



RESEARCH NEWS STORY **(including commentaries from professionals)**

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More than Just an Informational Tool: The Evolving Role of Materiality in Sustainability Reporting

In financial accounting, materiality is considered as a way to distinguish significant Information, so that reporting entities, information users and auditors can avoid spending too much time on the items that do not matter. However, since its introduction into sustainability reporting, this concept of materiality has expanded significantly and has taken different shapes and forms, leading to much debate about its exact role.

In this new study published in *The Accounting Review*, researchers explored materiality's evolving roles over the last 25 years in four interconnected episodes of sustainability reporting, drawing from 91 interviews with a wide range of professionals, including many policymakers and standard setters.

In the first episode, materiality emerged as a broad and flexible concept. Different organizations, policymakers, and industry leaders saw its potential to improve sustainability reporting, risk management or corporate governance, and used this concept in their own way. Materiality acted as a multi-visionary object, accommodating diverse perspectives without triggering much debate between groups with different perspectives at this point.

In the second episode, materiality shifts to a point of debate. Previously, groups focused on their own interpretations of materiality. But now they began to pay greater attention to the perspectives proposed by others, as they sought to define materiality in ways that represented their own viewpoints and interests. Different groups have points of divergence around how to define the concept of materiality and the 2x2 materiality matrix. However, despite such differences, materiality functions as a meeting point, where groups could discuss and understand each other's varied perspectives.



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"The concept of materiality has always been important in business reporting, but has come to the fore in sustainability with new emphasis on better reporting, on new understanding of business impact and in the connectivity of sustainability issues with company financial performance," commented [Richard Howitt](#), Former Member of the European Parliament responsible for the EU's first sustainability reporting rules and Chief Executive Officer of the International Integrated Reporting Council. "This excellent research study not simply analyses the evolution of these practices, but represents very important thinking on what is indeed material in corporate sustainability today."

In the third episode, materiality evolved into a common language and a bridge, which gave a sense of unity and connectivity, inspiring different groups to prioritize collaboration over competition at least temporarily. Recognizing the need for collaboration, businesses and regulators worked toward integrating financial and impact materiality into a more comprehensive approach, which acknowledges both perspectives and offers a more holistic way to look at sustainability and ESG issues.



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*“This rigorously researched paper charts the evolution of the concept of materiality in parallel with the coming of age of decision-useful sustainability reporting,” said **Dr. Jeremy Osborn**, Global Head of Sustainability, AICPA & CIMA. “Beginning with the first such reference to materiality by the GRI in 1999 through to the complementary – some would say competitive – positions of the EU and the ISSB on impact materiality and financial materiality respectively, this paper will be of great interest to anybody who has been actively engaged with the work of organizations who have been drafting new sustainability standards, creating new corporate reporting frameworks or shaping policy initiatives. The shifting language of materiality, at times divisive and at other times reconciliatory, is a powerful metaphor for how we envisage the relationship between business, society and the environment.”*

However, by the fourth and most recent episode, materiality has become a source of division. The debate over its definition has intensified, with some groups using it as a moral stance while others withdrawing from discussions altogether. Instead of fostering collaboration, materiality has begun to serve as a divisive institutional object, highlighting ideological differences rather than bringing groups together.



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“How sad that this thorough and balanced research involving 91 interviewees should end with the observation that “...despite a long period of interactions, engagement and bridging, instead of moving towards greater consensus among key players, the rise of competitive boundary work leads to contradictions, disagreements and much reduced engagement between them,” noted a [source from the leadership team of a major sustainability reporting standard setter](#), commenting anonymously: “Meanwhile, companies that are being required or encouraged to disclose information about sustainability performance, risks, opportunities, impacts and dependencies are caught in the crossfire of the contradictions. Worse still, the contradictions draw attention away from what is needed to achieve sustainability within planetary boundaries. Hopefully this excellent research will galvanize standard setters jointly to explore the suggestions in Section V and to resolve or, at least explain their differences in the context of the wider objectives of securing a sustainable, survivable future.”

Ultimately, this study reveals that materiality is not just a technical tool for sorting corporate ESG information—it plays a critical role in shaping sustainability discussions at the policy level, influencing the way a broad range of policymakers and professionals see themselves and their relationships to others. While it once helped unify different perspectives, it is now contributing to fragmentation.



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*"The concept of materiality both binds and divides us, and a paper examining the evolution and complexities could not be timelier as policy makers grapple with corporate reporting expectations," said **Faith Ward**, Chief Responsible Investment Officer at Brunel Pension Partnership and Chair of the IIGCC. "The study resonates deeply as its timeline maps perfectly to my lived experience, coming as an environmentalist to work in the financial industry and being part of the movement to redefine corporate accountability and reporting. The desire to move beyond a traditional financial view of materiality was imperative if we were to avoid exhausting our planet of its human and natural resources. However, getting the balance right is crucial, as including everything can obscure and distract and not provide meaningful insights into what really matters. The opportunity cost of burdensome reporting is at the forefront of current debates, potentially causing the pendulum to swing back too far the other way, reducing investors and stakeholders' ability to make informed decisions. The message we must hear from this paper is the need to keep talking and seek to reconcile our views on what is a critically important concept, to arguably waste less time on quarrelling and more on bringing about positive change."*

As sustainability reporting continues to evolve, the study offers a range of suggestions, which have the potential to alleviate the tensions currently in the materiality debate and thus paves the way for the beginning of a reengaged relationship between these groups when the next episode of sustainability reporting arrives.



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*"I was genuinely surprised to find such a paper in *The Accounting Review*," said **Professor Han Yi**, CEO of the Korea Accounting Institute and Chair of both the Korea Accounting Standards Board and the Korea Sustainability Standards Board. "In a journal typically known for sophisticated analyses of large datasets, this study stands out: based on interviews with 91 individuals over nine years, it offers a brilliant account of how the concept of materiality has evolved—framed through the dual theoretical lenses of boundary objects and boundary work. As someone who has transitioned from accounting academia to leading sustainability standard-setting bodies, traveling the world and witnessing firsthand the tensions and collaborations surrounding ESG and climate disclosures, I found this paper not only illuminates where we began and why we face today's challenges—it also offers a compelling vision of where we can go next. For this reason, I consider it essential reading for anyone working in sustainability or ESG: corporate representatives, investors, academics, and professionals—including auditors."*

Reference

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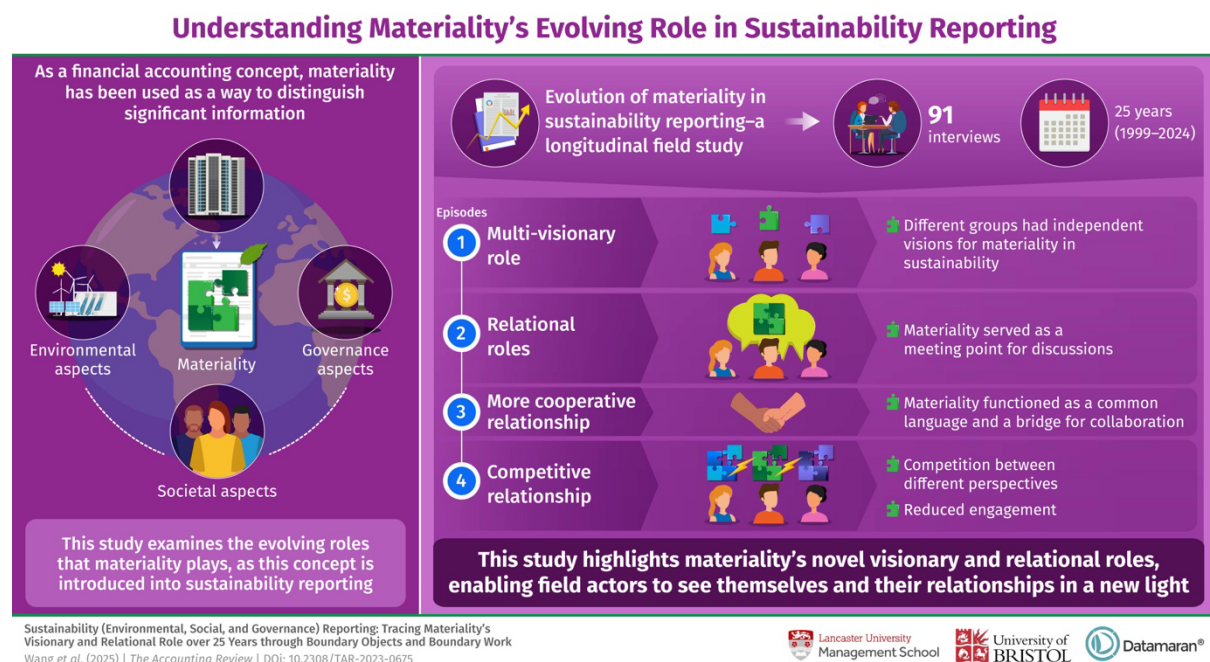


Image title: Understanding materiality's evolving roles in sustainability reporting

Image caption: Materiality has moved beyond just an informational tool and has taken up visionary and relational roles in sustainability reporting.

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