

Materiality: what topics should organizations include in their reports?

Sustainability Reporting is a vital step to achieving a smart, sustainable and inclusive growth that combines long-term profitability with social justice and environmental care. Transparency to a wide stakeholder group creates an impetus for improving performance and sustainability reporting practice, enabling companies to measure, monitor and manage their impact on society and the economy, and help contribute to a sustainable future.

However, in order for this information to be meaningful, it is crucial that the report reflects the organization's significant economic, environmental, and social impacts or that substantively influence the assessments and decisions of stakeholders. Relevant (or 'material') topics for a reporting organization should include those topics that have a direct or indirect impact on its ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders, the environment, and society at large. The operations and activities of an organization lead to positive and negative economic, environmental and social impacts. Some impacts may be slow and cumulative. Others will occur at a distance from stakeholders, so that causal links may not be clear.

The materiality focus of sustainability reports is broader than the traditional measures of financial materiality. In financial reporting, materiality is commonly thought of as a threshold for influencing the economic decisions of those using an organization's financial statements – investors in particular. Materiality in sustainability reporting is not limited to those sustainability topics that have a significant financial impact. Determining materiality for a sustainability report includes considering economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations. Yet these material topics will often have a significant financial impact on an organization in the near-term or long-term. They will therefore also be relevant for stakeholders who focus strictly on the financial condition of an organization.

There is an increase demand for transparency of the actual impact of organizations' operations from, besides the investors, civil society. The transparency that comes with reporting on material issues enhances companies' accountability for their impacts and contributions and therefore builds trust, facilitating the sharing of values on which to build a more cohesive society. A material reporting enables external stakeholders to understand companies' true value, and tangible and intangible assets, providing a critical source of information for affected communities and stakeholders. Material reporting mitigates and improves companies' impact on society, local economy and environment.

For an organization, sustainability impacts create both opportunities and risks. The ability of an organization to recognize opportunities and risks, and act effectively in relation to them, will determine whether the organization creates, preserves or erodes value. Many topics that attract significant stakeholder interest in an organization, or represent major economic, environmental, or social impacts, result in financial consequences within a time frame that will be relevant for at least some participants in capital markets.

The threshold for defining material topics to report should be set to identify those opportunities and risks which are most important to stakeholders, the economy, environment, and society, or the reporting organization, and therefore merit particular focus in a sustainability report.

By following the ‘Reporting Guidance for Defining Content’, and applying the ‘Reporting Principles for Defining Content’ in the GRI Sustainability Reporting Guidelines, the organization should be able to report on those topics that demonstrate its impacts; to recognize and address opportunities and risks; and to measure and understand its value in financial and non-financial terms. The G4 Guidelines will also propose that the organization presents its material topics upfront in the report, meaning that higher visibility will be given to the chosen material topics. This methodology aims to help organizations offer report users a very clear picture of the material topics identified.

Governments have an important role in establishing a baseline about the topics that should be reported by companies and other organizations. These could range from greenhouse gas emissions to human rights or the gender balance of boards of directors. However, each company and sector has a range of specific issues that should be reported as material topics. Policy makers, despite being in a position to identify central topics to be reported, should allow companies the choice on whether to report or explain why not (in case, for example, it is not relevant to the company).

This document is part of a series of papers on topics related to Sustainability Reporting and should be read in conjunction with the Global Reporting Initiative (GRI) non-paper on the Renewed EU Strategy 2011–2014 for Corporate Social Responsibility (CSR) and the European Commission’s proposal for a Directive on non-financial information disclosure available at: www.globalreporting.org/resourcelibrary/GRI-non-paper-Report-or-Explain.pdf

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The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to a sustainable global economy.

GRI’s mission is to make sustainability reporting standard practice. To enable all companies and organizations to report their economic, environmental, social and governance performance, GRI produces free Sustainability Reporting Guidelines.

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