



Case study

Double materiality made easy

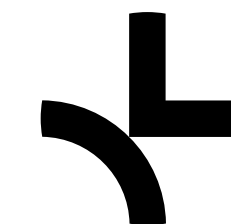
November 2023

Double materiality is part of the EU's planned Corporate Sustainability Reporting Directive (CSRD). From 2024, this Directive will apply to thousands of companies across the EU. Getting to grips with double materiality can seem daunting. But it's simpler than you may think.



This case study draws on one particular example – **TIP Group**, a trailer and truck services business, headquartered in the Netherlands, with more than 3,000 employees in 18 countries across Europe and Canada. In 2023, TIP Group – with the help of Kōan – carried out its first double materiality exercise.





What is double materiality?

Companies have been conducting materiality assessments for years. What's different now is the new definition of double materiality.

With double materiality, companies must take a 360° view – they must consider both the impact their businesses have on ESG issues and the impact ESG issues have on their businesses.

Previously, a material issue was one that ticked both boxes – i.e., it had to be material from both perspectives. Now, an issue is material even if it ticks only one box – in effect, we're switching from an 'and/and' to an 'either/or' approach. The idea is to make sure companies report on all material ESG issues.

That's the theory. What about the practice?

Obviously, material issues will differ by sector and company. So, the first step in identifying your material

issues is to look at your business and market environment. In the case of TIP Group, that meant looking at the company's current priorities and strategies – but also at market and peer reports, third-party research, and media articles published over the past year.

The result of this was a long list of potential ESG issues, showing everything from higher fuel costs to cybersecurity and skills shortages – the purpose being to 'cast the net' as wide as possible, so we don't miss critical issues.

While creating this long list, it's worth remembering that we need to consider impact over the short, medium and long-term – another innovation introduced under the new double materiality.

For TIP Group, we also ruled out issues that we considered as 'business as usual'. Issues like customer satisfaction and compliance with laws and regulations are common to most companies – and would be covered in the report regardless. More importantly perhaps, they offer no insight into either the company's business environment or its relations with stakeholders.

The next step was to reduce this long list to a short list of approximately 15 issues that could be sent as an online survey to management and stakeholders. To do this, we carried out an initial materiality analysis – in effect, putting ourselves into the shoes of TIP Group stakeholders and management. This can be done internally, but TIP Group decided to work with Kōan, an external partner, to guarantee impartiality and save on resources, so that the assessment could be carried out without additional workload.

For management, it's important to involve the most senior executives in the survey – that secures buy-in for the exercise (and the results!). With TIP Group, the materiality survey was sent to the company's Executive Management Team – its six most senior executives.

For stakeholders, TIP Group had already identified five main groups. The more respondents to the survey, the more accurate the results. To encourage participation, we communicated frequently with stakeholders – and made the survey as quick and easy to complete as possible (our rule of thumb is 10 minutes maximum).

What differs with the new double materiality?

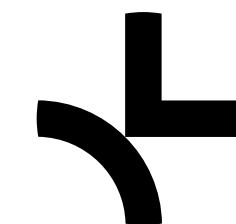
So far, this is very familiar: previous materiality exercises took pretty much the same format. What differs with the new double materiality is, first, that materiality must be assessed over the short, medium and long term and, second, that companies must apply an 'either-or' approach to the results.

The CSRD asks companies to assess materiality over the short, medium and long term, but it doesn't say how this should be done. With TIP Group, we asked survey respondents to carry out three separate rankings. The advantage of this is that you can then track material issues over time – you are asking stakeholders whether they believe climate change or skills shortages, for example, will become more or less material over the medium or long term.

The disadvantage is that it creates, in effect, three surveys (which goes against the 'quick and easy to complete' rule). With TIP Group, we got round this problem in two ways: by asking respondents to rank or prioritise issues (this avoids the bell curve you tend to get if you ask respondents to score issues as most will avoid the highest and lowest scores.). Then, by using software that allowed respondents to compare their initial short-term rankings with their medium and long-term rankings – so they could see clearly how issues were 'moving' over time.

Analysing the results is also different. The results can be plotted on a matrix, just as before. But now, instead of taking only the top-right quadrant as material, you must take what's called the union of financial and impact materiality – i.e., those issues that are ranked the highest by either stakeholders or company management.





This raises an interesting question: where do you draw the line between material and 'not material'? This is important because you'll need to apply the same threshold consistently across all three timeframes – short, medium and long-term. You'll also need to explain your choice to your external auditor. Our approach is to isolate the most material issues – this usually means around 5-10 issues (possibly more once all three timeframes are included). Whatever the final number of issues, there shouldn't be so many that it implies a lack of clarity in strategy or reporting. You can see the results – and the thresholds applied – in the charts opposite..

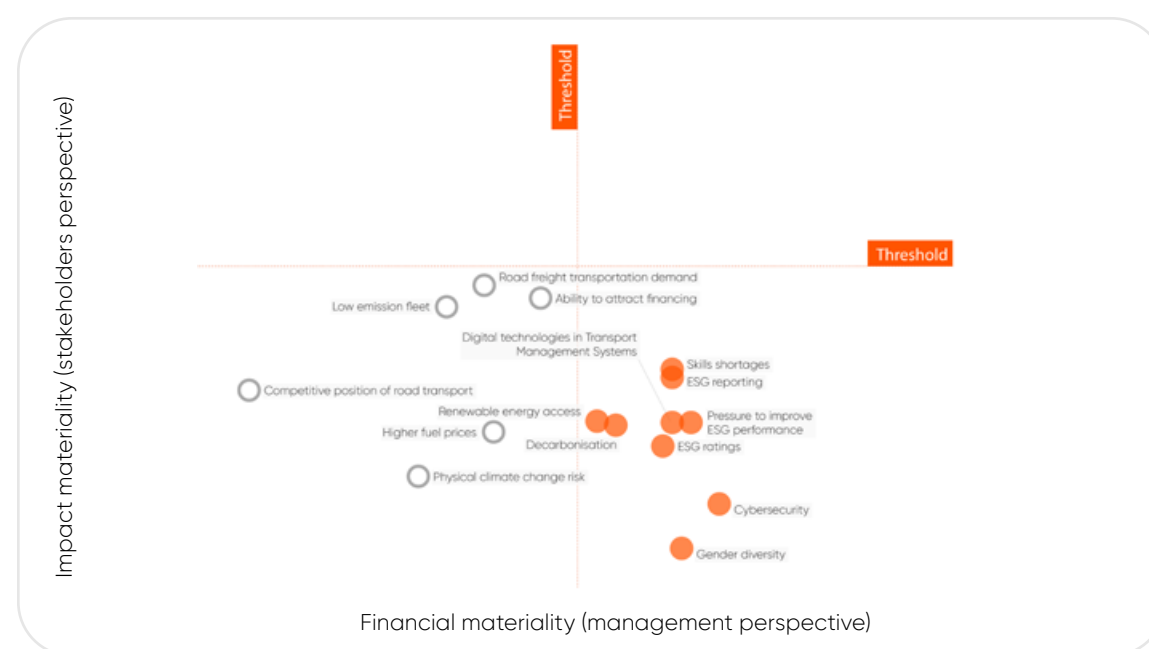
How should I use the results in my report?

For TIP Group, we identified 11 material issues. Seven of these applied to two or more timeframes. These issues were confirmed by TIP Group's Executive Management Team. We also checked the results against the Kōan materiality database – that gives us another perspective, and helped us identify anomalies or differences versus the company's peers.

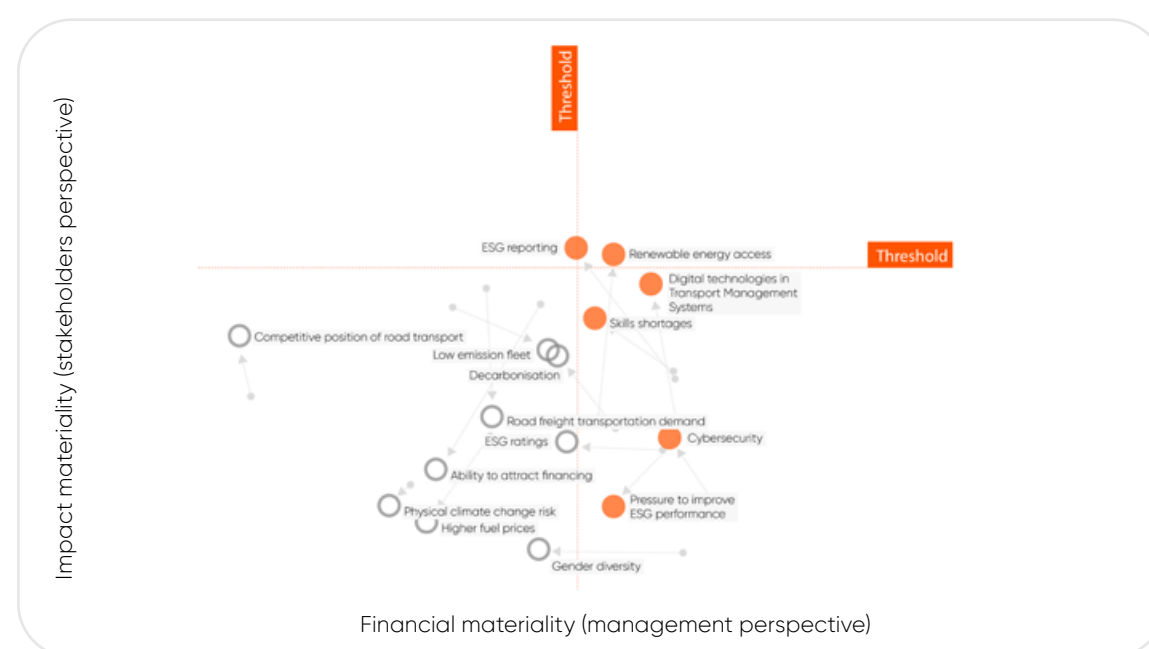
You can see the full results in [TIP Group's 2022 Sustainability Report](#), now online. In its report, TIP Group decided to give most prominence to the short-term results, partly because these are a better fit with the report and because it's where respondents to the survey have the greatest visibility. These results should be linked directly to strategy – in this case, to TIP Group's seven sustainability programmes – to give readers an idea of how the company is managing the most material issues affecting its business.

TIP Group's report also provides details of the process and methodology used, and a reference table describing the company's approach to managing risks, opportunities and trade-offs associated with each material topic, in line with the CSRD and reporting best practice. Printing three charts (in the report's appendix) allows readers to track movements in material issues over the short, medium and long term.

TIP Group's material topics short term



TIP Group's material topics medium term



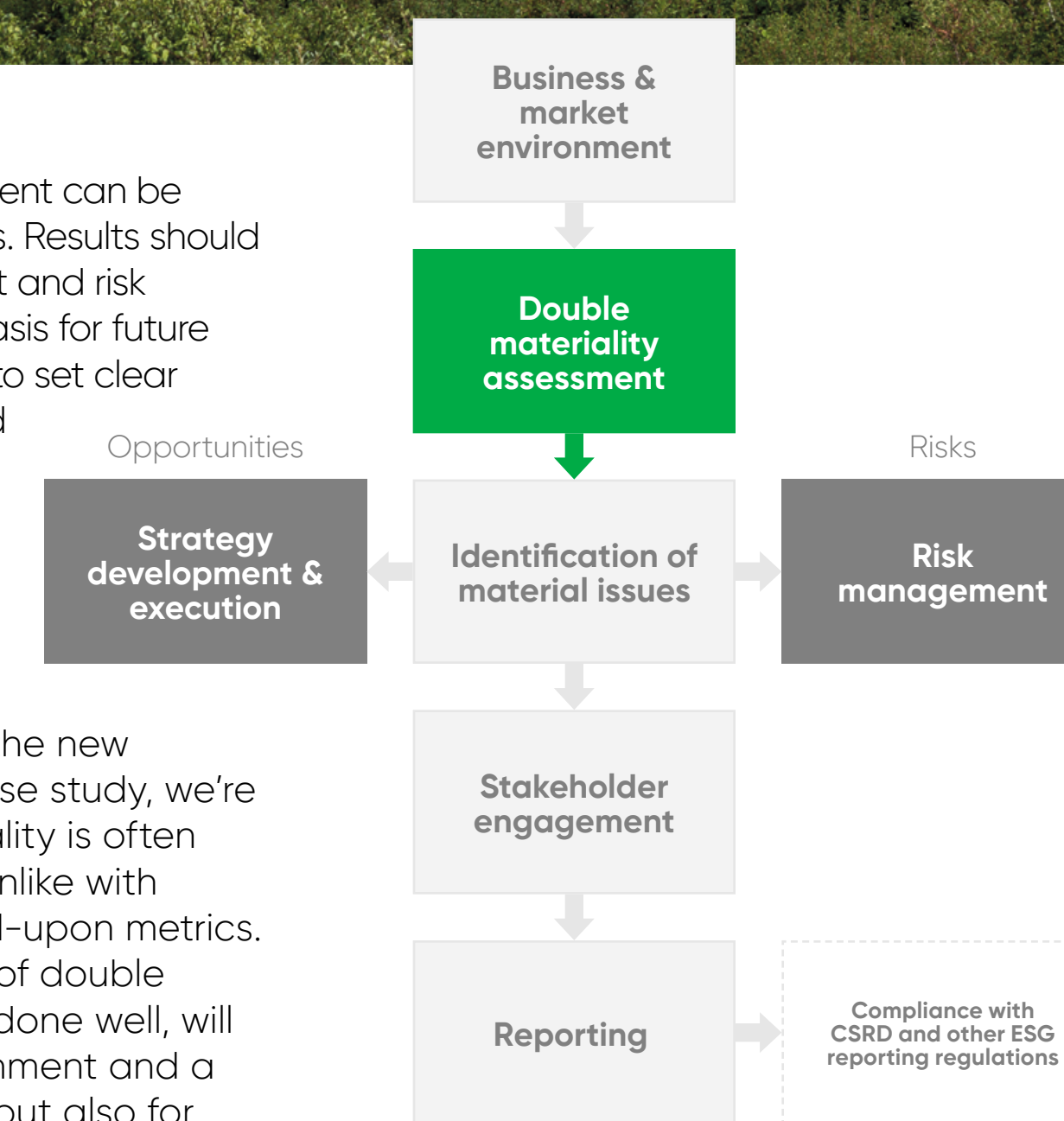
TIP Group's material topics long term

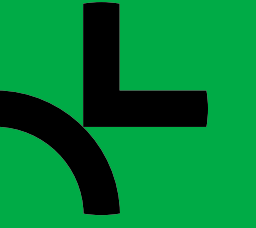


Beyond the report, the materiality assessment can be used to strengthen other internal processes. Results should be incorporated into strategy development and risk management; they should also form the basis for future stakeholder relations, allowing companies to set clear priorities for engagement. Having identified skills shortages as a material issue, TIP Group for example established the TIP Mechanics Academy, offering a fast-track training course for would-be mechanics.

Conclusion

There are several ways of approaching the new double materiality principle. With this case study, we're presenting just one. Determining materiality is often more art than science partly because, unlike with financial reporting, there are few agreed-upon metrics. That said, there's no need to be scared of double materiality. It can be made easy and, if done well, will provide insight into your business environment and a strong basis not only for your reporting, but also for future engagement with your stakeholders.





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