
Triple materiality: competitive advantages thanks to customer-centered sustainability - a change of perspective.

The sustainability discourse is currently dominated by the concept of double materiality. The associated risk analyses, data collection, reporting and ESG compliance tie up considerable internal company resources. With "triple materiality", we are inviting you to a change of perspective towards a model of thinking that prioritizes future opportunities and future-oriented innovation more strongly than before.

Executive Summary

The concept of triple materiality expands the traditional understanding of double materiality by not only considering internal and external effects of and on corporate activities, but by encouraging much more attention to future opportunities and broad-based transformation processes required for their realization. In the context of a veritable storm of new requirements around sustainability / ESG, this white paper is an incentive to reflect on existing practices and to prepare proactively and systematically for future trends and customer needs and to initiate transformation measures accordingly. It is an invitation for established companies to adopt a bit more of a start-up spirit and systems thinking. The complexity and speed of change in the very diverse and rapidly changing facets of the "ESG / Sustainability" topic are often massively underestimated.

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Background

Sustainability-related aspects are currently high on the corporate agenda. The list of hot topics is long, ranging from climate change, biodiversity, circular economy, child labor, forced labor and many other social and environmental issues, with a corresponding need for competent in-house analysis, reporting, compliance, production and many other areas. This ties up enormous resources - with the risk that important strategic and long-term issues fall by the wayside.



Triple materiality: sustainability is becoming a dynamic competitive factor (Image: thejoh / pixabay).

Sustainability as a license to operate

Sustainability has long since become a necessity and part of a "license to operate" for companies, which is no longer limited to a "moral expectation" but is increasingly binding in the form of complex standards and laws.

Traditionally, sustainability management has been based on the concept of double materiality, which identifies the external and internal impacts and risks of corporate activities in terms of environmental and social aspects. In our view, this does not go far enough, and we would like to encourage a broader perspective, which we call "triple materiality". This is not limited to the traditional double materiality, but pays increased attention on a third, future- and customer-orientated aspect of innovation and anticipation.

Business metaphor: the athlete in competition

Imagine an athlete preparing for a competition. This athlete represents a company facing the challenges of the market. The sustainability report and financial report is like a fitness report that assesses the condition of the athlete (the company). The focus is on the current state and the optimization and efficiency of what already exists.

The "triple materiality" adds a further dimension to this: strategic alignment and adaptation to future challenges. The athlete (the company) rethinks its competition strategy (business strategy) and prepares for growth and future success, beyond the immediate next competition, perhaps even into the next phase of life after the peak of the athlete's career.



Female athletes in competition (Photo: Hasselqvist / pixabay)

It is about recognizing which competitions (markets) it should participate in and how it needs to adapt its training (business processes, products, services) and nutrition (supply chains, financing) to succeed in a changing environment: reacting quickly and efficiently to change, while investing resources and energy in exploring new opportunities to be ready for both the challenges of the present and the opportunities of the future. This in itself is nothing new. But the complexity and speed of change in the very diverse and rapidly changing facets of ESG / sustainability issues is usually greatly underestimated.

The triple materiality perspective builds a bridge between information on risks and data on past performance to a more efficient utilization of existing information, resources and the development of new strategies and business models for success in the future.

Future-Customer-Needs Materiality

We would like to encourage companies to focus not only on the increased and complex reporting requirements and the associated navel-gazing into the past, but much more on future-oriented solutions and opportunities, adopting more of a venture and start-up thinking culture.

In view of the pressure to adapt quickly to the new legal requirements and the traditional mindset cultivated by many management teams, risks and short-term costs are usually at the forefront. Accordingly, sustainability is misunderstood as a cost factor and an increasingly complex reporting task. The concept of dual materiality included in the EU guidelines on sustainability reporting is controversial or at least unfamiliar due to the varying degrees of reliability with which financial and non-financial impacts can be assessed, as well as the uncertain thresholds for defining what actually is material. This may be confusing and ties up resources for data collection, legal clarifications, reporting, compliance, audits and more. As a result, it is easy to lose sight of the opportunities of the future. Despite uncertainties regarding politics and future legal framework conditions, the potential for differentiation and success is quite high right now.

A new supreme discipline: analyzing trends and ESG regulations

Identifying and categorizing emerging trends and ESG regulations has become a herculean task. There are numerous national and international standards, declaration obligations, rating agency requirements, deadlines and application criteria, laws and voluntary commitments by certain industries. Tracking these and correctly assessing them along the entire value chain is challenging and requires the commitment of competent specialists with knowledge of products, supply chains, political processes as well as the relevant markets for purchasing and sales. Those who have market and trend analyses under control – which is not a matter of course given the lack of resources in many companies – gain a clear competitive advantage through targeted product innovations.

Complexity requires cooperation

A wide range of regulatory sustainability requirements for supply chains and the satisfaction of stakeholder expectations regarding ecological and social problems cannot be managed by most companies on their own. Data from the supply chain is difficult to obtain and rarely comparable. Changes to product components and processes have an impact on customers or end customers: as a result of only slightly different product or packaging properties, processes have to be adapted, lengthy re-certifications have to be obtained and often parts of the supply chain and end consumers have to be convinced. One-off customization costs and price increases may not be accepted by the market. In addition to courage and a willingness to invest, long-term sustainable solutions are required that go beyond the boundaries of the company itself: in dialogue with industry partners, associations and, above all, customers. Customer dialogue is cultivated and intensified at a technical level in so-called "early engagements". Sustainability thus becomes a door opener for solving a common problem. Ideally, this even strengthens customer loyalty, accelerates efficient product development and reduces the risks when it

comes to investing in a new production method or technology.

In the past, a frequently heard argument was: "We can't do anything on our own, we produce what the market demands". For this reason, ESG rating agencies are increasingly looking at whether companies are working with others to find solutions in their industry sector.

Sustainability reporting as a driver of customer needs

Another change factor is the rapid increase in sustainability reporting requirements. The European Union's CSDR reporting directive, which comes into force in 2023 and will affect companies in numerous other countries including Switzerland, comprises 84 disclosure requirements with over 1,000 data points. The new rules will have a gradual impact on the entire supply chain, in the form of requests or binding demands for actions, policies, certifications or at least data of all kinds. Data from the supply chain is therefore an important customer requirement. This increases the incentive – and the willingness to at least listen to or even pay – for improvements to processes and products with a positive impact on the data to be reported.

In addition to the classic "ESG" data in the disciplines of environment, social affairs and governance, increasingly intensive enquiries are also being made as to how a company is committed to forward-looking solutions, what goals and strategies it has set itself based on which criteria and how it intends to achieve them. The questions are now being asked so precisely that it is becoming difficult to answer them satisfactorily without initiating serious governance and change processes.

Those who manage to come up with sustainable product differentiators despite the difficult circumstances and even turn the cost screw have a lot to gain. Sustainability does not simply mean more expensive, but increasingly "more efficient", "smarter", "more innovative" and "lower overall costs". One prominent example is optimized packaging, which generates less waste, costs less and, thanks to its more

compact design, also allows more products to be transported per truck load or container. This has a direct impact on sustainability data performance: the amount of waste is reduced; the recycling rate is higher and the transport-related footprint in terms of energy consumption and emissions is lower. Thanks to improved design, even slightly more expensive packaging can still result in lower overall costs. Such solutions usually result from a cross-divisional exchange across departmental silos right into the value chain.

Internal anchoring of the triple materiality perspective

The social and ecological performance of their employer is important to employees. However, not all stakeholder demands are really material and relevant for the company concerned. It is important not to get bogged down and distracted by side issues with minimal impact, with the risk of falling into greenwashing and losing credibility. It is recommended to build on the foundations of a carefully prepared materiality analysis, supported by the entire management and digested internally and understood by the employees, identifies the most important fields of action and considers not only the risks and impacts but also the opportunities, in line with the triple materiality model presented here.

Good sustainability management prioritizes the relevant, material aspects. But only those who have a solid foundation and have done their homework will be able to do this.

Above all, a common understanding and serious anchoring within the company are part of the homework. This starts with the management: in addition to many other urgent management tasks, it must engage with the complex issues of sustainability and develop a common vision for the future. The days when sustainability could simply be delegated to the communications department or HR administration are now coming to an end. Significant, sustainability-driven changes to the corporate strategy require solid internal communication and an inclusive change management.

Implementing a sustainability strategy requires comprehensive change management - even in SMEs

The maturity level of change management within companies has steadily increased in recent years, and continuous change has become a trend. However, we see a need for action around sustainability because the complexity of the associated transformation is often underestimated.

We have talked about opportunities. The first thing to do is to clarify where the company stands and what competences are already available internally that may not yet be recognized. It is important here to make the different perspectives and opinions visible in order to then utilize the available collective intelligence in the next step.

Practical implementation using a co-created visualization method

A method that has proven effective in our experience is to visualize what is going on in the minds of decision-makers and further stakeholders. This is achieved on a jointly developed "map". We call this step "the coloring phase".



Illustration SokratesMapConcept®: Utilizing collective intelligence by making it visible on a co-created map.

Once the different perspectives have been clearly colored and acknowledged by everyone, they need to be analyzed in more detail to determine whether they have desired (opportunities) and undesired (risks) effects on the company and its sustainability strategy.

This approach engages the extended management team very actively and brings many advantages: Visualization makes it possible to grasp complex situations in an organization in detail and quickly. Those involved are able to engage in a constructive, strategic and operational dialogue within a very short timeframe. The map facilitates the capturing of the overall situation of an organization. It is not only an analytical tool, but also serves as a basis for communication and a space for co-creating solutions. It helps those responsible to start strategic planning and review options for action in the operational area in a timely manner.

Participation and the formation of a broad coalition: utilizing collective intelligence

The experience and expertise on markets, products, and processes available within and outside the company are valuable and urgently need to be brought to the table.

It is not enough for only the inner circle of management and the managers responsible for sustainability to recognize the need for change. It is important that all employees understand why change is necessary and, above all, what they can personally contribute, both in terms of solution-finding and the implementation itself.

A key factor for the success of change processes in organizations is psychological safety. Employees who feel safe in their working environment are more willing to express new ideas, be creative and realize their full potential. The concept of psychological safety is closely linked to the collaborative leadership approach. This promotes a culture of trust and openness, which is crucial for successful change. Leaders who take a collaborative approach encourage teamwork, sharing of ideas and joint problem solving. This can lead to greater employee engagement in change initiatives. This helps to avoid misunderstandings, which ultimately reduces transaction costs caused by information asymmetries.

Let's take the athlete as an example again. The athlete is part of a team (organization). The chosen competition strategy has a significant impact on the training and nutrition plan. In sport, a coach is recommended; in a company, an external moderation team ensures that statements are condensed, reflected, checked for general comprehensibility and that different perspectives and quieter experts are taken into account fairly.

In this way, there is a good chance that the knowledge, energy, and creativity of the entire workforce will ultimately be utilized and channeled to achieve the multidisciplinary goals that have been set: an economically successful company that makes a serious contribution to solving sustainability challenges as part of society.

Conclusion

The expanded concept of triple materiality is intended to encourage leaders to think beyond conventional double materiality and – despite the current flood of reporting obligations, ESG regulations and compliance requirements – to look to the future and anticipate both opportunities and customer needs. This means adopting both a system thinking and creative venture and start-up mindset. We see sustainability as an integral part of a corporate strategy, where the jointly developed strategic foresight is combined with consistent, broad-based implementation capability.

With a smart, well-founded understanding of opportunities arising from sustainability challenges, and the readiness for a transformation process that harvests its internal collective intelligence, companies can differentiate and assert themselves against the competition not despite, but thanks to sustainability. Even more so if we assume that our prosperity depends on economic growth, it is in our best interest to make sure this growth is ecologically sustainable, socially inclusive and resilient.

About the authors:



Thomas Nauer, MSc., Dipl.-Pol., eMBA, is a leading expert in marketing communication and sustainability management. His broad experience in industrial companies is complemented by his particular expertise in corporate sustainability reporting.

Thomas understands how to integrate sustainability goals into corporate strategy and communicate them transparently. He has guided medium-sized companies through the process of developing and implementing a sustainability strategy.

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For Connie, ethical change management means looking forward together, with the individual at the centre.

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