National University of Singapore

Source: *The Business Times*, p17
Date: 15 May 2025

Climate first...or last?

A new study on sustainability reporting across Asia-Pacific finds that in many cases, companies disclose long lists of ESG risks without truly understanding which ones are strategic, financially material or reflective of stakeholder concerns. BY MAK YUEN TEEN AND TINA THOMAS

AS SUSTAINABILITY disclosures edge towards becoming mandatory in many jurisdictions rather than an optional public relations tool, a critical question arises: How do companies decide what really matters?

The answer lies in a term central to every sustainability report yet often poorly understood: "materiality assessment".

Materiality assessments are intended to help companies identify the most significant sustainability-related risks and opportunities (SROs) – those that can affect business performance or impact people and the planet. If done well, a materiality assessment should be the backbone of a sustainability strategy. Done poorly, it can mask risks, mislead stakeholders and derail corporate efforts to contribute meaningfully to the climate transition.

In a forthcoming report *Climate First...Or Last? Materiality Assessment of Sustainability-Related Risks and Opportunities*, we studied how companies across Asia-Pacific approach this crucial task. By analysing materiality disclosures from 300 listed companies on the Australian Securities Exchange (ASX), Bursa Malaysia (BM) and Singapore Exchange (SGX), we found significant differences, not only in presentation and methodology, but in what gets prioritised and what gets left behind.

Companies facing controversy, such as Malaysian glove manufacturers sanctioned over labour rights violations, tended to elevate related issues like human capital and social compliance in their disclosures. PHOTO: BLOOMBERG

Why it matters now

The research comes at a pivotal time. Regulators and stock exchanges in various jurisdictions, especially in Asia-Pacific, are looking into implementing the International Sustainability Standards Board (ISSB) S1 and S2 and rolling out climate disclosure standards, set to redefine global norms. The IFRS framework is set out for reporting using an investor's perspective, looking for topics related to SROs that financially impact business performance. However, previously adopted frameworks such as the Global Reporting Initiative (GRI) take a multi-stakeholder perspective, resulting in broader SROs. These frameworks emphasise overall impact, rather than focusing solely on financial materiality.

Materiality assessments are the cornerstone of effective sustainability governance. They guide companies in identifying sustainability matters most significant to their operations and stakeholders, whether they be climate risks, human rights, governance failures or labour practices.

With the emergence of global standards and increasing reporting requirements from regulators, expectations are evolving fast. Companies must not only report more but also report better. Yet, the question persists: Are they prioritising the right issues or simply ticking boxes?

Our study reveals that while reporting quantity has increased, reporting quality and, more importantly, relevance is still uneven. In many cases, companies disclose long lists of ESG risks without truly understanding which ones are strategic, financially material or reflective of stakeholder concerns.

Key findings

The report delivers a critical, evidence-based examination of how companies across Australia, Malaysia and Singapore identify and prioritise SROs. Drawing on a detailed analysis of 300 companies listed on the ASX, BM and SGX across ten sectors, the study reveals significant gaps, regional differences and common challenges in materiality assessment practices, particularly how companies define, engage stakeholders and disclose their material sustainability priorities.

Bursa-listed companies stood out for their use of materiality matrices – 87 per cent presented their materiality assessment in this way, clearly showing the relative importance of SROs, compared to only 45 per cent of SGX-listed and 14 per cent of ASX-listed companies. This difference is attributed to Bursa's strong guidance through its Sustainability Reporting Guide and Materiality Toolkit. However, the presence of a matrix alone does not guarantee depth: while presentation aids stakeholder understanding, the underlying process of identifying SROs often lacked clarity and consistency.

The study also highlights varying levels of stakeholder engagement across regions. ASX-listed companies engaged more robustly with a broader array of stakeholders – internal and external, including non-governmental organisations (NGOs) and civil society organisations (CSOs) – compared to their regional counterparts.

In terms of the most frequently cited material topics, "Human Capital and Labour Management" and "Workplace Health & Safety", followed by "Ethical and Sustainable Supply Chain", "Climate Change and Emissions", emerged as dominant concerns for Bursa and SGX-listed companies, reflecting the labour-intensive nature of many firms in these markets. ASX-listed firms, on the other hand, frequently identified "Community Relations", "Climate Change & Emissions" and "Corporate Governance", signalling a stronger emphasis on external stakeholder expectations, especially from NGOs and CSOs. This divergence highlights the contextual nature of materiality: not only is it sector-specific, but it is also heavily influenced by geography, stakeholder salience, and socio-political dynamics.

A pivotal observation in the report is the difference between frequency and perceived importance. While social and environmental topics were commonly mentioned, they were rarely ranked highest in importance. Across all three markets, "Governance" issues were prioritised most, followed by "Economic" concerns, suggesting that companies may still be aligning materiality assessments more with what is easier to disclose and manage rather than with broader stakeholder or environmental imperatives. Prioritising "Governance" and "Economic" issues is often perceived as a signal of ethical, financially responsible business conduct. However, this pattern can inadvertently obscure longer-term sustainability challenges – such as climate change, biodiversity loss and systemic social risks – by reinforcing a narrow view of materiality rooted in short-term manageability rather than broader impact.

The analysis reveals a consistent pattern wherein environmental issues are frequently deprioritised in corporate materiality assessments. This trend appears not to stem from a perceived lack of relevance, but rather from the inherent complexity, long-term nature and difficulties associated with setting measurable targets for such issues. In contrast, organisations tend to prioritise short-term, easily quantifiable topics – such as governance, compliance, and occupational health and safety – potentially due to their perceived manageability and alignment with existing reporting structures.

However, with the adoption of ISSB reporting and a "climate first" approach, the relative importance of environmental-related SROs may increase. Under the ISSB S2 approach, companies assess climate impact through an "outside-in" perspective, focusing on how climate-related risks and opportunities affect the organisation's financial position and performance.

Structural bias

The report's analysis highlights a structural bias within the materiality assessment process: topics that are complex, systemic or characterised by delayed feedback loops are less likely to be deemed material despite their recognised significance. As the report notes, "the difficulty of setting targets can suppress the perceived materiality of certain issues", suggesting that procedural limitations and internal capabilities may distort the prioritisation of SROs.

The observed under-representation of climate-related and broader environmental issues in materiality matrices may reflect a strategic blind spot that has broader implications for policy coherence and organisational risk exposure. In particular, as jurisdictions intensify their commitments to net-zero transitions and integrate climate risk into regulatory and disclosure regimes, organisations that fail to adequately account for environmental materiality may not only weaken the efficacy of national policy responses but also expose themselves to escalating reputational, regulatory and financial liabilities. This finding emphasises the need for a more critical evaluation of how materiality is determined and how long-term systemic risks are incorporated, or overlooked, in sustainability governance processes.

Another key insight is the performative dimension of materiality assessments. Companies facing controversy, such as Malaysian glove manufacturers sanctioned over labour rights violations, tended to elevate related issues like human capital and social compliance in their disclosures. Conversely, firms without such exposure leaned towards environmental or governance topics, potentially to differentiate themselves. This suggests that materiality assessments are sometimes used as tools of strategic signalling, rather than purely as reflections of stakeholder concerns or operational impact.

Materiality assessments are typically not conducted on an annual basis; instead, most companies undertake a comprehensive review every three to four years, with interim updates carried out in response to significant events or strategic shifts. These events may include changes in business operations, market entry or exit, mergers and acquisitions, or evolving regulatory requirements.

In examining the transition to ISSB-aligned disclosures, the report expresses concern that financial materiality may crowd out broader impact materiality. SGX, for instance, has adopted a phased "climate-first" approach, prioritising IFRS S2 disclosures on climate risk while maintaining GRI-based disclosures for other sustainability-related matters. While this dual approach preserves balance in the short term, the full and sole adoption of ISSB standards may limit disclosures to only financially material topics, excluding important stakeholder concerns with high societal impact.

A key insight highlights the blind spots in materiality assessments – issues companies often overlook due to short-term thinking, limited stakeholder input or rigid use of standardised frameworks. While frameworks like SASB help structure sustainability disclosures, they may miss critical country-specific risks. For instance, SASB's exclusion of labour and human rights topics in the "Medical Equipment & Supplies" sector failed to capture the realities faced by Malaysian glove manufacturers, many of whom were penalised for labour violations. Broader concerns around migrant labour exploitation led to Malaysia's downgrade to Tier Three in the US Trafficking in Persons report in 2021. This case highlights the need for companies to go beyond frameworks and consider localised risks in their materiality assessments.

The US tariff announcement adds new volatility to an already fragile global economy, posing serious risks to sustainable business. While the full impact remains uncertain, likely consequences include disruptions to clean energy supply chains, job losses in vulnerable exporting countries, and reduced attention to labour rights. Even if temporary, such measures weaken global cooperation and challenge the credibility of ESG commitments. For companies, this highlights the need for materiality assessments to account for geopolitical risks and to adapt swiftly to systemic shocks that affect long-term sustainability goals.

The final message

The report delivers a message: materiality assessments, if poorly conducted, can become box-ticking exercises, reinforcing existing biases rather than uncovering real risks and opportunities. Boards have a critical role in ensuring that assessments are strategic, stakeholder-informed and forward-looking. The report calls for greater board engagement, ongoing stakeholder dialogue, integration of short, medium and long-term horizons, as well as a more contextual, dynamic approach to materiality.

Mak Yuen Teen is a Professor (Practice) of Accounting at NUS Business School who specialises in corporate governance, and teaches courses in corporate governance and sustainability. Tina Thomas is ESG lead in a Singapore-based consulting firm with more than 15 years of global experience in the energy sector.