Corporation excellence is typically measured by evaluating the capability and the resilience of a business itself. This is addressed by criteria such as financial health, valuation, market leadership, and risk profiles.

In essence, financial considerations in themselves define corporate excellence. This is the traditional ‘outside-in’ notion of financial materiality, which is determined by external forces such as industry, competition, or environmental and social concerns. However, as the evolving landscape, businesses are expected to create impact on the outside world. For example, businesses might be expected to utilize their resources to address climate change, nature, biodiversity, and social and community issues.

This ‘inside-out’ notion of impact is gaining increasing traction particularly among the multitude of stakeholders beyond shareholders. This so-called impact materiality cannot be neglected by businesses in the quest for corporate excellence.

Indeed, the double conceptualization of financial materiality and impact materiality will be the new basis for corporate excellence. This is a reality that businesses have to understand in the current era of sustainability that will affect businesses going forward.

When the word ‘materiality’ was first articulated, it had a singular, specific focus—the need to address needs and interests of investors. As the world grapples with challenges such as climate change, social inequality, and ethical governance, the meaning of materiality is expanded. It now targets a wider group of interested parties.

Financial materiality: safeguarding the bottom line

Businesses start with a simple goal—to become financially sustainable and achieve stakeholders. The pursuit of innovation fuels the competitive edge of businesses, enabling them to pioneer new markets and redefine industries.

Avoid competition and economic fluctuations, businesses are dedicated to creating innovative products and services, and transforming these into viable revenue streams to ensure their prosperity. Financial prowess determines business capabilities for survival. Another important feature of financial materiality lies in business resilience in dealing with risks such as market volatility outside the company, in particular, those relating to sustainability. More and more organisations acknowledge that the environmental, social, and governance (ESG) implications of business operations can be materialized into financial risks and opportunities.

Impact materiality: navigating the future

You must go hand in hand to achieve true and balanced excellence, by Laurence Loh and Huang Minlin

Duality in corporate excellence

 Corporations need to understand that ESG considerations are critical to achieving financial success. This understanding will help them navigate the ever-changing business landscape and make informed decisions that benefit both the company and the environment.

Financial materiality: the inside-out perspective

Financial materiality is the perspective that focuses on the internal workings of an organisation. This includes areas such as financial performance, operational efficiency, and regulatory compliance. Financial materiality is crucial for businesses as it helps them understand how their financial decisions impact their bottom line.

Impact materiality: the outside-in perspective

Impact materiality, on the other hand, focuses on the impact a business has on the external environment. This includes social, environmental, and governance aspects. Impact materiality is essential for businesses as it helps them understand the broader implications of their actions and how they can contribute positively to society.

Balancing these perspectives is crucial for businesses to achieve true and balanced excellence. By considering both financial and impact materiality, businesses can make informed decisions that benefit not only their financial performance but also their social and environmental impact.

As businesses continue to evolve and adapt to the changing landscape, the importance of understanding both financial and impact materiality becomes even more pronounced. By embracing this duality, businesses can achieve a more sustainable and resilient future.