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Triple materiality: concept, structure and perspective

Trostepena materijalnost: koncept, struktura i perspektiva

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Abstract

Materiality is a way of expressing the importance of a certain financial or non-financial category, that is, to measure, manage and reveal issues that are important for a company. It is significantly used in the process of financial reporting, both in accounting and auditing. This raises the question of determining materiality, which is really very important. In this context, one-level, i.e. financial materiality, considers whether an issue can affect the company's operations in a financial sense. Two-level materiality involves additional consideration of how a company impacts people and the planet, i.e. environmental sustainability. Triple materiality introduces an additional angle of observation that places previous concepts of materiality in a significantly broader context, which includes all interested parties. The subject of the paper is the consideration of the concept, structure and perspective of three-level materiality. The main conclusion is that three-level materiality suggests that one cannot decide whether a certain issue or a certain business transaction is materially significant to the company unless the assessment of its impact and implied dependence is viewed in the context of all stakeholders.
Keywords**:** *triple materiality, accounting, audit*

Sažetak

Materijalnost predstavlja način izražavanja značajnosti određene kategorije bilo da ona ima finansijski ili nefinansijski karakter, odnosno to je nacin izrazavanja i definisanja pitanja koja su bitna za jednu kompaniju, a pre svega tematsko pozicioniranje u kontekstu merljivosti i izvestavanja o unapred definisanim kategorijama. Njena vaznost je ogromna, pa se tako dominantno namece pitanje određivanja materijalnost. U tom kontekstu jednostepena materijalnost razmatra da li neko pitanje može u finansijskom smislu da utiče na poslovanje kompanije. Dvostepena materijalnost nadopunjuje jednostpenu sa dodatnim razmatranjem o tome kako kompanija utiče na ljude i planetu, a pre svega na održivost životne sredine. Trostepena materijalnost implementira potpuno novi ugao posmatranja koji se direktno nadovezuje na prethodna dva i svrstava ih u značajno širi kontekst, koji obuhvata sve zainteresovane strane. Predmet rada je razmatranje koncepta, strukture i perspektive trostepene materijalnosti. Glavni zaključak je da trostepena materijalnost sugeriše da se ne može odlučiti da li određeno pitanje ili određena poslovna transakcija materijalno značajna za kompaniju osim ako se procena njenog uticaja i implikativne zavisnosti ne posmatrana u kontekstu svih zainteresovanih strana.
Ključne reči: *trostepena materijalnost, računovodstvo, revizija*

1. Introduction

Materiality is a way of expressing the significance of a certain category, whether it has a financial or non-financial character. It is a way of expressing and defining issues that are important for a company, and above all thematic positioning in the context of measurability and reporting on predefined categories. Its importance is enormous, so the question of determining materiality is dominantly imposed. In this context, single materiality considers whether an issue can financially affect the company's operations (Sardianou et al., 2021). The triple materiality complements the one-step materiality with an additional consideration of how the company affects people and the planet, and above all the sustainability of the environment. Triple materiality allows companies to

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identify and mitigate a wider range of risks. Understanding the full spectrum of potential risks is key to resilience and long-term success. By addressing financial, environmental, and social impacts, companies can build greater trust among a wider range of stakeholders (De Cristofaro et al., 2023). Some authors emphasize that transparency in multiple dimensions increases the engagement and trust of stakeholders.

Understanding the triple materiality allows companies to make better-informed decisions. For example, by considering social and environmental factors, companies can avoid practices that could be financially profitable in the short term but harmful in the long term (Correa-Mejía et al., 2024). Certain studies show that sustainable companies significantly outperform those that do not deal with sustainability in the medium and long term. Using triple materiality as a guiding principle is key to sustainable business practices in today's interconnected world. Companies that embrace this concept are in a better position to achieve lasting success with a positive impact on society and the environment (Brinkman, 2023). Triple materiality is a concept that broadens the scope of assessing materiality by integrating three different perspectives: financial, environmental, and social. Each perspective is equally important and interdependent. The financial perspective puts emphasis on the factors that affect the financial position of the company, i.e., the financial performance of the company. An environmental perspective emphasizes the consideration of how individual and overall company activities affect the environment. The social perspective focuses on social factors.

The triple materiality introduces a significantly more comprehensive approach, with a distinctly broader view of the picture, enabling organizations to make better-informed decisions and improve sustainability reporting. Organizations that manage to integrate, implement, and incorporate these elements into their strategies can improve transparency and stakeholder trust. Triple materiality deviates from traditional frameworks, which focus solely on the financial implications for investors. While double materiality emphasizes financial and environmental perspectives, triple materiality encompasses all three aspects equally. This comprehensive approach ensures that sustainability considerations are not isolated but integrated into the ideological essence of business strategy. Some authors suggest that companies that adopt a triple materiality not only perform better in terms of sustainability, but often outperform their peers financially. Triple materiality helps companies understand where they can maximize social and environmental benefits while still achieving their financial goals (Turner et al., 2023). The subject of the paper is the consideration of the concept, structure and perspective of triple materiality.

2. Regulatory framework of the European Union

The regulatory framework for reporting within the European Union (hereinafter referred to as the EU) is complex and multifaceted. Its primary goal is to improve transparency and accountability among companies, providing stakeholders with valuable insights into corporate operations. At the heart of the EU's regulatory framework are key regulations and directives such as the Non-Financial Reporting Directive and the Corporate Sustainability Reporting Directive (Britzelmaier et al., 2023). These directives oblige large companies to disclose information about their policies, results and risks related to social, environmental and governance issues. In the EU, companies are also subject to mandatory guidelines and voluntary initiatives. Mandatory guidelines usually come in the form of EU directives and local regulations that impose specific reporting requirements (Nielsen, 2023).

Table 1. Overview of aspects and impacts

Aspect	Mandatory guidelines	Initiative
Nature	Enforced by law	Adopted by choice
Flexibility	Cruel	Flexible
Scope of reporting	Minimum requirements	Best practices

Source: Authors

In contrast, voluntary initiatives, such as the Global Reporting Initiative and the Carbon Discovery Project, allow companies to go beyond minimum requirements. For companies that carry out activities in accordance with European Union regulations, adherence to both mandatory and voluntary reporting guidelines presents certain challenges, but also offers significant and multi-layered benefits. Mandatory reporting ensures that companies meet minimum transparency standards, which can improve their reputation and investor confidence. Moreover, non-compliance with these regulations can in extreme cases result in legal penalties and gross damage to the company's reputation in the public eye. Voluntary reporting, on the other hand, allows companies to demonstrate their commitment to sustainability and social responsibility (Ng, et al., 2022):

- Compliance with laws: necessary to avoid fines and legal proceedings;
- Improved reputation: better public image and increased investor confidence;
- Operational Efficiency: Potential Efficiency Gains.

Triple materiality emerges as a key and essential aspect of sustainability reporting, emphasizing the interconnectedness of financial, environmental and social perspectives. The European Financial Reporting Advisory Group pioneered setting new standards for triple materiality under the Corporate Sustainability Reporting Directive (Dragomir et al., 2024). These standards require companies to report on:

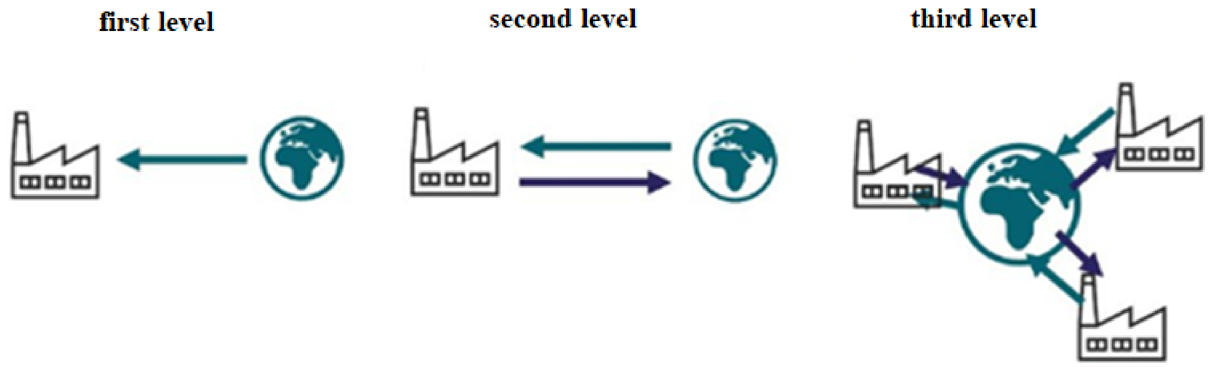
- Single materiality: The impact on the financial position of the company.
- Double materiality: The company's impact on the environment.
- Triple materiality: The impact on society due to the company's activities.

Essentially, triple materiality aims to provide a comprehensive view of a company's performance and its broader impact on society and the environment (Delgado-Ceballos et al., 2023). Adopting these standards entails a steep learning curve and requires a cultural change within organizations. Companies may also face potential risks in terms of transparency and accountability as they disclose more information (Gourdel et al., 2024).

3. Stages of implementation of the concept of triple materiality

Outside the company, materiality can be used as a methodology-building process, for investors, bankers, or any other users who need to make decisions on issues related to the company's operations and related topics (Jakovljevic, et al., 2024). Single materiality (financial) considers whether an issue can affect an organization. It is most commonly used as a lens to determine the value creation of an enterprise. Double materiality involves further consideration of how an organization affects people and the planet. This broader stakeholder lens also encompasses issues regardless of their impact on the value of the business today. In reality, this overlaps with financial materiality and the questions are rarely clear. Triple materiality adds a lens of context (Aras, et al., 2024).

Figire 1. Materiality overview



Source: Hardyment (2023)

Triple materiality says that we can't understand the importance of a topic, whether it's biodiversity loss or workers' well-being - unless we take into account the environment: where it happens. In short, the triple materiality of materiality that cannot decide whether a problem matters unless we look at the influences and dependencies in context. This is also known as context-based materiality. A good example is water. An organization's impact and dependence on water will often vary depending on the location. Therefore, the global assessment focuses on critical risks and opportunities. By breaking down the geographical assessment of materiality, triple materiality can shed light on where water really matters. The application of scientific thresholds and allocations can allow us to better understand whether an organization remains within safe boundaries for any given area (Joof & Adaoglu, 2024):

- Assessment of the current situation: Initial reviews to understand the existing material impacts and consult with multiple stakeholders, including employees, investors and NGOs.
- Strategic Integration: Forming a cross-functional team dedicated to sustainability goals and aligning all business units with a triple materiality framework.
- Setting Metrics and Criteria: Developing specific metrics to measure environmental, social, and financial performance and benchmark against industry standards.
- Continuous Monitoring and Reporting: Establish a real-time monitoring system to monitor performance indicators and introduce periodic sustainability reporting.

The widespread adoption of triple materiality has not only led to our sustainability goals, but has also improved our brand reputation and stakeholder trust:

- The integration of sustainability metrics increased the company's overall performance.
- Stakeholder engagement has played a key role in the successful implementation.

A focus on triple materiality can help the company rapidly expand its sustainability initiatives, from sustainable sourcing to eco-friendly product design. Cooperation with external organizations and a change in internal culture can be key to these achievements (Jeremic et al., 2023).

4. Challenges of applying the concept of triple materiality

The challenge for any company is an environment that is constantly changing (Vlaovic Begovic et al., 2022). Triple materiality means that different problems are more or less important depending on where the company is located and where influences and dependencies are noticed. Biodiversity may be critical to the supply chain of one product, but the use of fresh water may be more important elsewhere.

Similarly, social issues such as diversity or forced labor have complex geographic patterns. Clearer global standards are needed, and more scientific input is needed, because the scientific context is vital to assessing what is good enough when it comes to corporate performance. Dynamic materiality reminds us that problems change over time. Today's big influences after tomorrow's often financial material. On the other hand, the triple materiality adds a key insight to think about space and place. Compliance with triple materiality standards poses several challenges for companies (Geerts, et al., 2020).

Table 2. Overview of aspects and impacts

Aspect	Influence
Environmental aspect	It incorporates climate risks and resource use, enabling companies to reduce environmental liabilities and promote sustainability.
Social aspect	It deals with work practices, community impact, and social justice, contributing to better social cohesion and equity.
Financial aspect	Integrates environmental and social factors into financial reporting, ensuring long-term sustainability and risk management.

Source: Authors

Table 3. Overview of the challenges for the application of triple materiality

Challenge	Description
Data collection	Collecting accurate data in the financial, environmental, and social domains is complex and time-consuming.
Reporting integration	Integrating different materiality metrics into a cohesive report requires advanced technology solutions and expertise.
Resource allocation	Significant investment in financial and human resources is required to meet the new reporting requirements.

Source: Author's

Adopting these standards entails a steep learning curve and requires a cultural change within organizations. Companies may also face potential risks in terms of transparency and accountability as they disclose more information (Mezzanotte, 2023).

5. Advantages of applying the constancy of triple materiality

There are two main ways of thinking about materiality: financial materiality and materiality of influence. Together, they form the concept of a double materiality. Financial materiality is the impact of a business activity on shareholders, but the materiality of influence goes beyond that. It includes impacts on the economy, the environment and people for the benefit of all stakeholders.

Table 4. Overview of the three degrees of materiality

Type of materiality	Focus	Stakeholders
Single materiality	Financial impact on the company	Investors, Shareholders
Double materiality	Financial and environmental impact on the company	Investors, Shareholders, Representation Groups
Triple materiality	Financial, environmental, social impact	Investors, shareholders, advocacy groups, the wider society

Source: Authors

According to the Global Reporting Initiative, there has been a lot of confusion with multiple terms introduced in addition to financial and impact materiality. These include dynamic materiality, expanded materiality, and essential materiality. However, all of these terms are based around and between the two initial terms (Mitić & Čolović, 2025). Moreover, it is well accepted that any impact of the organization will become financially significant over time. Thus, financial materiality and materiality of influence together, coined under the umbrella term of double materiality, are the only relevant concepts of materiality. Both perspectives are needed in a two-pillar structure, for financial reporting and sustainability reporting, with a core set of joint disclosures and each pillar having equal importance (Geldres-Weiss et al., 2021).

Triple materiality is a concept that progresses from double materiality to provide a more holistic framework for decision-making and reporting. While triple materiality takes into account the impact of organizations' actions on the planet and society and vice versa, triple materiality adds context to sustainability thresholds and allocations (León & Salesa, 2024). These allocations are based on planetary boundaries and scientific thresholds that are predicted at the level of individual organization. In other words, providing context to the topic to better understand its impact. For example, water and sewage may be important in the supply chain of one product, but may not be important for another product in another region. This points to the connection between triple materiality and context-based materiality. He believes that triple materiality is simply insufficient to consider all the impacts and risks involved in achieving sustainability (Maama et al., 2022). Despite the challenges, a number of opportunities arise from compliance with the triple standards of materiality:

- Improved reputation: Companies that show responsibility in all three material areas can build stronger brand loyalty and trust.
- Operational efficiency: Comprehensive reporting can identify inefficiencies and areas for savings, especially in resource management.
- Regulatory Compliance: Early adoption of these standards can position companies favorably in light of eventual global regulatory convergence.
- Attracting investments: Investors are increasingly prioritizing ESG criteria: companies that adhere to the triple materiality can attract more investments. What's more, companies can gain strategic insights that enable them to innovate and stay ahead of industry trends, increasing their competitive advantage.

The adoption of materiality ultimately comes down to the decision of the board of directors or board of directors, and it forms the basis for determining the legitimacy of the corporation's role in society (Zhou et al., 2023). Around the world, the prevailing ideology is that the fiduciary duty of directors' rests primarily with shareholders. However, shareholders are only one stakeholder that makes a corporation run successfully. On the contrary, there are other suppliers of financial, productive, intellectual, human and natural capital who have an interest in the organization (Jakovljević, 2022). Future generations are also stakeholders in the continued success of the business. Taking into account the interests of all stakeholders and taking into account multiple time periods, the fiduciary task of a director seems impossible because corporations have limited resources. Thus, this leads to the need to determine which actors and issues are significant and, therefore, material. Dodsworth et al. (2023) suggest that directors should focus on a significant audience, and this implies a wider range of issues over a longer time frame to consider when determining materiality. Embracing triple materiality is not only consistent with ethical business practices, but also drives long-term sustainable growth. Therefore, while a triple alignment with materiality requires significant effort, it is a pathway to sustainable success and resilience in an evolving business environment.

5. Advantages of applying the constancy of triple materiality

There are two main ways triple materiality, a concept that emerges in sustainability and corporate governance, looks at the interrelated impact of financial, environmental, and social factors. This multidimensional approach reflects the growing need to address environmental, social and governance issues in business strategies. Key points from recent studies include:

– Financial Materiality: Assesses how ESG issues affect a company's financial performance.
– Environmental Materiality: Considers the environmental footprint of corporate activities.
– Social materiality: Deals with social impact, including employee well-being and community engagement.

The future of triple materiality is promising, as more and more companies recognize its value. Companies are increasingly integrating ESG metrics into their core strategies, driven by regulatory change and stakeholder requirements (Jeremic et al., 2023). Considering a certain monetary transaction in the context of accounting and auditing, the question of determining materiality arises, which is really very important. In this context, single-tier, i.e., financial materiality, considers whether an issue can affect the company's operations in a financial sense.

Double materiality involves additional consideration of how a company impacts people and the planet, i.e., environmental sustainability (Đorđević & Đukić, 2022). The triple materiality also introduces an additional point of view that places the previous concepts of materiality in a much broader context, which includes all stakeholders. It is definitely not possible to understand the importance of a particular issue for a company's business, whether it is atmospheric pollution or care for employees, unless it is viewed in the context of all stakeholders (Jakovljevic, 2021). What really matters is that it is not possible to adequately assess whether the performance on the basis of a particular issue or problem is sufficient unless aspects such as social norms, community attitudes, cultural attitudes are considered.

6. Conclusion

The triple materiality evolves from a niche concept to a core business practice. Companies are beginning to realize that focusing on ESG issues is not only about compliance, but also about capturing market opportunities and mitigating risks. Embracing triple materiality improves corporate resilience and drives long-term value creation (Meutia et al., 2022). As we look ahead, the importance of a holistic approach to corporate governance will continue to grow, highlighting the transformative potential of triple materiality. The main conclusion is that triple materiality suggests that it cannot be decided whether a particular issue or a particular business transaction is materially significant for a company unless the assessment of its impact and implicit dependencies is viewed in the context of all stakeholders.

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