



4D Materiality™

**Strategic
Stakeholder
Insight**

When Simple Tools Were Enough

When we're heading to an important meeting – with heavy traffic, unfamiliar terrain, a slick road, and a worrisome rattle in the motor – the last thing we need is a glovebox filled with folding maps, wrenches, and a roll of dimes for a payphone. Such tools were fine in their time, but today they are woefully outdated.

Getting where we're going today utilizes GPS, cell phones, and live traffic data, all at the tips of our 21st-century fingers. These modern tools simply work better.

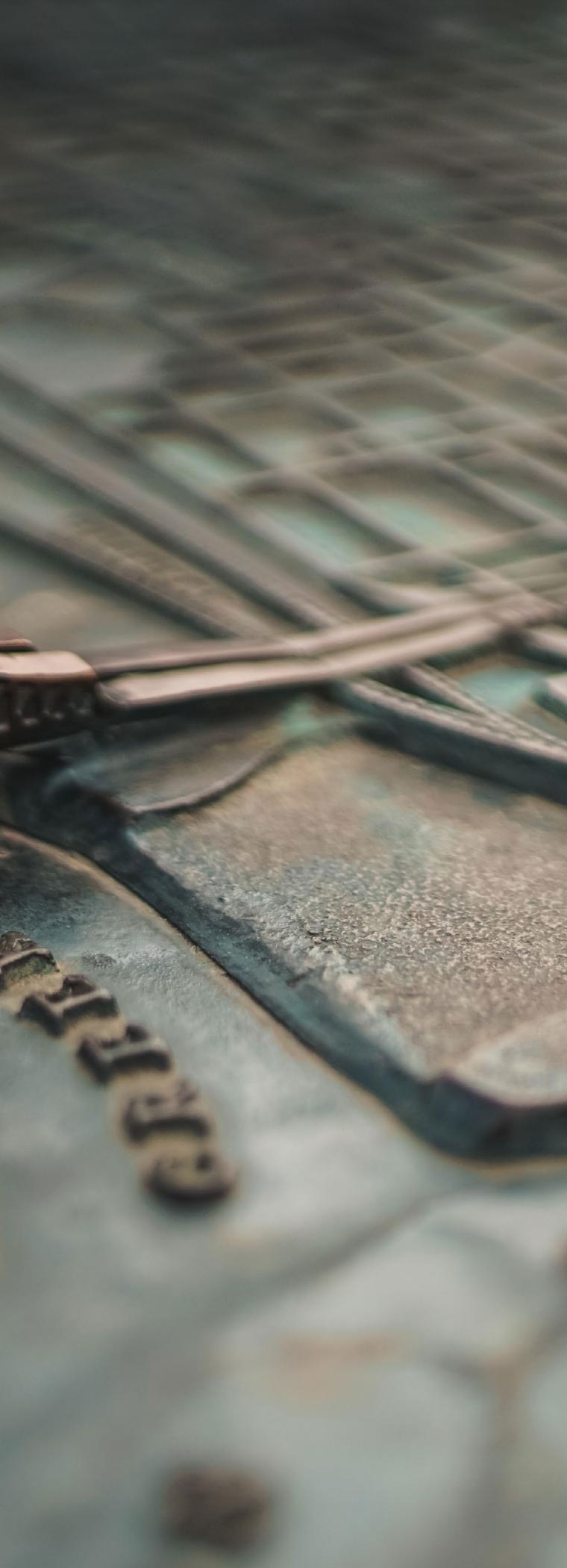
Materiality Isn't Up to the Task

We can't meet the challenges of today, as massive and complex as they are, with old tools. In two years, we've weathered a pandemic and its concomitant market crash, social and political unrest, and global supply chain disruption. Add an unstable labor market, unprecedented floods and fires, and now tornados where they never used to roam. We could really use a gleaming, state-of-the-art tool to help assess priorities and inform strategy.

Sustainability is no longer a luxury: it is a critical strategic necessity, as or more important to continued success as anything else the company does. But what do we find when we reach in the glovebox to collect crucial context for that strategy? Materiality analyses as paltry and outdated as map and wrench. Businesses can't afford that; none of us can.

Today's executives, especially those championing sustainability, must be incredibly nimble, determined, crafty, patient, and more. But most of all, they need to be informed. Materiality is the tool they're relying on for context, to scout dangers ahead and trends, expectations and performance.





Four Dimensions

Businesses need materiality to help illuminate four key dimensions of their strategic context. Three of these are focused on the present:

1. What matters (what issues are important to whom)
2. What is expected of the company (by whom)
3. How well the organization is doing – on these issues and on its core purpose

The fourth dimension focuses on the future, an essential element of a full strategic context:

4. What is coming over the horizon, and how fast it is approaching

Unfortunately, traditional materiality isn't able to do what's needed. In a way, this is no one's fault; conventional materiality analyses were designed for a world that doesn't exist anymore. In that world, sustainability / ESG was considered separate from the business and the landscape – and expectations – changed slowly. But that isn't the world of today. In this world, with sustainability front-and-center, materiality must evolve to do more. It must address all four dimensions.

**This is the tragedy of man.
Circumstances change,
and he does not.**

– Niccolo Machiavelli (1513)

Issue 1: The Net Is Too Small

One of traditional materiality's key weaknesses is that it is too often parochial, not reaching enough stakeholders or casting the net far enough beyond the boundaries of the business. Even with the complexity of the issues, the myriad of changes that can bring down businesses and shift markets, regulations, and the legal environment, most companies query internal staff, plus far too few customers, suppliers, or other external stakeholders.

Consider that one \$10+ billion-dollar company published its materiality analysis in 2021 – with input from under 50 stakeholders in total (combining internal and external). That simply isn't enough to get good input, and thus good insight. Even reaching 100 or 200 isn't enough anymore – that still leaves major insights on the table.

Issue 2: The Net Isn't Cast Wide Enough

Even when companies reach many more stakeholders, they often fall victim to another problem: not casting the net far enough beyond the boundaries of the business. Everyone understands that internal execs have a perspective that is partially shaped by their closeness to the business, and that they simply can't possess the highest level of expertise on things like air quality, LEED buildings, mass climate migration, philanthropy and community needs, green chemistry, and the like.

That's why companies contact external stakeholders, who are both outside the business and who have deep expertise in specific issues. As a result, it is not surprising that these external stakeholders often have a very different perspective than internal stakeholders do.

However, there's another distinction that affects the perspectives of external stakeholders, one conventional materiality misses: how much of a relationship the stakeholder has with the company. For example, a customer or supplier clearly has a direct relationship with the company; this is a "tier one" (T1) stakeholder. Meanwhile, a competitor or NGO (one that doesn't work with the company or receive funding from it) doesn't have a direct relationship with the company; this is a "tier two" (T2) stakeholder.

Perhaps because they aren't directly connected to the business, it turns out T2 stakeholders have consistently different ideas about priorities, performance, and the future than T1 stakeholders do. Unfortunately, since companies typically reach out to stakeholders with whom they have a relationship, such as customers, suppliers, NGOs they fund, and community organizations with whom they partner – that is, T1 stakeholders – they miss the unique intelligence T2 stakeholders can provide.

Tier 1 and Tier 2 stakeholders have very different perspectives because of their different relationships to the company.

Including the perspectives of both tiers creates far more insight and better over-the-horizon foresight.

Issue 3: Overlooking Tier 2 Perspectives

Even if a company serendipitously reaches out to T2 stakeholders, conventional materiality doesn't recognize the difference between tier one and tier two stakeholders, and so those additional insights are not captured.

This is a shame because, harnessed with the right process, distinguishing between T1 and T2 stakeholders can really help companies see over the horizon. Advanced warning about upcoming changes, risks, and opportunities is powerful, for the business as well as the sustainability function – providing time to sidestep risks and beat competitors to the punch.

Issue 4: Not Analyzing Performance

It's good to know that key stakeholders care about an issue. But that's only the beginning – it makes a huge difference how they think you're doing on that issue. What if they see you as not meeting their expectations on one of their top priority issues? That's a very different strategic context than if they see you as a leader. And this is especially true, in line with dimension #4, if that issue is one that is increasing in importance.



One company was meeting its investors' expectations but not the expectations of its customers. That is a fundamentally unstable situation: if you don't start meeting customers' expectations, you'll lose them, and investors will follow. Becoming aware of this early gave the firm time to understand and address customers' issues – before investors started heading for the exits.

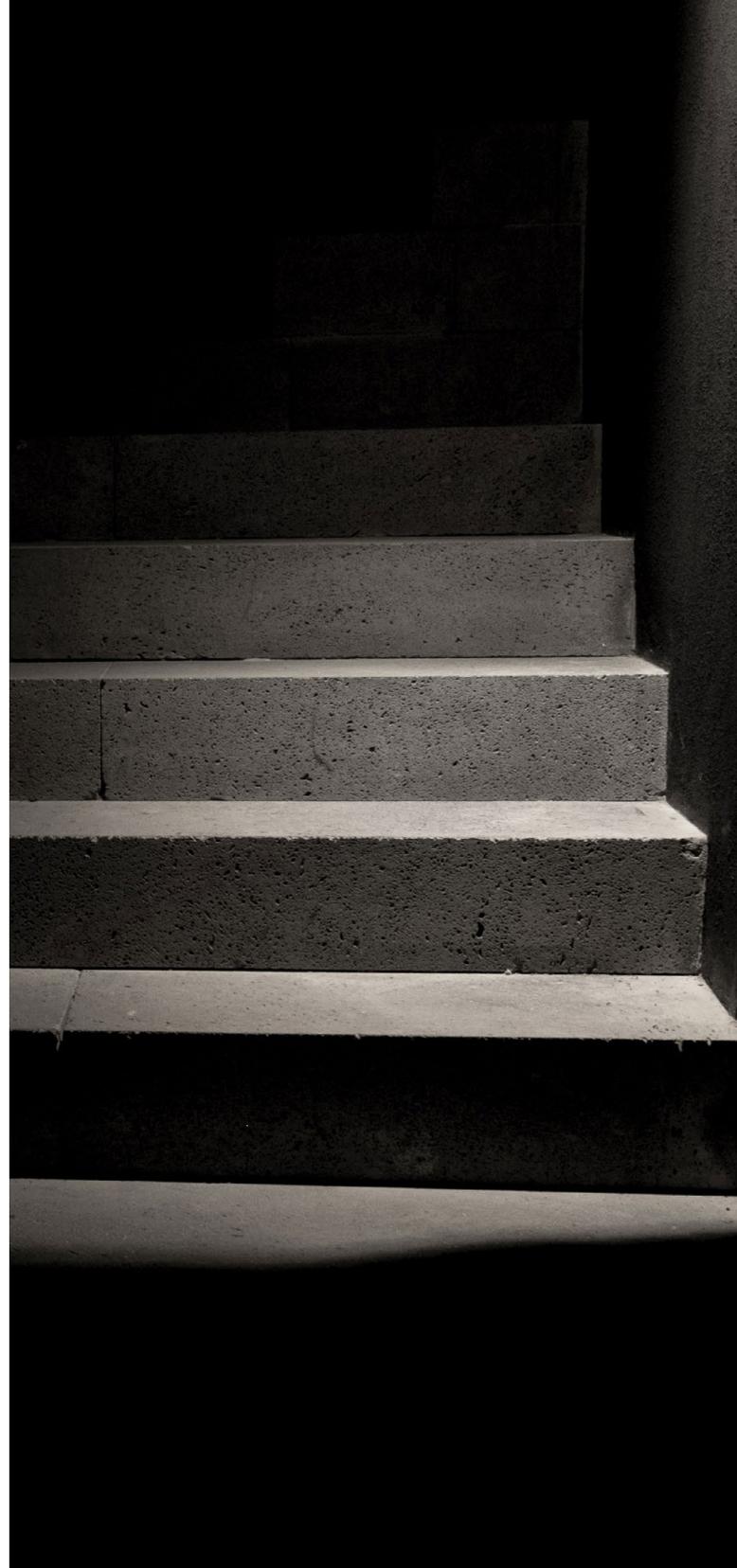
Knowing is not enough; we must apply. Being willing is not enough; we must do.

– *Leonardo da Vinci*

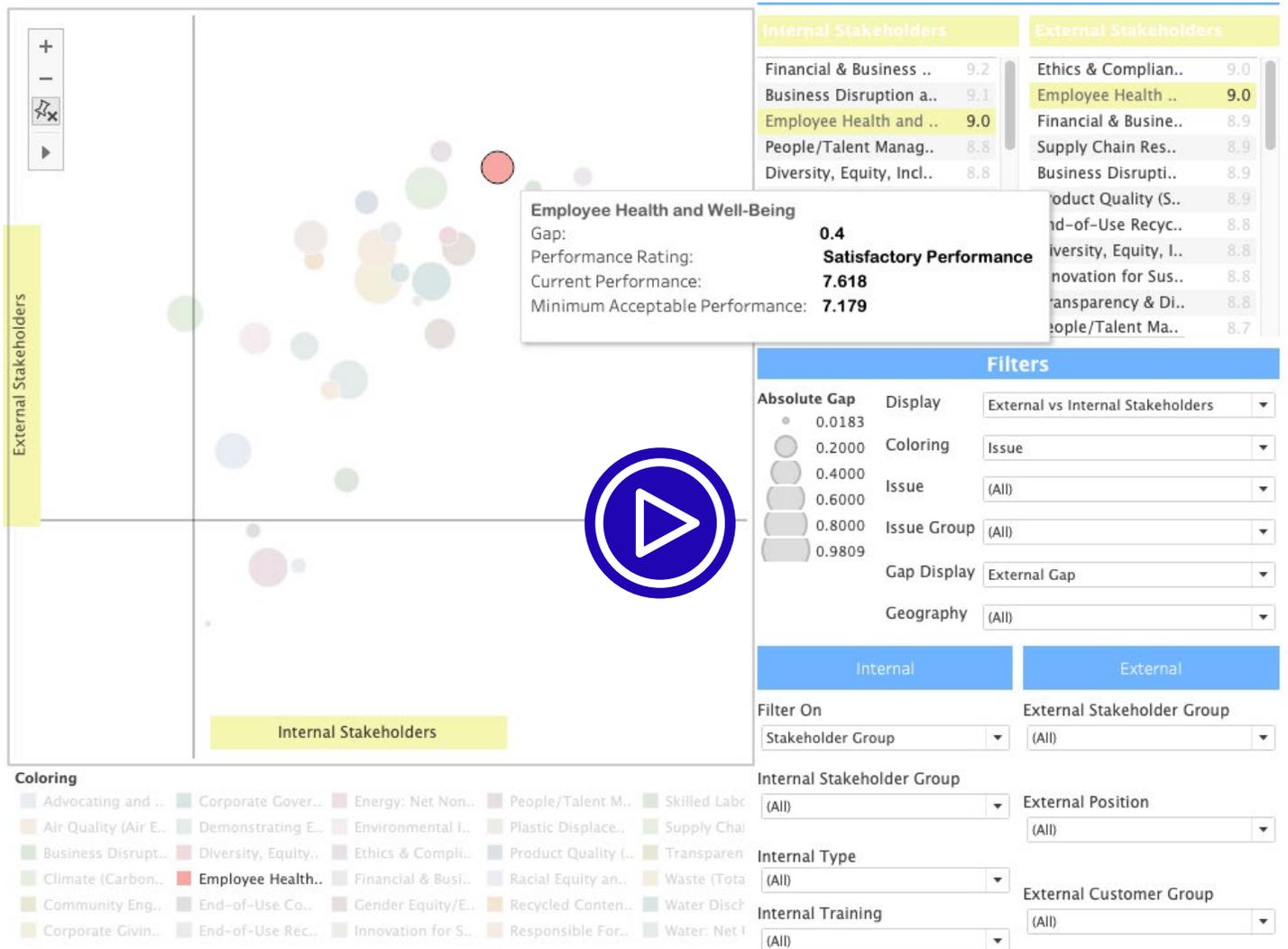
Issue 5: Clock Speed

Another problem with prior-era materiality is in its results. Static outputs are far less engaging and far less informative than an interactive display that can be mined, refined, and selectively sorted in real time. Today, a static report is as outdated as that folding map, but even less useful. A folding map can still help you, but if the output of your materiality analysis isn't dynamic and compelling, it's less likely to lead to action.

Another problem for making materiality actionable: it needs to be much faster. Consider the frantic pace of change during any six-month period over the past two years. Yet a materiality performed by a Fortune 100 corporation recently took 6 months to complete. Is that the best we can do in a world changing at an ever-increasing rate? The costs, the lost opportunities, the dangers – they can't wait.



Valutus Materiality Tool: Example Output



Materiality Can Be Fixed

It's clear, in our true hour of need for sustainability, that materiality has been failing us. But there is good news: materiality can be the comprehensive multidimensional powerhouse we all need. Better input, sharper analysis, the inclusion of time and evolution, faster outcomes, and dynamic, compelling outputs: a materiality that does this – and more – is possible.

4D Materiality is built for today's world. Using it, you can:

- **Reach far more stakeholders.** One recent client got almost 800 responses, enabling far more detailed analysis. That's about twice as many as the company mentioned above that took six months to complete their materiality analysis
- **Benefit from the perspective of tier 2 stakeholders.** We've seen firsthand how tier two stakeholders bring important insights to companies' materiality results and their understanding of the future. Because these insights are so valuable, we include both tiers in our outreach and we use tier-specific analysis to mine their responses

- **Dive deeply into where you're meeting expectations – and falling short.** Identifying gaps between what stakeholders expect and how they see you performing is a key part of 4D Materiality because it informs action, exposes risks, and shapes priorities
- **Move quickly to seize opportunities and head off problems.** Through leveraging unique technology and priority data, 4D Materiality provides deeper insights much faster. At the same time as the Fortune 100 company we mentioned earlier was taking 6 months to finish their materiality and reaching 400 stakeholders, we completed one in the same industry in **one-third the time** (8 weeks) while getting input from almost **twice as many stakeholders** (just under 800).
- **Use dynamic outputs to inform and spur action.** Better insight, presented more compellingly, leads to stronger action and better results. The rest of the business isn't using static tools, they're using dynamic ones – and that's what 4D Materiality provides

A Better Materiality

We leave home every day with devices in our hands that can calculate the trajectory of a ship to Mars while playing video games and taking our vital signs. We drive to work with an unimaginably powerful communications and navigation array at our fingertips. We relax in residences with automated, AI-driven home security and smart thermostats. There is no reason for us to still use a slow, outmoded, inadequate materiality process. Our companies and our planet deserve better. They deserve full-spectrum, multidimensional, 4D Materiality.

