# Doing the materiality assessment right by engaging stakeholders

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**Everybody is doing a Double Materiality Assessment (DMA) – they are about to, or they have just finished or revised one. At least this seems to be the case nowadays when I talk to people involved in sustainability and ESG projects and reporting in larger companies, and even in many medium-sized and smaller companies. Some because they want to comply with the Corporate Sustainability Reporting Directive (CSRD) and some because they find it valuable to conduct an assessment that makes it possible to define strategic priorities in their corporate reporting as well as in deciding on ESG initiatives.**

## What are the objectives of the DMA?

The basic objective of the Double Materiality Assessment (DMA) is defining the topics that are material to the company in determining what are the impacts on environment and people, or financial risks or opportunities for the company – or both. In this way, the compliance topics for reporting will be defined.

However, this assessment is also a strategic tool for the company. A tool that brings insight and initiates a discussion on how to leverage the green transition for new business opportunities.

The DMA provides:

### A foundation for impact improvement

The DMA not only maps the most relevant and likely topics to bring impact on environment and people. It also assesses the severity, time horizon and potential remediability of these impacts. In this way, it is a management tool to support management decisions on sustainability strategy, metrics, and targets.

A thorough impact assessment is a strong foundation for prioritizing measures and projects to remedy negative impacts and retain or improve positive impacts.

### A focus on the business opportunities

The DMA assesses the risk and opportunities related to sustainability and the topics defined in the European Standards for Reporting on Sustainability (ESRS). This includes likelihood, size of financial effect and time horizon.

In this the way, the financial impact assessment also supports the analysis of business opportunities. It reveals potential areas of innovation and business development, and it illustrates the risk related to the existing business.

The DMA serves as a tool to strategize and prioritize measures and projects that not only mitigate negative impacts but also increases business opportunities.

### Engagement and transparency

The DMA makes the business and impacts of companies more transparent and comparable to other companies. This makes it easier for investors, analysts and regulators to value and assess companies and their governance.

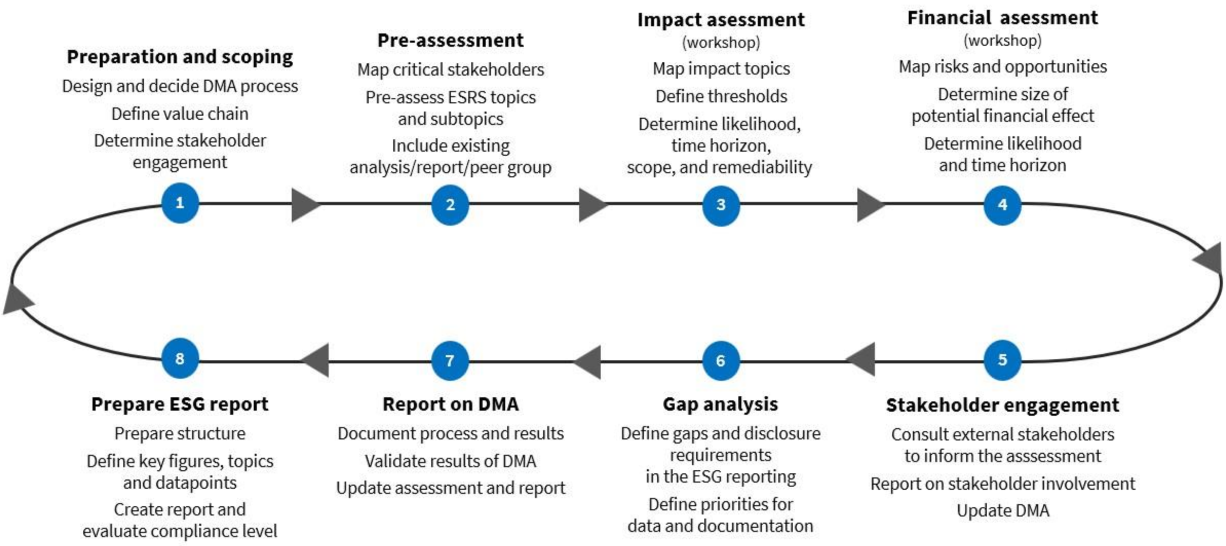
Also, the DMA initiates a more insightful dialogue among stakeholders like suppliers, distributors, vendors, and customers on their impact as part of the value chain.

The ideal is here that the company and its stakeholders all draw in the same direction when it comes to the green transition and that they together pursue opportunities to mitigate impact and risks as well as create business and innovation.

## The assessment process

Doing the double materiality assessment includes a number of steps including a stakeholder engagement and a gap analysis. I suggest the steps demonstrated in the illustration below. These steps and the stated criteria are also aligned with the prescription in the CSRD, and the guidelines provided by EFRAG.

### A process for DMA



## Why do stakeholder engagement?

An essential part of the materiality assessment is identifying, analysing, and engaging with stakeholders. This includes both internal and external stakeholders being affected by the company's activities, and stakeholders that are critical to the long-term success and reputation. The stakeholder engagement related to the materiality assessment and the ESG reporting is a tool to secure compliance, to gain insights on stakeholder pains and needs, and to build trust and a resilient license-to-operate.

### Stakeholder identification

Stakeholders are individuals or groups who can affect or can be affected by the company's activities.

They can be classified into two groups:

1. Affected stakeholders who have their interests influenced, positively or negatively, by the company's activities and its direct and indirect business relationships throughout its value chain.
2. Users of financial statements are considered stakeholders. This includes anyone who relies on information from the company's annual report, including the sustainability statement.

Additionally, other stakeholders may be critical to the business and success of the company. These include employees, suppliers, customers, consumers, local communities, NGOs and authorities.

### Stakeholder analysis

The analysis of stakeholders can take many forms dependent on purpose and resources. Typically, it holds a mapping of stakeholders defining their importance, position, role, and power in relation to the company and its business. It could include a survey, interviews or focus groups to gain insight into views and opinions on specific topics and scenarios.

Also, it could include an analysis of the industry and peer group companies to define standards and best practice and it could include desk research and monitoring of media coverage, social media posts, analysts' evaluations, etc. to include a more dynamic view on stakeholder relations and reputation.

### Stakeholder engagement

The stakeholder analysis is in itself a way to engage with stakeholders. But the engagement should also be part of the full process of planning and implementing the annual report and sustainability statement. Also, it is of course an essential part of creating and carrying out the sustainability strategy.

The stakeholder engagement should be planned and systematic. E.g. when it's part of a due diligence process, it is important that processes and results of dialogue and other forms of engagement are described and documented.

Also, the stakeholder engagement can be a tool to strategize and build your image. By ensuring that "multiple voices" are involved in strategic processes there is a better chance for success in the implementation of new strategic measures.

## The road ahead

Materiality assessments are not new to the corporate world and have been done in different formats in many years to assess the materiality of impacts and risks related to business and financial performance. But the more systematic and comprehensive approach now taking place is challenging the ESG managers and similar actors in companies with a new, complex task. And when you include stakeholder engagement and due diligence processes on top of that, you will be busy.

I think, however, that it is fair to say, that though these tasks are now part of compliance to many companies, regulators, authorities, investors, auditors, and expert organisations will in the same ways as companies assess the process and results related to doing the DMA. I do not think, it has found its final form, and it will take some years to approach a process and form that is fully transparent, trustworthy, comparable, and consistent across companies and industries.