

Materiality in Sustainability Reporting: Applications, Dilemmas, and Challenges

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An Overview

- What is ‘sustainability materiality’?
- Are there any difference between sustainability materiality and financial materiality?
- How would application of materiality meet the challenges that confront traditional all-in-one approach reporting?
- And furthermore, can materiality provide an absolute solution to sustainability reporting? If not, how to improve it?

In answering these questions, this paper studies

- how materiality approach becomes an effective sustainability reporting model by addressing the dilemmas that traditional stakeholder-approach confronts.
- And it further reveals ‘interrelationship’ and ‘subjectivity’ as two challenges faced with materiality approach.
- It argues that the road of materiality towards future effective sustainability reporting needs to meet the two challenges.

Materiality Concept: from financial to sustainability context

- Financial materiality: financial information; towards shareholders/investors (see IASs; SEC, etc.)
- **New materiality in sustainability context**
- Non-financial information, as well as financial
- Towards a wider range of stakeholders incl shareholders, governments, customers, communities, etc.
- See GRI G3; AA 1000; Zadek & Merme 2003, etc.

Addressing the Reporting Dilemmas

- Two dilemmas in traditional stakeholder-approach reporting
 - *Voluminous data vs. more information in need*
 - *mechanized reporting vs. selective reporting (strictness vs. flexibility)*
- Materiality's function in addressing the dilemmas
 - Stakeholder map; corporate materiality models
 - A filter to data sea; key issues key data key stakeholders
 - Materiality itself a measurement instrument to prioritize data; flexible room for organizations to develop their own reporting systems

Challenges for Materiality Approach (I)

- **Interrelationships of sustainability issues**
- An example: a factory renews the product line
- ACCA's three case studies in reporting

- **O'Riordan (2009) indicates 3 core components**
- (the complexity of interrelationships)
- Wicked problems;
- uncomfortable knowledge;
- clumsy solutions.

- Harrison (2000): interrelationship in social system

Challenge II: subjectivity in materiality assessment

- **Subjectivity in accountants' assessment**
 - Birkin (2000): accountants cannot give a objective picture of reality of business impacts.
 - Hindoo "Upanisad": six blind men and a elephant
- **Subjectivity in stakeholder opinions**
 - Diverse interests; conflicting views; various values

Conclusion

- Defining the new materiality / extended content of financial materiality
- Function of materiality in sustainability reporting
- How materiality addresses the dilemmas in traditional stakeholder-approach
- Two challenges for new materiality: interrelationship and subjectivity
- The future research direction: to meet the challenges.