

# BROCHURE STRATEGY



*We bring a fundamentally different process to materiality assessment and analysis that is intended to guide strategy development and resource allocation inside the firm*

## MATERIALITY ANALYSIS

### The Business Case

Organizations that actively manage their environmental and social impact and institute robust governance processes outperform organizations that do not. This outperformance can be attributed to:

1. Increased customer loyalty and satisfaction
2. Increased employee engagement
3. Better access to finance
4. Improved regulatory relations
5. Better supply chain relations
6. More efficient and cost effective organizational processes

### Importance of Materiality

Any strategy starts with the basic premise that an organization needs to prioritize among different alternatives in order to allocate scarce organizational resources in the form of human, financial, natural, or social capital. An increasing number of companies, by engaging a set of stakeholders, are conducting materiality analyses to determine the relative importance of different sustainability issues. Materiality assessment and analysis is a necessary step in extending '*The Performance Frontier.*'

### The Problem with the Status Quo

Most materiality analyses have been conducted with corporate sustainability reporting in mind and not as part of the strategy development and resource allocation process. As a result, while communicated externally, the outcome of the materiality analysis is rarely used as a strategic decision making tool. The ultimate consequence is that organizations miss the opportunity to develop a more sustainable strategy that requires clarity in organizational priorities.

### When to Seek Our Help

- You have grown in *size* thereby increasing your environmental and social impact and attracting more stakeholder attention
- You expand to new *geographic locations* thereby facing potentially new societal expectations
- You have received significant *pressure* from stakeholders on your environmental, social or governance performance and processes
- You have initiated a process for the *development* of a sustainability strategy and you want to take this strategy to the next level
- You have established a *new board-level* sustainability committee
- You want to *issue a sustainability or integrated report* that clearly articulates your strategy

## HOW KKS CAN HELP

Based on years of research and working with companies around the world, we have discovered a fundamentally different approach to materiality assessment and analysis that can inform strategy development rather than remain confined as a corporate reporting exercise. Our cutting-edge approach addresses fundamental problems of existing practices and provides organizations with a competitive edge

**Problem:** Current practice aggregates different stakeholders thereby confounding how improving performance on an underlying sustainability issue can improve the long-term competitiveness of an organization. For example, in many cases, employees, compared to customers, place different importance on a specific sustainability issue. Not surprisingly, employees care more about workplace health and safety compared to product quality. An organization that fails to distinguish between different stakeholders will fail to understand how improved performance on a specific sustainability issue will affect employee engagement versus customer satisfaction.

**Solution:** *Stakeholder disaggregation.* KKS engages and assesses stakeholder views by distinguishing between different types of stakeholders such as customers, suppliers, employees, investors, and local communities. This allows us to provide an organization with a clear guide on how improving sustainability performance leads to value creation and a methodology to measure the value that is being created. Not only we identify the most material issue but our methodology allows us to derive strategy maps that directly link activities to value creation.

**Problem:** Stakeholders are currently engaged in a manner that is unlikely to reflect the true materiality of a sustainability issue for an organization. Asking stakeholders about the importance of an issue to them is unlikely to enlighten an organization about how likely it is that an under- or over-performance on that issue will impact the value creation process. While waste treatment, product certification, or employee health and safety might be important for some stakeholders this does not necessarily imply that an organization's performance on those dimensions will impact customer, employee, investor, or regulatory behavior. The key question is whether an organization's performance on economic, environmental, social and governance dimensions changes an employee's engagement, a customer's buying behavior, an investor's capital allocation decisions, and a local community's attitude towards the organization.

**Solution:** *Modeling the link between stakeholder views and stakeholder behavior.* KKS stakeholder engagement process assesses the likely impact that failure to meet, or ability to beat, stakeholder expectations on an underlying sustainability issue will have on how a specific stakeholder interacts and impacts the company.

**Problem:** Because many materiality assessments are carried out as part of a corporate reporting exercise, organizations frequently restrict themselves to standardized metrics that are advocated by different reporting organizations. These standards and metrics, while very useful for corporate reporting can misguide an organization in terms of strategy development and execution. Strategy practitioners know that each organization is unique and as a result in order to formulate and execute a strategy in the most efficient way one needs to construct measures that take into account the idiosyncrasies of an organization.

**Solution:** *Entity-specific metrics.* KKS identifies entity-specific metrics for each material sustainability issue that take into account the core competencies of an organization to track performance over time and guide strategy execution.

### REFERENCES

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## OUR COMPETITIVE EDGE

- We bring a fundamentally different process to materiality analysis that guides strategy development and resource allocation inside the firm. Robust corporate reporting should be guided by a robust strategy development rather than the other way round.
- Our approach increases cross-functional collaboration inside the organization, enables a more efficient allocation of scarce capital, and leads to increased customer loyalty, employee engagement as well as improved investor relations.
- All members of our team have a wealth of experience in working with organizations to conduct a materiality assessment and assist with strategy development. Our most senior partners are personally involved in each project.
- Through years of research on hundreds of organizations around the world we understand the idiosyncrasies of organizations that operate in different industries and countries.
- We deliver the project outcome on-time in 100% of the cases and we customize our reports, presentations and tools to make as easy as possible to understand and implement.
- Our members are active contributors to the work of sustainability related organizations, including the International Integrated Reporting Council, United Nations Global Compact, United Nations Principles for Responsible Investment, World Business Council for Sustainable Development, Global Reporting Initiative, Sustainability Accounting Standards Board, and World Economic Forum



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