



# Demystifying Double Materiality

**A new model to guide  
ESG Corporate strategy**

Ipsos ESG Consulting Practice

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# Presenters



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# Agenda

1

## ESG in Boardrooms

The tension between profitability and sustainable efforts



2

## Double Materiality 101

What is it and why you should care



3

## Current Limitations & Challenges

5 key pitfalls to avoid



4

## Introducing a New Model \*NEW\*

Step-by-Step process to Double Materiality Assessments



5

## Recommendations For moving forward



# ESG in Boardrooms



# What is ESG?

E

## PROTECTING THE ENVIRONMENT

Including protecting and caring for our natural environment

S

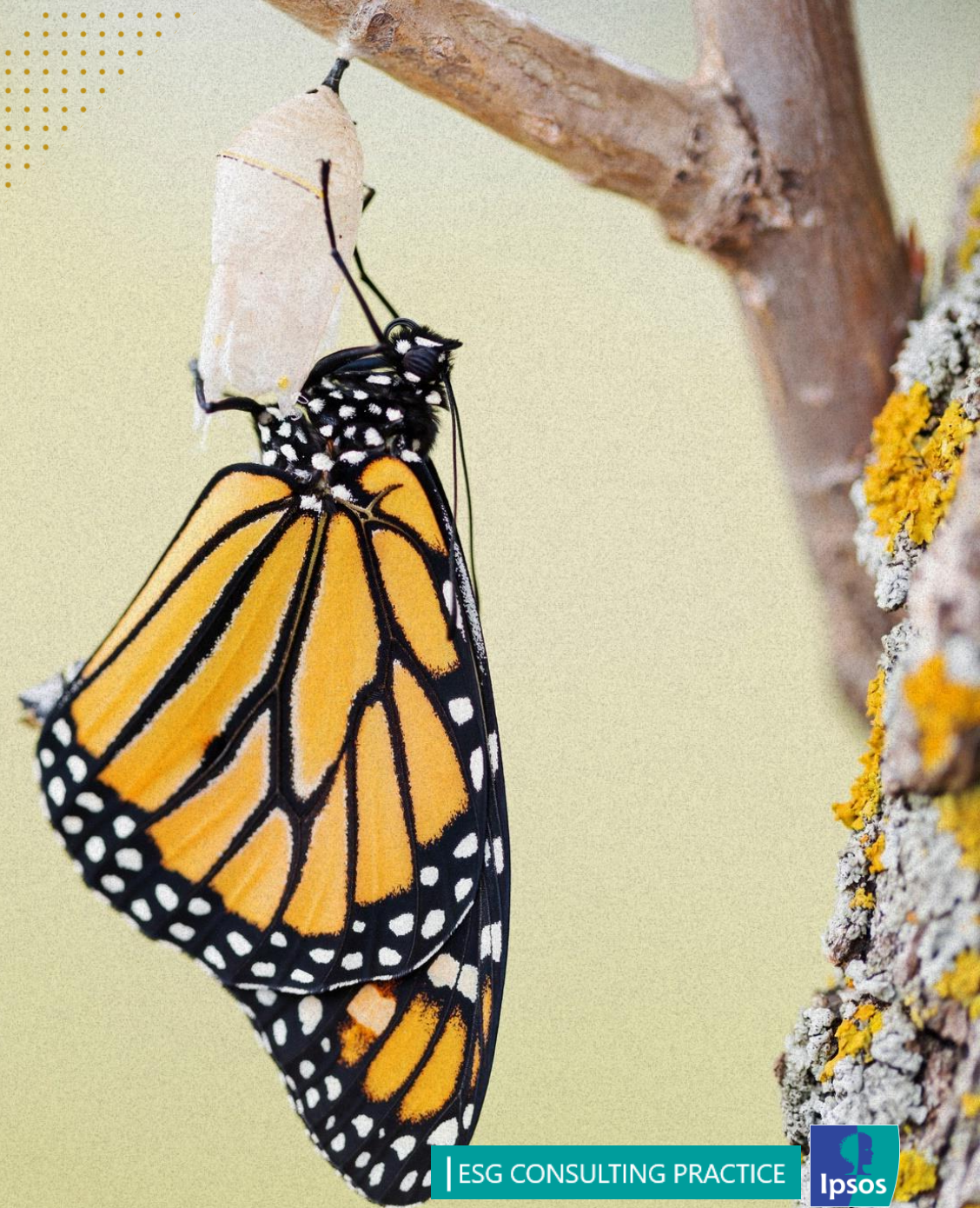
## IMPROVING SOCIETY

Including treatment of employees and diversity, working conditions

G

## PRACTICING GOOD GOVERNANCE

Including tax strategy, executive remuneration

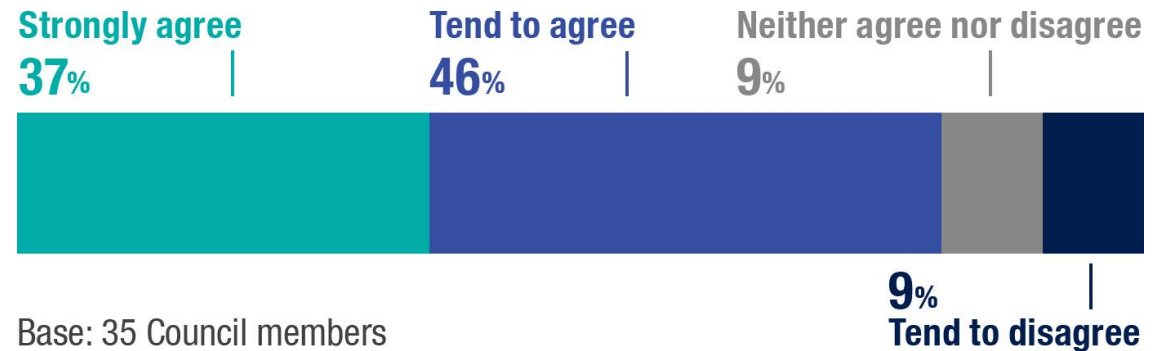




That's the big difference – ESG was a sort of peripheral box ticking exercise and now it is central to everyone's work.”

- ESG Council Member

## ESG is fundamentally changing the way businesses operate

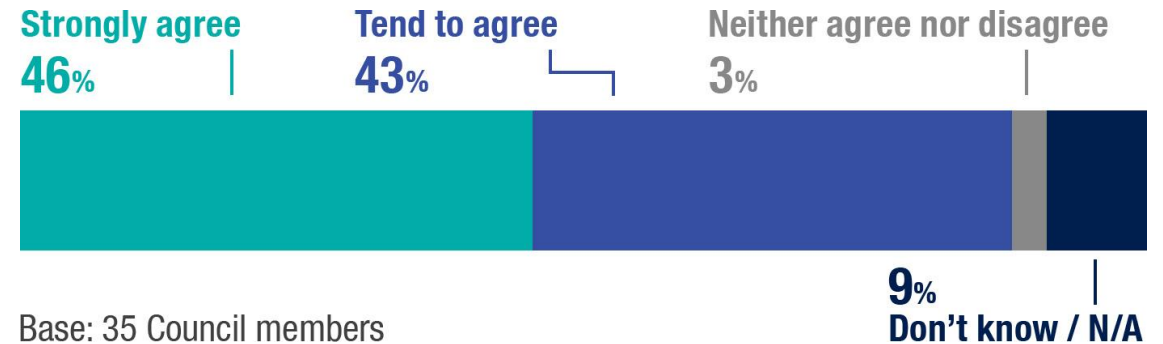


Ipsos ESG Council: 35 in-depth interviews across the UK and US among senior level executives with responsibility for sustainability and the development of ESG, November 2022 – February 2023

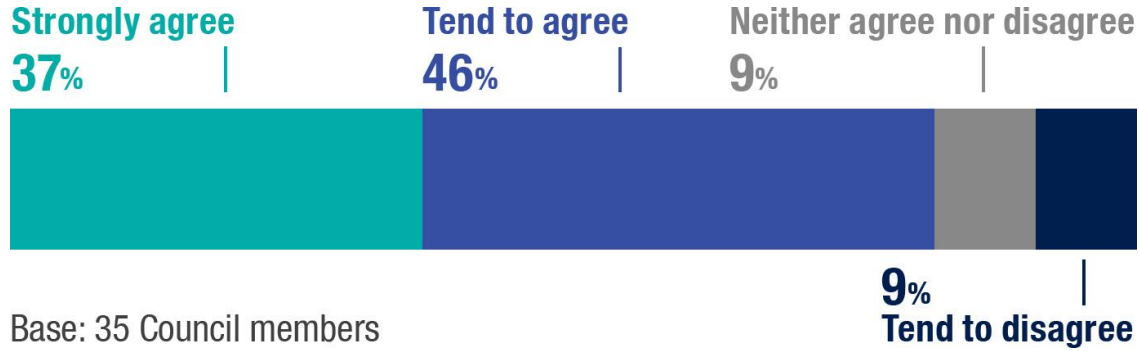


# ESG has emerged from a marginal position & is becoming central to strategic management

## CSOs have become strategic leadership positions within organisations



Ipsos ESG Council: 35 in-depth interviews across the UK and US among senior level executives with responsibility for sustainability and the development of ESG, November 2022 – February 2023



Base: 35 Council members

Ipsos ESG Council: 35 in-depth interviews across the UK and US among senior level executives with responsibility for sustainability and the development of ESG, November 2022 – February 2023

**Businesses have a long way to go before ESG is fully embedded into the organisation**

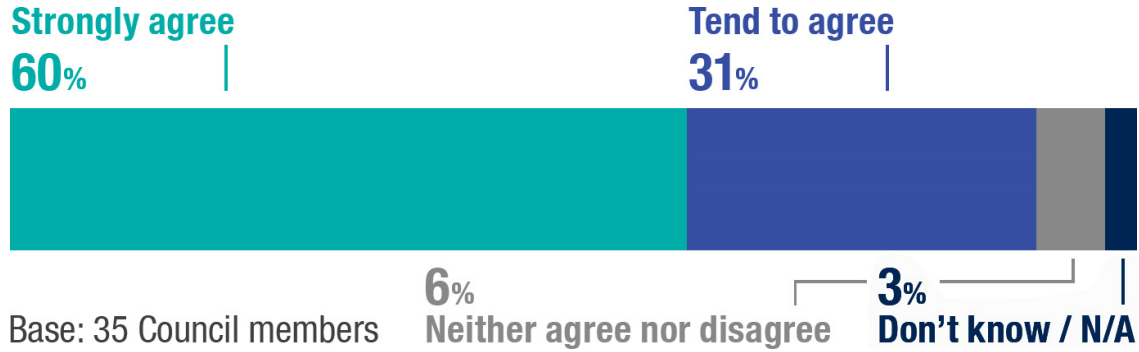


The sustainability commitments that we have made as a business are **front and centre of business strategy**.

When you commit to, for example, achieving net zero, then this has got to be linked to your commercial strategy, your pricing strategy, your customer strategy, etc.

- ESG Council Member





Ipsos ESG Council: 35 in-depth interviews across the UK and US among senior level executives with responsibility for sustainability and the development of ESG, November 2022 – February 2023

# A link exists between a company's ESG performance and its attractiveness to investors



We have dialogue with investors fairly regularly and over the last couple of years I have noticed a change in the range and depth of questioning and knowledge of sustainability issues within the investor community and their ESG analysts have substantially increased.

- ESG Council Member

**We expect business leaders to stand up for our values:**

**50%**

of the global public say that business leaders have a responsibility to speak out on the social and political issues that matter to them.

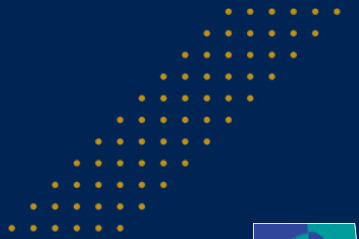
Ipsos Global Trustworthiness Monitor: Global Country Average of 16,017 online interviews across 21 countries c.500-1,000 online interviews per country aged 16/18-74, August 26-September 9 2022

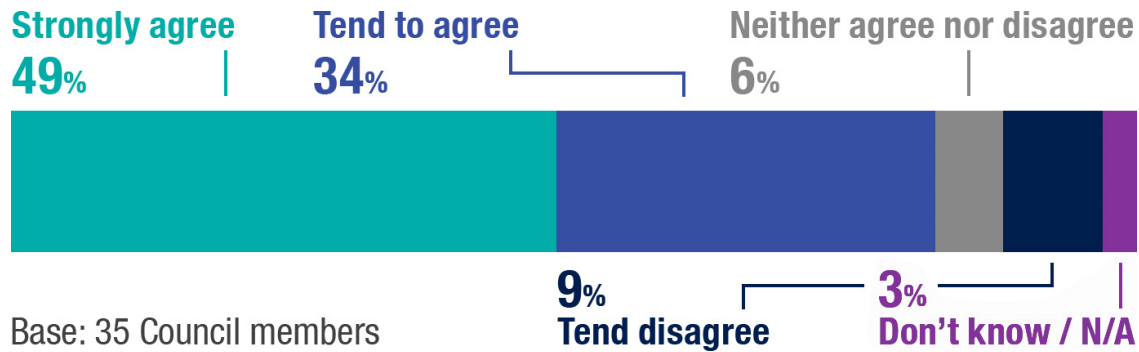
Source: <https://www.ipsos.com/en/trust>



I think we're always shooting at a moving target – there is no **standard way of reporting**. Even the ESG ratings, their weighting on different elements of E, S and G varies significantly and change year on year. Shooting at a moving target is very difficult because fundamentally what ESG ratings should do is allow those looking at them to compare performance on a like-for-like basis. And if you can't do that they **don't serve their purpose**.

- ESG Council Member





Base: 35 Council members

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## KPIs and standards relating to ESG compliance and benchmarking are too fragmented



ESG has almost become a phrase that is associated with ratings. And you can look at one rating and compare it to another and a company can be at the top of one and at the bottom of the other; the methodology is so inconsistent. **I think ESG ratings are basically spiralling into a lack of credibility, into distrust frankly.**

- ESG Council member

# Double Materiality 101



# Integrating ESG into business strategy remains a principal challenge for most

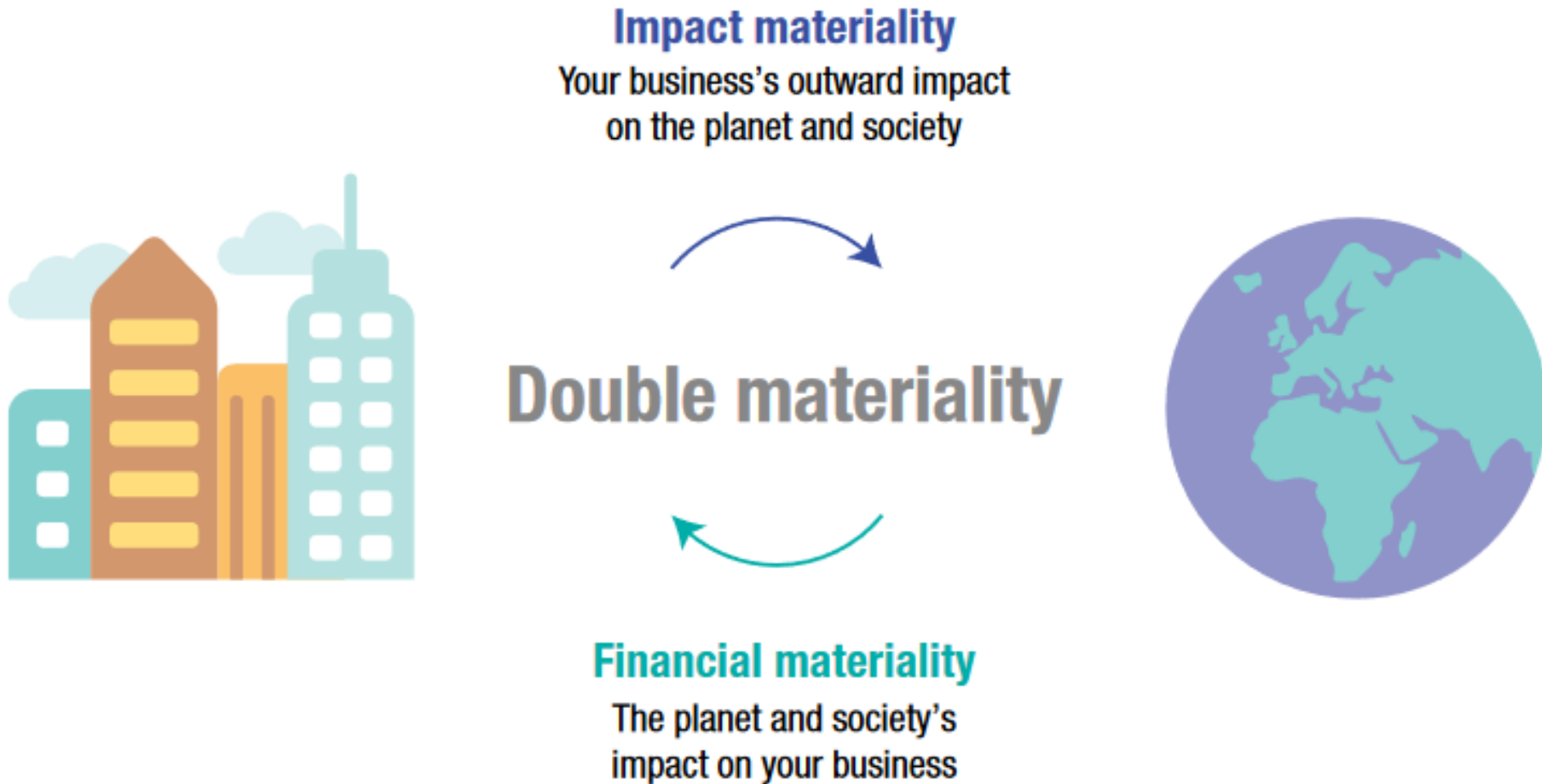
Inherent doubts on ROI can cloud strategy and decision-making, perpetuating a perceived dichotomy between what's good for *people and planet* and what is good for the *wallet*.



83%

of CSOs agree that ESG is challenging the way businesses operate

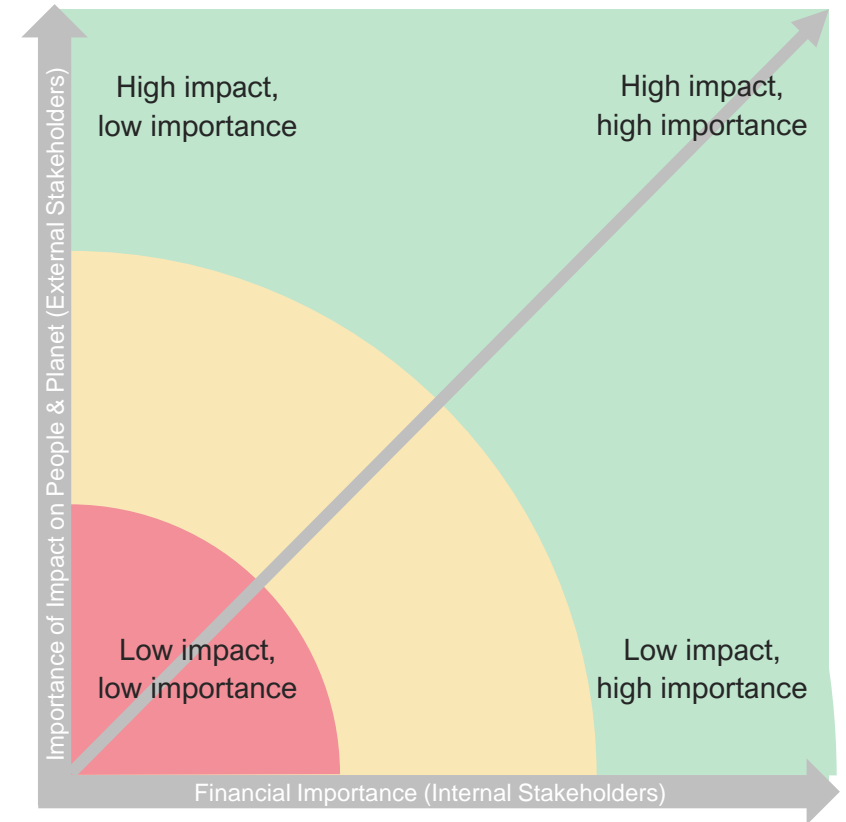
# Double Materiality: What is it?




# Both a reporting function and a strategic compass for decision-making



**Double Materiality Matrix**



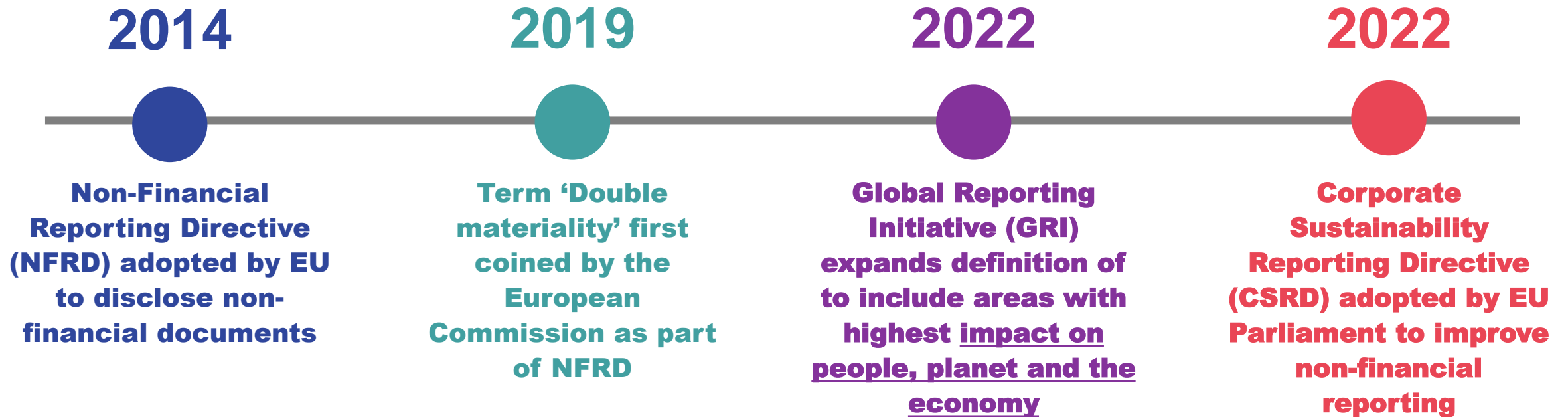




**Double materiality assessments are expected to become increasingly important in the future.**

With the rise of sustainable investing and increased stakeholder demands for transparency, companies will need to account for and disclose their environmental and social impacts in a more comprehensive manner.

# Official definition of 'double materiality' remains relatively new



# The Double Materiality Process 101

## I. SET UP



Choose framework

Identify stakeholders

Create list of ESG 'issues'  
and 'dimensions'

## II. FIELDWORK



Stakeholder surveys

Analyse & weight results

## III. REPORTING



Reporting & strategy



Repeat periodically

# Overcoming Current Challenges



# We've identified 5 key limitations

## I. SET UP



Choose framework

Identify stakeholders

Create list of ESG 'issues'

## II. FIELDWORK



Stakeholder surveys

Analyse & weight results

## III. REPORTING



Integration into reporting mechanisms



### Key Watch-outs

1

COMPETING FRAMEWORKS

2

LACKING OBJECTIVITY

3

BIASED RANKINGS

4

DATA MANIPULATION

5

LACKING 'WHOLE BUSINESS'

# 1

## Competing Frameworks



# Competing frameworks and approaches proposed

Some focus on assessing risks, impacts and opportunities....

....while others delve into impact severity and reporting thresholds.

# 1

## Competing Frameworks



### Current Approach:

- Usually, CSO will pick most relevant framework



### Watch-out:

- Frequently updated
- Often conflicting
- Staying abreast of continual updates



### Solutions:

- Expert Panel or Advisory Board
- Insight Audit as first step

# 2

## LACKING OBJECTIVITY



B I A S



### Current Approach:

- No external objectivity involved
- Often 'chop and change' approach



### Limitations:

- Decision-making is then subject to the biases and misconceptions outlined earlier



### Solutions: Third party facilitation

- Democratised stakeholder selection & engagement
- Cross-functional representation
- Objectivity with weighting





# 3

## BIASED RANKINGS



**7 in 10**

feel they know what actions are most impactful to address climate change

**7 in 10**

feel the most impactful thing you can do to limit your footprint is recycle

**The Believe True Gap.**  
Perceptions frequently do not align with reality, risking company misaligned and misdirected reporting and strategic decision-making

Source: Perils of Perception, 30 countries, 16-65 online 19 Feb – 5 Mar 2021

# 3

## BIASED RANKINGS



### Current Approach:

- Select ESG 'issues' at random
- Stakeholders rank issues on numerical scale



### Limitations:

- Believe-true gap
- Misguided in future forecasting



### Solutions:

- External data used to: Audit Issues, Verify Results and Future Forecast

# 4

## DATA MANIPULATION



### Current Approach:

- No standardised approach
- Inherent bias based on stakeholder group



### Limitations:

- The most subjective part of process
- Lacks rigour and transparency



### Solutions:

- **Less is more, equitable representation**
- **Provide unaltered numbers and tables**
- **Exhibit transparency** around decisions



# 4

## DATA MANIPULATION



### Data Challenge

#### External Stakeholder Bias

- Politician knows a lot about 'Ethical Tech' but less about 'Biodiversity'
- Politician not likely to care about all 65+ issues

#### In-Market Stakeholder Bias

- 3k employees in one market, 10k in another
- Not all groups accurately represented

#### Market Stakeholder Bias

The sample in Market A was 2X the size of Market B.  
**Averaging would dilute impact of Market A input**

### Weighting Solution

- Do not ask all external stakeholders to rank all issues – adjust and weight accordingly

- Aim for equitable representation regardless – both internal and external

- Aim for equitable representation across both markets BUT revenue-based weighting can be a useful addendum

# 5

## LACKING WHOLE BUSINESS APPROACH



### Current Approach:

- Often narrow stakeholder group – lacking robust representation and involvement



### Limitations:

- Lack of a 360° view
- Identification of certain opportunities and risks missed – hindering long-term success potential



### Solutions:

- Create a **stakeholder map** – seek C-Suite but also wider equitable representation



# Introducing a New Model





**Validity** is contingent upon knowledge and expertise of **both internal and external stakeholders**, a critical **weakness of conventional approaches**.



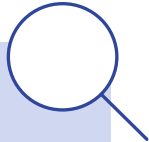
Ipsos has **designed an iterative and multi-stage approach** to increase confidence in results

# Refined model with integrated confidence testing



## I. SET UP

- 1 INSIGHT AUDIT
- 2 STAKEHOLDER MAPPING
- 3 CREATE ESG ISSUES LIST



## II. FIELDWORK

- 4 STAKEHOLDER SURVEYS
- 5 WEIGHTING BEST PRACTICES
- 6 CONFIDENCE TESTING



## III. REPORTING

- 7 REPORTING
- 8 STRATEGIC INTEGRATION





# 1. ESG ISSUE AUDIT

Create guardrails for upcoming phases of research, by doing a comprehensive audit of:

- Relevant legislation
- Current reporting guidelines
- Existing public opinion
- Trends data
- Internal ESG initiatives



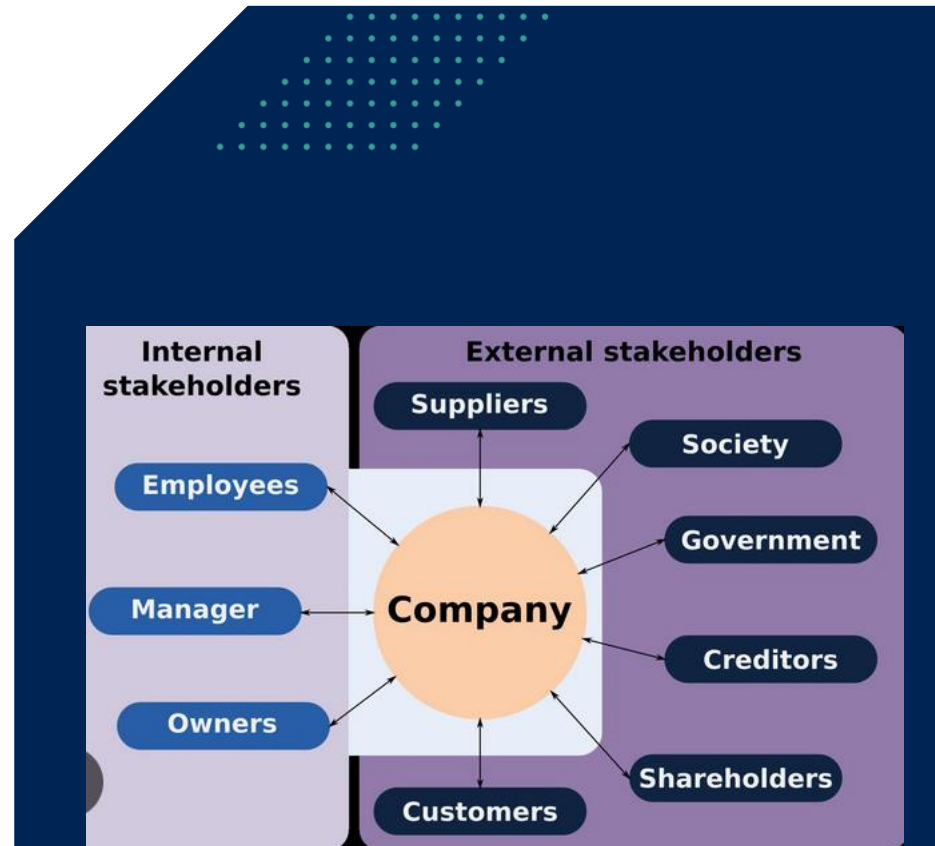
*Note: to add credibility & objectivity to the project, think about forming an expert panel to advise throughout*



## 2. STAKEHOLDER IDENTIFICATION

Through a stakeholder mapping exercise, identify internal and external stakeholders for upcoming consultation on ESG issues.

*Aim for a mix of internal stakeholders by level and department, including C-suite and those with regulatory experience. External stakeholders should be involved across the value chain.*



*Note: For illustrative purposes only*

# 3. ESG ISSUE LIST CREATION

Based on the findings from the ESG Issue Audit, create a list of ESG issues that speak directly to:

- a) Financial impact (outside-in)
- b) Impact to people and planet (inside-out)



*Issues can be clustered into wider themes or dimensions. Once themes are finalised, see if you can drill down a level deeper to identify issues of a reporting nature. Can do extra confidence testing by vetting it against external data (i.e., IGRM data)*



*Example of ESG Dimension and then related Issues*

# 4. SURVEY CREATION AND DISSEMINATION

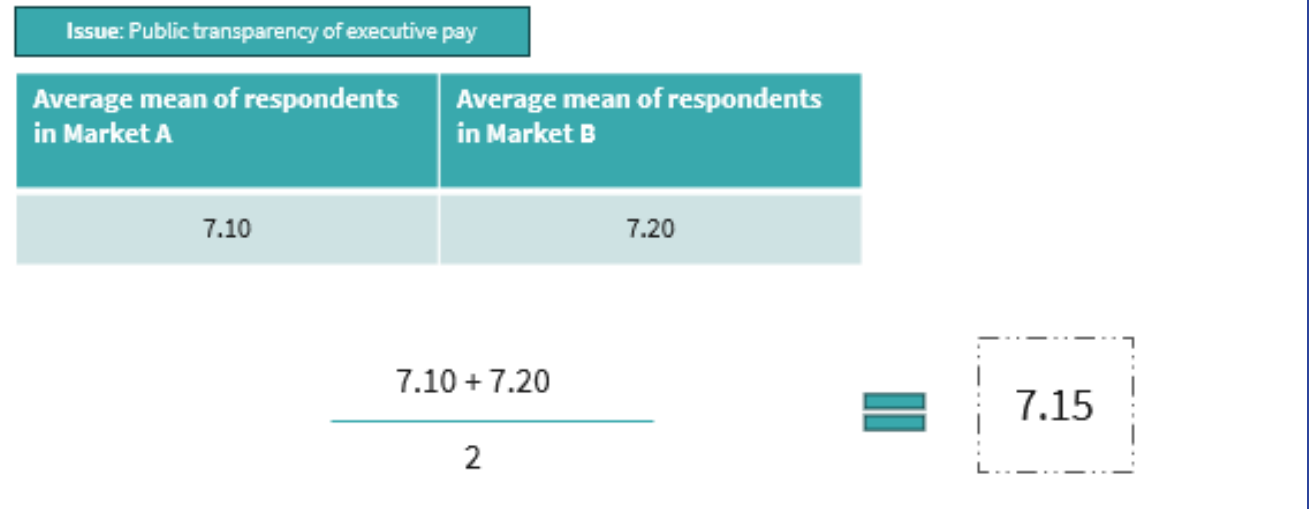
**Create at least 2 distinct surveys**

**Apply both a current & future lens**

**Tailor issues to stakeholders**

# 5. WEIGHTING OF RESULTS

- Combine the scores from both the internal and external stakeholders.
- To ensure an objective view, decide on and implement best practices weighting methods.
- Create your double materiality matrix



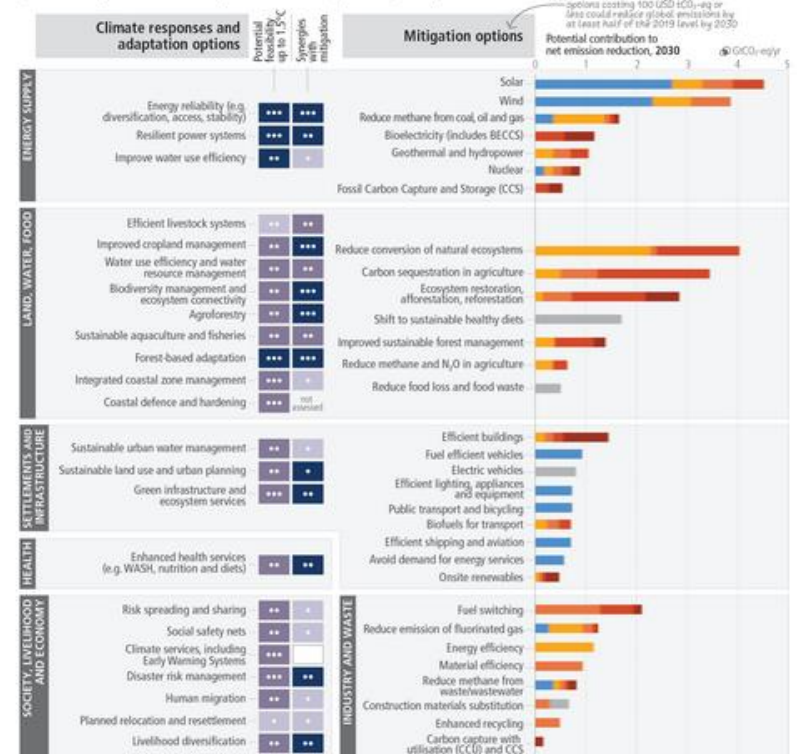
# 6. FINAL CONFIDENCE TESTING

After completing the weighting process, conduct final rounds of confidence testing to objectively validate the findings.

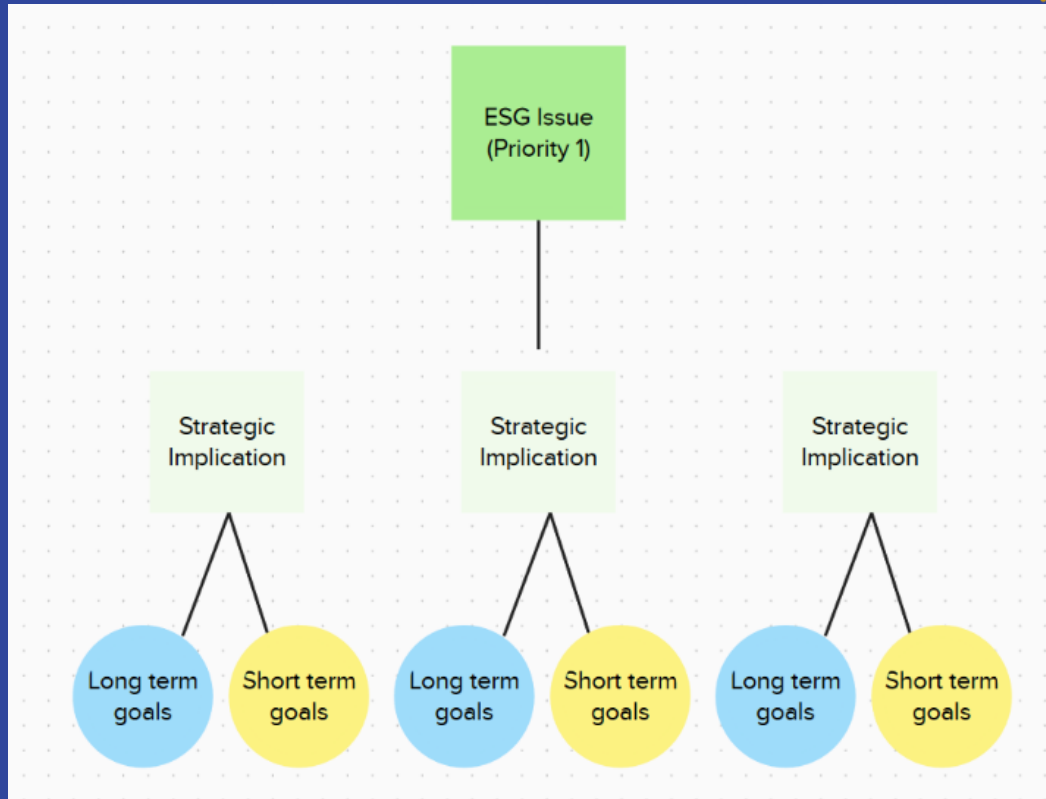
There are numerous possible avenues for this, like financial modelling and cross-comparison to external impact data (like IPCC).

## There are multiple opportunities for scaling up climate action

### a) Feasibility of climate responses and adaptation, and potential of mitigation options in the near-term



# 7. STRATEGIC INTEGRATION



Incorporate these issues and their implications into both company strategy and reporting practices.

**Build off the current and future lens implemented in the survey by constructing short-term and long-term strategic goals around the key issues.**

## 8. REPEAT, REPEAT, REPEAT



In order to keep pace with these changes, it is important to repeatedly gather insights from a well-balanced stakeholder group.



# Recommendations



# Summary of today's session

1. Nascency of the topic means businesses are at significant risk of **poor practice** and undermining the validity of the process.
2. Reliance solely on perception-based assessments poses risk of an **ill-informed strategy** for businesses.
3. Ipsos new model incorporates **confidence testing** in a way that strengthens the credibility of the findings.

# Q & A

