

Supplementary Guidance on

Materiality

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1 Introduction

One of the principles of SROI is to only include what is material. The Guide to SROI provides some guidance on this on pages 22, 35, 85, and 92. This supplement expands the guidance in relation to determining materiality in SROI analyses that would be made public and would meet the Assurance standard for public reports.

The principle states:

‘Determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.’

This principle requires an assessment of whether a person would make a different decision about the activity if a particular piece of information were excluded. This covers decisions about which stakeholders experience significant change, as well as the information about the outcomes. Deciding what is material requires reference to the organisation’s own policies, its peers, societal norms, and short-term financial impacts.

For SROI analyses which will be public documents and meet the standard required for assurance, materiality means that the material outcomes for all stakeholders should be included. The principle of verification and third party assurance of public documents is important in order to give those using the account comfort that material issues have been included.

For other audiences and purposes, the scope may mean limitations to the analysis. Materiality will then be assessed within the limitations established by the scope. Separate supplementary guidance is being developed on scope and on SROI analyses for different audiences.

1.1 Purpose of materiality

Materiality is a process used to help identify the outcomes we need to manage, and determine if we are getting the information we need.

Any approach to understanding the impact of an organisation or its activities will need to find a way to focus on those outcomes that are **relevant and significant**. If this is not achieved, the process of understanding and reporting will spend time and energy on issues that are not relevant or are not significant. The challenge is to decide which are which.

1.2 Definition

The definition of materiality in financial statements is:

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements”

For sustainability and social value, materiality is determining the **relevance and significance** of an outcome to an organisation and its stakeholders. Relevance and significance are considered separately.

A material outcome is an issue that will influence the decisions, actions and performance of an organisation or its stakeholders. In other words, it has passed a threshold that means it influences decisions and actions.

The first filter is **Relevance**. If an outcome is relevant then the significance of the issue needs to be considered.

Significance means that the real or potential scale of the outcome (both positive and negative) has passed a threshold that means it influences decisions and actions.

2 Materiality in SROI

The approach taken within SROI is consistent with the approach established by AccountAbility in the AA1000AS standard. This is an existing international standard. More detail is available at the end of this supplement or from AccountAbility21.org.

The stages in the SROI process provide information that help in making this judgement.

Relevance is considered as part of Stage 2 – Understanding change.

Significance is considered as part of Stage 3, Stage 4 and Stage 5.

2.1 Relevance – identify issues

This section summarises the steps that result in a list of outcomes. An assessment of relevance is used to assess which of the outcomes should be included in subsequent stages.

The first stage in SROI is to identify an initial list of stakeholders and record your assessment of how these change. If stakeholders are not (or have not been) involved in the assessment of how they have changed, there is a risk that your assessment may be (or is) incorrect. Stakeholder involvement allows you to develop and refine the outcomes. It also allows you to check if there any missing stakeholders by asking those you have identified. If there are, they should be included in the list of stakeholders and then involved in identifying outcomes.

As you discuss the outcomes with stakeholders, you may also realise that some of the outcomes are specific to subgroups.

The result will be a list of outcomes and stakeholders. There are two risks at this point. Firstly, that stakeholders have been missed out. Secondly, that the outcomes are incorrect and incomplete. The second stage of SROI, understanding and evidencing outcomes, requires stakeholders to be involved in describing change in order to reduce these risks. The initial list of stakeholders may need to be revised to:

- Add new stakeholder groups identified by the first assessment; and
- Divide stakeholders into separate groups where groups experience different changes.

This results in a revised list of stakeholders and their outcomes. This is the point at which relevance of the outcomes can be addressed, basing the decision on assessments of first relevance, and then significance.

Testing for relevance is therefore looking at whether the outcome is relevant, because there are:

- policies that require it or perversely block it, and the intervention can deliver it;
- stakeholders who express need for it and the intervention can deliver it;
- peers who do it already and have demonstrated the value of it and the intervention can deliver it;
- social norms that demand it and the intervention can deliver it; and
- financial impacts that make it desirable and the intervention can deliver it.

This is also important since the process recognises that stakeholders' assessment of impact is not the only driver of decisions on materiality. Stakeholders are involved but they do not lead the assessment.

2.2 Significance – prioritise issues

The significance of the outcomes is assessed by reference to the magnitude of the impact and probability, and to whether they are internal and external.

SROI requires the relevant outcomes to be evidenced by finding appropriate indicators, and then assessing the expected or actual quantity of change.

Where the quantity of change is low, it may provide evidence that shows the change is not significant.

SROI requires the outcomes to be valued. If the outcomes are given relatively low values compared to both the other values of their outcomes, and by comparison with the values of outcomes of other stakeholders, this may provide further evidence that the outcomes are not significant.

SROI requires the assessment of, for example, deadweight and attribution in order to reduce the risk of over claiming.

Where these are high this may provide evidence that the outcomes are not significant from the perspective of the organisation. They may still be significant from the perspective of the stakeholder, and communicating this value will need to involve those other organisations responsible for part of creation of the value.

2.3 Judgements

There is a balance here between significance in the overall context and significance for a stakeholder group with caution erring on the side of significance for a stakeholder group.

By maintaining a full analysis at each of the stages, combined with a reduced analysis which is the result of decisions on materiality, the organisation will be able to show how it has met the requirements of the AA1000 principle and comply with the principle of transparency. Nonetheless as a matter for judgement, it will only be as more examples of SROI analyses become available, and the judgements that have been made within them are discussed, that more consistency in these decisions will develop.

Inevitably this requires judgement. The analogy would be with materiality in financial accounting and reporting. A 1974 study by the Accountant's International Study group characterised materiality as:

'Materiality is essentially a matter for professional judgement.....'

Consequently the challenge is to build this into a practical methodology where judgement becomes more consistent.

2.4 Step by Step summary

- Determine outcomes
- Assess relevance
- Highlight outcomes not considered relevant
- If this means that there are stakeholders with no outcomes, highlight these stakeholders
- Determine quantity of change for remaining outcomes
- Consider significance
- Determine Value of change
- Consider significance
- Determine impact
- Consider significance
- Draw together considerations to conclude on significance of the outcome for stakeholders
- Consider outcomes for all stakeholders
- Finalise decisions on significance of outcomes arising from the activity
- Highlight those outcomes no longer considered significant
- Summarise decisions on relevance and significance

3 The Worked Example – Materiality in Wheels-to-Meals

3.1 Relevance

The worked example in the Guide to SROI is based on the experience of Wheels-to-Meals. In the Guide, the decisions around relevance were made in Stage 2 on pages 34 and 35, and the outcomes included in the worked example are the results of conversations around relevance. In the initial discussions with stakeholders, a number of changes were described and the ones that are included in the impact map are the ones that Wheels to Meals decided were relevant. The example would fall short of the requirements for transparency as the basis for the decisions on relevance were not included in the Guide.

An example of one of the other changes described by the users of the service was:

‘Not being disturbed by my neighbour’

An example of how Relevance was assessed in Wheels to Meals case is provided in the table below. The five relevance assessment criteria are laid out for two changes, Wheels-to-Meals stakeholders identified, ‘not being disturbed’ and ‘fewer hospital visits’ one of which was deemed relevant and the other irrelevant.

Relevance criteria	Avoiding neighbours	Fewer hospital visits
Stakeholder behaviour and concerns	In discussion with other stakeholders, this was not seen as relevant to the service	Stakeholders confirmed that this was a result of being fitter
Policy based performance	Improving neighbour relationships was not part of Wheels to Meals policy	Wheels to Meals policy is to improve well being of service users
Societal norms	Society norm is that not everyone gets on with everyone	Society norm is to reduce time in hospitals
Direct short term financial impacts	None	None – these would be medium term
Peer based norms	Whilst there are organisations seeking to maintain good relations between neighbours, these mainly focus on disputes	Other similar organisations also monitor this information
Conclusion	Not relevant	Relevant

3.2 Significance

In the worked example, the discussion on which of the included outcomes are significant starts in Stage 2 and the end of page 35, and the impact map includes an analysis of all the outcomes that were included as being relevant. At the end of stage 2, there is little additional information available to assess significance.

However the next step is to evidence the outcomes by finding appropriate indicators and then assessing the expected or actual quantity of change. Where the quantity of change is low it may provide evidence that the change is not significant. For Wheels-to-Meals, the quantity of change for each of the outcomes does not appear low.

The next step is to consider the value of the outcomes. If stakeholders are involved in valuation and if the outcomes are given relatively low values compared to both the other values of their outcomes, and by comparison with the values of outcomes of other stakeholders, this may provide further evidence that the outcomes are not significant. Although the value for the volunteers is low in relation to other stakeholders, it is the only outcome that has been included for this stakeholder, which was relevant and significant up to this point and should still be treated as significant.

However for the elderly or disabled residents there are three outcomes, two of which 'residents made new friends and spent more time with others' and 'the GP practice nurse group helped residents manage their health and symptoms better and they were healthier' have a much lower value than the other outcomes. These outcomes may therefore not be significant. However in the Guide and the worked example it is not clear that stakeholders were involved in a discussion about relative value of the different outcomes. They were involved in discussions around the individual proxies but it is also important that there is a discussion on relative value before making any decisions on significance. For this reason the outcomes were retained.

Finally SROI requires the assessment of, for example, deadweight and attribution in order to reduce the risk of over claiming. The estimate for the deadweight for the outcome of nutritious meals was 100%. This outcome was therefore not considered to be significant although it was recorded in the impact map for completeness. The outcome with the highest attribution was 'residents made new friends and spent more time with others' with 35%. Care should be taken here since a high attribution may mean that the organisation did not make a major contribution to this outcome, even though the outcome remains significant to the stakeholder. At high levels of attribution the outcome may no longer be significant.

3.3 Conclusion

As a result of following this approach, it will be possible to frame the discussion on materiality within the process and for others to assess the decisions made on materiality.

4 AccountAbility's standard - AA1000APS

Accountability has developed an approach to Materiality set out in the Accountability AA1000APS (2008) principles standard which can help in making these judgements. The requirement is that:

- there is a materiality determination process that;
 - is applied across the organisation (e.g. group and local level)
 - is integrated in the organisation, and
 - is ongoing and not 'one off'
- The necessary competencies and resources are available to apply the materiality determination process;
- The process results in a comprehensive and balanced understanding and prioritisation of its material sustainability issues;
- the process identifies and fairly represents issues from a wide range of sources and understands their sustainability context;
- evaluates the relevance of issues based on suitable and explicit criteria that are credible, clear and understandable as well as replicable, defensible and assurable.