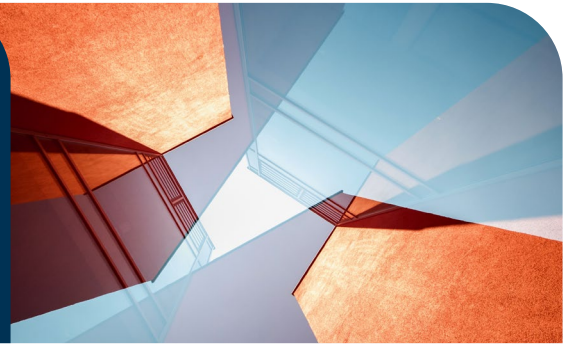



WHAT MATTERS MOST?

How boards can use materiality to prioritise sustainability initiatives



 12-15 minute read

In an increasingly complex business landscape, it is crucial that sustainability initiatives are strategically aligned with core business priorities to drive action.

This deep dive explores how boards can focus on materiality (i.e. matters of business significance) to support effective board-level decision-making, drive efficiencies and enhance resilience.

For many years, organisations have increasingly used the concept of materiality to understand what sustainability matters are most relevant to their investors and broader stakeholders, and subsequently use this understanding to drive strategic decisions.

An organisation's ability to generate value over time is linked to its interactions with stakeholders, society, the economy and the natural environment. However, an organisation is likely to also impact the environment and people in a range of ways, including through its value chain. Understanding these impacts is essential for organisations to determine material drivers of value and risk.

If undertaken strategically, a comprehensive materiality assessment will explore how all these sustainability issues are likely to affect the future resilience and success of the business.

Materiality assessments should not be viewed as an 'add-on', and in most cases are already integrated within organisations' existing systems, processes and resources, including risk management processes, stakeholder engagement activities and sustainability reporting frameworks. These mechanisms can be leveraged and expanded upon to help assess the materiality of sustainability matters and realise strategic advantages. If your organisation is yet to undertake a materiality assessment, or the last time it did so was several years ago, there are some key points that are important to discuss at board-level to ensure that the exercise is driven by a strategic mindset, rather than purely a compliance one.

For organisations new to sustainability-related materiality assessments:

- Do we know what our key sustainability matters are that generate value and present risks to the business?
- Have we conducted a materiality assessment? If not, why not?
- What are our organisation's strategic objectives for undertaking a materiality assessment (e.g. strategy refresh, changing operating landscape, current subjective view of relevant sustainability matters, need to prioritise initiatives)?

For organisations that have previously conducted a materiality assessment:

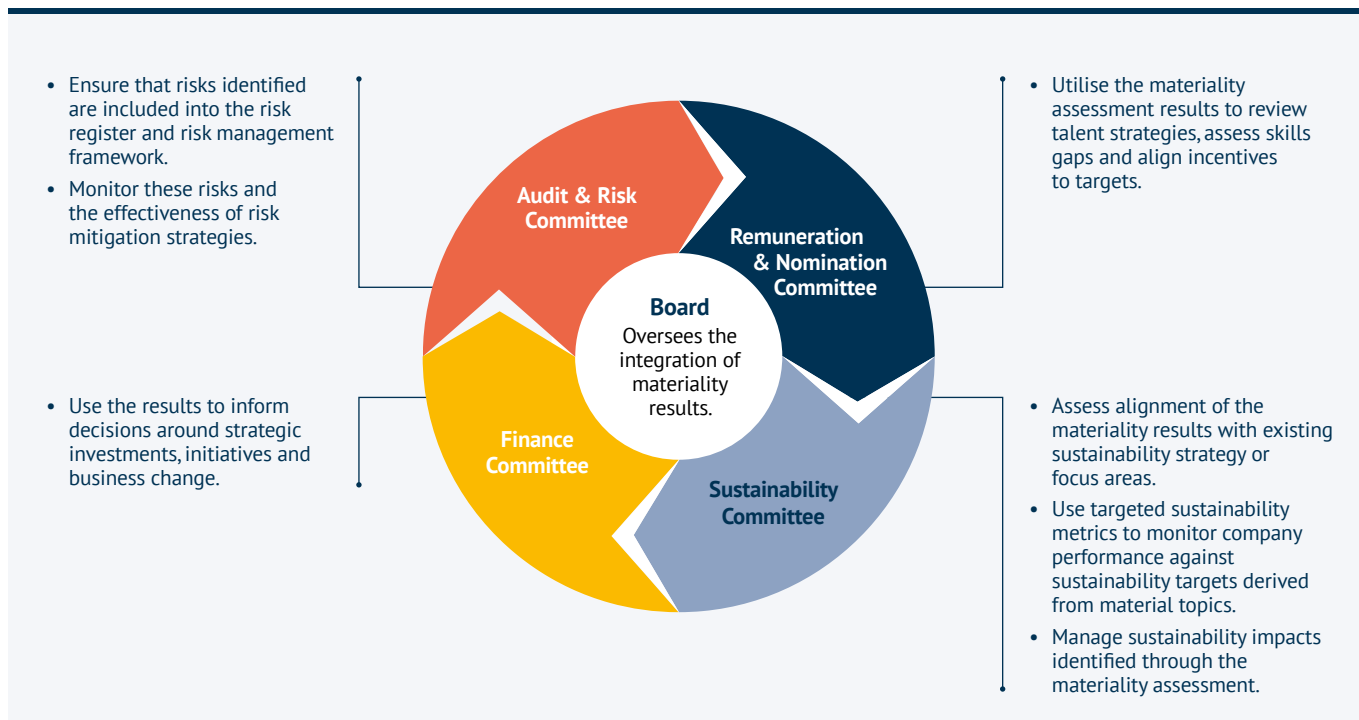
- Have we reviewed our materiality outcomes in the past two years, to incorporate any changes to the business or external environment?
- Does the board frequently review these outcomes in discussions and decision-making?



Definitions

- **Materiality assessment:**¹ The process of identifying and prioritising sustainability matters that are most significant to an organisation, its investors and broader stakeholders.
- **Double materiality:** Considering the organisation's impact on the environment and society (outward impact) and the impact of environmental and societal factors on the company's financial performance through risks and opportunities (inward impact). The approach takes a double lens to assess business impacts on the environment and society, and financial risks and opportunities arising from the environment and society.

¹ By design, approaches to materiality vary, often being tailored to the type of stakeholders the business is looking to communicate with and the decisions it is seeking to make. In this deep dive, we recognise and appreciate the range of approaches to materiality and refer to them all as 'materiality assessments'.



1. Getting it right from the start: The board's role in materiality oversight and integration

Effective executive oversight of the materiality process, culminating in a presentation of the findings to the board, is crucial to ensuring that organisational buy-in and awareness is facilitated from the top down. The board and its committees can then use the materiality outcomes to inform strategic planning, initiative prioritisation, target setting and investment decisions in line with the organisation's most significant sustainability matters. This alignment is key to fostering investor and shareholder confidence in the strategic direction.

Board involvement should see board members input their understanding of stakeholder expectations and concerns at the outset, ensuring that the assessment accurately reflects these perspectives. Early engagement also fosters board accountability and ownership of the materiality outcomes. Without sufficient board engagement, organisations are likely to struggle to effectively utilise materiality outcomes, integrate them into their strategy and cultivate a robust sustainability culture – all of which are critical for strategic change. There should also be consideration of how the existing culture and talent pool will support the use of materiality outcomes.

The assessment of outcomes should be a full board agenda item, informing overall business strategy. Beyond this, ensuring that these discussions are developed further at Committee level can solidify the integration of materiality outcomes across all business functions in alignment with governance structures (see diagram above).



Board discussion prompts – how can we set up for success:

- Is there sufficient technical capability within the business to oversee and manage the sustainability risks and opportunities identified?
- How are materiality outcomes integrated into our board's decision-making processes across different committees (e.g., risk, remuneration, audit)?

2. Maximising results: Materiality for strategic direction, resilience and value creation

Materiality assessments can help prioritise business activities and investment areas for maximum strategic impact. They enable organisations to understand both risks and opportunities relating to value creation – harnessing sustainability as a key driver of short-term sustainable impact, as well as long-term resilience and financial performance.

For boards, this translates to informed decision-making for organisational growth. To truly realise value from the materiality process, material matters identified can be incorporated into the organisation's strategy and decision-making. Many organisations leverage their materiality outcomes to refresh outdated strategies and proactively align sustainability efforts with the evolving external environment,

where new sustainability-related risks and opportunities may arise. These assessments often uncover previously overlooked sustainability matters emerging from shifts in the external environment, such as market dynamics and geopolitical changes, or from internal operational transformations. For example, biodiversity loss is gaining widespread recognition as a systemic risk across numerous sectors.

Beyond strategic alignment, materiality assessments can enable:

- **Improved value chain insights:** a focus on material matters fosters a holistic approach, highlighting the interconnectedness of sustainability impacts, risks and opportunities across an organisation's value chain. For example, environmental and social impacts are frequently linked, particularly within the supply chain, ultimately affecting an organisation's governance and reputation.
- **Activity prioritisation:** Materiality outcomes enable organisations to identify sustainability activities that could be deprioritised, freeing up resources to invest more heavily in business-critical activities.
- **Anticipation of evolving risks and opportunities:** Assessing materiality provides organisations with both an immediate view of current risks and opportunities and the foresight to anticipate their evolution and emergence in the medium to long term. This comprehensive understanding enables better long-term planning and future-proofed decision-making for enhanced profitability and growth. For example, organisations can foresee challenges arising in raw material sourcing due to geopolitical tensions or identify risks relating to human resources if the employee value proposition (e.g., work-life balance, fair pay) is neglected.

8.5% John Lewis' dress rental service is tapping into a market that is projected to expand at a CAGR of 8.5% from 2025 to 2033²

This strategic insight also directly translates into tangible business opportunities and first-mover advantages, such as innovative product and service offerings that meet evolving consumer demand. Examples include John Lewis' dress rental service, tapping into a market that is projected to expand at a CAGR of 8.5% from 2025 to 2033.² Similarly, Unilever's acquisition of the UK's leading refillable deodorant brand, Wild, and event venues such as the Principality and Twickenham partnering with sustainable packaging alternative companies like Notpla. These examples demonstrate the value of a broader, strategic view of sustainability, which can be encouraged by viewing materiality through a strategic lens.



Case study: UK-listed consumer-facing digital platform

Adding value through a materiality lens

For this retail organisation, the materiality assessment further embedded sustainability topics into the organisation's operational and strategic fabric. The clear, evidence-backed assessment outcomes facilitated much easier communication of sustainability priorities to the board, fostering more business-relevant discussions and instilling board confidence through the methodology's clarity.

"I can clearly articulate our sustainability priorities and the quantified rationale behind them, which helps keep board discussions focused and efficient."

– Chief Operating Officer

Prioritising actions and impact

By conducting a materiality assessment, essential clarity was gained on key strategic priorities and on less material sustainability matters that could be deprioritised. This allowed the organisation to sharpen its focus on truly impactful areas.

"The clarity we now have is exceptionally helpful and I see sustainability becoming part of the business fabric, as opposed to an 'ESG checklist'."

– Non-Executive Director and Committee Chair

² Online Clothing Rental Market Size, Share and Trends, 2033

3. Tracking progress: Materiality for performance monitoring, accountability and transparency

Organisations face a growing demand for reliable sustainability data to support reporting, track progress, allocate resources and inform decision-making. Assessing materiality is crucial to identifying which sustainability matters are drivers of strategic risk and value, and then prioritising data collection efforts accordingly. This streamlined approach helps overcome data overload and enhances the effectiveness of sustainability reporting. Once collected, decision-useful sustainability data (such as greenhouse gas emissions, water use, waste produced) can be leveraged to enhance organisational decision-making.

Effective data collection, guided by materiality outcomes, is also vital for proactive target setting. For example, setting net-zero targets without sufficient supporting data can lead to revisions later down the line that undermine investor confidence. A robust process is crucial for guarding against greenwashing risks, a growing problem with over four percent of UK companies linked to greenwashing risk in 2025.³

The flow of comprehensive and reliable sustainability data on material matters also facilitates more meaningful comparisons between organisations, their peers and industry leaders. This allows organisations to make strategic decisions about their market positioning, whether as a leader or a mid-range player. The breadth and depth of available sustainability data itself serves as a benchmark, with leading organisations collecting data across their entire value chain, from materials sourcing to end-of-life. Making use of value chain data leads to better risk management, optimisation and more informed decision-making.



Case study: FTSE 250 Bank

Providing clarity on what the focus should be

For the bank, the materiality lens identified the significance of the financed emissions associated with its lending book, with agribusiness and transport being the most material. This allowed the bank to differentiate its engagement strategy across the value chain and concentrate its resources where they mattered most. It also led to the bank's focus on green lending and education as key innovations to reducing these value chain emissions, and building long-term value and trust with its customers.

“By deciding to focus on education as a material intervention, we have built ambassadors in those sectors that understand our language and ambition when it comes to ESG, and are equipped and motivated to take action for themselves, in their own businesses.”

– NED and Chair of the ESG & Ethics Committee

Driver of sustainability and core business strategy

The assessment has served as a critical strategic driver for integrating sustainability into the bank's core business strategy. This philosophy ensures sustainability efforts are pragmatic and connects sustainability considerations with key functions like risk, audit and technology. Due to the materiality assessment, the bank is in a better position to prioritise resources and justify investment.

“To be meaningful, a strategy has to be pragmatic and therefore it has to focus on things that are material.”

– NED and Chair of the ESG & Ethics Committee

Materiality to drive performance monitoring

Materiality has been instrumental in driving the bank's performance monitoring and accountability. The board is actively engaged through concrete examples, fostering understanding and cross-committee integration, notably by linking materiality findings to remuneration to incentivise ESG targets. This ensures that ESG objectives are deeply woven into the bank's operational fabric, promoting continuous improvement and accountability.

³RepRisk | RepRisk: Twice as many firms face biodiversity and greenwashing risks



Board discussion prompts – how will we use the outputs:

- How do the most material sustainability matters compare to our current sustainability strategy or sustainability targets and focus areas?
- Who will take accountability to drive the implementation of materiality outcomes into organisational strategy and decision-making, and oversee ongoing performance?
- How can we use materiality insights to inform our strategic planning and resource allocation?
- How are materiality findings integrated into our board's decision-making processes across different committees (e.g., risk, remuneration, audit)?



Checklist for a 'good' materiality assessment for board members and executive teams:

- ✓ Consideration of activities across the organisation's value chain.
- ✓ Understanding of impacts, risks and opportunities across the value chain, how they relate to each other, and how they are overseen and managed.
- ✓ Engagement with stakeholders both internally and externally, including suppliers and other supply chain actors where possible.
- ✓ Consultation with the organisation's finance function to connect the materiality assessment with financial planning, performance and innovation.
- ✓ Review with relevant committees to embed sustainability into operations and decision-making, i.e. Remco/Risk.
- ✓ Use of secondary data, such as academic research and industry reports, to support stakeholder insights.
- ✓ Sufficient board involvement and sign-off on the materiality process, and support with shaping future strategy.
- ✓ Integration of material issues into the organisation's governance, business strategy, long-term planning, capital allocation process, risk management and performance management.
- ✓ Oversight and alignment of public disclosures through a consistently applied materiality lens across the organisation's reporting, enhancing transparency and accountability.

Conclusion

A well-executed materiality assessment bolsters organisational resilience by facilitating forward planning for potential risks and opportunities, strengthens reputation through the enhancement of reporting and data, and positions the organisation for long-term success in a rapidly evolving environment.