

# Materiality – what does it matter?

Adrian Henriques argues that the debate about materiality raises serious issues for CSR.

The government's White Paper "Modernising Company Law" suggests that all economically significant companies should publish an Operating and Financial Review (OFR). This would enable an informed assessment about the company to be made covering social and environmental issues as well as financial performance. This sounds like good news for CSR. But there are one or two catches to the proposed approach. A fundamental one is that the OFR is designed for investors to judge whether the company has considered all that it should in summarising its performance. While an OFR may be of interest to stakeholders in general, it is not designed for them. This is an approach which would no doubt appeal to David Henderson, for whom CSR is merely 'misguided virtue'.

Even if we accept the enlightened shareholder perspective (whose premise is that there is always a business case for CSR), there remains the question of what matters enough to be mentioned in an OFR. The DTI is establishing a Working Group to review this issue of 'materiality'. Its remit is to explore how 'directors can assess whether an item is material to their company' and so merit inclusion in an OFR.

One aspect of this is: '*how much* matters?' Materiality is partly a matter of scale. A few million pounds is almost irrelevant to a large multinational. But what is a human life worth? An economic view might be the few million pounds for which the life was insured. It would follow that the loss of a human life is not, in itself, enough to merit mention in an OFR – although a legal battle, with its attendant poor PR, may raise the stakes higher .

Another problem is '*to whom* should it matter?' Let us take a few examples and see whether they 'matter' and to whom. If a company produces CO<sub>2</sub> and this causes sea levels to rise, does this matter? There is no legal requirement on most companies over CO<sub>2</sub>, and if the company is conveniently situated in an upland area, there may be no impact on the business. So the CO<sub>2</sub> production doesn't matter enough to be included in the OFR.

If a company wants to assist in building a dam which will displace tens of thousands of people, does this matter? Probably not, unless some irritating NGO picks up the issue and it becomes a PR problem and one on which their reputation might founder. That can affect business, so it might be judged material.

Some companies may find it expedient to hobnob with the representatives of the repressive regime of a country in which they operate. Does this matter? It won't matter to the business which will no doubt benefit financially. Does it matter to the stakeholders who might suffer the attentions of the government? Will it merit inclusion in the OFR?

Steven Timms, our Minister for CSR, has expressed the view that the interests of stakeholders and those of the company are 'the same thing'. This is an extraordinarily perceptive view – but unfortunately it is a view of the world which as CSR practitioners we are striving to create, not the one with which we are faced on Monday morning.

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