



THE STRATEGIC VALUE OF ESG MATERIALITY ASSESSMENTS

A black and white photograph showing a person from behind, standing on a wet, sandy beach. They are looking towards the horizon where the ocean meets a hazy, overcast sky. The foreground shows some low-lying vegetation or debris on the sand.

Your stakeholders and investors are inquiring more and more frequently about what your organization is doing in regard to responsible investments, how you treat your employees and vendors, your dedication to sustainability initiatives, and other activities that fall under the ESG (Environmental, Social, and Governance) umbrella. It's essential to have answers to these questions.

An ESG materiality assessment empowers you to easily report on your current state and outline future initiatives while taking into consideration your business goals and risks.

WHAT IS AN ESG MATERIALITY ASSESSMENT?

Simply put, a materiality assessment is a tool used to identify and prioritize ESG issues that are the most critical to your organization. You can think of this as an exercise in stakeholder engagement, as well.

A materiality assessment is designed to help you identify and understand the relative importance of specific ESG and sustainability topics to your organization. This involves looking at a variety of factors through two particular lenses: potential impact on your organization and importance to stakeholders.

Potential impact on your organization

Please note that “impact” refers to both positive and negative impacts. Don’t focus solely on the risks, potential losses, or other potential negative outcomes associated with not implementing a particular strategy. You also want to factor in the opportunities that are uncovered throughout the process, such as attracting the best talent because your organization made a few small (or large) changes to improve employee health and wellbeing.

For example, indoor plants are a sustainability topic or potential project that you might think about undertaking. Through this framework, you’ll ask yourself “what’s the potential impact on your organization?” This example is unlikely to be a majorly impactful change to your organization’s operations or your bottom line.

However, if a new industry regulation is passed or a new local ordinance is introduced that your organization is going to be required to comply with, that could be hugely impactful.

ESG materiality assessments provide a way of taking these topics and ranking them by relative importance.

Importance to stakeholders

It’s essential to identify a broad range of stakeholders while performing a materiality assessment. Some examples include employees, board members, and investors, as well as vendors, service providers, and other parts of your supply chain. You don’t need to stop there; your list of stakeholders can expand into local and even broader communities, or perhaps an NGO or other social advocacy groups, industry trade groups, and more.

The more stakeholders you interview during your research and strategy phase, the more you’ll broaden the scope of your assessment. Each group of stakeholders will provide new points of view and insights into opportunities you may not have thought of with a more select group.

Back to the indoor plants example: you may not consider it a very impactful change for your organization as a whole, but if your employees care greatly about having indoor plants in their workspaces and gain satisfaction and enjoyment from the change, you can count this change as an easy win.

WHY YOU NEED AN ESG MATERIALITY ASSESSMENT

- Make the business case for any ESG action or strategy
- Inform & enhance communication strategies
- Get ahead of long-term risks
- Identify ESG trends
- Meet & exceed stakeholder expectations



MAKE THE BUSINESS CASE FOR ANY ESG ACTION OR STRATEGY

A materiality assessment provides a guide or blueprint for your organization's ESG strategy. It helps prioritize topics to focus on by creating an inherent business case for endeavors that may have been previously dismissed as too costly or not having enough proof of results.

For example, you can undertake a project to achieve a LEED certification for your organization's headquarters. Your materiality assessment will help you shape the case for health and wellness benefits for employees, increased marketability and attractiveness to potential investors, positive impacts on the local community, and more. By illustrating concrete benefits, these examples all serve as a way to offset possible reservations about costs associated with the project.

INFORM & ENHANCE COMMUNICATION STRATEGIES

Your assessment will also help with your organization's communication strategies. During your research and interviews, you'll identify topics and projects that are the most important to each of your stakeholder groups. You'll be able to tailor your communication strategy to provide each group with information and updates about the things they hold most important.

Showing your stakeholders that your organization shares their interests and priorities will increase their level of engagement, which fundamentally strengthens results and improves satisfaction. Presentations to board members can start with the most relevant ESG topics for them, while company newsletters distributed internally to your employees may focus on upcoming initiatives, projects, or events that they identified as most important.

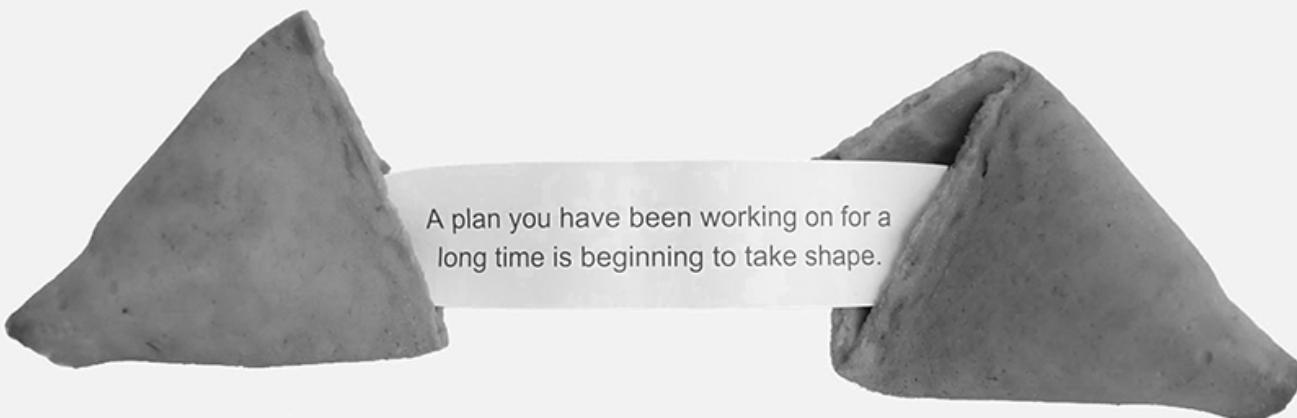
GET AHEAD OF LONG-TERM RISKS

Many topics and issues that fall under the sustainability umbrella, while undeniably important, are not considered immediately urgent, leading to the prioritization of shorter-term items instead. A prime example of this is the adoption of resilience-based practices to combat the future effects of climate change or the potential of a regulatory change that will affect your organization, but it won't be going into effect until sometime in the future. How do you prepare for things that are very material, but whose effects aren't felt at present?

By ranking the importance and potential impact on your business of these kinds of longer-term risks, an ESG materiality assessment inherently increases their significance. And since you'll be aware of exactly what issues your stakeholders consider priorities, this allows you to take a more proactive approach to your ESG strategy instead of reacting to situations as they arise.

IDENTIFY ESG TRENDS

The interviews and information gathering that you do as part of creating your materiality assessment will also provide you with insights into ESG trends. With the massive growth of the ESG industry in recent years, increased investment, and a more sustainability-focused demographic entering the workforce, the answers that your stakeholders provide now will likely be dramatically different from five or ten years ago. As you expand your list of stakeholders, the range of reported priorities widens, and those insights will allow you to paint a broader picture of ESG industry trends.





WHY YOU NEED AN ESG MATERIALITY ASSESSMENT

MEET & EXCEED STAKEHOLDER EXPECTATIONS

While perhaps an obvious requirement, it's worth covering the ways that you need to meet or even exceed the expectations of your stakeholders. Perhaps your board of executives wants your organization to prioritize decreasing your carbon footprint and asks that you begin publishing your annual impact and improvements. This is a fairly straightforward request, but it also provides an avenue for expansion. For example, instead of merely reporting your progress, you could also work to submit your organization to one of the many ESG frameworks and sustainability benchmarks that are prevalent throughout the industry, such as GRESB. Displaying this type of initiative emphasizes your organization's commitment to ESG.



ESG IS A CONSTANTLY CHANGING INDUSTRY, WITH PRIORITIES FREQUENTLY SHIFTING IN IMPORTANCE.

In the past several years, employee and community health and wellbeing, business continuity planning, and resilience have become prevalent focuses of ESG. This focus is particularly visible during the COVID-19 pandemic as businesses struggle to maintain a sense of continuity and focus on ensuring the health and safety of their employees while balancing the difficulties of managing a remote workforce. Those organizations that started focusing on these issues before the pandemic are much more able to adapt to the disruptions, proving empirically that investing in health and wellbeing and having the infrastructure in place to respond to unforeseen difficulties provides a great deal of resilience.

TRENDS IN MATERIALITY & ESG

- Health & wellbeing, business continuity, and resilience
- Asset-level trends - Fitwel and WELL
- Investor interest - Climate action plans, TCFD reporting
- Responsible investment & accounting standards

These trends are also visible throughout portfolios at the asset level. For example, more and more properties are achieving Fitwel and WELL certifications. These two frameworks focus on building health and asset-level improvements for the wellbeing of tenants and employees through strategies that ask questions about proximity to public transportation, no-smoking policies, healthy snack options available, and many more. This elevates the importance of the “social” aspect of ESG.



TRENDS IN MATERIALITY & ESG

There's also an increasing focus on tying these strategies into overarching business continuity and climate action plans. The Taskforce on Climate-Related Financial Disclosures (TCFD) is one example of longer-term risks becoming much more of a focal issue for businesses and for investors. Helping to stay ahead of the future disruptions that climate change will inevitably bring is another benefit of performing an ESG materiality assessment.

ESG investing has also become more prevalent throughout the investment industry. “Responsible investment” is becoming more than just a buzzword, and sustainable accounting practices and standards, such as the Sustainability Accounting Standards Board (SASB), are more and more frequently a central part of the general conversation surrounding investing. More organizations are looking at ESG and responsible investing as a strategy that goes hand-in-hand with climate readiness and investment in resilient infrastructure. Working to combat climate change and prepare for disruptions involves more than just looking at resource management, waste disposal, energy use, etc. Your investments will also have an impact on your organization’s ability to cope with unforeseen situations, complications, and disruptions.

INVESTOR & STAKEHOLDER INTEREST



FRAMEWORK ALIGNMENT

A number of frameworks that exist in the ESG landscape can prove useful to align your strategies with. Your choice of framework alignment will vary depending on several factors, such as your portfolio makeup, overall ESG goals, investor or stakeholder demands, and more.

Your materiality assessment will help you pinpoint which frameworks your goals, strategies, and portfolio line up well with, as well as identify overlapping reporting areas. A number of these frameworks require similar data and information that, once identified, can be easily repurposed for additional reporting processes.

Some examples of frameworks include:



Science-Based Targets

Science-Based Targets provide evidence-backed goals for your organization and a realistic timeline for achieving them.



United Nations Global Compact

The United Nations Global Compact (UNGCG) has created a list of 17 Sustainable Development Goals (SDGs) that cover topics such as human rights policies, environmental impacts, and anti-corruption guidelines.

INVESTOR & STAKEHOLDER INTEREST

STAKEHOLDER ENGAGEMENT

This step is a continuation of your efforts to align with relevant frameworks. After you've chosen which you want to report to, you'll want to engage your stakeholders to get their input, insight, and assistance with gathering and reporting relevant information. This step is of particular importance to investors, who are more frequently asking for transparency and engagement during this process. Publicly disclosing your results and keeping investors and stakeholders updated on progress is a meaningful way to keep them engaged and interested in your ongoing endeavors.

For instance, you may create a survey for your employees to gather ideas and strategies for improving their health and wellbeing across your portfolio. This is a topic that is garnering more and more attention across every industry and among the international community.





INVESTOR & STAKEHOLDER INTEREST

TARGET-SETTING & DATA-BASED ESG GROWTH

This third category is focused on the data, metrics, and structure of the plan that your ESG strategy will be built on. Like every sound business approach, data analysis and tracking need to back up and reinforce strategic growth, so it's important to have well-defined metrics and a system in place to track progress effectively.

You'll also want your strategy to be flexible and adaptable so you can keep disruptions caused by unforeseen future situations to a minimum and so that you can adapt to market shifts or transformations that may occur. Tracking progress is a significant component of this, so it's crucial to have the ability to report on progress, whether quantitative or qualitative.

One important measure is greenhouse gas reduction, an issue that's gaining more and more momentum. This couples well with parts of the pandemic response, namely a focus on air quality, particularly in offices and other commercial buildings. Incorporating air quality improvements into your carbon emissions strategy is a way to tackle two issues with a single action. It is something that investors are increasingly asking about, particularly for global organizations.

WHO NEEDS TO BE INVOLVED & WHEN?

1.

Identify goals



*Corporate leadership
ESG leadership*

2.

Introduce to key stakeholder groups & draft topics



*Regional & departmental leadership
Business development*

3.

Share general goals & align with the rest of the organization



*Management & analytics teams
Organizational partners*

IDENTIFY GOALS

One of the preliminary stages of any ESG materiality assessment is the identification of who needs to be included in the process and when they should be brought on board. The first step of the assessment is to identify goals and ideal outcomes; to do that, you'll want to include your organization's corporate and ESG leadership.



Depending on your organization's structure, this group can vary. You can include executive-level team members, board members, and other high-level positions. You can also include asset- and fund-level positions, or any combination that makes sense. If your organization has an ESG taskforce or similar entity, it should be included. Once goals have been decided upon, key stakeholder groups can be identified based on organizational structure and how broadly you want to define your stakeholder base.

INTRODUCE TO STAKEHOLDER GROUPS & DRAFT TOPICS

At this point, you want to make sure you gain a baseline understanding of what your identified stakeholder groups consider to be most material to them and how your goals can align with those topics and issues. For this, you'll want to engage regional, operational, and planning leadership personas. For instance, in a real estate portfolio, you'll be engaging portfolio managers and directors, asset group managers, and perhaps engineering directors.

You'll also look to engage departmental leadership such as human resources or directors of community partnerships. You want to make sure to have representation from customer-centric departments and groups as well, to make sure your goals align with your customer success strategies and vice versa. You'll want to engage business development and acquisition team leaders to gain input on how these goals affect or align with growth and acquisition strategies.

SHARE GENERAL GOALS & ALIGN WITH THE REST OF THE ORGANIZATION

Once these are done, you'll introduce a draft of the general goals with the intention of aligning them with your organization as a whole. You'll get the most input from the people in your organization who will be implementing these strategies and tracking them on an ongoing basis; analysts, asset managers, ESG teams, and other highly relevant team members. Make sure to include organizational partners, vendors, etc., particularly if any of your goals or strategies could have a potential impact on your partnership. Ensure that goals are aligned, and everyone is on the same page.



USE CASES & EXAMPLES

COMPANY A

"I think we do some stuff for ESG already but it's all over the place and we aren't sure what we have or where to take it from here..."

This example company has existing ESG initiatives, but no real structure or goals defined yet. Some of the steps this company would take during their ESG materiality assessment would include:

-  Assess existing policies, strategies, & initiatives
-  Identify & engage key stakeholders
-  Understand current & needed growth for ESG issues & topics
-  Aggregate & review insights
-  Compare against existing strategies
-  Identify opportunities & plan implementation
-  Select systems for performance tracking
-  Set goals & timeline for implementation
-  Launch

COMPANY B

"Our company doesn't know much about ESG nor have we purposely been growing around it. However, we have received sudden, immediate demand to jump on board with ESG from our investors..."

This company has no current ESG knowledge or policies, but has recently received the demand for ESG from investors. Steps this company would take during their materiality assessment would include:

-  Assess existing policies, strategies, & initiatives
-  Identify & engage key stakeholders
-  Implement ESG trainings, workshops, & other engagement events
-  Understand current & needed growth for ESG issues & topics
-  Identify opportunities
-  Define metrics
-  Select systems for performance tracking
-  Aggregate goals across stakeholder groups
-  Launch

ESG MATERIALITY MATRIX EXAMPLE

		IMPACT ON BUSINESS		
		MINOR	MAJOR	
IMPORTANCE TO STAKEHOLDERS	MAJOR	<ul style="list-style-type: none"> ● Comprehensive ESG training ● Reporting alignment ● D&I training 	<ul style="list-style-type: none"> ● GHG performance ● Energy performance ● Water performance 	
	MINOR	<ul style="list-style-type: none"> ● Waste performance 	<ul style="list-style-type: none"> ● Health & well-being program ● Cross-functional ESG taskforce ● Employee survey ● Compliance strategy: regulatory requirements ● Forward-looking targets 	<ul style="list-style-type: none"> ● ESG policy ● Air quality ● Employee ESG targets & goals
	MINOR	<ul style="list-style-type: none"> ● Climate risk assessments ● Green leases ● New acquisitions: ESG checklist ● Tenant engagement ● Green financing 	<ul style="list-style-type: none"> ● Cohesive third-party ESG engagement ● Renewable energy ● D&I standards, goals & tracking 	

● Employee health & safety
● Cross-functional strategies & communication
● Diversity & inclusion
● Proactive identification of building performance opportunities
● Proactive identification of risks & planning for risks
● Target & market alignment



AMPLIFY YOUR IMPACT

Conservice is the most intelligent, comprehensive, and intuitive solution for ESG management. We help businesses establish, monitor, and communicate ESG initiatives that provide an imperative to attract and retain capital, accelerate sustainable and responsible growth, and mitigate enterprise risk.

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