

MATERIALITY ASSESSMENT FOR SETTING SUSTAINABILITY KPI

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Management of sustainable development aims at striking a balance between economic, social and environmental impacts of a company. Setting the key performance indicators (KPI) that a company can use to measure sustainability is an important and challenging task. It is important because KPI help track progress towards the intended strategic outcomes and inform decision-making aimed at their improvement. It is challenging because when it comes to sustainable development, the concept of balance is open to multiple interpretations. Every organization has its own priorities, which determine and underlie the perception of such balance.

An important guidance for both developing a company's strategies and choosing its sustainability KPI is the UN Sustainable Development Goals (SDG) and the corresponding targets for each of those goals. However, SDG only indicate possible areas in social and environmental spheres in which a company can make impact, but do not prescribe the choice of specific areas, nor the degree of the company's involvement in attaining SDG. Given the time and resource constraints, companies have to set their priorities when developing strategies and choosing KPI. To better identify the substance of possible social and environmental effects and set potential targets, the stakeholder approach can be helpful. Deciding on what to prioritize, a company's management should conduct materiality analysis, identifying the relative importance of sustainability issues for the company and its stakeholders.

The goal of the study is to show the role of materiality assessment as an important tool that can be used in the process of setting a company's sustainability targets and corresponding KPI, and to identify possible problems with using this instrument.

Conducting materiality analysis allows a company to understand where and how it can create or reduce value for society, how certain groups of stakeholders can benefit from or be harmed by the company's operation. Materiality assessment precedes the development of KPI and helps identify sustainability issues, which are the most relevant for both stakeholders and the company. The results of materiality assessment are summarized in a materiality matrix.

There are variations in the methodology of materiality analysis concerning the interpretation of the dimensions of the materiality matrix, which causes certain confusion. In accordance with a relatively recent approach, the matrix dimensions are (1) the significance of a company's economic, social and environmental impacts and (2) their influence on the assessments and decisions of stakeholders [1]. Ranking high on one of these dimensions makes an issue material.

The materiality assessment is often used in sustainability/CSR/ESG/integrated reporting, when companies decide what to disclose in their reports. However, in the first place, materiality assessment should guide the development of strategies and KPI.

References: 1. GRI – Materiality and topic boundary. URL: <https://www.globalreporting.org/how-to-use-the-gri-standards/questions-and-answers/pre-2021-gri-standards-system-faq/materiality-and-topic-boundary/>