A Sustainable Environment: Our Obligation to Protect God's Gift

by
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Materiality and Sustainability – Why They Are Critical

Material and materiality are words that have long been used in accounting. "Material" has been used in cost accounting in reference to a portion of the cost in the manufacturing of a product. "Materiality", however, refers to items in a financial statement that can have an influence or a decision by the user of the financial information. More specifically, the materiality principle states that an accounting standard can be ignored if the net impact of doing so has such a small impact on the financial statements that a reader of the financial statements would not be misled. But what about materiality and sustainability?

Environmental and social sustainability is an evolving concept that continues to change and be updated. One of the most useful and globally accepted standards is the Global Reporting Initiative. A critical aspect of the GRI is transparency to all the stakeholders which allows the company to measure, monitor and thus manage its impact on the environment, the society and the economy. GreenBiz, an international sustainability newsletter, pointed out four years ago that many companies did not disclose to their stakeholders, the ESG (Environmental Social Governance) information and data that are used for management and investment decisions. Focus began to increase on the ESG information that is essential for key decision makers, that is, information that is material. Consequently, materiality is becoming more relevant and all companies need to embrace it.

The best way for a company to become truly engaged in sustainability is to start with a materiality assessment. The organization needs to list all the aspects that could have an environmental, social or economic impact as well as an impact on the various stakeholders. Materiality is actually the threshold at which these various aspects become sufficiently important that they should be reported. Beyond this threshold, not all material aspects are of equal importance, and the emphasis within a report should reflect the relative priority of what is material and what is not.

To determine which aspects are material and which are not, there are several questions that can be answered:

- What are reasonably estimable sustainability impacts, risks, or opportunities (such as climate change, water quantity, poverty) identified through sound investigation by people with recognized expertise, or by expert bodies with recognized credentials in the field?

- What are main sustainability interests and topics, and indicators raised by stakeholders (such as affected groups within local communities, other countries, or the global society)?
- What are the main topics and future challenges for the sector reported by peers and competitors?
- What are some relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders?
- What are some of the key organizational values, policies, strategies, goals, and targets?
- Consider the interests and expectations of stakeholders specifically invested in the success of the organization (such as employees, shareholders, customers, suppliers and even the community)
- What are the significant risks to the organization?
- Consider the critical factors that will lead to the success of the company.
- What are the core competencies of the organization and the manner in which they may or could contribute to local as well as global sustainability?

If you can identify what matters most to your employees, customers, investors, and other stakeholders, you should be able to tap into their thoughts, attitudes, and ideas. This will truly allow you to develop a productive business strategy as well as a very effective reporting initiative. Perhaps the biggest benefit could be the development of a better relationship with your stakeholders showing that they matter and thus helping build rapport and bolster trust.