

# 7 TIPS TO GET STARTED WITH DOUBLE MATERIALITY

In July 2023, the European Commission introduced the first set of European Sustainability Reporting Standards (ESRS), mandating more than 50,000 companies to improve their sustainability reporting. One pivotal part of ESRS is the “double materiality” assessment, which requires companies to evaluate and report on how their business and value chain affects people and the environment (the “inside-out” perspective) and, conversely, how sustainability issues impact their business (the “outside-in” perspective).

By Steffen Rufenach

A recent study by ISS indicates that while most large European firms have conducted sustainability materiality assessments in the past, nearly half of the smaller ones have yet to establish the necessary processes. However, even companies experienced with these assessments are confronted with refining their methodologies to meet the updated standards.

Here are seven tips to set you on the right path if you have not yet started.

## 1. Start early

Getting the assessment right will take time. That’s why major corporations, required to publish their first ESRS-compliant report in 2025, have already initiated their evaluations. While the standards may seem stringent, they offer room to craft tailored methodologies. Therefore, companies must allocate enough time to define and test their own approach. Another challenge lies in engaging “financially-minded” topic experts, who not only understand ESG topics and their implications in the value chain but can also gauge the financial significance of these topics to the business.

## 2. Familiarize yourself with the regulation

Diving into the ESRS standards can feel like deciphering an alien language, especially if you’re not versed in legal jargon. And even the additional “Implementation guidance” doesn’t do much to elevate this. However, handing off the task to your legal team or outside consultants might not be the best move. Taking the time to personally delve into the standards can be eye-opening, and the more you engage with the content, the clearer it becomes. While having experts by your side is invaluable, engaging with the text demystifies its complexities and opens room for better discussion on the new approach.

## 3. Clarify the purpose of your materiality assessment

Since there is no one-size-fits-all solution, organizations need to define their approach based on their unique set-up, needs and constraints. Given tight budgets and personnel constraints, it’s evident that many will focus on compliance. However, ideally, a materiality assessment should serve as a tool for strategic decision-making and stakeholder engagement, but this requires a more comprehensive approach with enhanced granularity when examining the topics. Before beginning, it’s essential to align the team on the purpose, scope and deliverables. Furthermore, the implications of these decisions for the approach and required resources must be communicated to top management. Without this clarity, there’s a risk of operating under misaligned assumptions, leading to potential last-minute process adjustments, inefficiencies and, eventually, delays in delivery.

## 4. Remain pragmatic

Strictly adhering to every detail of the ESRS will overcomplicate your methodology and requires substantial time from both internal and external stakeholders. Therefore, striking a balance is crucial, prioritizing the essential elements that capture material issues. For example, rather than separately evaluating scale, scope and irremediability, have the survey participants or interviewees assess the severity of an impact by integrating these dimensions. Follow up with open text fields or brief interviews to discern if any particular aspect overshadowed the others.

## 5. Secure early internal buy-in

Involving internal topic experts and top management already in the planning phase is essential for securing buy-in and effective implementation. This inclusivity not only ensures alignment with the objectives and guarantees that the results are based on robust data but also facilitates the engagement of the appropriate external stakeholders. Also, an early commitment from the topic owners is crucial, as they will shoulder the responsibility of reporting on and managing the identified material topics.

## 6. Team up with ERM

Many corporations already maintain well-established Enterprise Risk Management (ERM) teams with the expertise, processes, and methodologies to identify, evaluate and prioritize organizational risks. Hence, tapping into this expertise seems an obvious solution. Yet, most ERM teams have limited experience with ESG topics. Thus, targeted training can be crucial to ensure ERM professionals thoroughly understand the nuances of ESG topics and their ripple effects throughout the value chain.

## 7. Build a topic repository

During a materiality assessment, companies are confronted with a broad spectrum of sector-specific and cross-sector topics. These topics must be clearly labeled and defined for practical use in surveys and interviews. Considering the multi-faceted scope of a double materiality assessment (e.g., actual vs. potential, positive vs. negative, impact versus risk, long-term vs. short-term), crafting comprehensive definitions for each topic becomes a significant challenge. “A shared understanding of all topics is essential for obtaining reliable information and aggregating data from various sources and stakeholder groups. Before rating the materiality of a topic, we’ve defined impact pathways from both perspectives, ensuring a common understanding of how their effects may manifest throughout our value chain.” recommends Matyas Farkas, Project Manager ESG I Strategic Initiatives at Novartis. It’s advisable to leverage an online solution to host topic repositories, including their topic clusters, sub-topics and impact pathways, so that topic experts and the core team can provide updates when the topic landscape changes.

The introduction of the ESRS standards has undoubtedly brought about significant challenges for businesses, especially in the context of the double materiality assessments. Whether they’re poised for early adherence or in a group for later implementation, it’s paramount for companies to begin preparations without delay. The synergy between ESRS and established standards like GRI does give advantages to firms with prior materiality assessments. Yet, bridging the dual perspectives of double materiality demands updated processes, broader collaboration, and testing. Thus, embarking on this journey promptly is not just recommended but essential.



**STEFFEN RUFENACH** is the CEO of R.A.T.E. GmbH, a management consultancy located in Frankfurt and Leverkusen. Together with his team of experts, he assists internationally operating companies in making strategic decisions related to communication, sustainability and ESG, all based on data. Steffen is an expert in rankings and ratings and has successfully helped multiple companies improve their performance in reputation-relevant rankings and ratings.

### UNVEILING THE PATH TO DOUBLE MATERIALITY

In collaboration with the team of R.A.T.E. GmbH, a trusted expert in rankings and ratings, and materiality assessments, we have embarked on an exciting journey. Our goal is to monitor and assess how companies implement and embrace the new rules set forth by the European Sustainability Reporting Standards, with a particular focus on the crucial aspect of double materiality. We aim to identify the pioneers and share their valuable insights for others to learn from. In a white paper exclusively for CCR members we have summarized everything you need to know about double materiality and present first findings from research.

Learn more about the project here:



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