GORDON INSTITUTE
OF BUSINESS SCIENCE
University of Pretoria

Private sector communication of non-financial information: critical insight into investor expectation.

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfillment for the degree of Master of Business Administration.

10 November 2010

ABSTRACT

Sustainability has become one of the key issues facing today's organisations. Poor risk management, excessive compensation and greed have opened the behaviour of organisations to the eyes of the world and have called in corporate disclosures to date. While an increase of disclosure in non-financial reports has been noted, there is little evidence to suggest that the investment community is using this information to make informed investment decisions.

The goal of this research was to draw attention to the importance of alignment of non-financial information between organisations and the investment community, in order to ultimately encourage responsible investment. This was done by way of a three-phase endeavor that delivered:

- A best-practice framework for the communication of non-financial performance by organisations
- An assessment of six South African organisations and their communication of non-financial information, specifically with their investment community
- An assessment of six investment firms' perceptions and expectations of non-financial performance communication in South Africa

The study highlighted the importance of engaging the investor community in order to understand their expectation of non-financial performance information, thus rendering non-financial reports useful to the investment community and progressing the responsible investment movement in South Africa.

KEYWORDS

ESG

Integrated reporting

Investor communication

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Tammy-Lee Ohlson de Fine

10 November 2010

ACKNOWLEDGEMENTS

I wish to express my sincere thanks and appreciation to the following people:

My super-supervisor, Derick De Jongh, I am privileged to have completed this process under your guidance. Thank you!

All the persons interviewed, without your willing participation this research would not have been possible.

My friends and family, whose tolerance and support have made this journey so much easier.

My partner, Andrew, who could not have been more supportive of my time at GIBS.

DEDICATION

For my parents, this is our MBA.

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GLOSSARY

BBBEE:	Broad-based black economic empowerment
BEE:	Black economic empowerment
BP:	British Petroleum
CSC:	Corporate sustainability communications
DJSGI:	Dow Jones sustainability group index
EBR:	Enhanced business reporting
ESG:	Environmental, social and governance
GRI:	Global Reporting Initiative
IIRC:	International integrated reporting committee
JSE:	Johannesburg Stock Exchange
NGO:	Non-governmental organization
NIRI:	National Investor Relations Institute
PRI:	Principles for responsible investment
SRI:	Socially Responsible Investment
TBL:	Triple Bottom Line
UN:	United Nations

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CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

Preface

This research report is focused principally on the communication of non-financial data and performance to stakeholders at large and the investor community specifically. Industry experts, as defined further on in this chapter, have suggested that an alternative term be used to describe the environmental, social and governance (ESG) issues that companies are facing, as these issues are essentially not 'non-financial'. An alternative at this juncture has been complex to define, and so whilst the author acknowledges that there has been much debate around the use of the term 'non-financial' to explain social and environmental issues, for the purposes of this report it has been selected as a suitable umbrella term. Moreover, within this study, the terms 'non-financial' and 'sustainability' are interchangeable.

1.1 Introduction

Sustainable development has become one of the major issues facing organisations all over the world (Dilling, 2010). Even a superficial glance at the current global state in terms of natural and man-made disasters, indicates that there is indeed cause for serious concern (Ferns, Emelianova & Sethi, 2008) around how organisations, communities and individuals conduct themselves.

Poor risk management, excessive compensation and corporate greed, as evidenced in the subprime mortgage crisis, opened the behaviour of organisations to the eyes of the world (Ferns et al, 2008). As a result there has been a rise in the number of organisations focused on environmental and social sustainability in the battle to build reputations as good corporate citizens (Hespenheide, Pavlovsky, & McElroy, 2010). While increased disclosure in non-financial reports is growing (Singh, 2008), industry experts agree (Expert 1: organisation, personal communication, 09 July, 2010) that there is little evidence to show that investors are demanding specific information with which to make informed, long-term investment decisions.

A move to include non-financial performance in company reports has emerged (Butler, 2009) yet the focus of business reporting is still laid squarely on financial performance (Stapleton & Woodward, 2009). A framework for non-financial performance reporting exists locally in the Socially Responsible Investment (SRI) Index and globally in the Global Reporting Initiative (GRI), yet some investors are skeptical of non-financial information as anything more than a branding exercise (Hespenheide et al, 2010) for two reasons: a) Because it is not regulated and the ability to compare one organisation with another is limited as a result of inconsistencies in the nature of these reports (Hespenheide et al, 2010); and b) Because few investors understand the detail contained within these reports (Stapleton & Woodward, 2009) and therefore cannot use them as one would expect.

Ferns et al (2008) argued that there was little research that highlighted the effectiveness of non-financial reports, and called for further research to examine:

- The reports ability to reach its intended audience
- The adequacy and quality of information contained in the report
- The perceptions and beliefs of the readers regarding the reports content

1.2 Research problem and objectives

The fundamental goal of the research was to draw attention to the importance of alignment between the non-financial information provided by organisations, and the investor community expectation of this information, in order to ultimately encourage responsible investment. Non-financial reports should become an educational tool, used:

- to inform the investor community through more pertinent communication around non-financial matters in order to encourage responsible investment
- to motivate the investor community to start asking more relevant questions about the organisations in which they invest
- to motivate the investor community to become more actively involved in driving the responsible investment debate
- to motivate the investor community to start integrating non-financial issues into the investment decision.

This can only be done if the investors fully understand non-financial reports. It is therefore argued that communication, and focused investor relations, around these issues are imperative to create this alignment.

The investor community will be required to apply pressure to organisations in order for non-financial issues to become more relevant within these organisations. Many companies see non-financial issues as peripheral and tend to do the legal minimum to satisfy the requirements of King III and some of their other more demanding stakeholders, but essentially there is still doubt as to whether these organisations are fundamentally sustainable.

There is growing evidence that if markets do not change, then neither will organisations and as long as financial markets do not put pressure on socially and environmentally irresponsible businesses, organisations will continue to operate and to make profits through externalizing their costs (Juravle & Lewis, 2008). Consequently if we are to see any of the change we expect, investors will need to start putting a significant premium on superior non-financial performance.

1.2.1 Research problem

Sustainability is still largely viewed as peripheral (Economist Intelligence Unit, 2009), even in many of the organisations that engage in sustainability initiatives.

Whilst the natural world is in crisis we, as individuals, as organisations, and as investors are not looking deeply enough at crises to learn the lessons and avoid repeating the errors. As reported in a myriad publications all over the world over the last few months, the recent BP disaster in the Gulf of Mexico is a fine example of the impact of poor environmental behaviour on market capitalisation, and one which investors and organisations should take heed of. If markets put pressure on organisations, chances are that these companies will start to pay attention to the demands and consider ways in which they can change their behaviour accordingly. In order for this shift to occur, it is therefore argued that the communication of social and environmental information between organisations and investors must be aligned.

The study aimed to identify whether the non-financial information organisations provide is aligned with what their investor community expects through the exploration of the following:

- What information is included in non-financial performance communication?
- What methods are adopted when communicating non-financial performance?
- What factors influence an organisations propensity to communicate non-financial performance?
- What non-financial performance information do investors require and for what purpose?

1.2.2 Research objective

The research had three objectives as illustrated in Figure 1.1:

Figure 1.1: Research objectives

To determine best practice in terms of non-financial performance communication

This was achieved through:
- Reviewing the literature to develop a framework for what, how and why organisations should communicate their non-financial performance
- Verifying and augmenting the framework by means of interviews with industry experts

To gain an understanding of the nature of non-financial performance communication by South African organisations

This was done through:
- Assessing what, how and why South African organisations communiate their non-financial performance to their investors
- Comparing communication by top performers on the SRI Index with similar organisations not on the Index

To determine whether there is alignment between the non-financial information companies provide, and that which investors require

This was done through:
- Ascertaining the nature of the non-financial information required by investors
- Comparing the two sets of data

1.3 Research scope and motivation

Table 1.1: Summary of research scope

Determinant	**Within the scope of the study**	**Outside of the scope of the study**
Industry expert	Individuals deeply involved in the sustainability discourse in South Africa, either in an organizational consultancy or academic capacity	Sustainability experts outside of South Africa Employees of any of the organisations assessed as part of this study
South African organisation	Companies listed on the Johannesburg Stock Exchange	Private companies not listed on the Johannesburg Stock Exchange Government organisations
Best performers	Companies listed as best performers on the SRI Index for three consecutive years (2007-2009)	Companies listed on the SRI Index for anything less than three consecutive years Companies not listed on the SRI index for the years 2007-2009
Competitor organisations	Companies listed on the automatic universe for the SRI Index in 2009, having never received an award as a best performer, or having never qualified to be on the Index	Companies listed on the automatic universe for any single year other than 2009 Companies that have been listed on the SRI Index as a best performer Organisations that have never been a part of the automatic universe for the SRI Index
Investors	Asset and fund managers, research analysts, portfolio managers	Individual investors Government Government fund managers
Non-financial performance communication	Communication of social and environmental performance	Communication of governance issues Assessment of the success of sustainability initiatives Communication of any other sustainability initiatives or areas of interest

The scope of this research was defined as follows:

Industry experts

Industry experts in this study were limited to individuals within large organisations, consultancies or academic institutions who were intimately involved in the sustainability discourse. This study was located in the South African business environment to allow for easy access to participants.

South African organisations and the SRI

The focus of this research was limited to publicly traded South African organisations listed on the Johannesburg Stock Exchange (JSE). This study was located in the South African business environment to allow for easy access to participants.

In order to perform a comparison between those organisations listed on the Socially Responsible Investment (SRI) Index and those not listed on the Index: In terms of Best Performers, only those organisations listed on the Best Performers list for three consecutive years (2007-2009) were included. To perform a critical assessment, these organisations were compared to similar organisations that had never been placed on the SRI Index but were listed as part of the automatic universe for 2009. For the purposes of this study, these organisations were referred to as ‘best performers’ and ‘competitor organisations’ respectively.

The SRI is the current benchmark in South Africa (SRI, 2010) in terms of sustainability reporting. It can therefore be argued that organisations listed on the JSE SRI Index have a clearer understanding of their investors' expectations, and communicate their non-financial performance to their shareholders to a greater extent than their counterparts not listed on the SRI.

Three sectors were identified for evaluation, namely: financial, construction, and mining. This allowed for a balanced view across both low-impact and high-impact sectors.

The investor community: communication of non-financial performance

The following table provides an outline of the investment community at large:

Table 1.2: Summary of the investment community (modified from Juravle & Lewis, 2008)

Investor community	Mandate	Characteristics
Investment consultants	Provide advice on asset allocation, benchmarks and performance evaluation	Involved in investment decision-making, Known as the 'gatekeepers', May be key in driving SRI forward or holding it back
Investment brokers	Act on behalf of buyers or sellers of stock	Involved in investment decision-making
Financial / stock analysts	Provide fund managers and traders with recommendations on what shares to buy and sell	Are potentially one of the main drivers of SRI Often rewarded based on annual relative returns therefore are incentivised to focus on financial gain A conflict of interest exists for analysts in that organisations which should be objectively assessed in some cases prove to be those that deliver financial returns. As a result, institutional investors are increasingly required to alleviate the bias by engaging in their own research.
Portfolio managers	Manage the day-to-day performance of a particular investment within a fund	Evaluated based on the financial performance of their portfolio
Fund managers	Manage the performance of an entire fund	Evaluated on the financial performance of their fund and therefore find it difficult to integrate long-term ESG factors into their investment criteria. Are potentially one of the main drivers of SRI.
Trustees	Ensure the funds are administered in the 'best interests' of the beneficiaries	Typically focus on the best financial return for the beneficiaries of the fund
Advisory councils	Provide advice at a fund level or at an asset allocation level	Consult with investors based on the specific investors mandate to generate financial returns
Rating agencies	Provide advice on rating specific investment instruments to institutional investors	Typically provide financial information
Institutional investors such as pension funds	Manage funds that provide retirement income to members	Supervised by trustees Demand for SRI from this group Are potentially one of the main drivers of SRI
Actuaries	Assess the performance of assets under management; fund valuation	Make major strategic investment decisions on behalf of trustees
External fund managers	Advise institutional investors and trustees	Make major strategic investment decisions on behalf of trustees
Traders	Execute buy and sell orders	Are typically guided by analysts recommendations
Research analysts	Provide investors with accurate and thorough information on organisations	Rarely understand ESG factors enough to integrate them into their reports

The investor community in this research was limited to South African based stock analysts, research analysts and portfolio managers within the three sectors identified. As the primary audience of non-financial reports (Marston, 2008; McBride, 1997), the investor community is typically engaged by businesses to a far greater extent than other stakeholder groups, therefore Government, individual investors and other stakeholder groups were excluded from this study.

It has been widely debated whether or not the investor community would find value in the disclosure of qualitative information in financial reports (Lightstone & Driscoll, 2008). White (2005) argues that external users are no longer satisfied with financial information alone but Juravle and Lewis (2008) found that although the investor community's interest in ESG issues is growing, it is still weak.

Investors supposedly utilise these reports in order to make informed investment decision (SRI, 2010; Hespenheide et al, 2010; Choudhuri & Chakraborty, 2009; Lever, 2006; Butler, 2009; McBride, 1997) yet few investors truly understand the impact of sustainability metrics (Hespenheide et al, 2010) and remain ignorant of the true value of an organisations intangible assets (Stock, 2003), non-financial performance incorporating much of this.

The threat of multiple crises – food, water, energy, carbon and economic – is very real (Ernst & Young, 2009) and therefore it is naive for organisations, even in a time of global economic crisis, to be focusing purely on financial indicators. Non-financial performance reporting is not legislated in South Africa, yet many organisations have still seen the value in engaging in this process. King III advocates integrated reporting, and this is now also a listing requirement for the JSE. If indeed investors use non-financial data to make decisions, it is in the interests of organisations publishing these reports to ensure that the investor community clearly understands the information provided.

Non-financial performance: Social and environmental

The widely accepted domain of non-financial reporting includes environmental, social and governance (ESG) performance (Juravle & Lewis, 2008). As much as Stapleton and Woodward (2009) argued that the concept of sustainability reporting was unclear as it included a wide range of notions, Hespenheide et al (2010) found that many levels of Government and stakeholder groups were starting to demand greater accountability within the two focus areas of environmental and social sustainability. Governance is inextricably linked with social and environmental sustainability and as such can never be completely excluded. However, for the purposes of this study, the terms ‘non-financial’ or ‘sustainability’ included only social and environmental factors. The World Economic Forum Global Competitiveness report rated South Africa as first worldwide for governance and reporting in 2010 therefore it was deemed acceptable to exclude governance from this study.

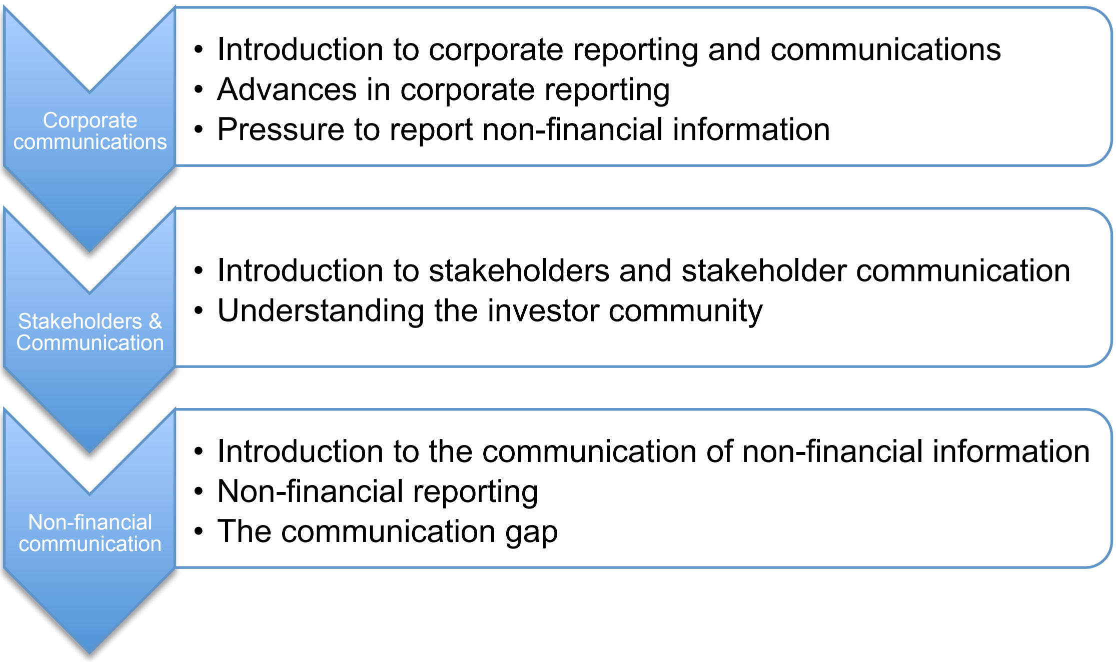
Over the last few years a growing number of organisations have invested in sustainability reporting as a means to communicate their efforts. The number of companies being assessed for the SRI Index (74 in 2003/4 to 105 in 2008) shows an increasing adoption of a triple bottom line (TBL) approach to business. In South Africa, however, seemingly more pressing issues take precedence over ‘green’ issues: poverty, disease, food security, the lack of fresh water, and the lack of basic infrastructure (Breman & Debrah, 2003). However, South Africa is one of the few emerging market economies seriously engaged in sustainability reporting (Dittrick, 2007) and as a pioneer therefore also an interesting market to investigate.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

It is evident from Chapter One that attention needs to be drawn to the slow uptake of the responsible investment movement, particularly in South Africa. There are several possible factors contributing to the slow uptake and one can infer that this lag is, in part, due to a gap in communication between organisations and the investor community. As such, the theory in this chapter followed the structure as illustrated in Figure 2.1 below:

Figure 2.1: Structure of the literature review



2.2 Corporate reporting and communications

2.2.1 Introduction

In their book *Essentials of Corporate Communication*, van Riel and Fombrun (2007) defined corporate communications as *'the set of activities involved in managing and orchestrating all internal and external communications aimed at creating favorable starting points with stakeholders on which the company depends. Corporate communications consists of the dissemination of information by a variety of specialists and generalists in an organisation, with the common goal of enhancing the organisations ability to retain its license to operate.'*

The role of corporate communications within in an organisation is to:

1. Create positive images among the organisations stakeholder groups
2. Build a stalwart corporate brand
3. Develop reputational capital (van Riel & Fombrun, 2007)

To achieve these objectives, corporate communication must form part of the corporate strategy, and be executed as a cohesive whole (van Riel & Fombrun, 2007). The business case for strategic corporate communications was made by Zhu (2008) who referred to a study that found a close link between long-term returns and communication consistency.

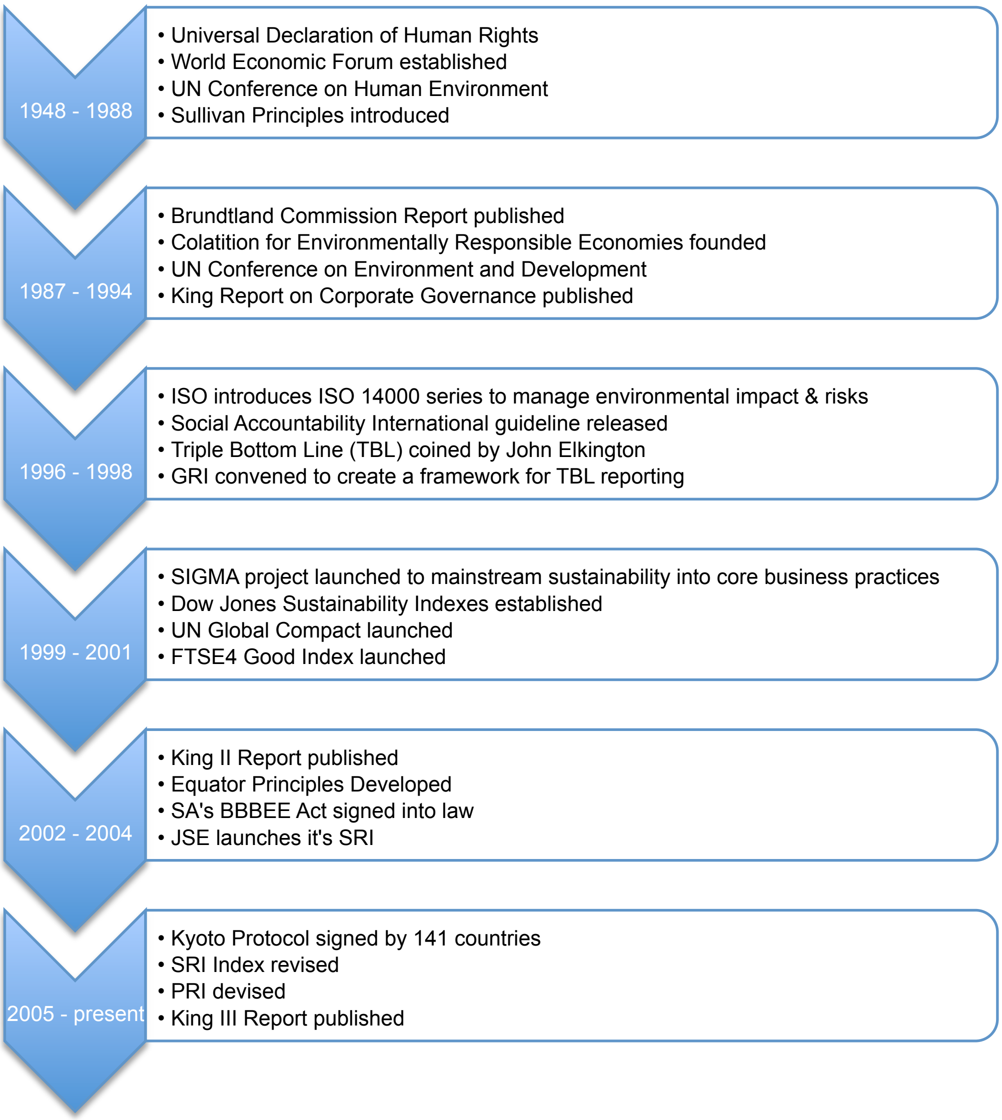
Although more and more investors expect credible strategic communication in order to make investment decisions (Zhu, 2008), organisations are naturally averse to disclosing corporate information (Stock, 2003). The firm therefore controls the message, the ratio of positive to negative information, the context, and the channel of their communication, and is able to ensure that the communication contains the sought-after information and excludes the less welcome information (Ferns et al, 2008). However, organisations are obligated to provide clear, consistent and regular communication on all issues pertaining to their business (Expert 3: academic, personal communication, 06 July, 2010). In order to measure the effectiveness of a firm's communication, Zhu (2008) proposed three communication indices:

- clarity (on the organisations strategic direction)
- intensity (the frequency of a specific message to reinforce the strategy)
- consistency (the organisations ability to ensure the same message is sent across multiple channels).

2.2.2 Advances in corporate reporting

According the literature, it is clear that organisational reporting has evolved over the last 60 years from a purely financial focus, to include factors outside of traditional financial reporting. Figure 2.2 provides a summary of the key events influencing the evolution of corporate reporting:

Figure 2.2: The evolution of corporate reporting (adapted from Trialogue, 2005)



1948 - 1988
- Universal Declaration of Human Rights
- World Economic Forum established
- UN Conference on Human Environment
- Sullivan Principles introduced

1987 - 1994
- Brundtland Commission Report published
- Colatition for Environmentally Responsible Economies founded
- UN Conference on Environment and Development
- King Report on Corporate Governance published

1996 - 1998
- ISO introduces ISO 14000 series to manage environmental impact & risks
- Social Accountability International guideline released
- Triple Bottom Line (TBL) coined by John Elkington
- GRI convened to create a framework for TBL reporting

1999 - 2001
- SIGMA project launched to mainstream sustainability into core business practices
- Dow Jones Sustainability Indexes established
- UN Global Compact launched
- FTSE4 Good Index launched

2002 - 2004
- King II Report published
- Equator Principles Developed
- SA's BBBEE Act signed into law
- JSE launches it's SRI

2005 - present
- Kyoto Protocol signed by 141 countries
- SRI Index revised
- PRI devised
- King III Report published

The sustainability discourse began to really penetrate strategic communications in 1987 with the introduction of the Brundtland Commission's report, which drew attention to the need for organisations to operate in a manner that was cognizant of the future, and in which the term 'sustainable development' was coined. Sustainable development was first defined in the Brundtland report as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. In 1997 the Global

Reporting Initiative (GRI) framework was introduced as an internationally accepted guide to reporting economic, social and environmental performance. A year later Triple Bottom Line (TBL) reporting was introduced by John Elkington in his book *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Brown, Dillard & Marshall, 2005). This strong developing concept of organisations being held accountable for environmental, social and governance issues as well financial performance is made up of three pillars: People, Planet and Profit, and promotes that organisations measure and communicate their impact on all three focus areas. In 1997 the Dow Jones Sustainability Indexes were created to track the financial performance of global 'sustainable' organisations; and in 2001 the FTSE4Good Indexes were introduced which were a group of indexes made up of organisations committed to socially and environmentally sound business practices. In South Africa, a similar index was launched in 2004 – the Socially Responsible Investment (SRI) Index. In 2006 the Principles for Responsible Investment (PRI) were devised when the global investment community recognized that environmental, social and governance (ESG) issues could affect the financial performance of a fund. Of the 822 signatories from 45 countries, only two signatories are South African funds.

Financial reporting policies have changed over the past several years from purely numbers-based to include some sustainability metrics (Choudhuri & Chakraborty, 2009) and the concept of sustainability reporting has started to become mainstream, with organisations all over the world beginning to provide some form of environmental and social information to interested parties. There is a move towards enhanced business reporting (EBR) which delivers a view of an organisations current performance as well as its future prospects (Anderson, Herring & Pawlicki, 2005). EBR combines both financial and non-financial data and gives all stakeholders the ability to make informed decisions (Anderson et al, 2005). Therefore whilst reporting is becoming more regulated (Hespenheide et al, 2010), sustainability reporting is still very much a moving target. Its' history has been characterized by rapid advancement, from single issue supplements to multi-issue integrated reports (Dittrick, 2007) as users require more information on the strategic direction of the company and how it will evolve over time (Lever, 2006).

2.2.3 Pressure to report non-financial information

Ethical business practice was introduced in South Africa in 1994 with the publication of the King Committee's King Report on Corporate Governance. While the report advocated high governance standards, there was little mention of social and environmental reporting. In 2002 King II was launched, and gave specific mention to integrated sustainability reporting, however sustainability reporting was then only recommended. The most recent version, known as King III, was launched in September 2009. This report advocates integrated reports which are externally assured. Where the previous reports had focused on reporting, King III also focuses on the execution of sustainable business practices, and their inclusion into the corporate strategy.

As early as 1997 there was discussion around the lack of legislation surrounding non-financial requirements (McBride, 1997) and almost 15 years later the conversation has barely changed.

Pressure to report non-financial information is felt from all angles. In 2001 the European Union (then the European Community) identified the inclusion of environmental factors in investor appraisals as a key issue to be dealt with (Choudhuri & Chakraborty, 2009). Ferns et al (2008) suggest that corporates have opted for sustainability reporting as a reaction to public enquiry and concern regarding the social and environmental impact of their operations. Likewise, consumers are starting to demand hard data as opposed to non-committal evidence (Dittrick, 2007) and some NGO's expect organisations to report on the social and environmental impact of their entire supply chain (Dittrick, 2007). Many of the companies in high-impact businesses are facing similar pressure from fund managers and shareholders alike (SRI, 2010).

Sustainability reporting may carry considerable payback for economic success (Signitzer & Prexl, 2008). However most organisations still view sustainable development as a cost rather than an investment, and very often purely as a 'nice-to-have' (Ernst & Young, 2009). Companies are required to address complex, complicated, and sometimes conflicting agendas in terms of social, environmental, and economic performance (Ernst & Young, 2009; Ferns et al, 2008) and because many of the sustainability-related issues we are faced with today are not visible and therefore hardly tangible, many organisations do not see the need to engage in CSC activities (Signitzer & Prexl, 2008). However, there has been a paradigm shift in terms of public expectation of non-financial data, and as a result more and more sustainability-related information is available on company websites and in annual reports (Choudhuri & Chakraborty, 2009).

Public expectation of the role of business in society is increasing, while the levels of trust are decreasing; this calls for better governance and accountability across the business spectrum (Dilling, 2010). This public distrust of large corporates has coincided with globalization and the growing school of thought that multinational corporations exist purely for financial gain regardless of the cost to the communities in which they operate (Ferns et al, 2008). Therefore it is inevitable that the expectation of accurate and in-depth sustainability reports will increase (Hespenheide et al, 2010).

2.2.4 Conclusion

Increased concern around global economic, social and environmental factors has raised awareness around sustainability reporting and has called into question the disclosures to date (Dzinkowski, 2009). Consequently the introduction of frameworks such as the GRI seek to standardise, and raise non-financial reporting to the level of financial reporting (Dittrick, 2007). There is a move towards integrated reporting which looks beyond separate reports and assesses the impact of non-financial performance on financial performance (Eccles & Krzus, 2010). This type of integrated reporting has the potential to radically change how investors choose to invest their funds (Eccles & Krzus, 2010).

2.3 Stakeholders and communication

2.3.1 Introduction

Freeman (1984) defined stakeholders as *'Any group or individual who can affect or is affected by the achievement of the firms objectives'*. Building on Freeman's theory of stakeholders as a fundamental part of the organisations strategy, Andriof, Waddock, Husted, and Rahman (2002) spoke of the importance of engaging with stakeholders for long-term value creation. Participation, dialogue and involvement were brought to the heart of stakeholder theory (Morsing & Schultz, 2006) and the role of communication in stakeholder management was highlighted. Within stakeholder theory, attention was drawn to communication with different stakeholders (Podnar & Jancic, 2006). It is considered standard that the primary audience of reports should be communicated with directly (Sweeney & Coughlan, 2008). Therefore Signitzer and Prexl (2008) introduced the concept of Corporate Sustainability Communications (CSC) which referred to communication with stakeholders around issues regarding all aspects of sustainability, using open and reliable communication channels to foster trust amongst entire stakeholder groups (Laskin, 2009).

Sustainability reports allow stakeholders to see that the interests of one stakeholder group are not being placed above those of another (McBride, 1997). They aim to give stakeholders a clear view of the company's values as well as its performance (Dilling, 2010). However 'sustainability' has been used and misused in such a plethora of ways, that different stakeholder groups generally understand it in different ways. As such organisations need to know the level of understanding of the concept 'sustainability' by their stakeholders in order to deliver relevant information (Signitzer & Prexl, 2008).

Communication with stakeholders is not uncomplicated, and as the number of stakeholders increases, so does the complexity of the communication (Stapleton & Woodward, 2009). In order to progress social reporting, it is important to understand the needs and the role of stakeholders in the process. To do so, Engeldow (In Stapleton & Woodward, 2009) proposed five communication-related dimensions that resulted in five questions regarding the content and level of information required. Table 2.1 provides a guide for organisations that wish to understand the needs of their stakeholders when reporting relevant social, environmental and financial information:

Table 2.1: Stakeholder communication and information needs

Communication and Information Needs (per Engeldow 1978)	
Communication-related Dimensions	***Audiences' needs and skills***
Nature of interest	Type of information required?
Degree of motivation	Nature of motivation to be informed?
Knowledge of business	Level of business knowledge possessed?
Information skills	Level of information/communication skills?
Probable biases	Degree of anti/pro-business bias?

Stapleton and Woodward (2009) drew attention to the two opposing views of stakeholder reporting:

- the critics view that stakeholders do not read the reports, and that they are therefore redundant; and
- the proponents view that organisations use the report as a stakeholder management tool

Stapleton and Woodward (2009) also suggested that the use of intermediaries would render the information more valuable for stakeholders as an evaluation tool. However, Forman (2004) argued that involving intermediaries may be problematic, as sustainability reporting requires a deep understanding of corporate strategy.

It is evident throughout the literature that stakeholders have an expectation of organisations to report both financial and non-financial information. Consumers and managers expect real-time information to be available on company websites, not just an annual report with a sustainability section (Dittrick, 2007).

Although environmental or sustainability professionals possess a high level of skill, knowledge and expertise within their fields, they often lack the ability to effectively communicate this information (Signitzer & Prexl, 2008). It is for this reason that communication experts are increasingly focused on professionalization in the area of CSC (Signitzer & Prexl, 2008). In the annual Ernst & Young awards for Sustainability reporting, a 24% weighting is given to the report quality and the effectiveness of the communication (Ernst & Young, 2009), which indicates that communication is an important element of sustainability reporting. However, within this weighting there is no specific reference made to any method of communication other than the publishing of the report itself. Hespenheide et al (2010) suggested that technology is being pushed to the fore as a key enabler of sustainability reporting communications yet there is little evidence to support this claim in the realm of sustainability communications.

2.3.2 Investor Community

The most effective way for investors to evaluate corporations is via efficient financial markets, yet this efficiency gives no indication of the moral standing of the organisation (Lydenberg & Sinclair, 2009). Credit agencies and investment funds are using sustainability reports to manage their long-term risk (Hanse, 2007). However McBride (1997) argues that financial data is more easily understood when placed in context, and sustainability reporting allows investors insight into the risks and opportunities arising from the non-financial performance and its impact on the investments (Choudhuri & Chakraborty, 2009). Investors use voluntary information to assess the future value of an organization (Lever, 2006) and are looking to invest in companies with a TBL focus (SRI, 2010).

Investor relations, which forms part of strategic corporate communications, is the vehicle whereby this information is communicated. It grew out of pressure applied to organisations by social activists and financial analysts, each with their own agenda, in the late 1980's (Laskin, 2009). In 2002 the National Investor Relations Institute (NIRI) defined investor relations as *'…a strategic management responsibility using the disciplines of finance, communication and marketing to manage the content and flow of company information to financial and other constituencies to maximise relative valuation'* (Marston, 2008). Both written and oral communication is used to persuade stakeholders to buy in to the future of the organisation (Forman, 2004) and this valuable insight into corporate strategy allows investors to make educated investment decisions (Zhu, 2008). Investor relations is generally viewed more as a finance function than as a communications function (Laskin, 2009), but in truth it straddles both functions, therefore synergy between the two disciplines is necessary (Laskin, 2009).

The SRI industry is growing in importance and should not be ignored (Dilling, 2010). Butler (2009) suggests that more and more investment decisions are factoring in climate change targets and governance and more and more investment vehicles with specific non-financial objectives are available (Lydenberg & Sinclair, 2009). But investors and asset managers are concerned with breaching fiduciary duty and are therefore critical of SRI and the Principles of Responsible Investment (PRI) (Martin, 2008). A move to longer-term investments over short-term investments may accelerate the adoption of integrated reporting (Eccles & Krzus, 2010) but the basic rule of investing is 'buy shares whose value will go up in as short a space of time as possible' (Lydenberg & Sinclair, 2009).

Dilling (2010) observed an increase in investor interest in sustainability-related activities yet in a study of investor relations meetings, Marston (2008) found little reference to sustainability or non-financial reporting. It is clear that there is a need for reformation in the markets and the creation of two-way communication tools (Laskin, 2009) that allow organisations to measure their financial performance as well as their impact on broader society (Lydenberg & Sinclair, 2009).

2.3.3 Conclusion

One of the primary challenges associated with sustainability reporting is the difficulty in measuring intangibles consistently and cost-effectively (Dzinkowski, 2009) yet commonly accepted measures for reporting are required in order for an investor to make informed decisions using non-financial reports (Choudhuri & Chakraborty, 2009). The financial benefits of social and environmental information are not clear and therefore are rarely integrated into the investment decision process (Juravle & Lewis, 2008) as most investors remain ignorant of the true value of an organisations non-financial performance (Stock, 2003). Greater transparency in EBR will help in protecting the investors' future (Anderson et al, 2005). Despite this, there is still much debate within the investment community around whether or investment decisions should include broader social benefits as well as short-term financial gain (Lydenberg & Sinclair, 2009).

2.4 Communication of non-financial performance

2.4.1 Introduction

Sustainability reporting is widely accepted as a concept, but the method of execution is still problematic (Choudhuri & Chakraborty, 2009). Stapleton and Woodward (2009) argue that the present focus is on the one-way communication of annual financial reports. Although the disclosure of social and environmental impacts is common practice around the world (Dzinkowski, 2009) the focus has been placed on the information that is reported as opposed to that which has not been disclosed (Adams & Frost, 2006).

Adams and Frost (2006) found that while most of the larger organisations disclosed some information on social and environmental performance, the information tended to be vague, and was limited to only a few issues. As more regulations emerge, additional social and environmental metrics will need to be included in the reporting process (Hespenheide et al, 2010). In a study of UK and Australian companies, Adams and Frost (2006) found that whilst companies engaged in non-financial reporting issues were committed to developing their approaches, further guidance would benefit the process. It was argued that through improved reporting guidance, organisations would be better able to understand their impact on society and the resultant risks and opportunities (Business and the environment, 2010). Sustainability reports also lack standardization, which allows room for the interpretation of the data surrounding social and environmental impacts (Ferns et al, 2008).

Sweeney and Coughlan (2008) suggest that the reporting of the social activity of a business is becoming more prevalent but in Business and the environment (2010) it was argued that the quality of human rights reporting in 2009 was still below the level required to constitute good human rights reporting. A commitment by an organisation to produce a sustainability report is equal to an open and public commitment to conduct business in a responsible manner (Ferns et al, 2008; Dilling, 2010) and although integrated reporting signals a sincere commitment to sustainability it does not equal successful implementation, which is an entirely separate but equally important aspect of sustainability (Eccles & Krzus, 2010). Communicating social and environmental issues, even to the best global standard, is not necessarily an indication of the future sustainability of an organization.

While social accounting is growing, the process is directly controlled by management, therefore the legitimacy may be questioned (Sweeney & Coughlan, 2008). Critics of social reporting highlight the discrepancy between social disclosure and actual performance (Sweeney & Coughlan, 2008).

2.4.2 Non-financial reporting

Sustainability reporting emerged from the concept of TBL accounting (Choudhuri & Chakraborty, 2009). Hanse (2007) suggests two key reasons for organisations to engage in sustainability reporting:

- Significantly more of an organisations value is concerned with information pertinent to non-financial performance; and
- Costs and efficiencies are improved through a greater understanding of the risks and opportunities associated with the business.

Signitzer and Prexl (2008) added that societal legitimisation is strongly linked to corporate performance, which incorporates financial success, social fairness and environmental consciousness.

Many aspects of an organisations performance, which are not captured in financial reports, have a material impact on the current and future valuation of the organization (Anderson et al, 2005) so companies are slowly making sustainability reporting part of their annual reports (Choudhuri & Chakraborty, 2009) using globally accepted guidelines such as the GRI. However, the need to embrace TBL as advocated in the King III, must be balanced with the need to make a financial return for shareholders (SRI, 2010) and the long-term investment often required by socially and environmentally sound corporate conduct needs to be balanced with the short-term focus on profit gains with which financial target groups are primarily concerned (Signitzer & Prexl, 2008).

Sustainability reports are the mechanism by which investors should be able to assess an organisations holistic performance and market competitiveness (Choudhuri & Chakraborty, 2009) and directly drive the value creation process of an organization (Choudhuri & Chakraborty, 2009). Appropriate indicators and sources of data will allow financially focused individuals and organisations to make informed investment decisions having analysed and understood the data (Hespenheide et al, 2010). Both organisations and investors need to have a deep understanding of the criteria upon which these reports are based in order to fully understand the report itself.

Monks (2002) suggests that over the last few years there has been a move towards shareholders expressing their requirements of the businesses in which they have invested, and the businesses responding to these expectations with definitive action plans. These demands may return dividends, as 70% of the subjects in prior studies showed a positive correlation between CSR activities, sustainability reporting, and financial performance (Dilling, 2010). The Dow Jones Sustainability Group Index (DJSGI) also demonstrated that corporate sustainability was able to contribute to profit maximisation – between March 1995 and March 2000, companies listed on the DJSGI stock market performance rose by 164.46% compared to the 138.76% rise of companies listed on the ‘normal’ Dow Jones Global Index (Signitzer & Prexl, 2008). Increased disclosure in non-financial reports is growing in importance (Singh, 2008) and public disclosure of potential risks suggests that an organization is able to manage those risks (Choudhuri & Chakraborty, 2009). However, the resources required to produce a sustainability report were in some cases so significant that organisations were either deterred from engaging in the process or unable to do so (Butler, 2009). Further, the nature of sustainability reporting is still not completely clear as it includes a wide range of notions and as such is potentially grueling to operationalise (Stapleton & Woodward, 2009).

2.4.3 The communication gap

Although Butler (2009) suggested a trend towards embedding non-financial data into annual reports, there is no globally accepted definition for sustainability reporting (Dilling, 2010) or consensus on what form these reports should take (Dilling, 2010).

Stapleton and Woodward (2009) suggest that many organisations do not fulfill their role as disseminators of information relevant to specific stakeholder groups. However, overly complicated reporting may lead to the misinterpretation of information (Lever, 2006). Sustainability reporting differs significantly from one organization to another (Dittrick, 2007) and there is still no mechanism for reporting that allows investors real insight into the sustainability of an organization (Choudhuri & Chakraborty, 2009). A framework for an integrated sustainability report has yet to be developed, and would go a long way to contributing to a sustainable global economy (Eccles & Krzus, 2010).

Dzinkowski (2009) found that the most significant reason for organisations not engaging in sustainability reporting to a greater extent than was legislated, was the lack of measurements, benchmarks, and a reporting framework. But sustainability reporting must go beyond legislation (Choudhuri & Chakraborty, 2009) to become more than a pure compliance exercise (Simms, 2005). In August 2010, in an attempt to address this issue, the Prince of Wales Accounting for Sustainability Project and the GRI joined forces and formed the International Integrated Reporting Committee (IIRC) to create a globally accepted framework for ESG accounting with the intention of making sustainability reports 'clear, concise, consistent and comparable'.

2.4.4 Conclusion

The three parties to non-financial reporting: organisations, their reports, and the investor community, will be required to be aligned if the responsible investment movement is to be at all successful. Financial and investment professionals are trained to analyse historical data to determine possible future performance (Anderson, Herring and Pawlicki, 2005) and EBR will allow stakeholders to understand the complexities associated with a particular business (Anderson, Herring and Pawlicki, 2005).

2.5 Introduction to the research problem

Sustainability has become one of the major issues facing organisations worldwide (Dilling, 2010) and companies are beginning to value the link between profit and principles (Enviromation, 2008) but sustainability needs to become the way in which organisations do business as opposed to an annual reporting event (Ernst & Young, 2009).

Lydenberg and Sinclair (2009) refer to suggestions that the investment community is 'heartless and socially detrimental in their pursuit of profits' and that for-profit organisations are created to act in the interests of their own financial growth, albeit sometimes at the expense of social good (Lydenberg & Sinclair, 2009) but Monks (2002) calls for organisations to operate in a socially sensitive manner.

Investors want to know about any potential risks to the business (Singh, 2008) and the literature points to the fact that investors increasingly rely on social, environmental and governance information to make informed decisions, yet the responsible investment movement has yet to really gain the traction it possibly should have. Juravle and Lewis (2008) suggest that there may even be disparity between the information that analysts research and that which fund managers use to make decisions.

There is much conflicting literature surrounding the communication of non-financial performance: on one hand the literature suggests that investors are the primary users of sustainability reports and utilise the information contained therein to make informed investment decisions; and on the other hand the literature reveals disturbing insight that investors do not understand the information provided by organisations and therefore are unable to use it to make decisions. This would begin to explain the lag in the responsible investment movement in South Africa. Therefore, a critical review of non-financial reporting and communications may shed some light on the realities of the responsible investment movement. The game will only have changed when investors make decisions based not only on financial return but also on the long-term interest of the beneficiaries (Lydenberg & Sinclair, 2009).

2.6 Academic case for the study

Adams and Frost (2006) felt that the low level of reporting on social and environmental performance, as well as the diversity of approaches warranted further discussion around how the data is collected, reported, and used within companies. Singh (2008) suggests a heightened investor appetite for non-financial data and Eccles and Krzus (2010) argue that support for integrated reporting must come from the investment community in order to gain momentum. Ferns et al (2008) found that there was little research that highlighted the effectiveness of non-financial reports, and in particular the following three aspects:

a. The reports ability to reach its intended audiences
b. The adequacy and quality of information contained in the report
c. The perceptions and beliefs of the readers as to the reports content

While there are a handful of emerging frameworks available, it is argued that organisations publishing non-financial reports do not clearly understand what information is really required from an investor perspective. More focused stakeholder engagement, and specifically investor engagement, may begin to alleviate this gap. Communication research associated with investor relations is under-researched (Laskin, 2009) so this study aims to contribute to this field of enquiry.

CHAPTER 3: RESEARCH QUESTIONS

3.1 Research questions

The fundamental goal of the research was to draw attention to the importance of alignment between non-financial reporting and investor expectations, in order to ultimately encourage responsible investment.

The objective of this study was to combine the literature and expert opinions to develop a framework for the best practice of non-financial performance communication. The framework would then be used to assess the nature of non-financial performance communication by South African organisations and the alignment of non-financial information between these companies and their investor communities. The framework allowed for an investigation into the non-financial performance reporting and communication status quo in South Africa.

The following research questions were employed for the purposes of this study:

3.1.2 Primary research question

1. Are South African organisations meeting their investors' expectation in terms of non-financial performance information?

3.1.3 Secondary research questions

2. What non-financial information are South African organisations communicating, how are they communicating this information and what are the motivating factors are behind non-financial performance communication?
3. Which framework for non-financial performance are South African organisations using?

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Choice of methodology

The research was qualitative and exploratory in nature, and was conducted in three phases. Zikmund (2003) suggests exploratory research at the initial stages of the research in order to define the problem more accurately. Exploratory research has three interrelated purposes (Zikmund, 2003, p111):

1. Diagnosing the situation
2. Screening alternatives
3. Discovering new ideas

4.1.1 Phase 1 methodology

Phase 1 of the research involved a review of the literature and open interviews with three industry experts. This allowed for the creation of a framework for the best practice of non-financial performance communication which would then be used to guide Phase 2 and Phase 3 of the research. Exploratory research investigates what qualities or characteristics are associated with a particular issue (Zikmund, 2003) and so the use of exploratory research gave the researcher a deeper understanding of the nature of non-financial performance communication.

It was possible, even likely, that the definition of terms will have varied between sources (Zikmund, 2003) in Phase 1. For this reason a process of data conversion was necessary to achieve the research objective.

4.1.2 Phase 2 methodology

Phase 2 of the research involved qualitative interviews with six organisations that publish non-financial reports. Wisker (2001) suggests the use of qualitative research in order to understand experience, ideas, beliefs and values. Three of these organisations were listed as consistent best performers on the SRI Index from 2007-2009, and three were listed on the automatic universe of the SRI Index in 2009 but had not ever been listed as a best performer. Three diverse industry sectors were selected so as to provide a balanced view; and competitive organisations were used, that is, comparable in size and sector.

The purpose of Phase 2 was to determine the nature of non-financial performance reporting in these organisations. This was done using the framework developed in Phase 1.

4.1.3 Phase 3 methodology

Phase 3 of the research involved qualitative interviews with six investor firms. Using the framework developed in Phase 1 investors were asked to comment on the nature of the non-financial performance communication by the organisations in the sectors in which they had invested. The purpose of Phase 3 of the research was to determine whether or not there was alignment between the information which companies provided and that which their investors expected.

4.2 Scope and unit of analysis

The scope of this research was limited to exploring:

- Sustainability best practice by way of industry experts
- The nature (what, how and why) of non-financial (social and environmental) performance communication
- South African organisations
- Organisations listed on the JSE SRI Index
- Competitor organisations not listed on the SRI Index, but part of the automatic universe for the Index in 2009
- South African asset managers, fund managers, research analysts and portfolio managers

The unit of analysis in Phase 1 was three industry specialists with an in depth knowledge of the non-financial reporting process, and with no ties to any of the organisations being assessed. This was to ensure that an unbiased framework could be developed. A balanced view was obtained by interviewing one member of a large audit firm, one independent sustainability consultant and one member of the academic community.

The unit of analysis in Phase 2 comprised, where possible, the individuals within the organisation responsible for sustainability, or, where no specific reference was made to sustainability personnel, those responsible for investor relations. The first level of engagement with the organisation via their website highlighted that in some cases there may not be an individual responsible for sustainability but that it fell within the realm of investor relations.

The unit of analysis in Phase 3 was individuals within asset management firms responsible for the decisions around which stocks to purchase, that is, asset managers, fund managers, research analysts and portfolio managers.

4.3 Population

The population consisted of four primary groups.

The population in Phase 1 consisted of:

- Sustainability industry experts
- Individuals with in depth knowledge of the non-financial reporting process
- Individuals who were not directly associated with the organisations being assessed
- Those individuals based in South Africa

The population in Phase 2.1 consisted of:

- Individuals responsible for sustainability or investor relations within an organisation
- Those individuals who worked for a private organisation that had been rated a consistent best performer on the JSE SRI Index for three consecutive years (2007-2009)
- Those individuals based in South Africa

The population in Phase 2.2 (for comparative purposes) consisted of:

- Individuals responsible for sustainability or investor relations within an organisation
- Those individuals who worked for a private organisation that had been included on the automatic universe for the JSE SRI Index in 2009 but had never been rated a best performer
- Where possible, an organisation in a similar sector and of a similar nature to those in 2.1 was selected
- Those individuals based in South Africa

The population in Phase 3 consisted of:

- Asset managers, fund managers, research analysts and portfolio managers
- Those individuals who worked for an asset management firm that had invested in any of the sectors assessed in Phase 2
- Those individuals based in South Africa

4.4 Sample method and size

Table 4.1: Research sample and respondent list

Phase 1	**Phase 2**	**Phase 3**
Expert 1 (organization)	Organisation1: Competitor (finance)	Investor 1: International asset management firm
Expert 2 (consultant)	Organisation 2: Best practice (finance)	Investor 2: International asset management firm
Expert 3 (academic)	Organisation 3: Competitor (construction)	Investor 3: International asset management firm
	Organisation 4: Best practice (construction)	Investor 4: Boutique asset manager
	Organisation 5: Competitor (mining)	Investor 5: Boutique asset manager
	Organisation 6: Best practice (mining)	Investor 6: Boutique asset manager

4.4.1 Sampling unit: Phase 1

In Phase 1, non-probability snowball sampling was used as a method to obtain the most appropriate individual for the purposes of the interviews. Zikmund (2003) suggests snowball sampling as a means to locate members of rare populations. The advantage of snowball sampling is reduced sample size and cost but bias may enter the study as a result of respondents being similar to one another.

4.4.2 Primary sampling unit: Phase 2.1

In Phase 2.1 and 2.2 non-probability quota sampling was used. Zikmund (2003) suggests quota sampling in cases where certain characteristics are required for the study. In the case of this research, quota sampling was used to select three individuals within best-performing organisations and three individuals within competitor organisations not rated as best performers.

4.4.3 Secondary sampling unit: Phase 2.1 and 2.2

In Phase 2.1 and 2.2 non-probability quota sampling was again used to select three organisations within the subsets. This allowed for the assessment of three distinct industries. Quota sampling ensures that the various sub-groups within the sample are represented (Zikmund, 2003) and that pertinent characteristics exist to the extent that the researcher desires.

4.4.4 Sampling unit: Phase 3

In Phase 3 non-probability quota sampling was used to select the appropriate investors per sector assessed. Quota sampling was again used to select two subsets: international asset management firms and boutique investment firms.

4.4.5 Sample size: Phase 1

Phase 1 achieved a 100% response rate. The sample size for Phase 1 was three. Respondents were contacted telephonically and an interview requested. With permission, these interviews were recorded and transcribed verbatim to ensure accuracy of the findings and to contextualise the responses (Wisker, 2001).

4.4.6 Sample size: Phase 2

Phase 2 achieved a 100% response. The sample size for Phase 2 was six. Respondents were contacted telephonically and a teleconference requested. Respondents were provided with the questionnaire in advance in order to familiarise themselves with the questions. It was agreed that disclosure of the questionnaire prior to the interview would not affect the results negatively, and that in fact it would enhance the results by virtue of the respondents being able to give the most thorough answer possible. The researcher talked the respondents through the questionnaire and populated it. Notes were taken where insights were provided outside of the realm of the questionnaire.

4.4.7 Sample size: Phase 3

Phase 3 achieved a 100% response rate. The sample size for Phase 3 was six. Respondents were contacted telephonically and a teleconference requested. Respondents were provided with the questionnaire in advance in order to familiarise themselves with the questions. It was agreed that disclosure of the questionnaire prior to the interview would not affect the results negatively, and that in fact it would enhance the results by virtue of the respondents being able to give the most thorough answer possible. The researcher talked the respondents through the questionnaire and populated it. Notes were taken where insights were provided outside of the realm of the questionnaire.

4.5 Data gathering process and research instrument

4.5.1 Sampling method

Phase 1: An open interview was conducted to increase the interviewers understanding of non-financial reporting communication. The purpose of these interviews was to determine what, how and why organisations should be communicating their non-financial performance with their investors. The interviewer asked probing questions (Zikmund, 2003) in order to acquire the clearest, most comprehensive responses. Wisker (2001) recommends the use of interviews in order to obtain information based on experience and privileged information.

Phase 2 and 3: Semi-structured interviews were conducted in Phase 2 and Phase 3. Questionnaires were used as part of the semi-structured interviews to obtain comparable answers as well as to engage with the respondent in a more in-depth manner, thus gaining the insights necessary in successful exploratory studies. Wisker (2001) argues that questionnaires can be used to augment an interview.

4.5.2 Research instruments

All constructs used in the development of the framework, and subsequently the questionnaire, were taken from the literature and the expert interviews. The constructs detailed in the literature were not necessarily used singularly and in their entirety, but joined via a process of data conversion to create a framework for the communication of non-financial performance. The language of the questionnaire was simplified in order to avoid any confusion, and where possible, options for answers were provided. Wisker (2001) suggests that the use of closed questions with a selection of answers makes for accurate research findings. The interviewer talked the respondents through the questionnaire in order to provide clarification where necessary.

4.5.3 Instrument design

The guide for the interviews in Phase 1 was based on information obtained through a review of the literature. The contradictions found in the literature led to the interviewer electing to conduct open interviews, using the research questions as the foundation. Through this process it was expected that clarity would be provided on the status of non-financial reporting in South Africa, and the contradictions found in the literature be placed in context.

Questionnaires were used for the interviews in Phase 2 and Phase 3 of the research. Whilst questionnaires are problematic in that the response rate is typically very low (Wisker, 2001), this was compensated for by the researcher contacting the respondents and populating the questionnaire whilst engaged in a teleconference.

The interviews comprised four parts: the first part introduced the respondent to the objectives of the interview through the explanation of the letter of informed consent. The second part involved screening questions in order to ensure that the respondent formed part of the population. Part three, the body of the questionnaire, was focused on understanding the nature of non-financial performance communication. Finally, the fourth part focused on the expectation of the investor community regarding non-financial performance communication.

Respondents were provided with optional answers for the majority of the questions. This ensured that no options were mistakenly omitted by the respondent, and allowed the respondent to provide multiple answers to one question. Respondents were also afforded the opportunity to add any information they felt pertinent to the discussion. This added granularity not typically found in self-administered questionnaires.

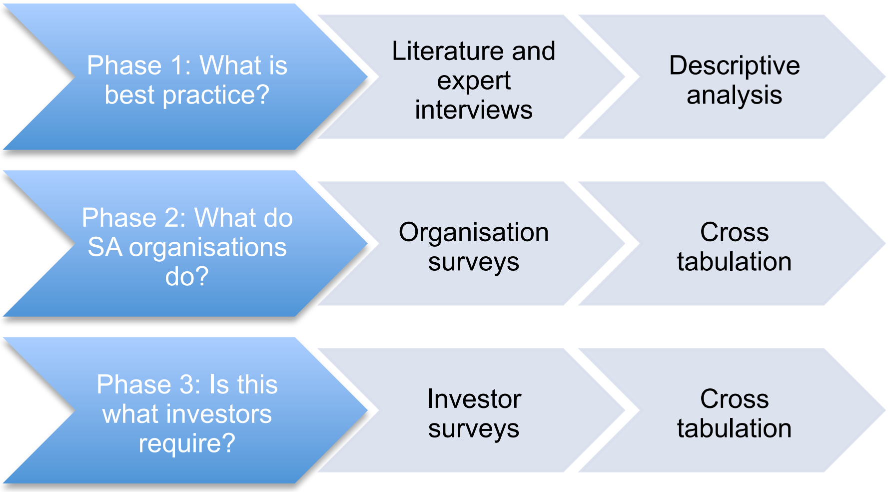
4.5.4 Pre-testing of questionnaire

A statistician tested the questionnaire for reliability in order to ensure that the research objectives would be met and to avoid gaps and inconsistencies.

4.6 Method of analysis

The data analysis was conducted as illustrated in Figure 4.1 below:

Figure 4.1: Method of Analysis



Descriptive analysis is the manipulation of raw data into an easily understandable format (Zikmund, 2003) and was used in Phase 1 in order to determine what best practices organisations should be using to communicate their non-financial performance.

Cross tabulation was used to analyse the data in Phase 2 and Phase 3, which centered around the current practice of South African organisations, and the expectation of their investor community. Cross tabulation allows one to organise the data by groups and facilitates successful comparisons.

4.7 Assumptions

- In terms of the sample, it was assumed that the respondents were suitably qualified to represent the opinions and practice of their organisations.
- It was assumed that the sectors selected were representative of a wide range and therefore of organisations at large.
- It was assumed that the balanced investor sample was representative of the investor community in South Africa.

4.8 Limitations

Limitations of the scope and design of this study were acknowledged as follows:

- Given the small sample size, it could be argued that the samples were not representative of organisations in general.
- While some scholars argue that qualitative research is equally as legitimate as quantitative research, in general it cannot take the place of quantitative, conclusive research (Zikmund, 2003), and as such, the results of qualitative studies are typically not used to inform business strategy or major decisions. Interpretation of qualitative data is typically judgmental and conclusions are subject to considerable interpreter bias (Zikmund, 2003).
- Using non-probability sampling does not allow for the results to be generalised (Zikmund, 2003).
- There is always the potential for response bias of some kind (Zikmund, 2003), particularly given that questionnaires were distributed well in advance of the interview.
- This study was limited to companies listed as part of the automatic universe for the JSE SRI, however, the author argues that, while some of these companies are considered ‘best practice’ organisations, the SRI does not focus on the *communication* of data as much as on the reporting of data. As such, it could be argued that these companies are not necessarily best practice organisations when it comes to the communication of their non-financial data.

CHAPTER 5: RESULTS

5.1 Introduction

This chapter provides the results obtained through the research, in alignment with the research questions presented in Chapter 3. This was done in accordance with the research objectives through:

- Determining best practice in terms of non-financial performance communication
- Gaining an understanding of non-financial performance reporting and communication in South Africa
- Gaining an understanding of investor expectation of non-financial performance reports and communication

Within those objectives, a comparison was made between best practice organisations on the SRI and competitor organisations not listed on the SRI. This was done in order to ascertain whether or not companies listed on the SRI had a better understanding of their investor community's expectation of non-financial performance communication. No valid difference was found between the two groups of organisations. As such, the following chapter refers to South African organisations in general and makes no distinction between best practice organisations and competitor organisations.

The research interviews and data are presented in sections as follows:

- **Phase 1: Literature review and assessment of open interviews with experts**
    - Sample description
    - Extraction of the prominent issues discussed per research question
    - Insights from literature review and open interviews per research question
- **Phase 2: Assessment of organisations**
    - Sample description
    - Data analysis of close-ended questions per research question
    - Additional insights gained through commentary per research question
- **Phase 3: Assessment of investors**
    - Sample description
    - Data analysis of close-ended questions per research question
    - Additional insights gained through commentary per research question

The chapter concludes with a summary of the most salient findings, which leads to the discussion of the results in Chapter 6.

5.2 Data Analysis

5.2.1 Phase 1: Literature review and assessment of open interviews with experts

5.2.1.1 Sample description

Of the three interviews scheduled for Phase 1, three interviews were conducted. With permission, the interviews were recorded and transcribed verbatim.

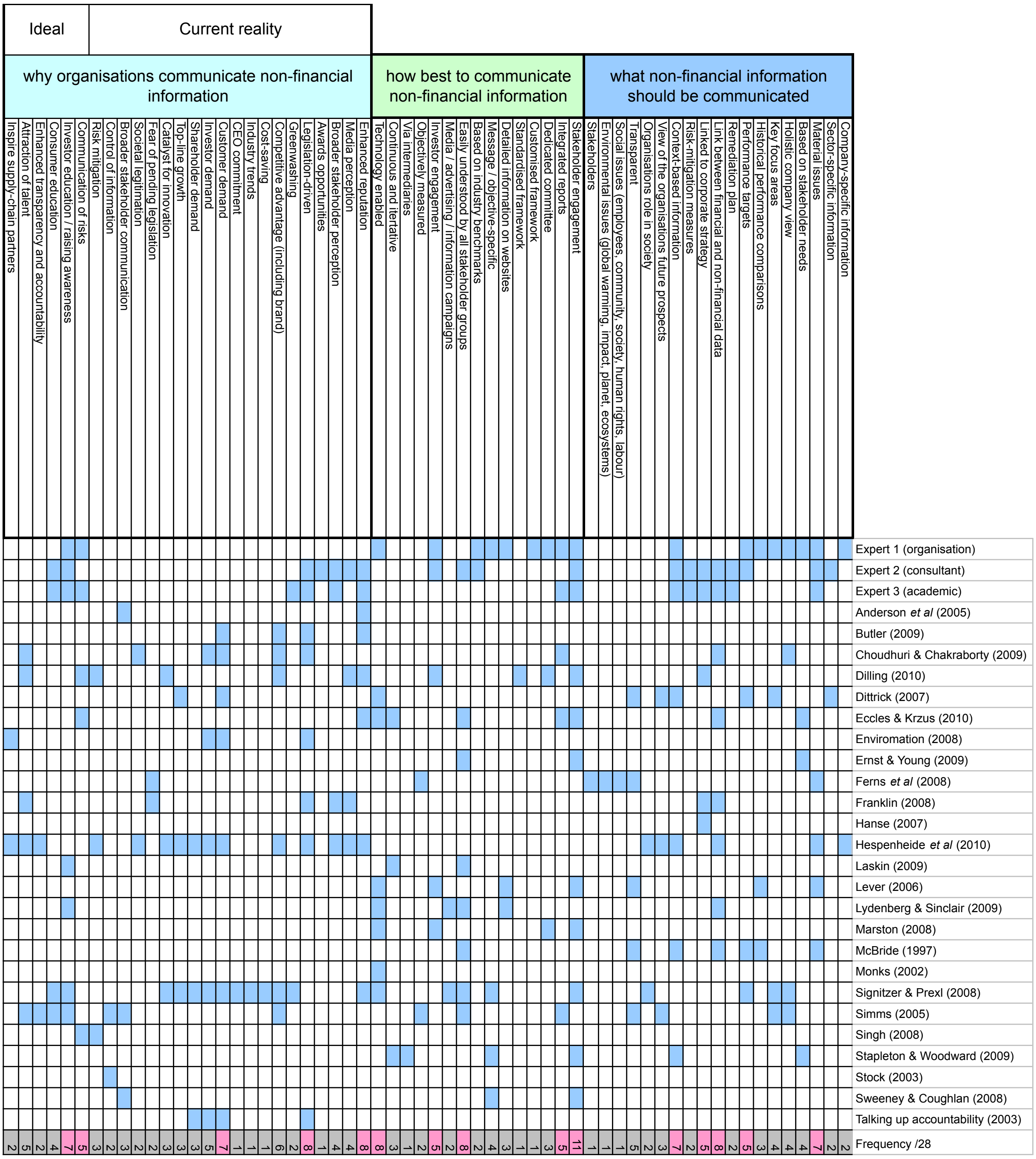
The response selection process was effectively applied and resulted in a satisfactory respondent list. Of the three respondents interviewed, the first represented a large global organization and a major player in the sustainability reporting field; the second represented a boutique sustainability consultancy; and the third represented a large academic institution. The three views allowed for a balanced investigation of the industry.

The interviews were then analysed using descriptive analysis. The data was applied to Table 5.1 (below) and combined with the key themes from the literature review. The most frequently occurring themes were clustered around the relevant research questions. Frequency was determined as:

- Discussed by all three experts; or
- Discussed by two experts and supported by at least three authors; or
- Discussed by seven or more authors

This information formed the basis of the discussion in Phase 2 and Phase 3, and was used to write up the results that follow.

Table 5.1: Key themes: non-financial performance communication



Ideal						Current reality																				
why organisations communicate non-financial information																										
Inspire supply-chain partners	Attraction of talent	Enhanced transparency and accountability	Consumer education	Investor education / raising awareness	Communication of risks	Risk mitigation	Control of information	Broader stakeholder communication	Societal legitimation	Fear of pending legislation	Catalyst for innovation	Top-line growth	Shareholder demand	Investor demand	Customer demand	CEO commitment	Industry trends	Cost-saving	Competitive advantage (including brand)	Greenwashing	Legislation-driven	Awards opportunities	Broader stakeholder perception	Media perception	Enhanced reputation	
				■	■																					Expert 1 (organisation)
			■	■																	■	■	■	■	■	Expert 2 (consultant)
			■	■	■															■	■		■		■	Expert 3 (academic)
								■																	■	Anderson *et al* (2005)
															■				■		■				■	Butler (2009)
	■								■					■	■				■		■					Choudhuri & Chakraborty (2009)
	■				■	■					■								■					■	■	Dilling (2010)
												■			■											Dittrick (2007)
					■																				■	Eccles & Krzus (2010)
■														■	■						■					Enviromation (2008)
																										Ernst & Young (2009)
										■																Ferns *et al* (2008)
	■									■											■		■	■		Franklin (2008)
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■	■	■				■			■		■	■	■	■	■				■		■		■	■	■	Hespenheide *et al* (2010)
				■																						Laskin (2009)
																										Lever (2006)
				■																						Lydenberg & Sinclair (2009)
																										Marston (2008)
																										McBride (1997)
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			■	■							■	■	■	■	■	■	■	■	■	■					■	Signitzer & Prexl (2008)
	■	■	■	■			■	■											■							Simms (2005)
					■	■																				Singh (2008)
																										Stapleton & Woodward (2009)
							■																			Stock (2003)
								■																		Sweeney & Coughlan (2008)
													■	■	■						■					Talking up accountability (2003)
2	5	2	4	7	5	3	2	3	2	2	3	3	3	5	7	1	1	1	6	2	8	1	4	4	8	Frequency /28

how best to communicate non-financial information															
Technology enabled	Continuous and iterative	Via intermediaries	Objectively measured	Investor engagement	Media / advertising / information campaigns	Easily understood by all stakeholder groups	Based on industry benchmarks	Message / objective-specific	Detailed information on websites	Standardised framework	Customised framework	Dedicated committee	Integrated reports	Stakeholder engagement	
■				■			■	■	■		■	■	■	■	Expert 1 (organisation)
				■		■	■							■	Expert 2 (consultant)
													■	■	Expert 3 (academic)
															Anderson *et al* (2005)
															Butler (2009)
													■		Choudhuri & Chakraborty (2009)
				■						■		■		■	Dilling (2010)
■															Dittrick (2007)
■	■					■							■	■	Eccles & Krzus (2010)
															Enviromation (2008)
						■								■	Ernst & Young (2009)
			■												Ferns *et al* (2008)
															Franklin (2008)
															Hanse (2007)
															Hespenheide *et al* (2010)
	■					■									Laskin (2009)
■				■					■					■	Lever (2006)
■					■	■			■						Lydenberg & Sinclair (2009)
■				■								■		■	Marston (2008)
						■									McBride (1997)
■															Monks (2002)
■					■	■		■						■	Signitzer & Prexl (2008)
			■			■							■		Simms (2005)
															Singh (2008)
	■	■						■						■	Stapleton & Woodward (2009)
															Stock (2003)
								■						■	Sweeney & Coughlan (2008)
															Talking up accountability (2003)
8	3	1	2	5	2	8	2	4	3	1	1	3	5	11	Frequency /28

what non-financial information should be communicated																			
Stakeholders	Environmental issues (global warming, impact, planet, ecosystems)	Social issues (employees, community, society, human rights, labour)	Transparent	Organisations role in society	View of the organisations future prospects	Context-based information	Risk-mitigation measures	Linked to corporate strategy	Link between financial and non-financial data	Remediation plan	Performance targets	Historical performance comparisons	Key focus areas	Holistic company view	Based on stakeholder needs	Material issues	Sector-specific information	Company-specific information	
						■					■	■	■	■	■	■		■	Expert 1 (organisation)
						■	■	■	■	■	■					■	■		Expert 2 (consultant)
						■	■	■	■	■						■			Expert 3 (academic)
																			Anderson *et al* (2005)
																			Butler (2009)
									■					■					Choudhuri & Chakraborty (2009)
								■											Dilling (2010)
			■		■	■					■		■				■		Dittrick (2007)
									■						■				Eccles & Krzus (2010)
																			Enviromation (2008)
															■				Ernst & Young (2009)
■	■	■	■													■			Ferns *et al* (2008)
								■	■										Franklin (2008)
								■											Hanse (2007)
				■	■	■			■							■		■	Hespenheide *et al* (2010)
																			Laskin (2009)
			■									■				■			Lever (2006)
									■										Lydenberg & Sinclair (2009)
																			Marston (2008)
			■			■			■		■	■				■			McBride (1997)
																			Monks (2002)
				■							■		■	■					Signitzer & Prexl (2008)
			■		■								■	■					Simms (2005)
																			Singh (2008)
						■									■				Stapleton & Woodward (2009)
																			Stock (2003)
																			Sweeney & Coughlan (2008)
																			Talking up accountability (2003)
1	1	1	5	2	3	7	2	5	8	2	5	3	4	4	4	7	2	2	Frequency /28

5.2.1.2 Results

<u>Research question one: Are South African organisations meeting their investors expectation in terms of the communication of non-financial performance information?</u>

Three broad themes were identified with regards to Research Question 1:

a. Understanding the needs of the investor community
b. The communication of relevant information
c. Investor expectation of non-financial information

a. Understanding the needs of the investor community

Experts generally felt that organisations were not engaging enough with the investor community in order to understand their needs around non-financial reporting. Expert 1 (organisation) commented:

'I only know one company that has been speaking to their investors, but I don't know about the rest.'

and

> *…they need to look at stakeholder engagement, so they would look at how do you communicate, how do you engage with your stakeholders, what is the frequency of that engagement, how do you resolve or respond to issues of the stakeholders?*

Experts all agreed that investors in general had not displayed an interest in non-financial information. Expert 2 (consultant) said:

> *The people who are investing and who are making money are not switched on to this kind of stuff. This is not their world. Yes BEE maybe, because there's some kind of mandate and it can affect the way you do business.*

But it was also evident that investors were not clear on their expectation of organisations in terms of non-financial information. Expert 3 (academic) said:

'Do investors know what they want? And I'm pretty sure they don't. Especially in terms of social and environmental issues.'

b. The communication of relevant information

It was suggested by the respondents that the communication of non-financial performance be focused on specific stakeholder groups in order to remain relevant. The respondents also felt that non-financial reports were not typically designed with the investor community in mind. Expert 1 (organisation) said:

'Stakeholders are going to read sections of your report – the ones that are most relevant to them.'

And Expert 3 (academic) said:

> *It feels to me as if what comes from reporting is not designed for shareholders or investors at all. The sustainability report is designed for activists and a bunch of lunatics who go and read sustainability reports…or to say to investors: we have a sustainability report, rather than it's because it's anything really interesting that we've done.*

With regards to the relevance of information, it was generally felt that both organisations and the investor community were unclear as to what non-financial information should be communicated. Expert 3 (academic) said:

> *You almost have a chicken and egg…situation…where investors will be going to companies and saying: well you know what the ESG issues are that are associated with your business and which might affect shareholder value, and you should tell us [what they are], and you should interpret [those issues] in terms of your cash flows. Companies are then saying, well, I don't know…what does GRI say? And I really think that's the state of affairs in South Africa.*

c. Investor expectation of non-financial information

It was commonly felt that investors were not seen as the primary audience of non-financial reports. When asked who the target audience of sustainability reports was, Expert 1 (organisation) and Expert 2 (consultant) answered respectively:

'It's their shareholders. It goes out to shareholders.'

'…employees. Maybe. People like me.'

It was evident that none of the experts found the investment community to be adequately engaged in non-financial information. When asked whether he felt there was a move in the investment community to look beyond financial performance, Expert 2 (consultant) said:

> *No. No, not here. I don't think so…my impression is that locally, asset managers in general don't [care]. They're interested in it if you suddenly have R2.5bn to pay in a fine, why did that happen? But [in] general, when a guy picks up an annual report, maybe they'll look at it, some of the sustainability stuff, but I don't personally think it's going to make or inform their decision about whether to invest or not.*

And Expert 1 (organisation) said:

'Looking at anything that's not financial makes them uneasy and uncomfortable.'

One of the issues reported by the experts around investor expectation of non-financial information, was the lack of a clear association between social and environmental issues and their effect on organisational performance. Expert 3 (academic) said:

'There [are] a couple of exceptions…but I don't think investors in general, in South Africa anyway, really have come to terms with how the environmental [issues] tie in with business in general.'

All of the experts suggested that the investor community was aware that there should be a non-financial report, but that they, themselves, did not necessarily make use of it. Expert 3 (academic) said:

'I suspect if they didn't do it, that would be a problem. I think investors would pick up if there wasn't a sustainability report.'

Research question two: What non-financial information are South African organisations communicating, how are they communicating this information and what are the motivating factors behind non-financial performance communication?

With regards to the what, how and why questions, the following issues were identified as fundamental, and form the framework for best-practice non-financial performance communication and for the discussion that follows:

With regards to the non-financial issues that should be communicated, the following five issues were identified:

i. Material issues
ii. Performance targets
iii. Link between non-financial and financial data
iv. Linked to corporate strategy
v. Context-based information

The following methods were identified as fundamental in terms of how best to communicate non-financial data:

i. Stakeholder engagement
ii. Integrated reports
iii. Easily understood by all stakeholders
iv. Investor engagement
v. Technology-enabled

In terms of why organisations were communicating their non-financial performance, this comprised two elements. First it looked at the current reality around why organisations were reporting their non-financial data; it then looked at the ideal reasons behind non-financial reporting.

i. Enhanced reputation
ii. Legislation-driven
iii. Customer demand

And

iv. Communication of risks
v. Investor education / raising awareness

The best practice framework is presented in tabular format below (Table 5.2) and was used to write up the results that follow.

Table 5.2: Best practice framework for non-financial performance communication

WHAT	HOW	WHY
Material issues	Stakeholder engagement	Reputation
Performance targets	Integrated reports	Legislation
Link financial & non-financial	Easily understood by all	Customer demand
Link to corporate strategy	Investor engagement	Communication of risks
Context-based	Technology-enabled	Investor education & awareness

a. *WHAT*

Table 5.3: Best practice framework: What non-financial information to communicate

WHAT
Material issues
Performance targets
Link financial & non-financial
Link to corporate strategy
Context-based

i. Material issues

The issue of materiality was identified by all experts as relevant. It also featured prominently in the literature. Expert 1 (organisation) said:

‘ ”What” needs to be what’s relevant to the company…when we look at the principal materiality…for a different industry and a different company, what’s material for that company is going to be different.’

And

‘…is this material enough for me to do something about? How does this impact me, how does this affect me, how does this impact those stakeholders, what do I do about it, and how do I report what I’m doing?’

Expert 1 (organisation) suggested that the report be limited to a few relevant issues:

‘Nobody reads a report where you’re going to put every single piece of information into it. It doesn’t make any sense.’

ii. Performance targets

Expert 1 (organisation) and Expert 2 (consultant) agreed that performance targets be disclosed. When asked if she thought there was a move towards disclosing performance targets, Expert 1 (organisation) commented:

‘Yes, it’s actually quite frustrating because it’s just performance, and you don’t have historic data…or targets…’

And

'We've just benchmarked two reports and one of them didn't have any targets or objectives. So it's a concern, and it is something that comes up quite often…'

iii. Link between non-financial and financial data

Expert 2 (consultant) and Expert 3 (academic) repeatedly argued for a stronger link between non-financial and financial data. Almost one third of the authors reviewed also argued for this association to be made. Expert 2 (consultant) said:

'Locally, asset managers don't care. Because I think the link isn't made between these kinds of issues and performance. I don't think so.'

Expert 3 (academic) spoke about the fiduciary responsibility or organisations:

'…the vast majority of investors in the marketplace, they are bound by fiduciary responsibilities to maximize returns at a given level of risk…they will consider the environment and social issues insofar as they impact returns…'

And

'Investment today is not about investment. It's about trade. You trade stuff and you make cash out of profit-taking,'

iv. Linked to corporate strategy

Expert 2 (consultant) and Expert 3 (academic) spoke of the dangers of having a sustainability report that was in no way linked to the organisational strategy. Expert 3 (academic):

> *The alignment between what's said in the sustainability report and what's said in the annual report is just non-existent…the chairman's statement for the sustainability report doesn't tie up in any way, shape or form with what's written in the annual report…you'd think they were signed by different people.*

v. Context-based information

All of the experts agreed, and this was supported strongly in the literature, that information would be most useful if it were placed in context. Expert 1 (organisation) said:

'Your reports should contain a little more than 'yes we used 200 000kw of electricity'…what does that mean? So it's putting all of that in context which is really important.'

And

'…measuring for the sake of measuring, without really analysing or looking at it and saying 'does it tell me anything, does it help me manage anything?' '

Expert 2 (consultant) mentioned:

> *…the report doesn't really tell you anything about well, what does this mean? What did you find? How did you actually do it? With all of these companies, you never really know what it means. It's not located in some kind of context.*

b. *HOW*

Table 5.4: Best practice framework: How to communicate non-financial information

HOW
Stakeholder engagement
Integrated reports
Easily understood by all
Investor engagement
Technology-enabled

i. Stakeholder engagement

Stakeholder engagement came up repeatedly in both the literature and in the interviews as an important element of making non-financial reports relevant. Expert 1 (organisation) said:

'…understanding what their stakeholders want and it's not just their shareholders, it's all of their stakeholders…'

And

‘It’s about engaging your stakeholders continuously…identifying your key stakeholders and then determining the most appropriate means of communication…’

ii. Integrated reports

Integrated reporting, as the next step in reporting, came up both in the literature and in the interviews. Expert 1 (organisation) said:

‘There’s a huge movement towards integrated reporting…that’s about looking at a holistic view of the company.’

iii. Easily understood by all stakeholders

There was much discussion around creating reports that are easy for stakeholders to understand. When questioned around why she felt investors were potentially not making use of sustainability reports, Expert 1 (organisation) said:

‘…they don’t understand it as well. They’re not sure exactly what it means.’

Expert 2 (consultant) confirmed this sentiment when he said:

‘…how do we actually unpack the particular set of issues that makes it understandable to the person who’s not from here?’

Expert 1 (organisation) felt that stakeholders should be able to access parts of the report they felt were relevant:

‘Stakeholders are going to read sections of your report that are most relevant to them.’

Expert 3 (academic) expressed concern for materiality and supported the claims made above by inferring that reports should be more general and easier to understand:

'If everyone is reporting on their specific material issues, that just makes it more difficult for investors to come to terms with.'

iv. Investor engagement

As an extension of stakeholder engagement, it was felt that the sustainability industry would be supported if organisations were more engaged with investors specifically. Expert 2 (consultant) said:

'I think that sitting down and talking with your investors is the best way.'

Expert 3 (academic) reiterated this sentiment by saying:

'[Companies] know their non-financial stuff better than investors would and you would expect that the company [would engage their investor community].'

v. Technology-enabled

Expert 1 (organisation) suggested a shift towards presenting non-financial information in a technologically-enabled way, as well as providing a technological feedback mechanism. This claim was supported by the literature:

'A lot more information is going on to websites.'

And

'…if you're good enough to report on sustainability you should have some feedback mechanism whether it's…an e-mail…or something on your website…'

c. WHY

Table 5.5: Best practice framework: Why organisations communicate non-financial information

WHY
Reputation
Legislation
Customer demand
Communication of risks
Investor education & awareness

i. Enhanced reputation

Claims by two of the experts were supported strongly in the literature. Expert 2 (consultant) felt:

'…the company wants to get some stuff done and they want to look good…the thing of reputation is huge…big time.'

And

'I would say that for companies here, reputation is the number one driver for getting the sustainability report out.'

Expert 3 (academic) argued that engaging in non-financial reporting was a form of reputation protection and management:

'Company X has probably gotten out of a lot of trouble because they report really well. '

ii. Legislation-driven

When asked what he thought would influence the behaviour of the investment community, Expert 2 (consultant) said:

'The law.'

Expert 3 (academic) confirmed this, and suggested that the only way to get investors interested in non-financial reporting was by way of legislation:

'…the mining companies and safety in South Africa…it's driven by regulation…and that to me speaks very clearly of a social issue that's become something investors are very perturbed about.'

And

'…if there's a massive carbon tax, you can be sure that climate change won't be stuck on page 65 of the sustainability report, it's going to be in the chairman's statement…'

And

'Law is the way to change it. You can't expect people to constrain their own behaviour…'

Expert 3 (academic) also introduced the complexity of local versus international law, suggesting that perhaps legislation would not solve the problem:

'The problem is that business operates at a global level, their impacts are global whereas legislation is local. So it's almost ineffective.'

iii. Customer demand

All respondents felt that there were inklings of a paradigm shift in South Africa although it was clear that first world customers were more focused on environmentally and socially sound business practices. It was discussed that the South African mindset would change in time but the current situation showed signs of an unsympathetic or unaware customer base. Expert 3 (academic) said:

‘The people they’re investing on behalf of probably don’t know, they probably haven’t even been asked.’

iv. Communication of risks

All experts agreed that non-financial reporting was not firmly rooted in risk management but that it ought to be. Expert 2 (consultant) and Expert 1 (organisation) said respectively:

‘You see, I don’t think it’s firmly rooted in risk management. And I think it should, it should be something we need to look out for.’

And

‘They want people to really think about what are the risks associated with this business, are you thinking about the sustainability. Not just financial sustainability, the sustainability of the business as a whole.’

Expert 2 (consultant) suggested that companies do not report their risks to a large enough extent:

‘*Most companies tend to report their performance only, not the future risks*.’

Expert 3 (academic) highlighted the obligation of organisations to report their risks:

‘Companies are owned by investors. And so they have a responsibility to express their risks. If they don’t express their risks, it’s actually fraud.’

v. Investor education / raising awareness

When questioned as to the role of organisations in the education of investors around non-financial information, Expert 1 (organisation) and Expert 2 (consultant) said respectively:

‘Yes, a big role. It’s just raising that level of awareness that it’s not just financial or the economic crisis, it’s a little bit more than that.’

And

‘We need to educate consumers and investors so that they start to demand sustainable behaviour.’

Expert 3 (academic) suggested that capitalist investors were in search of the best possible information and that one ought to be aware that they might be able to use this social and environmental information to take advantage of the externalities:

'If you're a capitalist you have to have near perfect information. The market works on the basis of perfect information or good information.'

And

'…insight into social and environmental issues might provide investors with a strong mechanism to say…how do we weight our portfolio to take advantage of this externality?'

Research question three: Which framework for non-financial performance are South African organisations using?

The GRI was discussed in terms of actual frameworks but only Expert 1 (organisation) discussed the use of a particular framework:

'GRI is a great place to start if you've never reported…because it gives you good ideas. But you don't want t a report that's 300 pages long and reports on everything on GRI.'

The issue of materiality was raised again in the discussion around best-practice frameworks. It was generally felt that organisations should be using a framework that was relevant to their business. Expert 1 (organisation) said:

'Even when you go through the indicators on GRI, they've started making sector-specific…supplements.'

Expert 2 (consultant) felt that no organisation should have the benefit of using the lack of a framework as an excuse for not reporting:

‘…there is a framework in terms of disclosure. And I think there’s enough of a framework or frameworks around for companies and people to start thinking about these things.’

It was felt, however, that the expected use of frameworks would result in organisations reporting unnecessary information. Expert 3 (academic) said:

‘…they’re almost forced to say that climate change is a risk even if they don’t think so…if they don’t identify [the risks] then somebody’s going to ask a question.’

5.2.2 Phase 2: Assessment of organisations

5.2.2.1 Sample description

Of the six interviews scheduled for Phase 2, six interviews were conducted. The response selection process was effectively applied and resulted in a satisfactory respondent list. All of the individuals interviewed held senior positions and were intimately involved in the preparation of non-financial reports. An equal split was obtained between the financial sector, the construction sector, and the mining sector. This resulted in a balanced view across a variety of sectors.

5.2.2.2 Results

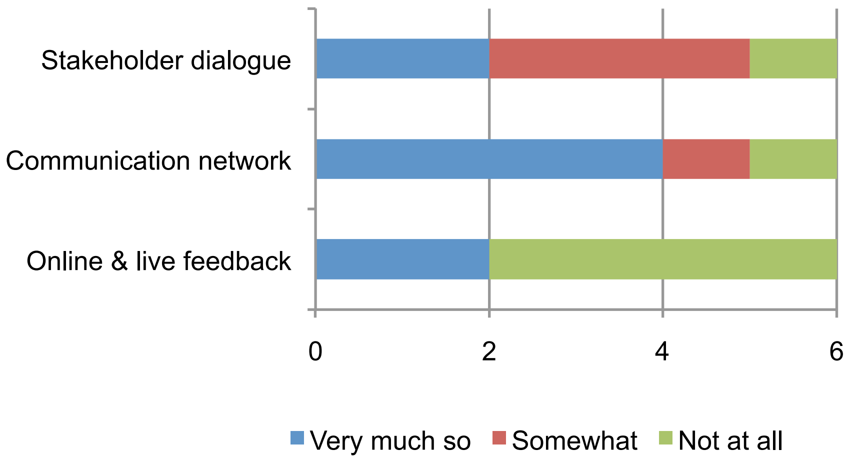
Research question one: Are South African organisations meeting their investors expectation in terms of the communication of non-financial performance information?

As in Phase 1, three broad themes were used to answer Research Question 1:

a. Understanding the needs of the investor community
b. The communication of relevant information
c. Investor expectation of non-financial information

a. Understanding the needs of the investor community

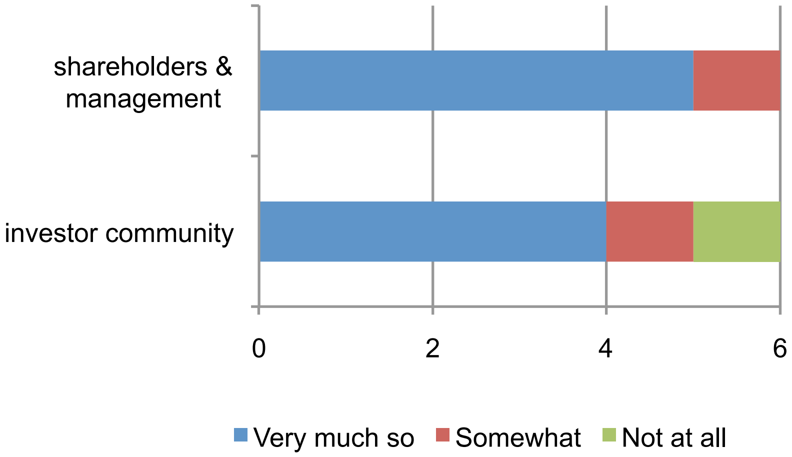
Figure 5.1: Organisations initiatives to understand their investor community



Only two of the six organisations stated that they were engaged in stakeholder dialogues with the intention of determining their stakeholders’ needs. Three were engaged to an extent, and one not at all. Of the six organisations interviewed, four had a robust communication network in place for investor communication which included one-on-one meetings, telephone and direct e-mail. In many cases, the organisations felt that although these mechanisms were in place, investors had not made use of them. Two of the six organisations engaged in online and live feedback.

b. The communication of relevant information

Figure 5.2: Organisations view on the relevance of the reports audience



There was some contention as to who the primary audience of non-financial reports was. Of the six organisations interviewed, four stated that the investor community was a very important audience of non-financial reports; two said the investor community was somewhat important; and one said the investor community was not important. Shareholders and management were deemed most important; the investor community was placed second; employees, finance institutions, government, NGO's, lobby groups and trade unions third; and competitors, consumers and the general public were seen as the least important audience.

c. Investor expectation of non-financial information

Four of the six organisations stated that they engaged specifically in investor meetings; and two of the six engaged in investor meetings to an extent. When asked if they engaged their investor community in the co-creation of non-financial metrics, half of the organisations responded ‘not at all’, two responded ‘to an extent’, and one responded ‘very much so’.

Table 5.6: Organisation response to the question: ‘Do you believe you are meeting the needs of your investor community in terms of non-financial performance communication?’

Organisation	**Response**
Organisation 1	‘Yes.’
Organisation 2	‘Yes. But the investor community needs to change.’
Organisation 3	‘Yes. We haven’t had any queries so we assume so.’
Organisation 4	‘Yes. Feedback is always positive.’
Organisation 5	‘Yes. We keep winning awards.’
Organisation 6	‘Yes. But there is room for growth.’

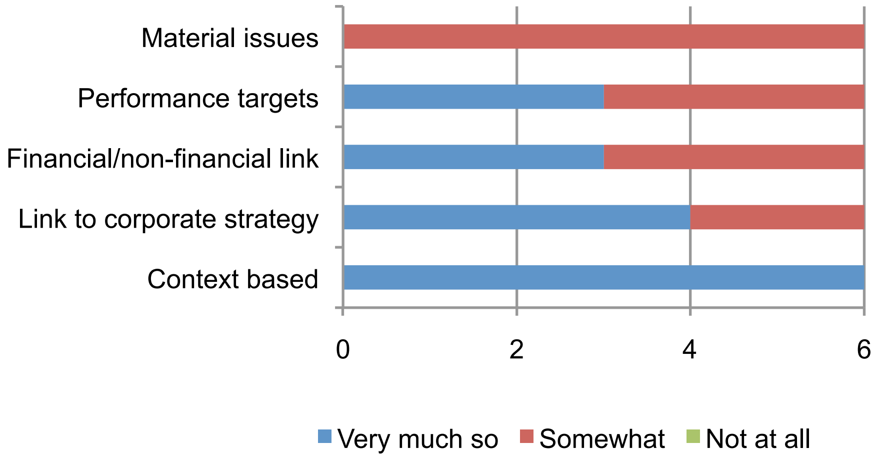
Research question two: What non-financial information are South African organisations communicating, how are they communicating this information and what are the motivating factors behind non-financial performance communication?

a. WHAT

Table 5.7: Best practice framework: What non-financial information to communicate

WHAT
Material issues
Performance targets
Link financial & non-financial
Link to corporate strategy
Context-based

Figure 5.3: Status quo: what non-financial information is being communicated



i. Material issues

All of the organisations reported on every social and environmental issue listed. In all of the cases except three, the organisations included these issues because they felt it might be of interest to investors. Labour standards, human rights, and workplace diversity were highlighted as issues which were specifically requested by investors.

ii. Performance targets

Of the six companies, all of them disclosed performance indicators and year-on-year comparisons. Only three of them disclosed performance targets.

iii. Link between non-financial and financial data

Of the six companies, three provided specific links between non-financial and financial data, and three provided vague links between non-financial and financial data.

iv. Linked to corporate strategy

Four of the six organisations stated that sustainability was crucial to the success of the business; two of the organisations stated that it was somewhat relevant.

v. Context-based information

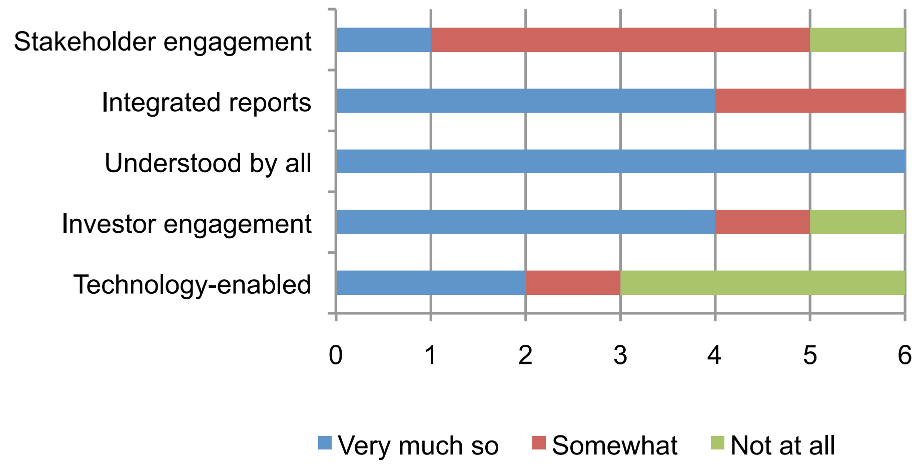
All of the organisations stated that their reports were very context based, that is, specific to their companies.

b. HOW

Table 5.8: Best practice framework: How to communicate non-financial information

HOW
Stakeholder engagement
Integrated reports
Easily understood by all
Investor engagement
Technology-enabled

Figure 5.4: Status quo: How non-financial information is being communicated



i. Stakeholder engagement

Four of the six organisations engaged to an extent in one-on-one meetings on non-financial performance; one engaged to a greater extent, and one not at all.

ii. Integrated reports

Four of the six organisations stated that they were very much engaged in integrated reporting; two of the six were engaged to an extent.

iii. Easily understood by all stakeholders

All of the organisations stated that their reports were very context based, that is, specific to their companies. All of the organisations used universal frameworks for the presentation of their reports. All of the organisations included all aspects of environmental and social sustainability in their reports.

iv. Investor engagement

Five of the six organisations were available to investors via telephone and e-mail. Four of the six also engaged in analysts briefings and one-on-one meetings with investors.

v. Technology-enabled

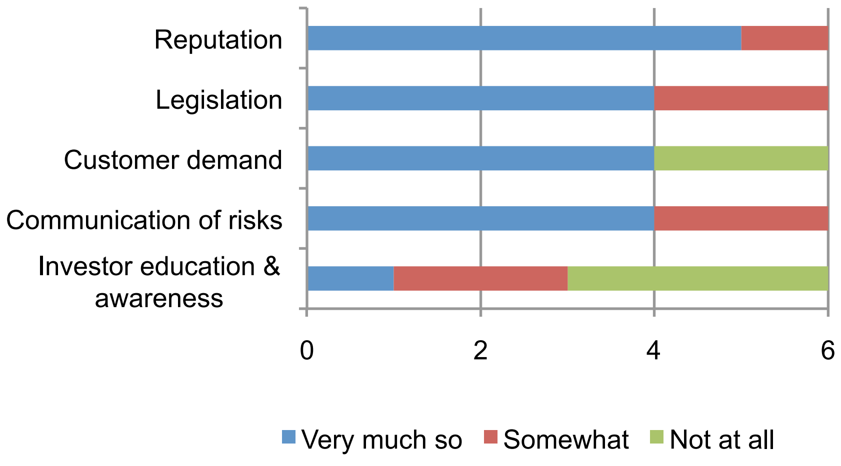
Two of the six organisations engaged in regular live webcasts. Only one organisation offered online and platform communication for feedback and information sharing.

c. *WHY*

Table 5.9: Best practice framework: Why organisations communicate non-financial information

WHY
Reputation
Legislation
Customer demand
Communication of risks
Investor education & awareness

Figure 5.5: Status quo: Why non-financial information is being communicated



a. Enhanced reputation

Four of the six organisations engaged in non-financial reporting in order to attract potential recruits. One of the six organisations felt that greener competitors was an influence. Five of the six organisations said that media exposure did not influence their engagement in non-financial reporting, but five of the six organisations also cited marketing reasons as part of the motivation for collecting and reporting non-financial information.

b. Legislation-driven

Two of the six organisations cited the threat of possible lawsuits as very significant motivation for collecting and reporting non-financial data; three of the six felt it was somewhat relevant, and one of the six felt it was not relevant at all. Four of the six organisations said that legislation was very relevant; and two of the six said it was somewhat relevant.

c. Customer demand

Four of the six organisations did not view multiplying lobby groups as a motivating factor, but one organisation felt they were very relevant. Only two of the organisations felt that popular concern about global warming was relevant, one felt consumer demand for transparency was relevant, yet four of the organisations felt public concern was a motivator for collecting and reporting non-financial data. Four of the organisations found corporate customers to be a motivating factor.

d. Communication of risks

Four of the six organisations agreed that risk management was a significant motivator for collecting and reporting non-financial data while the other two felt it was somewhat relevant.

e. Investor education / raising awareness

Four of the six organisations used non-financial reports to inform shareholders and engaged in investor meetings. Only three of the organisations felt investors were a key audience of non-financial reports. Only one of the organisations conducted sustainability advertising, with three of them viewing it as not at all relevant.

Research question three: Which framework for non-financial performance are South African organisations using?

Four of the six organisations used the GRI as a framework for non-financial reporting. Two organisations used an industry charters as a guide.

5.2.3 Phase 3: Assessment of investors

5.2.3.1 Sample description

Of the six interviews scheduled for Phase 3, six were conducted. The response selection process was effectively applied and resulted in a satisfactory respondent list. The individuals interviewed consisted of two company Directors; two heads of research; one portfolio manager; and one investment analyst. Combined, they represented three South African asset management firms with an international presence; and three boutique asset management firms. This allowed for a balanced view both in terms of the role played by the individual within their organization, but also in terms of organizational pressure and outlook.

5.2.3.2 Results

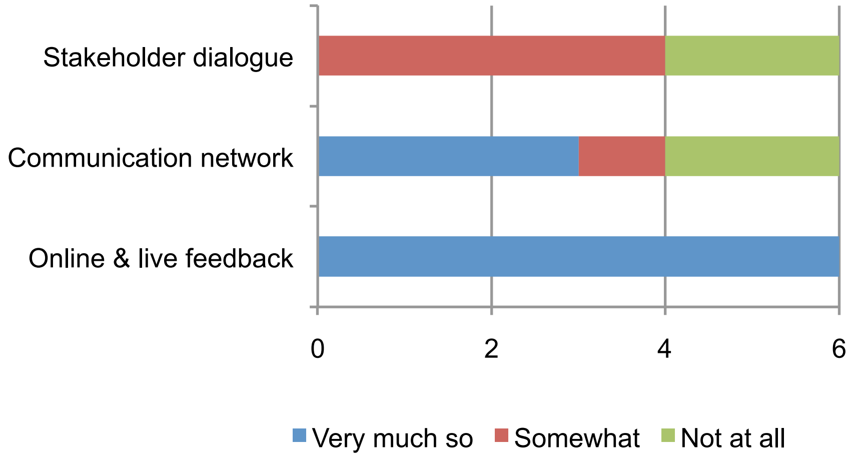
Research question one: Are South African organisations meeting their investors expectation in terms of the communication of non-financial performance information?

As in Phase 1 and Phase 2, three broad themes were used to answer Research Question 1:

a. Understanding the needs of the investor community
b. The communication of relevant information
c. Investor expectation of non-financial information

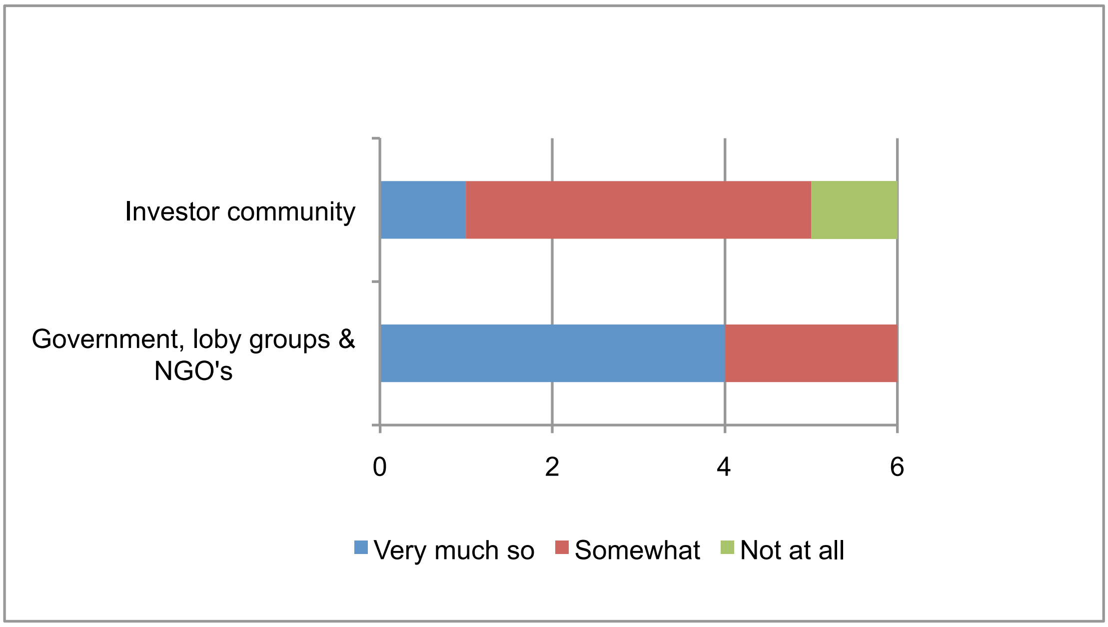
a. Understanding the needs of the investor community

Figure 5.6: Investor perspective on organisations initiatives to understand their investor community



Four of the six investors agreed that stakeholder dialogues were conducted to an extent, while two felt they were not conducted at all. All but one of the investors felt that telephone and e-mail was both necessary and available to them, and one of the six felt they were available but not necessary. Three of the six firms felt one-on-one meetings were available and necessary, while two felt they were not available. All six said that online and live feedback mechanisms were in place, of which two felt they were not necessary.

b. The communication of relevant information



Investors felt largely that government, lobby groups and NGO's were the primary audiences of non-financial reports. They generally agreed that as a community, they were only somewhat important as an audience of non-financial reports.

c. Investor expectation of non-financial information

Investors typically felt that organisations did not conduct investor meetings regarding non-financial performance. There was an even split regarding the co-creation of non-financial metrics where three investors felt it was not done at all and three felt it was done to a certain extent.

Table 5.10: Investor response to the question: 'Are these organisations meeting your needs in terms of non-financial performance communication?'

Investor	Response
Investor 1	'Yes. Because we don't read them.'
Investor 2	'Yes.'
Investor 3	'Yes. But I have low expectations.'
Investor 4	'Yes. Because we have low expectations.'
Investor 5	'Yes.'
Investor 6	'Yes. Our expectation is low but it's important to communicate.'

Research question two: What non-financial information are South African organisations communicating, how are the y communicating this information and what are the motivating factors behind non-financial performance communication?

a. WHAT

Table 5.11: Best practice framework: What non-financial information to communicate

WHAT
Material issues
Performance targets
Link financial & non-financial
Link to corporate strategy
Context-based

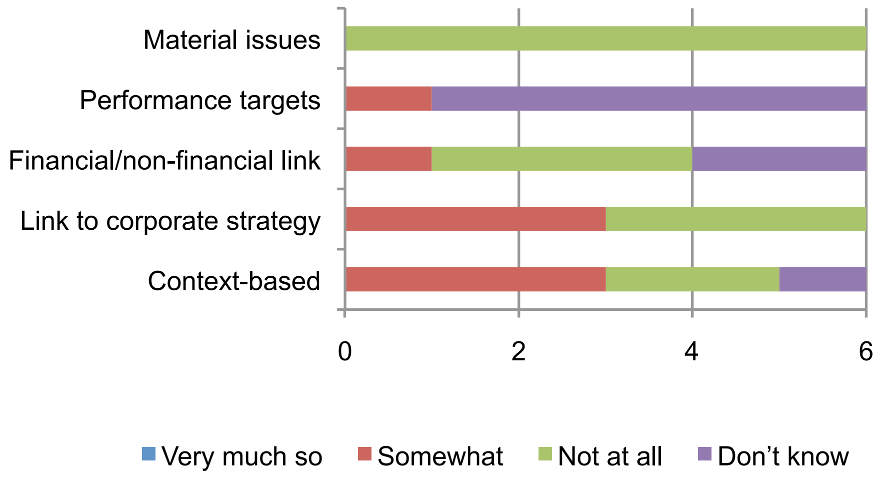


Figure 5.8: Investor perspective: What non-financial information is being communicated

i. Material issues

Sustainable development, workplace diversity, labour standards, the future, and human rights issues were cited by investors as being of relevance to them. In all other cases, investors agreed that the issues were being reported but they were of no relevance to the investor community.

ii. Performance targets

Two of the six investors were aware of performance indicators being reported, and only one was aware of any targets or year-on-year comparisons. In all other cases the investors did not know whether or not performance indicators, targets or year-on-year comparisons were reported.

iii. Link between non-financial and financial data

Of the six investors interviewed, three said that no link was made by organisations between financial and non-financial data. One said there was a vague link, and two did not know.

iv. Linked to corporate strategy

Three of the six investors felt that sustainability was not considered crucial to the success of the organisations surveyed, and three investors felt that sustainability was considered somewhat crucial to those organisations.

v. Context-based information

Three of the six investors felt that that the information delivered by organisations was only somewhat specific. Two investors felt it was general, and one did not know.

b. HOW

Table 5.12: Best practice framework: How to communicate non-financial information

HOW
Stakeholder engagement
Integrated reports
Easily understood by all
Investor engagement
Technology-enabled

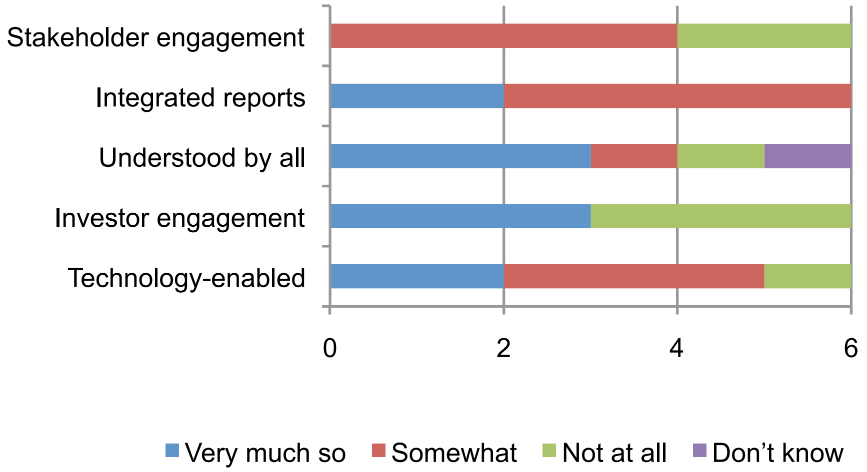


Figure 5.9: Investor perspective: How non-financial information is being communicated

i. Stakeholder engagement

Four of the six investors said that organisations engaged in stakeholder dialogues to an extent, with the final two saying that stakeholder dialogues were not done at all.

ii. Integrated reports

Four investors felt that organisations were delivering integrated reports to an extent, and two investors felt that this was being very effectively done.

iii. Easily understood by all stakeholders

Investors mostly felt that they were able to decipher industry-specific data, but only to the extent that it was not overly complicated, however, they felt that the information provided was general rather than specific.

iv. Investor engagement

Three of the six investors felt that one-on-one meetings with investors were available and necessary. One investor felt they were available but not necessary, and two investors suggested that one-on-one meetings were not available to them due to their size. There were mixed views around whether or not organisations engaged in analysts briefings, but the consensus was mostly that organisations did not.

v. Technology-enabled

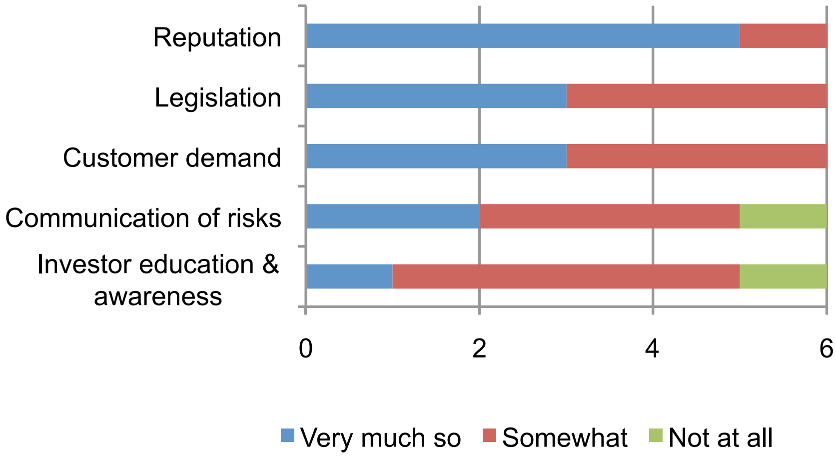
Investors largely agreed that online and live information delivery was available and necessary but that online and platform communication for information sharing and feedback were available only to an extent. It was generally felt that organisations did not deliver live webcasts.

c. WHY

Table 5.13: Best practice framework: Why organisations communicate non-financial information

WHY
Reputation
Legislation
Customer demand
Communication of risks
Investor education & awareness

Figure 5.10: Investor perspective: Why non-financial information is being communicated



i. Enhanced reputation

Investors typically felt that organisations were communicating non-financial data for media exposure and marketing reasons.

ii. Legislation-driven

The threat of lawsuits for violation of human rights was seen as only somewhat relevant, whereas legislation and government intervention were seen by three investors as somewhat relevant, and by 3 investors as very relevant.

iii. Customer demand

Consumer demand and public concern were seen as somewhat relevant. Corporate customers were viewed as a very relevant motivating factor by half of the respondents.

iv. Communication of risks

Two of the investors felt that risk management was a motivating factor for organisations collecting and reporting g non-financial data. Three investors felt it was somewhat relevant, and one felt it was not relevant.

v. Investor education / raising awareness

Investors felt that shareholder information was only somewhat motivating to organisations, that organisations did not really engage in investor meetings, that the investor community was only a vaguely important audience, and that although the organisations engaged in sustainability advertising, it was not relevant to the investor community.

Research question three: Which framework for non-financial performance are South African organisations using?

Of the six investors interviewed, none had any knowledge of the existence of frameworks for non-financial reporting.

5.3 Conclusion

The aim of the research was to develop a framework for the communication of non-financial information, and then to use the framework to assess the nature of non-financial performance communication in South African organisations, and the alignment of information between those organisations and their investor community. The results of interviews and questionnaires have been presented in this section.

The results show that there is perceived alignment of information both from an organization perspective and from an investor perspective. South African organisations in general follow a globally accepted framework and comply with the standards and legislation surrounding non-financial performance reporting and communication. However, it seems that the communication of non-financial performance is merely a reporting exercise. Likewise, South African investors are concerned primarily with financial returns and are satisfied that the organisations in which they have invested remain within the confines of the legislation surrounding non-financial performance. Sustainability is yet to become the way in which South African organisations conduct business.

No consistency was identified in terms of the comparison of SRI-listed organisations and their competitor organisations. There was some consistency within industry sectors, however, with a sample size of two per sector, this claim was difficult to support. It was apparent that organisations across sectors delivered non-financial information in a similar manner.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

This chapter brings together the key observations identified in Chapter 2, the literature review, with the research results in Chapter 5. Reference to the literature in this chapter is made in the context of Table 6.1 (below).

Chapter 6 combines the three Phases of the research. The discussion takes on a similar arrangement to that of Chapter 5 and is structured as follows:

- Findings per research question
    - Literature findings
    - Expert opinion
    - Organisation perspective
    - Investor perspective
- Conclusion per research question

The chapter provides the basis for the concluding discussion in Chapter 7.

Table 6.1: Social and environmental issue frequency table

		Expert 1 (organisation)	Expert 2 (consultant)	Expert 3 (academic)	Anderson *et al* (2005)	Butler (2009)	Choudhuri & Chakraborty (2009)	Dilling (2010)	Dittrick (2007)	Eccles & Krzus (2010)	Enviromation (2008)	Ernst & Young (2009)	Ferns *et al* (2008)	Franklin (2008)	Hanse (2007)	Hespenheide *et al* (2010)	Laskin (2009)	Lever (2006)	Lydenberg & Sinclair (2009)	Marston (2008)	McBride (1997)	Monks (2002)	Signitzer & Prexl (2008)	Simms (2005)	Singh (2008)	Stapleton & Woodward (2009)	Stock (2003)	Sweeney & Coughlan (2008)	Talking up accountability (2003)	Frequency /28
what	Material issues	■	■	■									■			■		■			■									7
	Performance targets	■	■						■												■		■							5
	Link between financial and non-financial data		■	■			■			■				■		■			■		■									8
	Linked to corporate strategy		■	■				■						■	■															5
	Context-based information	■	■	■					■							■					■					■				7
how	Stakeholder engagement	■	■	■				■		■		■						■		■			■			■		■		11
	Integrated reports	■		■			■			■														■						5
	Easily understood by all stakeholder groups		■							■		■					■		■		■		■	■						8
	Investor engagement	■	■					■										■		■										5
	Technology enabled	■							■	■								■	■	■		■	■							8
why	Enhanced reputation		■	■	■	■		■		■						■							■							8
	Legislation-driven		■	■		■	■				■			■		■													■	8
	Customer demand					■	■		■		■					■							■						■	7
	Communication of risks	■		■				■		■															■					5
	Investor education / raising awareness	■	■	■													■		■				■	■						7

6.2 Discussion

6.2.1 Research question one

<u>Are South African organisations meeting their investors expectation in terms of the communication of non-financial performance information?</u>

Three broad themes were identified with regards to Research Question 1:

a. Understanding the needs of the investor community

b. The communication of relevant information

c. Investor expectation of non-financial information

a. Understanding the needs of the investor community

There is limited literature around understanding the investor community's expectation of non-financial reporting, however, the literature that is available suggests that it is important to understand the needs and role of stakeholders in terms of non-financial reporting. Experts were of a similar opinion but argued that organisations do not engage enough with their investor community. The experts also argued that investors were not clear on their own expectations of non-financial reports, and that investors had not displayed an interest in non-financial information, possibly because it is not mandated. Organisations generally had communication mechanisms and channels in place but felt that investors had not made use of them. Investors felt that all forms of communication were generally available but that communication mechanisms and channels were available to a greater extent to larger investment firms. It is argued that if investors do not understand their own requirements, then organisations almost certainly cannot understand the investor community's requirements of non-financial performance communication.

b. The communication of relevant information

The literature highlighted the need for organisations to really understand their audiences' needs and expectations in order to provide the most relevant possible information. The debate within the literature around whether investors use non-financial reports to make informed investment decisions or whether investors truly do not understand non-financial information was echoed in the results, with experts saying that neither organisations nor investors were clear as to what non-financial information should be communicated. Experts felt that non-financial information should be relevant and focused on specific target groups, and that non-financial reports should be designed with the investor in mind. However, while organisations viewed investors as the second most important audience of non-financial reports, investors did not view themselves as an important audience of reports, nor did they perceive organisations as viewing the investor community as an important audience. This suggests that investors do not feel the information contained within the reports is relevant to them as a community, nor has it been designed with the investor community in mind.

c. Investor expectation of non-financial information

The literature was conflicted around investor expectation of non-financial information. On one hand the literature suggested that investors require voluntary information to assess the future value of an organisation, and want to invest in companies with a triple bottom line (TBL) focus, and on the other hand the literature suggested that investors are primarily concerned with breaching fiduciary responsibility and tend to buy shares that will create value as quickly as possible. Experts felt very strongly that investors were not at all concerned with non-financial information, and that while they expect that organisations produce a non-financial report, the investors themselves do not make use of the information contained within the reports. From an organisation perspective, all organisations felt that they were meeting their investors expectation of non-financial information but typically felt there was room for growth. Organisations felt that they were engaging their investor community, however, investors felt that they were not being engaged and that meetings focused on non-financial information were not being conducted. All of the investors felt that their expectations were being met but that they really had little or no expectation. It is argued that the sustainability discourse can not progress if the investor community remains indifferent to social and environmental information.

6.2.2 Conclusion

The results reveal that at a high level both organisations and investors feel that the investor community's expectations of non-financial reporting and communication are being met. However, simultaneously organisations reveal that they still have a way to go, and the investor community has revealed that

a. The investor community have no expectation of non-financial information; and
b. The investor community does not feel that they are being engaged by organisations on non-financial matters.

It is suggested that if organisations engage the investor community to a greater extent, it may begin to build an appreciation for sustainability and subsequently responsible investment.

6.2.3 Research question two

<u>What non-financial information are South African organisations communicating, how are they communicating this information and what are the motivating factors behind non-financial performance communication?</u>

As in Chapter 5, Table 6.2 was used as a guide for the discussion of the results of research question 2:

Table 6.2: Best practice framework for non-financial performance communication

WHAT	HOW	WHY
Material issues	Stakeholder engagement	Reputation
Performance targets	Integrated reports	Legislation
Link financial & non-financial	Easily understood by all	Customer demand
Link to corporate strategy	Investor engagement	Communication of risks
Context-based	Technology-enabled	Investor education & awareness

a. *WHAT*

Table 6.3: Best practice framework: What non-financial information to communicate

WHAT
Material issues
Performance targets
Link financial & non-financial
Link to corporate strategy
Context-based

i. Material issues

The literature suggested that the information contained within non-financial reports was vague and limited to only a few issues yet experts argued that non-financial reports *should* be limited to only a few relevant issues. Organisations tended to report on all non-financial issues even though investors only requested several specific issues to be dealt with. In the case of the South African investor community, it can be argued that non-financial reports will be more effectively utilized if they are condensed and limited to a few important issues. In this instance, the co-creation of specific metrics with the investor community is recommended.

ii. Performance targets

Focus within non-financial reports has typically been on the information that is reported as opposed to that which has not been disclosed. The literature suggests as move to more detailed disclosure but this was not evident in the study – experts felt that organisations did not provide enough target information or objectives; only three of the organisations assessed said that they provided performance targets; and investors did not know if performance targets were provided. This suggests that investors are either not reading the reports or do not understand the information contained within the reports.

iii. Link between non-financial and financial data

The literature suggests that one of the primary challenges in terms of non-financial reporting is the measuring intangibles, and making the financial benefits of non-financial information clear. Experts argued that the link between non-financial and financial information is not made, and that the investment decision process will not change until this information impacts financial returns. Organisations surveyed felt that they were providing a link between non-financial and financial information, yet investors were unable to see a relationship between the two. If indeed organisations are providing this information, it can again be argued that investors are either not reading the reports or do not understand the information contained within the reports.

iv. Linked to corporate strategy

The literature reviewed suggests that sustainability ought to become the way in which companies do business, and that sustainability reporting requires a deep understanding of, and a clear link to, corporate strategy. Experts argued that sustainability is still seen as a sideline issue within South African organisations; and while investors felt that organisations did not view sustainability as crucial to the success of the business, two thirds of the organisations felt that sustainability was linked to corporate strategy and crucial to their business success. However, given that in certain instances the sustainability representative of the organisations assessed was either external or a consultant, it is argued that in some cases sustainability is yet to be truly linked to corporate strategy.

v. Context-based information

Relevant literature suggests that non-financial information should be placed in context if it is to be fully understood and appreciated. Industry experts agree, and add that the information may be utilized to a greater extent if it is fully understood. So while organisations declared that the non-financial information they provided was very context-based, investors felt that the information provided was somewhat context-based or general. It could therefore be argued that an information gap exists between organisations and the investor community.

b. HOW

Table 6.4: Best practice framework: How to communicate non-financial information

HOW
Stakeholder engagement
Integrated reports
Easily understood by all
Investor engagement
Technology-enabled

i. Stakeholder engagement

According to the literature, stakeholders must be engaged if an organization wishes to foster trust and create long-term value. Industry experts agree that organisations should identify stakeholder groups and engage them continuously to ascertain what information they require. However, of the six organisations surveyed only one engaged their stakeholders to a large extent; and investors mostly found that organisations did not engage the investor community. As discussed in King III, stakeholder engagement is a critical element of corporate governance. The results revealed that investors did not feel they were engaged as a stakeholder group. This demonstrates the difficulty that organisations face in identifying and managing their various stakeholder groups.

ii. Integrated reports

Integrated reports provide a holistic view of the organization, and assess the impact of non-financial performance on financial performance. The current literature, as well the experts interviewed, suggest a general move towards organisations providing integrated reports. Four of the six organisations surveyed stated that they were very much engaged in integrated reporting and investors felt that organisations were indeed beginning to publish integrated reports. However, the investor community's admission to not reading non-financial information suggests that the reports are not yet integrated.

iii. Easily understood by all stakeholders

The literature suggests that non-financial information is complex and needs to be clearly and carefully communicated to stakeholders so that the users can understand it. Experts felt that the information should be easily understood by all and as such not too context-based; that reports which contained information that was too material would be difficult to understand. This may explain why all of the organisations in the study reported on all of the social and environmental issues discussed, as well as used universal frameworks and guidelines. Investors claimed that they were able to decipher industry data so long as it was not overly complicated. The tension between providing information that is context-based, and that which is easily understood by all, is evident.

iv. Investor engagement

Written and oral communication is used to persuade investors to buy in to the future of an organization; it tells the story of the organization and gives insight into the corporate strategy which allows for educated investment decisions. The literature suggests that the investor community, as the primary audience of non-financial reports, is engaged by organisations to a greater extent than other stakeholder groups. However, this does not seem to be the true in the case of South African organisations and their investor community. Experts suggest that investors should specifically engage their investor community, and while organisations claimed that they engaged their investor community via analysts briefings and one-on-one meetings, investors felt that they were not typically engaged in analysts briefings concerning non-financial issues. It is argued that specific investor engagement around non-financial information is needed if non-financial reports are to be used effectively.

v. Technology-enabled

Current literature suggests that technology is being pushed to the fore as an enabler of sustainability reporting, and experts agree that the presentation and feedback of non-financial information is taking place more and more via technology. While investors felt that organisations were delivering information using technology, they did not feel that feedback and information sharing was enabled by technology. Organisations seemed to feel that their delivery of non-financial information was not specifically technology-enabled. It is suggested that in the age of technological advancement and information sharing, the use of technology to communicate non-financial performance should be standard practice.

c. WHY

Table 6.5: Best practice framework: Why organisations communicate non-financial information

WHY
Reputation
Legislation
Customer demand
Communication of risks
Investor education & awareness

i. Reputation

The literature suggests that societal legitimisation is strongly linked to corporate performance, which incorporates financial success, environmental responsibility, and social fairness. Experts felt that organisations engaged in non-financial reporting as a form of reputation management, and in order to appear to be ‘good’. Investors felt similarly that organisations published non-financial reports for the purposes of marketing and media exposure. Organisation responses, however, highlighted very strongly that these companies did not want to be seen to be using non-financial reports as a form of reputation management. The organisations did, however, concede to using non-financial reports as a form of marketing. It was evident that placing non-financial reporting under the umbrella of marketing was not seen as explicit reputation management, however, marketing is a form of reputation building and thus reputation management. It could be argued that this highlighted a lack of strategic alignment between marketing departments and sustainability departments.

ii. Legislation-driven

Literature suggests that organisations tend only to do that which is required of them. Experts argued that investors would only be concerned with non-financial information if it were legislated by way of taxes or penalties. Experts also raised concern around the fact that while investment is global, legislation is local, which may cause problems around organisations and investors exploiting externalities. Both organisations and investors agreed that sustainability reporting was largely driven by government intervention and legislation. One can deduce from the responses and from the literature that without some form of legislation or incentives, organisations and investors will unlikely govern themselves into responsible investment.

iii. Customer demand

It is evident from the literature that corporate's have adopted sustainability reporting as a reaction to demand from consumers, the general public, NGO's, fund managers, shareholders and Government. Experts felt that there was little evidence of consumer and general public demand for responsible investment in South Africa. Both organization and investor responses were mixed around consumer demand, with investors suggesting that there was little consumer demand but that there may be more demand from corporate customers. It can be argued that NGO's have a crucial role to play in the responsible investment movement: that of educating consumers and the general public in order to create a demand for socially and environmentally products and services.

iv. Communication of risks

Based on the literature, there is clearly increased concern around global social and environmental issues, and the expectation for accurate, in-depth information is heightened. Appropriate indicators and sources of data will allow financially focused individuals to make informed decisions having analysed and understood the data. However, experts argue that non-financial reporting is not firmly enough rooted in risk management, and that only performance is reported as opposed to future risks. Organisations and investors both felt that risk management was a motivator of non-financial reporting, but while the literature suggests that investors are using non-financial reports to manage their long-term risk, this is not evident in the slow uptake of the responsible investment movement. If indeed investors viewed non-financial reports as risk communication tools, it is likely that they would in fact utilise the reports to make informed decisions.

v. Investor education / raising awareness

Organisations and investors are required to have a deep understanding of the criteria upon which non-financial reports are based in order to fully understand the reports. Literature suggests that organisations are obliged to educate their investor community on non-financial issues, potentially by means of investor relations. However, the literature surrounding investor relations reveals that little communication of non-financial issues actually takes place. Experts agreed that while organisations are obliged to educate their investor community, they must beware that investors may use the information to take advantage of externalities. Organisations felt that the publishing of non-financial reports and investor meetings was adequate investor education, but investors felt that no focus was put on them as a community. It can be argued that if investors do not view the reports as relevant to them as a community, they will not read them; and if they are not being read, then they are rendered redundant both as investment tools but also as a means of educating the investor community.

6.2.4 Conclusion

South African organisations seemingly include too much non-financial information in sustainability reports. This leads to investors not utilising the reports to make investment decisions, hence the investors lack of knowledge around whether or not performance targets are included. Additionally, investors are unable to find the link between non-financial and financial performance, which ultimately renders the reports futile. Investors do not see a link between corporate strategy and sustainability, and find the information to be too general.

Investors do not feel that they are being engaged by organisations in order to communicate the organisations' non-financial reports, or to ascertain the requirements of the investor community. Whilst both organisations and investors claim a move towards integrated reporting, were this the case, investors would be seeing the link between non-financial and financial information. It is possible, then, that investors do not fully comprehend the concept of integrated reporting. There is a fine line between providing information that is too context-based and therefore difficult for investors to understand, and information that is too general and not material enough. This balance will need to be attained in order for the responsible investment movement to take off. Technology could be used as an enabler of non-financial communication but the use of appropriate and available technology is not evident.

While organisations are adamant that non-financial reports are not used to manage reputation or gain media exposure, investors seem to see non-financial reports as a brand-building exercise. If investors continue to view reports in this manner, and to see themselves as unimportant to the sustainability reporting process, the investment community will not ever view non-financial reports as a credible investment management tool. Non-financial reports need to be re-positioned as documents that are communicating the current and future risks of an organisation, based on global and local legislation and best-practice, and heightened consumer and public demand for socially and environmentally responsible organisations.

6.2.5 Research question three

<u>Which framework for non-financial performance are South African organisations using?</u>

The literature suggests that there is a lack of legislation, standardisation, measurements and frameworks for non-financial reporting. Improved reporting guidance and commonly accepted measures for reporting are required for an investor to make informed decisions. There is, however, a globally accepted framework – the GRI – which has been in existence since 1997. Experts argued that frameworks should be organisation-specific, and that the expected use of a particular framework would result in the inclusion of unnecessary information. Only one expert made specific mention of the GRI. Of the six organisations surveyed, four used the GRI as a framework and two used industry charters. Investors had no knowledge of the existence of any frameworks. It is argued that focus must be placed on the investor community's understanding and expectation of non-financial information and reporting in order to render non-financial reports relevant and to progress the responsible investment movement.

6.2.6 Conclusion

It is clear that the use of a globally accepted framework for sustainability reporting will benefit the responsible investment movement, however, this framework must be embraced and understood by the investor community if it is to have an impact on the responsible investment movement. It could be argued that the lack of mention of the GRI from an expert perspective may highlight that the GRI is perhaps not the most appropriate framework for all organisations. Currently investors do not seem to possess the knowledge of any sustainability reporting frameworks, and so even if organisations are complying to the letter, the effort is futile from an investor perspective.

The concluding chapter presents a summary of the research, and provides recommendations for management based on the findings. Suggestions for further research in the field of non-financial performance communication are also provided.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

Chapter 7 highlights the conclusions drawn from the research findings. It is presented in four sections. The first section provides a summary of the entire study and presents the salient findings of the research. Section two provides recommendations for management based on the results obtained. Section three presents recommendations for further research in the field of non-financial performance communication. The chapter is brought to an end with a conclusion.

7.2 Overall conclusion

This research set out to answer the following research questions as presented in Chapter 3:

Primary research question

1. Are South African organisations meeting their investors expectation in terms of non-financial performance information?

Secondary research questions

2. What non-financial information are South African organisations communicating, how are they communicating this information and what are the motivating factors are behind non-financial performance communication?
3. Which framework for non-financial performance are South African organisations using?

The goal of this study was to draw attention to the importance of alignment between the non-financial information provided by organisations, and the investor community's expectation of this information. This was achieved through:

- The creation of a best practice framework for the communication of non-financial information by combining current literature with industry expert contribution
- Gaining and understanding of the status quo of non-financial reporting by South African organisations
- Uncovering investor expectation of non-financial performance communication and determining whether this expectation is being met

The key finding of this research was that South African organisations are meeting their investor expectation of non-financial performance information. However, this is the case only because the investor community essentially has no expectation of non-financial information. The reason for this is that no clear link is made between non-financial and financial performance.

While at a high level expectations are being met, at a more granular level there is some disparity in terms of what information is being delivered, how it is being delivered, and why it is being delivered.

The investor community in South Africa is not engaged by organisations specifically around non-financial performance. Organisations tend not to engage the investor community either to inform, or to ascertain what their specific requirements of non-financial information are.

The delivery of non-financial information is flawed. While organisations are publishing reports based on global standards, the investor community is not engaged as to the form in which they would like to receive non-financial information.

The South African investor community has very low expectations when it comes to the communication of non-financial information. Investors surveyed in this study did not view themselves as the primary audience of non-financial reports. They tended not to use non-financial information to make investment decisions, and expressed a view that so long as organisations were producing sustainability reports, the investment community was typically satisfied that the organization was aware of the long term sustainability risks. This apathy will have to be changed if sustainability is to become part of the way in which organisations conduct business. The responsibility for this paradigm shift will likely lie with Government, and will begin under the hand of legislation.

It was found that South African organisations tend to produce sustainability reports that include the most comprehensive set of data based on global reporting guidelines. It is evident that this information is not all relevant to the local investor community. The co-creation of relevant metrics may provide investors with information that is pertinent to the investment decision. Non-financial issues are typically not contextualized and no link between non-financial and financial information is provided. A debate around the issues of materiality was identified: should organisations be providing information around social and environmental issues that are very specific to their own business, or should they be providing information which is less specific and easier for a large group of stakeholders to comprehend?

While organisations claim that sustainability is core to their business, it seems that it is still essentially viewed as peripheral. Certainly investors do not view sustainability as core to either their own, or the organisations, business.

Which framework is most appropriate for non-financial reporting is still under debate. It is argued that a gap still exists for a globally accepted, universally appropriate framework for non-financial reporting. This framework would be most effective if designed in conjunction with various stakeholder groups.

7.3 Recommendations for management

The researcher was intent on providing not only a sound academic framework for the communication of non-financial performance, but also one that would provide practical benefit for organisations. Organisations have an integral role to play in the progression of the responsible investment movement. In order to render sustainability reports effective, it is suggested that companies producing these reports engage their stakeholders to determine their expectations of non-financial performance information. Based on the literature and the research findings, organisations should consider the following with regards to the communication of their non-financial performance:

- Identify the intended audience of non-financial reports
- Engage the audience to determine the most effective method for the communication of non-financial information
- Ensure that the content of the report meets the audiences' requirements in terms of quality and complexity
- Understand the audiences' view and comprehension both of the organization and of the sustainability discourse
- Continually engage and educate the audience on the relevance of non-financial information

Implementation of these suggestions will not only afford organisations a more accurate understanding of their stakeholders expectation of non-financial reports, it will also advance the responsible investment movement by providing investors with information that is relevant to the investment decision.

7.4 Recommendations for further research

The following suggestions for further research, if undertaken, would make a significant contribution to existing knowledge around the communication of non-financial performance:

1. Applying a similar study to a larger sample of investors would add validity to the findings of this research.
2. Applying a similar study to various stakeholder groups would allow the academic and business communities insight into stakeholders requirements of non-financial information, rendering the reports more valid across the board.
3. This research has provided a framework for the best practice of non-financial reporting, and has highlighted that organisations are typically using globally accepted standards for non-financial reporting. Future research could exclude the first two phases of this research to focus the study more explicitly on investors, and explore fully the expectation of the investor community, possibly through a process of co-creation. An in-depth study of the issue of materiality, and the link between non-financial and financial information could be undertaken in order to gain an understanding of the information that is relevant to the investment decision. This would result in a set of non-financial metrics that would really be of use to the investment community.
4. This research would be augmented by the development of a methodology for engagement of the investor community around non-financial information. A comparative study of developed countries' responsible investment movements may provide the basis for the study.

7.5 Conclusion

An understanding of stakeholder requirements is essential within the realm of corporate communications. This study has highlighted the importance of engaging the investor community in order to understand their expectation of non-financial performance information, in order to ultimately progress the responsible investment movement. It has also drawn attention to the lack of investor engagement on the part of South African organisations. While the literature has suggested that non-financial reports are used to inform investment decisions, it was found that in South Africa this is not the case. Non-financial reports, in their current state, are of little use the investment community. The status quo is concerning, and signals that business and the investment community is still driven by the dominant paradigm: profit maximisation.

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APPENDIX A: PHASE 1 INTERVIEW GUIDE

The aim of this interview is to obtain a best-practice view in terms of sustainability reporting in order to assess whether or not organisations are a) reporting what they should be and b) if these reports are aligned with investor expectation. The purposes of this research, the term ‘non-financial’ refers only to social and environmental information.

1. The two broad questions are: WHAT should companies be reporting, and HOW should they be delivering this information to their stakeholders, and in particular to their investors?
2. WHAT: what information should they be including in their reports; should all organisations be working off the same framework, and using standardised performance indicators? Should there be a greater focus on targets versus actual performance as opposed to simply reporting on the actual figures, which is what we’re typically seeing?
3. HOW: What mechanisms should organisations be using to deliver the information – is an annual sustainability report enough, should they be engaging in other forms of communications for example social media, stakeholder involvement and education? Also HOW OFTEN should this information be communicated, and TO WHOM?
4. Who is the primary audience of sustainability reports?
5. The majority of people one speaks to, particularly from the finance sector or investor community, regard non-financial data as superficial and peripheral. Do you find that to be true, and if so why?
6. What is the role of organisations in terms of educating their investors on sustainability reporting and metrics?

APPENDIX B: PHASE 2 INTERVIEW QUESTIONNAIRE

Phase 2 Interview: To determine the nature of the organisations non-financial performance communication, and the organisations understanding of the investor community needs with regards to non-financial performance

Note: *For the purposes of this study, the term non-financial refers only to social and environmental issues.*

This study is for academic purposes and no individual or company names will be disclosed.

1. Do you have a sustainability committee? Y / N
2. What is your motivation for collecting and reporting on non-financial data?

Motivation	Not relevant	Somewhat relevant	Very relevant
Scrutiny from the internet			
Multiplying lobby groups			
Popular concern about global warming			
The threat of lawsuits for misbehaviour on human rights			
The desire of the potential recruits to work for companies with values			
Government intervention			
Legislation			
Corporate customers			
Greener competitors			
Investor pressure			
Financial institutions			
Employee pressure			
Trade union pressure			
Public concerns			
Environmental concern			
To inform shareholders			
To inform existing and potential employees			
Anticipated cost savings			
Resulting innovation and learning			

Long term performance			
Risk management			
Media exposure			
CSR is considered crucial to the success of the organisation			
Consumer demand for transparency			
Customer demand for environmentally friendly products			
Expectation of NGO's on for-profit companies			
Public desire for detailed disclosure			
Marketing reasons			
Societal reasons			
Greenwashing			
Other?			

3. Who is the primary audience of your sustainability report?

Audience	**Not important**	**Somewhat important**	**Very important**
Employees			
Finance institutions			
Shareholders			
Investor community			
Management			
Government			
NGO's			
Lobby groups			
Consumers/ general public			
Trade unions			
Competitors			

4. Do you follow a standardised framework for sustainability reporting, if so, which one?

   ____

5. How context-based is the report, that is, how specific to your particular industry sector or organisation? Is your report:
   a. Very context-based, that is, specific to your company
   b. Context-based, that is, sector-specific
   c. General
6. Do you disclose performance indicators? Y / N
7. Do you disclose performance targets? Y / N
8. Do you provide year on year comparisons? Y / N
9. Do you provide a link between financial and non-financial information?
   a. Yes, vague
   b. Yes, specific
   c. No
10. Which of the following social and environmental issues are dealt with in your non-financial report and why?

Non-financial issues:	**Yes, investors request it**	**Yes, it may be of interest to investors**	**No**
Environment/green issues			
Employees/workers/personnel			
Societal/people issues			
Corporate responsibility/CSR			
Community			
Stakeholders			
Future			
Global warming/climate change			
Ecosystems/planet/nature			
Diversity			
Human rights			
Labour standards			
Sustainable investing			

11. What is the feedback mechanism for the primary audience of the reports?

Feedback mechanism:	**Not available**	**Available but not necessary**	**Availa ble and necess ary**
Telephone			
Direct e-mail			
One to one meetings			
Online / live feedback			
Other?			

12. Do you engage in any of the following?:

Method of engagement:	**Not at all**	**To an extent**	**Very much so**
Investor education on non-financial performance			
One-on-one meetings regarding non-financial reporting			
The co-creation of specific non-financial metrics			
Stakeholder dialogues to determine their needs			
Information campaigns (external)			
Sustainability advertising			
Labelling			
Online and platform communication for information sharing (social media, blogs, intranet etc)			
Online and platform communication for feedback			
Integrated reporting			
Analysts briefings			
Investor meetings			
Live webcasts			
Other?			

13. In a broad and general sense do you feel that you are delivering on your investors expectation of non-financial reporting and communications? Y / N

APPENDIX C: PHASE 3 INTERVIEW QUESTIONNAIRE

Phase 3 Interview: To obtain the investor community view of non-financial reporting and to determine whether investors agree that the organisations in which they have invested provide the non-financial information they require.

Note: *For the purposes of this study, the term non-financial refers only to social and environmental issues.*

This study is for academic purposes and no individual or company names will be disclosed.

1. Does COMPANY X have a sustainability committee of which you are aware? Y / N
    a. Organisation 1: Y / N
    b. Organisation 2: Y / N
    c. Organisation 3: Y / N
    d. Organisation 4: Y / N
    e. Organisation 5: Y / N
    f. Organisation 6: Y / N
2. In your view, what is the motivation for organisations when collecting and reporting on non-financial data?

Motivation	**Not relevant**	**Somewhat relevant**	**Very relevant**
Scrutiny from the internet			
Multiplying lobby groups			
Popular concern about global warming			
The threat of lawsuits for misbehaviour on human rights			
The desire of the potential recruits to work for companies with values			
Government intervention			
Legislation			
Corporate customers			
Greener competitors			
Investor pressure			
Financial institutions			
Employee pressure			

Trade union pressure			
Public concerns			
Environmental concern			
To inform shareholders			
To inform existing and potential employees			
Anticipated cost savings			
Resulting innovation and learning			
Long term performance			
Risk management			
Media exposure			
CSR is considered crucial to the success of the organisation			
Consumer demand for transparency			
Customer demand for environmentally friendly products			
Expectation of NGO's on for-profit companies			
Public desire for detailed disclosure			
Marketing reasons			
Societal reasons			
Greenwashing			
Other?			

3. In your view, how important is each of the audiences to organisations when communicating their non-financial data?

Audience	**Not important**	**Somewhat important**	**Very important**
Employees			
Finance institutions			
Shareholders			
Investor community			
Management			
Government			
NGO's			

Lobby groups			
Consumers/ general public			
Trade unions			
Competitors			

4. Does COMPANY X follow a standardised framework that you are aware of, if so, which framework?
    a. Organisation 1:
    b. Organisation 2:
    c. Organisation 3:
    d. Organisation 4:
    e. Organisation 5:
    f. Organisation 6:
5. How context-based are the reports, that is, how specific to their particular industry sector or organisation?
    a. Very context-based, that is, specific to their company
    b. Context-based, that is, sector-specific
    c. General
6. Does COMPANY X disclose performance indicators? Y / N
    a. Organisation 1: Y / N
    b. Organisation 2: Y / N
    c. Organisation 3: Y / N
    d. Organisation 4: Y / N
    e. Organisation 5: Y / N
    f. Organisation 6: Y / N
7. Does COMPANY X disclose performance targets? Y / N
    a. Organisation 1: Y / N
    b. Organisation 2: Y / N
    c. Organisation 3: Y / N
    d. Organisation 4: Y / N
    e. Organisation 5: Y / N
    f. Organisation 6: Y / N

8. Does COMPANY X provide year on year comparisons? Y / N
    a. Organisation 1: Y / N
    b. Organisation 2: Y / N
    c. Organisation 3: Y / N
    d. Organisation 4: Y / N
    e. Organisation 5: Y / N
    f. Organisation 6: Y / N
9. Does COMPANY X provide a clear link between financial and non-financial information?
    a. Organisation 1: yes, vague / yes, specific / no
    b. Organisation 2: yes, vague / yes, specific / no
    c. Organisation 3: yes, vague / yes, specific / no
    d. Organisation 4: yes, vague / yes, specific / no
    e. Organisation 5: yes, vague / yes, specific / no
    f. Organisation 6: yes, vague / yes, specific / no
10. Which of the following issues are generally dealt with in non-financial reports and are they relevant to the investor community?

Non-financial issues:	**Yes, and it's relevant to us**	**Yes, but it's not relevant to us**	**No**
Environments/green issues			
Employees/workers/personnel			
Societal/people issues			
Corporate responsibility/CSR			
Community			
Stakeholders			
Future			
Global warming/climate change			
Ecosystems/planet/nature			
Diversity			
Human rights			
Labour standards			
Sustainable investing			

11. What are the feedback mechanisms available to you as an investor?

Feedback mechanism:	**Not available**	**Available but not necessary**	**Available and necessary**
Telephone			
Direct e-mail			
One to one meetings			
Online / live feedback			
Other?			

12. Does the organisations engage in the following?:

Method of engagement:	**Not at all**	**To an extent**	**Very much so**
Investor education on non-financial performance			
One-on-one meetings regarding non-financial reporting			
The co-creation of specific non-financial metrics			
Stakeholder dialogues to determine your needs			
Information campaigns (external)			
Sustainability advertising			
Labelling			
Online and platform communication for information sharing			
Online and platform communication for feedback			
Integrated reporting			
Analysts briefings			
Investor meetings			
Live web-casts			

13. Are you able to decipher industry-specific data? Y / N

14. In a broad and general sense do you feel that organisations are delivering on your expectation of non-financial reporting and communications? Y / N