**Lifting the Mask of Materiality**

The Pandemic Calls for Integrated Solutions

During this pandemic some businesses are doing better than others with how they are responding to and managing their social and financial performance. Ashim Paun, Co-Head for ESG Research at HSBC stated that “when crises like COVID-19 manifest, particularly with social and environmental causes and implications, investors can see ESG as a defensive characteristic.” Some of my work has found that businesses with better [Integrated Management](https://books.emeraldinsight.com/page/detail/Integrated-Management/?k=9781787145627) practices have a proactive opportunity to include environmental, social, and governance performance in coordination with functions, systems, and supply chains to help ensure they are resilient.

While COIVD-19 is nothing that could have been predicted, some companies are more prepared than others, and not due to the nature of their business, location, or what their balance sheet looked like, but because they had already assessed what areas of business were most material to them. Materiality includes dimensions of the business that are most “material” or critical for an organization and include “topics that have a direct or indirect impact on an enterprise’s ability to create, preserve, or erode economic, environmental and social value for itself, its stakeholders and society at large.” Materiality is firm-specific, and [SASB’s Materiality Map](https://materiality.sasb.org/)s helps different industries understand what their overall critical points are. According to a recent [GreenBiz article](https://www.greenbiz.com/article/amid-plunging-stock-prices-esg-leaders-are-holding-their-own), Truvalue Labs, which uses AI to uncover timely environmental, social, governance (ESG) data on a variety of asset classes, already has identified the emergence of material issues that are specific to COVID-19, including employee health and safety, labor practices and supply-chain management. T*he mask of materiality has been lifted, and companies across the globe can now see what is most material to them by what has been threatened and affected the most due to COVID-19*. Now is the time for business decision-makers and researchers to think about how to reinvent supply chains, business models, and even company behavior and create a materiality map that will outline what the future of a given company will look like when the economy opens again.

There is More Than One Curve to Flatten

Companies that have identified and worked with their most material areas are those that are aware of their supply chain network. They have been transparent with their supply chain and are not as easily blinded by material or resource location. Those lacking transparency or only tied to suppliers in China have been lacking an ability to procure products, i.e., necessary PPE and respirators. It’s during a crisis that some companies find they just do not know where their products really come from. Transparency has helped some companies more than others engage in and be part of solutions in these troubled times. There is more than just the COVID-19 curve to flatten. [HSBC](https://www.gbm.hsbc.com/insights/global-research/esg-stocks-did-best-in-corona-slump?_lrsc=ccb36746-1bbe-4d98-85db-0c3bfa89806c) noted in late March how companies that focus on ESG had outperformed those that have not during the pandemic. If a firm does not redefine what is most important and vulnerable to the company , i.e., ESG and material factors, then it will be doomed once again during our next time of crisis. The pandemic provides an opportunity to flatten the climate change curve finding a benefit of the pandemic is cleaner air in our cities. You can now see pollution or clean air moving globally by using the [AirVisual app](https://play.google.com/store/apps/details?id=com.airvisual&hl=en_US). It helps a user see air quality around them and rank order of the most polluted cities in real-time. Businesses that integrate multiple ESG performance metrics can benefit themselves and society in dynamic ways.

The Unbalanced Sheet

A fundamental aspect of integrated management is the recognition that the issues that affect businesses are interrelated and should not be evaluated with only simple financial performance metrics. By “not considering the full impacts and value created by the firm, the balance sheet, and income statement reflect an incomplete and biased view of financial health and liquidity.”

The next crisis might be a resurgence of the current pandemic or something different decades from now. We can focus on long-term solutions to help ensure industries and people are sustainable. Predictions are that integrated management will be at the top of a C-suite agenda as more companies create materiality assessments. Why, because materiality assessments help find integrated solutions to improve functional, firm, and value chain performance. Life will not be the same again, nor should business as usual continue. Through a materiality and integration, a company can asses what issues are most important to stakeholders and what actions are within the control of the enterprise. this will address important issues, ultimately creating long-term value for shareholders and stakeholders alike while preparing for our exit from this crisis.

Continue the Conversation

I welcome reactions or questions. Feel free to message me (@RobertSroufe, or sroufer@duq.edu)