 2: b. Evaluate the Most Prominent* Sustainability Topics

Analysis of Impact Materiality:

I. What is the actual or potential positive or negative influence that a major global retail business exerts on (forced) labor within its supplier network?

Is there a likelihood that instances of forced labor may exist within the retailer's supplier network?

Considering the attributes of the retailer's supply chain and its internal risk evaluation, there exists a potential for forced labor.

Is there documented evidence or verification of forced labor occurring within the retailer's supplier network?

Currently, the retailer has no knowledge of forced labor incidents within its supplier network. However, based on the information provided, there is a potential adverse impact associated with the occurrence of forced labor at the retailer's suppliers.

II. What is the extent of the significance of this impact?

Determined by severity of the impact:

Scale

Forced labor within the supply chain is a matter of utmost gravity, as it constitutes a severe breach of human and labor rights, impacting individuals of all ages, including both children and adults.

Scope

The retailer procures significant quantities of goods from nations where the possibility of forced labor exists. This procurement potentially involves numerous individuals across various countries, all of whom could be negatively impacted by forced labor.

Irremediability

The consequences of forced labor can be mitigated to a limited extent, contingent upon the specific circumstances of each case.

Likelihood

The retailer's supply chain extends into regions where forced labor is more prevalent. Depending on the retailer's purchasing influence, there is an increased likelihood of the negative impact occurring. However, the implementation of suitable due diligence measures by the retailer can diminish the probability of the potential adverse impact.

Analysis of Financial Materiality:

I. What external developments or triggers related to forced labor within supplier networks might pose a risk or opportunity for the retailer?

One notable external trigger is the growing scrutiny from non-governmental organisations (NGOs), regulatory bodies, and heightened consumer awareness regarding the significance of human rights within corporate supply chains and the prevention of abuses.

II. What is the risk associated with forced labor within the supplier network that could yield an actual or potential impact on the financial outcomes and valuation of the company, including aspects like liabilities, over the short, medium, and long-term periods?

- In the short and medium term, the risk entails the worst-case scenario of having to terminate business relationships, remediate adverse effects for workers, and transition to alternative suppliers, potentially incurring higher labor costs. This could also result in a decrease in sales.
- In the long term, the risk revolves around the possibility of substantial and/or repeated incidents of involvement in forced labor, which could lead to significant (commercial) reputational damage for the retailer. Additionally, it may lead to lawsuits necessitating financial provisions.

III. What is the probability of the risk (or opportunity) materialising?

The likelihood hinges on the retailer's reliance on high-risk suppliers. Given that the retailer's supply chain extends into countries with significant country risk factors, such as governmental instability, as well as regions where forced labor is more prevalent, the retailer's assessment indicates that the probability of forced labor incidents occurring, along with associated business disruption and compliance problems, is high.

IV. What would be the financial impact if this risk (or opportunity) were to materialise?

The potential financial impact is significant and encompasses higher procurement expenses due to a forced change of suppliers, legal costs resulting from the obligation to remediate, and reduced revenue resulting from delivery delays and customer attrition due to the retailer's tarnished reputation.

Challenges and Solutions: Phase 2

How to establish the right time frame?

Determining the right time horizon involves considering industry-specific factors, such as cash flow patterns, business cycles, the expected duration of capital investments, the time frames within which users of sustainability reports evaluate information, and the planning horizons commonly employed within your industry for decision-making.

Solution

The appropriate time horizon for assessing risks varies depending on factors like industry, business size, and type. For example, the mid-term period in the banking sector may differ from that in the construction sector. To establish relevant time horizons:

1. Align with Investment Horizons: Consider your organisation's investment horizons and how long you expect to see returns on investments.
 2. Reflect Your Business Model: Align the time horizons with your business model, including factors such as product life cycles and operational planning.
 3. Match Planning Horizons: Consider the typical planning horizons used in your industry for strategic decision-making.
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Once these considerations are made, you can utilise tools like internal risk management processes and external international risk frameworks to incorporate these time horizons into your assessment. When conducting a double materiality assessment for the first time, it's advisable to start with a step-by-step approach, initially focusing on a specific part of the value chain before expanding to more comprehensive assessment.

Evaluating long-term risks in the absence of data

A comprehensive sustainable risk assessment should consider not only short-term and medium-term risks but also long-term risks. This is essential, as many environmental and social impacts can have lasting consequences for both businesses and the societies in which they operate. However, organisations often encounter challenges related to the availability of data for conducting long-term risk analysis. This data gap can, in part, be attributed to the differing timeframes associated with different industries and operational regions.

Solution

A qualitative approach helps identify potential long-term risks and overcome the challenge of lacking historical data. The information gathered can serve as an initial step towards quantifying risks.

As a follow up, specific modeling tools and an understanding of the current impacts your organisation already faces can help identify the long-term risks that you may encounter and enable you to address them beforehand. Additionally, it's important to be aware of key environmental, social and economic trends and risks occurring in the regions where you operate. According to the aforementioned World Economic Forum Global Risks Report 2022, the top five most critical risks that may arise in the short, medium and long-term relate to environmental, social and economic aspects.

Assessment of Significance

CCR's Methodology for Assessing Materiality

Phase 3: Incorporation of Findings into Reporting and Strategic Planning

C-suite engagement is essential for conducting materiality assessments. Senior management must actively participate, stay informed about the assessment outcomes, comprehend the material topics from both an impact and financial standpoint, and actively validate the results.

Cross-functional vs. sustainability-only approach: As the financial ramifications of an organisation's impacts become more evident, engaging multiple functions within the company can yield significant advantages. This approach can serve as a management decision-making tool across various facets of the business.

Reporting vs. strategic enabler: It is crucial to clearly define the purpose of the materiality assessment. A compliance-driven approach differs significantly from utilising the materiality assessment as a strategic tool to evaluate risks and opportunities, as well as to refine or reshape the company's ESG strategy. Establishing the objective in collaboration with key stakeholders upfront is vital for success.

Challenges and Solutions: Phase 3

Integrating materiality assessment outcomes into reporting and decision-making involves the following steps:

It is crucial for the company to evaluate the materiality assessment results in the context of its strategy and business model. As a result, these results should be seamlessly integrated into the reporting and decision-making processes. However, the specific methods for effectively creating awareness about materiality assessment outcomes and seamlessly integrating them into decision-making processes may vary depending on the organisation.

Solution

Increasing calls for transparency and accountability, heightened stakeholder engagement, and the evolving regulatory landscape are compelling businesses to enhance their disclosure practices regarding their environmental, social, and governance (ESG) impacts.

By transparently reporting their ESG-related impacts in their annual reports and sustainability reports, while aligning with established standards like GRI and ESRS, companies can realise several substantial advantages.

In summary, transparent reporting of ESG-related impacts, following established standards, cultivates trust, strengthens the company's image, and positions it for competitive advantages, financial success, and long-term sustainability in a dynamic business environment.

Furthermore, the double materiality assessment uncovers ESG-related gaps, providing valuable insights for companies as they shape their strategic direction. Access to extensive ESG data equips management with a more well-rounded foundation for making informed decisions. Additionally, in the case of conglomerates or companies comprising various business clusters, it is crucial to establish individualised prioritisation for each specific segment based on the assessment outcomes.

Utilise a materiality analysis as a strategic tool to pinpoint risks and opportunities that extend beyond mere compliance.

Numerous companies encounter challenges when attempting to leverage materiality assessments beyond compliance. While some view it as a means to generate strategic insights and value, aligning materiality analysis with the identification of risks and opportunities can be challenging, particularly when not all ESG risks are currently on the radar.

Solution

The results of a materiality assessment can serve as a strategic tool when evaluated in the context of a company's strategy, helping to determine the necessary strategic implications. When identifying risks and opportunities, the following elements can be beneficial:

1. Ensuring that input is sourced from various business functions and subjected to a comprehensive screening process.
2. Recognising that existing tools for monitoring social media may not uncover new risks or opportunities unless they can offer insights into "hidden" risks on the deep web that may suddenly become significant.

3. Incorporating insights from industry experts, whether from academia or business, who can provide information on emerging (potentially disruptive) technologies or critical shifts in political environments, including alterations in government and legislation.

Phase 4: Ongoing Materiality Assessment Process

The frequency of materiality assessments varies considerably. Leading organisations adopt a continuous approach, involving the C-suite in an ongoing process to consistently capture valuable stakeholder insights

Our view on integration

We consider it essential for the materiality process to involve not just the sustainability team.

Involving other pertinent internal departments, including finance, internal risk management, procurement, and HR, offers distinct advantages. We believe that risk management should play an integral role in the process and take ownership of the financial impact component.

Establishing transparent governance and delineating roles and responsibilities is of paramount importance.

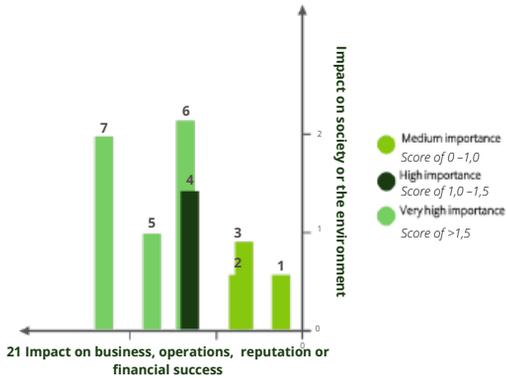
Assessment of Significance

CCR's Methodology for Assessing Materiality

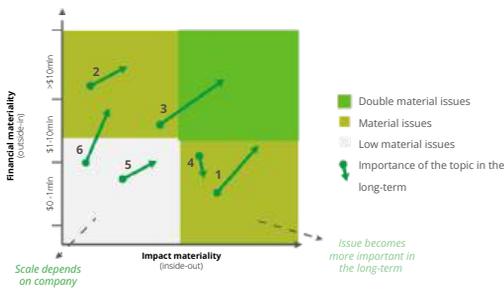
It's worth noting that neither GRI nor ESRS requirements specify a prescribed format for presenting the assessment outcomes.

The following diagrams serve as examples of how outcomes could be presented in a double materiality matrix:

Double Materiality Analysis



- 1.Data Privacy
- 2.Water Management
- 3.Biodiversity Conservation
- 4.Business Ethics and Conduct
- 5.Innovation and Research & Development
- 6.Energy Storage Solutions
- 7.Renewable Energy Sources



Examples of potential material topics:

- 1.Water Consumption
- 2.Human Rights
- 3.Occupational Health and Safety
- 4.Waste Management
- 5.Climate Change
6. Biodiversity

In the upper right quadrant, you'll find topics that are identified as material from both a financial and impact perspective. The secondary level of materiality falls into the area of analysis that is either purely outside-in or inside-out without overlap. According to ESRS guidelines, these should also be considered as 'material' topics. In the left example, the changing nature of impacts over time is visualised using bubbles with arrows, representing the expected time span during which the impact is anticipated to occur.





Our Team

CCR can provide knowledge and expertise in the area of materiality assessment and assist you in implementing a rigorous and influential process.



Om Dubey
Managing Director



John Tedesco
Senior Advisor



Parminder Singh
Regional Director



Greg Muller
Principal Consultant



Animesh Dubey
Manager, Marketing
& Growth





At CCR (Climate Change Response), we believe that achieving a carbon neutral world means embracing innovation. We find that taking actions that benefit our planet is also good for the ultimate bottom line – which makes sustainability a key driver in the work that we do. For more information, please visit <https://ccr.earth/>.

We are a leading climate action solutions provider, constantly working towards a net-zero world. Our focus is to solve your energy, process, and emissions challenges. With a diverse team of experts, CCR helps you reduce your carbon footprint, implement ESG frameworks, optimise your energy outcomes and improve your overall sustainability performance.

We are a client-focused professional services company that provides solutions to complex problems and helps you deliver effective and sustainable solutions to your energy, process, and emissions challenges. We are a small but diverse team of highly principled people that share a common belief in science, technology, and sustainability.

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