

# Materiality

## Briefing Paper

### What is materiality?

A materiality assessment is the process of identifying and prioritizing the social, environmental and economic issues that are most significant to the business and its stakeholders. This process helps businesses focus their strategies and reporting on the risks and opportunities that matter most and to drive continuous improvement.

#### **Main output of a materiality assessment:**

a set of material social, environmental and economic issues deemed critically important to both a company's stakeholders and its long-term business success.

This set of issues can be used to develop a sustainability strategy that enables you to drive positive impacts across your top issues. Traditionally, materiality was defined purely through the lens of financial reporting, but over the last decade there has been increasing understanding from investors and other stakeholders that social, environmental and economic issues can also have significant material financial impacts. Therefore, many companies conduct sustainability materiality assessments to better understand, act upon and communicate about their most important issues.

#### **Why should DSF members consider materiality?**

Materiality assessments will be an invaluable tool and required action as DSF members work to realise the shared vision of a vibrant dairy sector committed to continuously improving its ability to provide safe and nutritious products from healthy cattle, while preserving natural resources and ensuring decent livelihoods across the industry. The DSF's eleven sustainability criteria, the Global Criteria, that serve as a focal point for the DSF are a key input to your materiality assessment; the process of materiality assessment will

help you identify and prioritize how the eleven criteria, and any additional issues, are most critical to your business and your stakeholders.

Not only will materiality allow members to focus efforts on the areas in which they can have the greatest impact, but it will help the business overall. Conducting a materiality assessment can help mitigate risks, engage internal leadership and meet the growing expectations of external stakeholders and third-party reporting institutions that are demanding more robust levels of detail and transparency from organisations.

#### **What are the benefits of a materiality assessment?**

A materiality assessment can help gather insights that can both serve as the foundation for your sustainability strategy and help structure meaningful reporting. It can also play a role in justifying investments and engaging various parts of the business and senior management in raising the profile of sustainability topics. Ultimately, a materiality assessment can help you lead on the most critical environmental, social, and economic issues, driving positive change both within the company and outside your four walls.

#### **Specifically, a reliable and comprehensive materiality analysis will enable you to:**

- > **Inform and align strategy development and goal-setting**, ensuring the sustainability strategy is based on a robust set of prioritized issues
- > **Prioritize resources** so you can focus time and money on the most important topics to your business and stakeholders.
- > **Build trust and buy-in internally**, breaking down departmental silos to build cross-functional teams.
- > **Provide a robust foundation for dialogue with external stakeholders**, increasing your control, improving mutual understanding and building relationships and reputation.
- > **Identify upcoming trends** that could significantly impact your company's ability to create value in the long-term
- > **Integrate sustainability** into the core of the business and align the sustainability strategy with the core business strategy
- > **Foster transparency and reporting** to deliver focused communication on the issues that matter most to the business and stakeholders.

#### **Case studies:**

- **FrieslandCampina**
- **Arla Foods**
- **Australian Dairy Sustainability Consultative Forum**

**Page 4**

**Page 5**

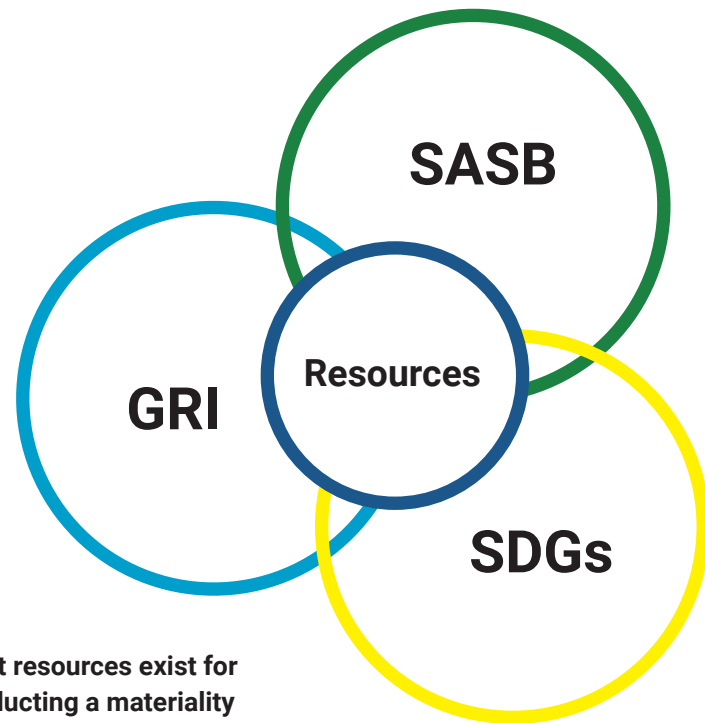
**Page 6**

### What are key trends in materiality?

More and more companies are conducting materiality assessments. According to the WBCSD's 'Reporting Matters assessment', 94% of reviewed companies disclosed some form of materiality assessment in 2016. Materiality assessments take many inputs from internal and external stakeholders, resources and publications, and expert thought leadership and create as an output a narrowed set of priority issues that can serve as the company's focus.

### Companies typically present the following outputs of their materiality assessments:

- > A final set of 10-30 material issues, sometimes with a strategic set of 3-6 issues indicated as the highest priority issues among the larger set
- > A matrix or other diagram showing how top issues are prioritized against key factors such as impact the business has on the issue and degree of stakeholder concern about the issue.



### What resources exist for conducting a materiality assessment?

A key resource for your materiality assessment is the DSF Global Criteria, which present eleven topics to be considered in your assessment. Beyond this Criteria, there is a wide array of guidance which exists to help companies gather information on what topics may be material to them. Reporting bodies such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) provide standards and guidance on how to manage and measure material issues, while the United Nations' Sustainable Development Goals (SDGs) provides a 2030 sustainability agenda which includes sustainability topics of highest importance. These frameworks all define materiality slightly differently, recommending that companies research potentially material issues with reference to markets, stakeholders, geography, regulation, competitors and other factors.

> **GRI** | The GRI is widely accepted as the leading organisation offering guidance on sustainability reporting. The GRI's latest guidelines, its G4 Standards, mark a significant shift from previous guidelines, placing materiality at the heart of sustainability reporting. The suggested process involves engaging with key stakeholder groups and is therefore aimed at companies looking to report material social, environmental and economic impacts to a wide audience of stakeholders through sustainability reporting.

> **SASB** | SASB identifies sets of material issues for each industry. With origins in the US market, SASB was originally designed to support filings for the US Securities and Exchange Commission (SEC). The guidelines are predominantly aimed at companies looking to report social, environmental and economic information specifically to investors.

> **SDGs** | These 17 United Nations (UN) goals and associated targets provide a guiding set of issues for companies to focus upon, ranging from hunger alleviation, quality education, to healthy marine ecosystems and renewable energy. The SDGs have been agreed upon by over 90 countries and set the pathway toward a sustainable future to be achieved by 2030. They can be used as an input to materiality assessments, helping to ensure a company's top material issues align with some of the SDGs. Rabobank discusses how it addresses the SDGs in a standalone report.

Even with such a high degree of professional consensus around what might determine materiality, the actual assessment incorporates both objective and subjective aspects, with individual judgements varying by organisation (see more information in the references section on the back page).

## How do you conduct a materiality assessment?

While there are numerous ways to conduct a materiality assessment, there are key steps that can be taken to form a robust approach to gather inputs from numerous resources and help you develop a refined list of priority issues. We outline these steps below and describe them in further detail.

A key first step to a materiality assessment is clarifying the objectives of the assessment. Materiality assessments are typically conducted to either establish a foundation for a new or refreshed sustainability strategy, and/or to inform sustainability reporting. The DSF Global Criteria will serve as an important starting point for your materiality assessment, regardless of the scope of your objectives. While the outputs of the assessment will vary (e.g. likely a shorter list of issues for strategy-focused assessments vs longer lists of issues for reporting-focused assessments) the following steps can be taken for any assessment and customized and scaled to meet the needs of your company.



### 1 Business Review

A key first step is to ensure an understanding of your business' current risks, opportunities and priorities. This review will be used to inform the development of an initial list of material issues.

- A)** Information can be gathered through a review of public and internal documents (annual report, sustainability report, investor presentations, consumer insights, strategy documents).
- B)** Interviews and/or surveys with representatives from departments across the business can also help identify top issues and can engage colleagues in the process.

The output of this step is a preliminary list of issues that are important to the business and a comprehensive understanding of the business' sustainability risks and opportunities.

### 2 External Landscape Assessment

This step incorporates external trends, issues and perspectives into your materiality assessment, ensuring you are taking into account the context within which your business operates and issues that may be emerging in importance.

- A)** A review of the DSF Global Criteria is a key first step to understanding how these issues impact your business, and how your business impacts these issues.
- B)** To identify other issues of high importance externally, a trends assessment can be conducted, scanning resources such as industry reports, thinktank publications, regulations, GRI, SASB and the SDGs previously noted, and databases for topics that are trending in importance to outside stakeholders. These issues are likely to include the eleven DSF Global Criteria but may also include issues beyond the set of eleven.
- C)** A benchmark analysis of peers and sustainability leaders and their material issues helps to inform your own list of material issues.

- D) Using an updated list of material issues you can then test the importance of these issues with experts by surveying and/or interviewing external stakeholders, such as academics, customers, government representatives, investors, NGOs and suppliers to ask targeted questions about your business and the issues of highest concern for them.

The output of this step is a summary of relevant issues, including all or some of the eleven Global Criteria, that are trending externally, of high concern to your stakeholders, and being addressed by your peers.

### 3 Issue Prioritization

Taking the complete list of material issues from the previous step you are now ready to prioritize the issues and refine the list. Issue prioritization can be done in a number of ways and you may consider the following factors to use as a means to score and rank the issues:

- > Degree of control over the issues / where in your value chain the issue has greatest significance
- > Likelihood of impact
- > Current performance on the issue
- > External stakeholder concern
- > Internal stakeholder concern
- > Potential to impact the business financially, operationally and/or reputationally positively and/or negatively
- > Potential for the business to impact the issue positively and/or negatively

Various scoring methodologies can be used to assess the issues across the above factors. Once scored, the low-ranking issues can potentially be removed from the list, refining the final set to 10-20 issues in total. Scoring will also enable you to identify a strategic subset of 3-6 issues which can serve as a focus for your sustainability strategy and your most ambitious goals and efforts. Weightings can also be used to identify how the material issues rank in importance to different stakeholder groups.

Once scored, issues can be mapped on a matrix to provide a visual representation of the significance of the issues. This output can serve as a useful communication tool for various stakeholders. The axes of the matrix can be determined based on which factors you selected for your issues scoring and which ones are deemed most important to the business for decision-making. Examples of diagrams can be found in the case studies section.

### 4 Socialization and Integration

To ensure the results of the materiality assessment are used for the intended purposes (either to inform strategy or reporting, or both) it is important to socialize and engage colleagues on the work. This can be done through a validation workshop in which the results of the assessment are presented to colleagues and a discussion is facilitated to gather their input and feedback. Revisions to the assessment can be made after this step, ensuring that colleagues see that their input has been considered and incorporated. It is also important to integrate the results of the assessment into the company's core strategy and risk management, ensuring sustainability is not an isolated, silo'd effort but rather core to the strategy and operations of the business.

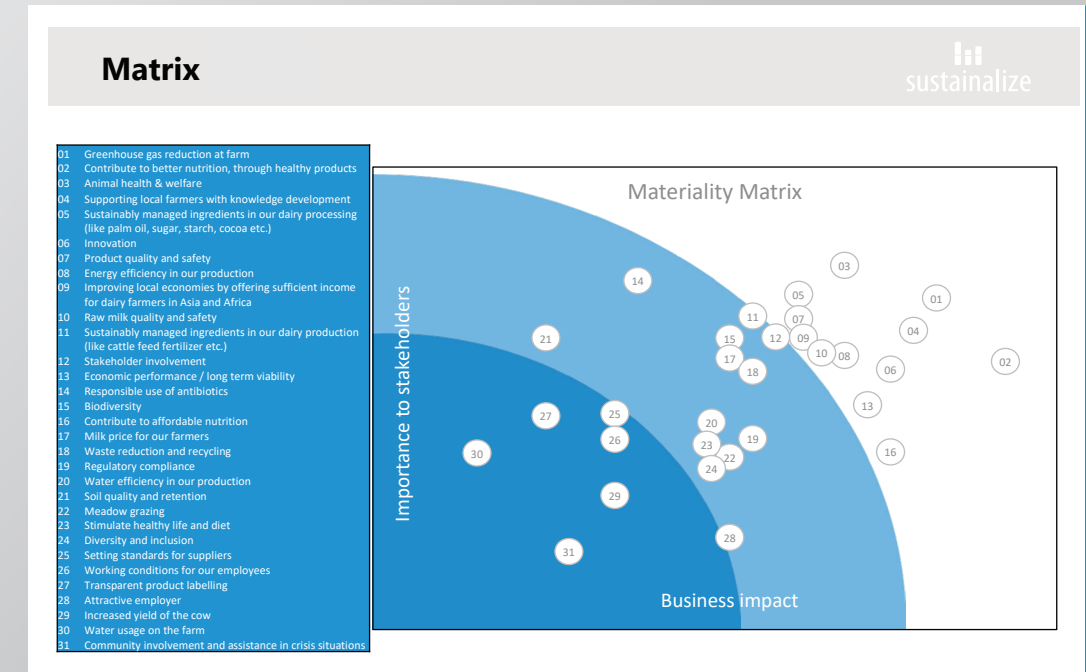


#### What happens once the materiality assessment is complete?

Once completed, the materiality assessment can serve as the foundation for the company's new or refreshed strategy. A next step is to set the level of ambition the company wants to take across the material issues and then develop goals and key performance indicators for its highest priority material issues. For reporting purposes, the assessment can be included in the sustainability and/or annual report and the set of issues can be used to create the structure and focus of the report, informing stakeholders of how the company is identifying and managing its most material issues.

The materiality assessment can be refreshed using a similar process noted above every 4 years to ensure new issues and external trends are being incorporated into the company's perspectives. The key difference for a materiality refresh versus a first-time assessment is the use of the original list of issues in step 1 as a key input. Should a significant business change occur, such as a large acquisition that changes the makeup of the company's services or business model, a refresh is recommended to ensure the set of material issues is still accurate. A 'start from scratch' materiality assessment is typically recommended only if it is the first time a company is conducting a materiality assessment or if a significant change in the business has occurred.

## FrieslandCampina Case Study



FrieslandCampina considers materiality as central to their CSR policy and reporting, allowing the company to determine the issues that are most relevant to the company and its stakeholders. It is viewed as an essential tool, enabling the company to focus internal resources on priority areas and to understand the evolving challenges facing the industry.

*"It is always a check and balance as to whether we have set the right priorities in our CSR policy...it is useful to be able to demonstrate to others in your company that resources are focused in the right areas".*

-Jaap Petraeus, Manager Corporate Sustainability, FrieslandCampina

As part of its assessment, FrieslandCampina conducted an extensive internet search which provided insight into trends and developments in the dairy industry and sustainability more widely. Other key inputs included FrieslandCampina annual reports, the GRI and ISO 26000 guidelines, and perspectives from internal experts. All of these inputs were used to produce a long

list of relevant topics. Next, internal and external stakeholders were asked to assess the importance of each topic based on the environmental, social and economic impact they have on both society and the company. An online questionnaire was developed to capture the perspectives of global external and internal stakeholders. As a final step, FrieslandCampina scored each topic for business impact and external stakeholder concern and plotted the scored topics on a matrix (see below). The outcome was a list of 31 relevant topics, which include the eleven key sustainability criteria as identified by the Dairy Sustainability Framework.

One challenge FrieslandCampina faced was obtaining high response rates in the online questionnaire for external stakeholders. Planning for this challenge and carefully tailoring your communications to maximise responses is critical.

#### Tips and Tricks

- > **Materiality is a useful methodology to take advantage of – it can help set your company's priorities and strategy. Based on the GRI, it is a requirement for reporting the essential themes of FrieslandCampina's CSR program.**
- > **Maximizing internet searches during the business review phase can help make the process efficient and keep costs down. This can also reduce time demands for interviewees who may receive many requests for input.**
- > **Companies should not shy away from engaging with stakeholders, especially NGOs. Their insight is invaluable and should be sought as an important part of the process.**

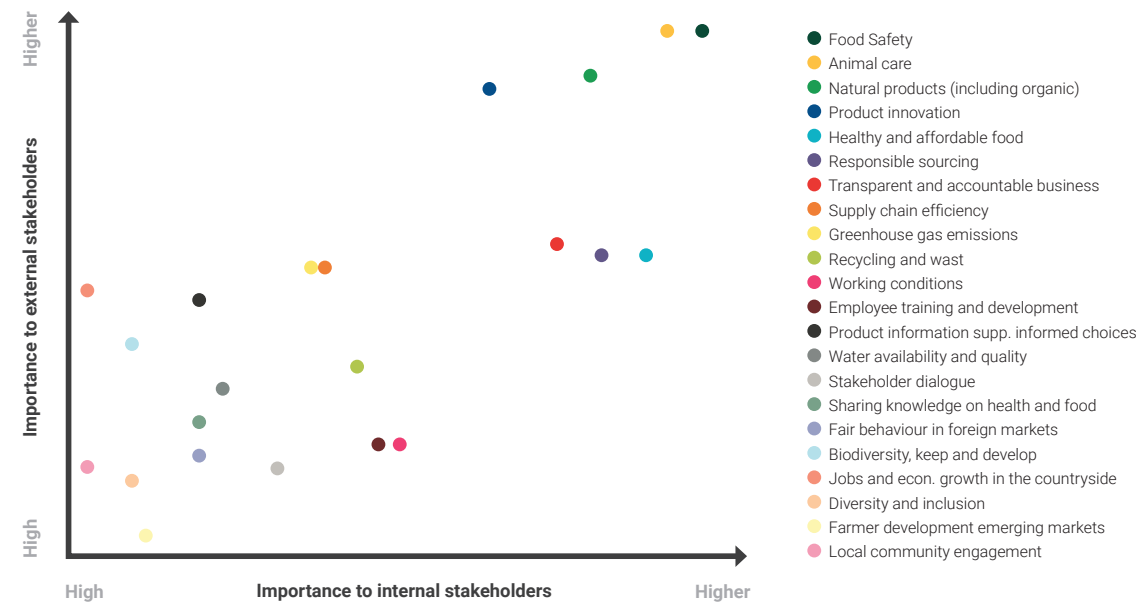




# Arla Foods

## Case Study

Notable is the inclusion of nine of the eleven DSF Global Criteria on Arla Foods' materiality matrix, including greenhouse gas emissions, waste (recycling and waste), water (water availability and quality), biodiversity, market development (related to farmer development emerging markets) rural economies (jobs and economic growth in the countryside), working conditions, product safety (food safety and product innovation) and animal care.



Arla conducted a refresh of its materiality assessment with the objective of ensuring the business is focused on relevant issues, keeping stakeholders informed, and helping to focus the CSR report on the right topics. To conduct its assessment, Arla first built a long list of issues based on input from business leaders and owners, insights from customer requests and the eleven Global Criteria from DSF. After narrowing the list with internal experts, the list was shared with external stakeholders who were asked to prioritize the issues in a survey. Arla then refined and ranked the issues into a matrix. The resulting matrix of material issues is now used to guide decision-making inside the business and reporting to stakeholders externally.

One challenge Arla faced in conducting the assessment was framing the issues in the right way for stakeholders to respond to. For wider stakeholder audiences, technical terms related to farming didn't communicate well in surveys and so other terminology and explanations and issue definitions needed to be used.

"There are varying levels of technical knowledge across stakeholders and it can be challenging to communicate to them about our top issues. So this year we explained thoroughly what we meant for each topic that we asked them to rate. But you must still explain it in a short and concise enough way."

—Anna-Karin Modin Edman, Arla Foods, Sustainability Manager

Arla also highlighted that gathering external stakeholder inputs from surveys alone did not capture enough of the nuance of the issues; stakeholder interviews and conversations were critical to accurately capturing the issues and their perspectives

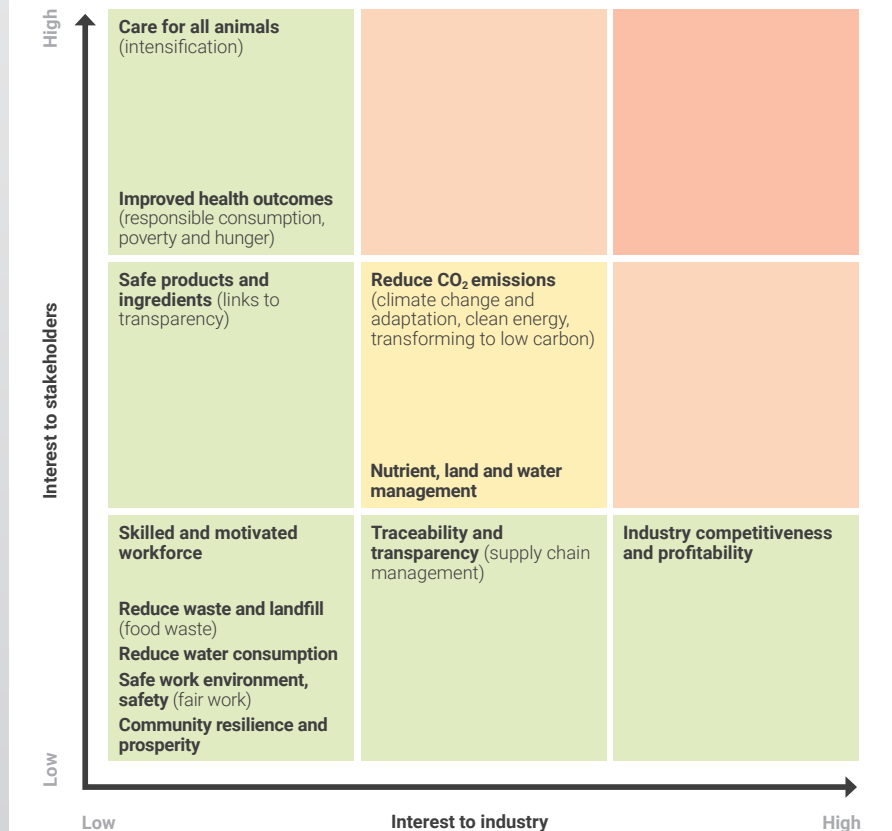
### Tips and Tricks

- > **Materiality has its limitations and the results of an assessment are not the end all be all; you must still apply critical thinking to the results** "Even though our stakeholders may not have mentioned certain issues there may be reasons to still focus on them. There may be non-negotiable issues from a scientific point of view we must challenge ourselves to include, even if some of our other stakeholders may not find them top priority. For example, we could not stop working on reducing our climate impact even if stakeholders lost interest."
- > **Materiality is a tool to identify the issues you should be focusing on but it is not a governing mandate.**
- > **The material issues matrix can be weighted to demonstrate different stakeholder perspectives. Arla created versions of the matrix showing different weightings across stakeholders such as NGOs and customers to better understand how the issues shift in priority based on specific stakeholder groups. This can then be used to inform decision-making.**



# Australian Dairy Sustainability Consultative Forum

## Case Study



Dairy Australia, who facilitates the development and implementation of the Australian Dairy Industry's Sustainability Framework, appointed an experienced consultant, Dr Robyn Leeson, to undertake a comprehensive refresh of the Framework's material issues in 2016. This was done to support the evolution of the Sustainability Framework in light of emerging trends and priorities for the nation's dairy industry.

The consultant started by gathering a list of issues through an examination of peers, 1:1 interviews with stakeholders, a review of Dairy Australia's internal risk register, and an analysis of key drivers in the changing context of sustainability, such as the UN Sustainable Development Goals. As well, participants at the Australian Dairy Industry's semi-annual Sustainability Consultative were asked to prioritize and verify these issues based on the dairy sector's key impacts and interest to stakeholders. Approximately 50 people attended, including not only industry representatives, but Australian supermarkets, multinational dairy customers, NGOs and other key groups.

The results of this review and a previous more comprehensive materiality assessment in 2011, revealed that the dairy sector has a group of common issues that consistently arise such as animal welfare and climate

change, but new, emerging issues arise as well such as food waste and plant-based diets. The materiality review also highlighted a group of issues that had shifted over time in terms of their definition and scope.

"Greenhouse Gas emissions are a really good example of this. In 2011 it was really about product footprints and absolute emissions. Now it is much more about planetary boundaries, including adaptation and transition risk"

—Dr Robyn Leeson, Dairy Australia's Consultant.

One challenge Dairy Australia's Consultant faced was having access to peer companies' risk registers and found that reviewing these was not a straightforward process. Many risk registers are still very much based on reputational risk, and do not speak directly to sustainability issues. For example, climate change, water scarcity, and animal welfare risk are often reflected in the registers, but not always through a sustainability or financial risk lens. Even so, it is still useful to have a conversation with the stakeholders who work on these risks.

### Tips and Tricks

- > **When looking to conduct a materiality assessment, make sure you maximize all the tools and advice that are available to you. It is important to "take the well-trodden paths and look at everything that has gone before you".**
- > **Do not overplay the scoring and rigor of your methodology. Though the numbers do help, there is still a judgement call that needs to be made.**
- > **When engaging stakeholders in an assessment, it is helpful to employ a blend of survey and interview techniques at different points throughout the process. To get the most out of your stakeholders, forced rankings can be particularly useful with the only downside being that it can be difficult to understand the rationalization behind their decisions. However, "If a particular set of stakeholders gave an off-the-wall response, you can always follow up with targeted interviews to learn more".**



## References

**GRI Website:** <https://www.globalreporting.org/Pages/default.aspx>

**WBCSD (2016) Reporting Matters: Communicating on the Sustainable Development Goals:** <http://ry.com/media/2443/wbcds-reporting-matters-2016-interactive.pdf>

**SASB Website:** <https://www.sasb.org/>

**Sustainable Development Goals Website:** <https://sustainabledevelopment.un.org/sdgs>

**Rabobank (2016) Dairy and the Sustainable Development Goals: The Dairy Sector's Contributions and Opportunities:** [https://dairysustainabilityframework.org/wp-content/uploads/2016/10/Rabobank\\_IN574\\_Dairy\\_and\\_the\\_Sustainable\\_Development\\_Goals\\_Bella-my\\_Bogdan\\_Oct2016.pdf](https://dairysustainabilityframework.org/wp-content/uploads/2016/10/Rabobank_IN574_Dairy_and_the_Sustainable_Development_Goals_Bella-my_Bogdan_Oct2016.pdf)

The Dairy Sustainability Framework (DSF) is the umbrella mechanism the dairy value chain uses to track and report the dairy sector's performance in producing food responsibly and sustainably. It serves to align, connect and accelerate the progress the sector is making towards efficient food production and reducing environmental impacts.

The Governors of the DSF recognize the value of pre-competitive collaboration and will pursue efforts where they support the delivery of the DSF Vision.

For more information about DSF or with questions on this briefing paper, contact: [info@dairysustainabilityframework.org](mailto:info@dairysustainabilityframework.org)

### **Dairy Sustainability Framework's Vision:**

A vibrant dairy sector committed to continuously improving its ability to provide safe and nutritious products from healthy cattle, while:

- 1 > Preserving natural resources
- 2 > Ensuring decent livelihoods across the industry



Dairy Sustainability Framework

DSF acknowledges the work of the organization *SustainAbility* in the preparation of this briefing paper.

