



STAKEHOLDER VALUE DERIVED FROM SUSTAINABILITY REPORTING

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Abstract

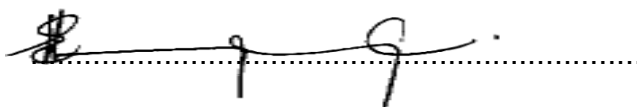
Sustainability reporting by companies can serve as a communication tool with potential to build trust, influence the attitudes and perceptions of stakeholders. However, reporting without adding value and meeting the needs of the targeted stakeholders has been labelled a fad or meaningless by some scholars. The objective of this research was therefore to understand from a stakeholder's perspective; if indeed sustainability reporting is meeting their needs and creating value for them. A qualitative approach was used to illicit perspectives of multiple stakeholder groups on the value of sustainability reporting by two companies belonging to the mining sector. A total of sixteen different stakeholders belonging to different stakeholder groups and two sustainability experts from the two companies were interviewed to compare the company perspectives on value created with that of other stakeholders. The results highlighted that the relationship between the company and a stakeholder group, influences how that particular stakeholder group is prioritised and engaged. Stakeholder groups that are economically powerful, have higher saliency and those with potential to influence the business were prioritised and effectively engaged compared to those with low economic power and low legitimate claim over the company. The perceived benefit of sustainability reporting varied per stakeholder group and the company perspective of value differed from stakeholder perspective for some stakeholder groups.

Key words: stakeholder groupings, sustainability reporting, stakeholder value

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment 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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Date: 9 November 2011

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1. CHAPTER 1: Problem Definition

1.1 Introduction

Companies have value creation as their main final and long term strategic goal, (Perrini & Tencati, 2006). These companies are connected through networks to a great number of interrelated individuals and constituencies called stakeholders. Previously it was sufficient for organisations to limit creation of value to one stakeholder group, the shareholders, but for long-term success and survival the company has to maintain relationships with a set of stakeholders through sustainable value creation, (Gray, 2006 and Hayewood, Brent, Trotter & Wise, 2010). According to the Global Reporting Initiative (GRI) and IFC report of 2010, sustainability reporting in an emerging market such as South Africa will assist companies in improving relationships with stakeholders and attract investors by better measuring, managing and reporting their contribution to socially and environmentally sustainable development and demonstrating a good corporate governance.

1.2 Research Scope

The scope of this research is described and limited by the definition of the following relevant terms;

- The stakeholder is defined as “organisations and individuals who have a legitimate claim on an organisation to participate in the decision making simply because they are affected by the organisation’s practises, policy and actions” (Freeman, 1984).
- The term value refers to “something which – for whatever reason – is emphasised in reality and desirable and forceful for the one who

evaluates it, be it an individual, a societal group of an institution representing individual groups” (Rescher,1982). The adopted definition for stakeholder value will therefore be “any tangible and intangible benefit as perceived by an organisation, societal groups and individuals who are affected by an organisation’s practises, policy and actions”.

- Companies undertaking sustainability reporting will be;
 - Those companies that took part in the Ernst and Young Excellence in Sustainability Reporting 2010, (Ernst and Young, 2010).
 - Companies who are at the same time listed on the on the Johannesburg Stock Exchange (JSE), so as to allow the researcher easy access to their most recent annual sustainability reports.

1.3 Research Motivation

This research is important for the South African industry to find out if sustainability reporting and disclosure by companies is indeed creating value for stakeholders either through the company’s listing on the JSE, Socially Responsible Investment (SRI) Index, adoption of GRI guidelines or compliance as part of the King III report on Corporate Governance. All these initiatives have one common main objective, which is to meet the emerging needs of relevant stakeholders such as government regulators, investors and civil society, thus this study will seek out to understand from a stakeholder’s perspective, if indeed, the sustainability reporting is meeting their needs and creating value for them.

In South Africa focusing and reporting on sustainability is influenced by three major factors; the extent of the company's environmental impact, its size and its exposure to international markets, (KPMG, 2008). This is mainly true for the mining sector, due to very nature of the business their activities are likely to result in serious environmental damage, hence external pressure to report on these; (Ernst and Young, 2010). Multinational companies and those that produce products for the global market or, companies that are funded by international funders are also under pressure to produce integrative sustainability reports.

1.3.1 Analysis of sustainability reporting and legislation in the South African business

Sustainability accounting and reporting in South Africa is a highly topical issue that is being used by businesses that intend to increase their current and future earnings, by focussing on a stakeholder approach in their sustainability reporting covering economic, social and environmental issues. The current trend in emerging markets such as South Africa is that, the majority of leading companies are factoring sustainability issues into their operations, (Gibbons, Barman & Lees, 2010). The KPMG Survey of 2008 showed that of the top 100 companies in South Africa, 86% of them include some level of sustainability reporting in their annual reports or issue a stand-alone report, (KPMG, 2008). The recent King III and GRI+12 report of 2011 showed 25.5% of reporting companies have adopted internationally recognised GRI guidelines as a launching pad for their sustainability reports, (King III and GRI+12, 2011).

South Africa is doing well compared to its peers in Africa, (Baskin, 2006). The JSE SRI Index is the first comprehensive, formal and regular corporate sustainability benchmark to be used in South Africa and indeed in Africa. Currently there are 78 companies that are listed on the JSE SRI index. It has a huge potential to become a market driver for corporate citizenship in the country, (Sonnerberg & Hamann, 2006). In a comparative global research on emerging markets, Baskin (2006) showed that South African companies are outperforming not only their peers but the European companies. There is therefore a need to assess if this high level of reporting in the South African business, is translating into tangible and intangible benefits, thus creating value for the various stakeholders of companies that are undertaking sustainability reporting.

1.3.2 Analysis of legislation as a driver of sustainability reporting

The high level of sustainability reporting in South Africa reflects the influence of the current local and international policies and frameworks that guide sustainability legislative frameworks, the King Code for Corporate Governance (King III), which recommends reporting on sustainability and is a listing requirement of the Johannesburg Stock Exchange. South African companies tend to focus on the King II and now King III Report on Corporate Governance, the international Global Reporting Initiative (GRI), and the JSE's Socially Responsible Investment (SRI) Index, as tools and frameworks to guide sustainability initiatives.

The King II Report focussed on transparency and accountability within companies with key themes of leadership, sustainability and corporate citizenship and it made compliance with certain aspects compulsory as a listing requirement for companies trading on the Johannesburg Stock Exchange. Companies could either meet the requirements or, adopt an approach of comply or explain, and in instances where there is non-compliance, the companies had to explain the reason for such non-compliance. Recently this was changed as of June 2010, with the publication of King III Report, all companies listed on the Johannesburg Stock Exchange are required to produce an integrated report in place of separate annual financial and sustainability reports.

Global Reporting Initiative (GRI) provides a framework to companies on how to institutionalise reporting on economic, environmental and social performance. The GRI reporting framework is now the most widely recognized international platform for sustainability reporting. The GRI framework requires information on three main levels:

- *Strategy and profile*: disclosures that set the overall context for understanding organisational performance, such as, the organisation's strategy, profile and governance.
- *Management approach*: disclosures that cover how an organisation should address a given set of topics in order to contextualise the interpretation of performance in specific areas.
- *Performance indicators*: indicators that explain the economic, environmental and social performance of the organisation, (GRI, 2010.)

The JSE SRI index was launched as a means of identifying companies that have an integrated approach to sustainability in their business activities. Similar to GRI, the SRI Index measures companies' policies, performance and reporting in relation to the three pillars of the triple bottom line, namely, environmental, economic and social sustainability issues. For companies to be listed on the SRI index they have to meet the following criteria;

- *Environmental sustainability reporting* should reflect strategies to measure and monitor the impact a company has on the utilisation of a country's natural resources, and to ensure that resources are used in a sustainable manner, while negative impacts on the environment are reduced.
- *Economic sustainability reporting* addresses whether a company focuses on short-term profits or, has positioned itself in order to achieve long-term growth.
- *Social sustainability reporting* should give recognition to the fact that a company is a key component of modern society, and that a company needs to maintain positive relationships with a wider range of stakeholders. Reporting should be in line with global standards but, should accommodate issues peculiar to South Africa such as Black Economic Empowerment (BEE) and HIV/AIDS while redressing imbalances caused by past political systems, (JSE SRI Index, 2005).

Government, other legislative bodies, civil society and communities are the intended beneficiaries of these policies and frameworks that promote sustainability reporting and disclosure, (Ernst and Young, 2010). There is

therefore a need to evaluate from a stakeholder perspective, if these stakeholders are benefiting from the existence of these policies and frameworks and determine the sort of stakeholder values that are emanating from companies who are formulating sustainability activities guided by them as well.

1.4 Research Problem

The research study will focus on understanding if sustainability reporting by companies is creating any value for the various stakeholder groupings that are affected by company's practises, policies and actions. These values are assessed based on perceived tangible and intangible benefits that are derived by the various stakeholder categories. The research will:-

- Establish from a company perspective what it perceives to be the value of their reports to the various stakeholders.
- Determine and assess the stakeholder value that the stakeholders in the various stakeholder categories are deriving from the sustainability reports produced by these companies.
- Determine if there is any merger or divergence in stakeholder value from a company perspective, compared to views of multiple stakeholders from different categories.
- Determine the level of stakeholder engagement and prioritisation among the different stakeholders' categories and assess its influences on stakeholder value.

2. CHAPTER 2: Theory and Literature Review

2.1 Definition and relevance of sustainability reporting and stakeholder value

Over the years companies have been under immense pressure to address the issue of sustainability. The holistic approach of corporate to sustainability encompasses economic, environmental and social issues that have business implications. These companies have an obligation to record, monitor and report their economic, social and environmental dimensions (positive and negative), of its processes and performance, through sustainability reports, (Perrini & Tancati, 2006). The process of assessing and publicly disclosing social, environmental, and economic performance is, increasingly becoming known as ‘sustainability reporting’. Companies are shifting from the early social and environmental types of reports to broader ‘sustainability’ ones, (Buhr, 2007).

Sustainability reporting is defined as a “form of internal monitoring, management and external communication, which enables organizations of all sizes to meet the growing information needs of their various stakeholders, both internal and external” (Gray, 2006). This definition was further expanded by Buhr (2007), the work referred to sustainability reporting as “a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage.” Both definitions allude to stakeholder inclusion as companies strive to maximize and grow their future earnings.

The sustainability report therefore provides a clear discourse on the company's performance in managing its impacts on the physical/natural environment (e.g., energy and water consumption, waste, emissions, etc.), the workforce (e.g., health and safety statistics, employment equity, etc.), and society (e.g., corporate social investment and enterprise development), as well as the company's adherence to the principles of good corporate governance (e.g., ethics, human rights, stakeholder engagement, board performance monitoring and remuneration, etc.). According to the GRI framework, the primary goal of reporting is "to contribute to an ongoing stakeholder dialogue. Reports alone provide little value if they fail to inform stakeholders or support a dialogue that influences the decisions and behaviour of both the reporting organisation and its stakeholders" (GRI, 2002, p. 9). A company that takes into consideration these sustainability issues creates more value over the long run and encounters fewer risks compared to a company that focuses merely on the profit, (Asif, Seacry, Zutshi & Ahmad, 2008 and Salzmann, Ionescu-Somers & Steger, 2005).

The concept of sustainability reporting and shared value has gained momentum globally but, there is an ongoing debate on what value it is creating to different parties, especially management and external stakeholders, (Gray, 2006 & Burritt, 2010). A lot of research has focussed on the value it is creating for management and shareholders, while the external stakeholders' value has been overlooked, (O'Dwyer, Unerman & Hession, 2006). The focus of these sustainability reports should be fulfilling stakeholder expectations and serving information to external parties. Companies have adopted the GRI framework, which compels them to take "a long-term, multi-stakeholder approach" and

extend beyond the traditional focus on investors to address diverse stakeholders” (GRI, 2006, pg 2). Work by Fonseca (2010) indicated that in addition the sustainability report should provide a balanced and reasonable representation of the sustainability performance of an organisation, including both negative and positive contributions.

Harrison, Bosse and Phillips (2010) further argue that, companies which intend to achieve high performance should incorporate the needs and demands of multiple stakeholder groups as part of their broad sustainability strategy. It is therefore essential to design business processes in a way that yields value for the stakeholders and balances it with the organizational vision, goals, strategies, and resources. However, the major challenge faced by companies in attempting to meet these needs is in resource allocation. It remains debatable as to what degree should a company allocate firm value to satisfy the needs and demands of a broad group of stakeholders, at the same time increase shareholder wealth, (Sisodia, Wolfe & Sheth, 2007). The stakeholder approach in sustainability though good for business has its own drawbacks. It can result in companies allocating too many resources to stakeholders “giving away the store” to stakeholders, which can result in decreased returns for the company, (Harrison *et al.*, 2010). Proponents of the stakeholder theory argue that the company’s welfare is optimised by meeting the needs of the company’s important stakeholders in a win-win fashion, (Walsh, 2005). It is this conflict of interest or rather, a win-win situation between the company objective and stakeholder perspective, that makes it interesting to assess if at all, due to these differences, companies can indeed create any tangible or intangible

benefits for the multiple stakeholders through sustainability reporting and disclosure.

Several authors (Burritt, 2010, Gray, 2006 & O'Dwyer *et al.*, 2006) have labelled sustainability a public fad or meaningless, unless it focuses on the needs, rights and empowerment of all stakeholders upon whom the accounting organisation has an impact, no matter how insignificant these stakeholders are, according to the organisations' perspective. Harrison *et al.* (2010) concluded that, failure to ascertain and understand the total value created for companies through shareholder value and more importantly, stakeholder value, often leads to the abandonment of managing the stakeholder's approach in sustainability reporting. The same author further recommends, future research that focuses on understating the total value created for all stakeholders as opposed to focus on shareholder value only. It can therefore be ascertained that stakeholder view and values are an essential, to understand from a company's strategic long term view.

2.2 Stakeholder values defined

Stakeholder value is very difficult to define, however to come up with a definition the two constructs 'stakeholder' and 'value', are defined separately initially and a definition for stakeholder value is thus deduced from a combination of the two constructs. An approach developed by Meynhardt (2009) as he attempted to define 'public value'. The same author argues that 'value' is one ambiguous term with no widespread consensus. However, from the myriad of definitions of

value proposed by Rescher (1982), the following definitions have relevance in stakeholder theory;

- Value refers to “something which – for whatever reason – is emphasised in reality and desirable and forceful for the one who evaluates, be it an individual, a societal group or an institution representing individual groups”.
- “A value has, or is, of value if and when people behave toward it so as to retain or increase their possession of it”.
- “Anything capable of being appreciated (wished for) is of value”.

These definitions of value clearly demonstrate that ‘value’ is as perceived by an individual or organisation and such value will differ from one individual to another and from one organisation to another.

Stakeholders as previously stated are defined as “organisations and individuals who have a legitimate claim on an organisation to participate in the decision making simply because they are affected by the organisation’s practises, policies and actions”, (Freeman, 1984). A combination of these two constructs combined together; give rise to the adopted definition for stakeholder value for this study. The adopted definition of stakeholder value for this study is therefore “any tangible and intangible benefit as perceived by an organisation, societal groups and individuals who are affected by an organisation’s practises, policies and actions”.

2.3 Stakeholder categorisation

Stakeholders based on the definition of stakeholders are separate entities therefore belong to different categories. Gibson (2000) proceeded to group stakeholders into institutional (involving laws, regulations), economic (actors in the marketplace) and ethical (environment and social pressure groups) categories. Stakeholder category/grouping refers to stakeholder groups that are specifically affected by clusters of key performance indicators, (Perrini & Tencati 2006). It is therefore important for a company to understand its targeted stakeholder category and the potential value it can generate for the stakeholders in each category. These stakeholders can be distinguished between primary, (which determine the very survival of the corporation) and secondary, (that affect or are affected by the corporation but do not affect its sustainability), (Clarkson, 1995). According to Ogden and Watson (1999) it is difficult to identify these stakeholders, how best an organisation can best serve their interests, let alone develop performance indicators that measure a company's degree of success in serving these interests, becomes a very complex process. Tencati, Perrini & Pogutz, (2004) identified the following stakeholder categories;

- Employees
- Members/shareholders
- Clients/customers
- Suppliers
- Financial partners
- State, local authorities and public administration
- Community

- Civic organisations.

These categories though clearly defined, most companies are limited by the narrow approach that they use to define a set of stakeholders for a particular stakeholder group that has a relationship with their company, (Epstein & Widener 2011). Rowley (1997) argues that the identification of stakeholder groups as separate entities as in the Freeman (1984) model, leads to loss of complexity in their real relationships. There are instances where stakeholder groups cannot be clearly identified but the interests represented by the groups are susceptible to due identification, (Connelly, 2010). It is therefore, critical to understand the relevant stakeholder categories and the interests and relationships that exist within the stakeholder groupings of a company.

2.4 Stakeholder interests and prioritisation

The diverse range of multiple stakeholders, by their very nature, does not have a homogenous set of stakeholder expectations; they have diverse interests which results in conflict of interest among stakeholder groups, (Greenley, Hooley, Broderick & Rudd, 2004). Many sustainability managers are therefore faced with a non homogeneous set of stakeholder expectations, making it very difficult for them to identify, analyse and negotiate with various stakeholder groups. The end result is that despite the company's obligations to meet stakeholder's demands and expectations, managers fail to attend to all the actual and potential claims of all stakeholders, (Moneva, Archel & Correa, 2006). The attention given to stakeholder needs, as such, is unequal and it is

determined by the level of claim the stakeholders have on the company, (Ferguson, Collison, Power & Stevenson, 2007).

The interests, expectations and prioritisation of stakeholders per stakeholder grouping, are influenced to a certain extent, by what was termed “stakeholder salience” by Boesso and Kumar (2010). Stakeholder salience is defined as “degree to which managers give priority to competing stakeholders” (Agle, Mitchel & Sonnenfeld, 1999, pg 507). The stakeholder salience model is determined by power, legitimacy and urgency that managers associate with a stakeholder group, (Mitchell, Agle and Wood, 1997).

The terms as they are used in the salience model by are defined below;

- Power - the ability to make someone do something that they otherwise would not have done; the power of the stakeholder over the organisation may be coercive (strength or threat), normative (legislative, the media) or utilitarian (holding resources or information).
- Legitimacy – the generalised perception that the actions of an entity are desirable or appropriate in accordance with socially constructed contexts maybe individual, organisational or social.
- Urgency – the immediate need for action, determining the organisational response time when receiving requests from stakeholders, should consider time sensitivity (the need for organisational response) and criticality, (the importance of the request or the company relationship with the stakeholder in question) with this factor rendering the model dynamic.

Friedman and Miles (2006) summarised these attributes of stakeholder salience as, stakeholder's power of negotiation, the legitimacy of relationship with organisation and urgency with regards to meeting present needs. The level of salience that a company associates with a stakeholder category is, as a result of, multiple perceptions, which are based on cumulative stakeholder attributes of power, legitimacy and urgency. Stakeholders that possess higher cumulative stakeholders attribute of power, legitimacy and urgency are associated with greater salience, (Epstein and Widener, 2011). It can therefore be concluded, that needs of stakeholders with high salience are likely to be prioritised and attended to immediately compared to those with lower salience. The challenge however, is that stakeholders are dynamic and subject to change. Stakeholders may hold one attribute of the salience model today and require another one or two attributes tomorrow, (Mainardes, Alves & Raposo, 2011). In essence it shows that there is need to understand the intricacies of the stakeholder salient model and, how it relates to stakeholder prioritisation in evaluating the perceived stakeholder value for each stakeholder grouping.

The study by Boesso and Kumar (2010) demonstrated that in addition to stakeholder salience, stakeholders' needs are prioritized based on society-specific demands and expectations. Hence, some stakeholders will derive more value than others due to their difference in salience and demands. Companies often do experience resource constraints and can therefore not attend to claims of all stakeholders, thus they have to make a choice between competing/conflicting interests based on the prevalent societal expectations.

This is line with the legitimacy theory which states that, “organisations seek to establish congruence between societal values associated with or, implied by their activities and the norms of behaviours in larger social systems” (Matthews, 1993, pg 350). This idea of the allocation of resources to competing stakeholder groups based on society-specific demands, was first postulated by Greenwood & Webster (2000), and was also clearly demonstrated in the work by Boesso & Kumar (2010). In their work, labour focussed Italian culture, allocates more resources to labour groupings compared to US consumer focussed culture, which allocates more resources to customer groups. These society-specific demands which influence prioritisation of stakeholder needs to be understood in the local context to assess how they influence stakeholder expectations.

The needs of these stakeholders are also context based, and not only limited by societal values but by expectations of the country, mainly legislation and business practises related to three facets of sustainability, the economic, societal and environmental aspects. The view is supported by earlier work of O’Dwyer *et al.*, (2006), his work with civic organisations demonstrated the stakeholder’s values and expectations differ per stakeholder category in different contexts. Mainardes *et al.* (2011) recommends future research that focuses on understanding how these multiple stakeholders, which belong to different stakeholder groupings, reconcile their interests (which may be divergent) with company interests.

2.5 Stakeholder dialogue and engagement

Stakeholder engagement has been known to be a tool that can be used to manage stakeholder expectations and demands, provided, the sustainability report communicate really useful information for stakeholders, (GRI, 2006). The analysis by Schaltegger & Burritt (2010) showed that dialogue with stakeholders are increasingly being recognised as crucial elements of sustainability reporting although conceding that there is a shortage within these reports that, such engagement and dialogue is taking place.

As noted in the stakeholder salient model, sustainability reporting, has tended to focus on the views of stakeholders who are relatively economically powerful and dialogue less with economically powerless stakeholders, (Freidman & Miles, 2006 & O'Dwyer *et al.*, 2006). It's therefore logical to argue that stakeholder prioritisation plays a critical role in stakeholder communication and engagement as companies tend to meet the demands of closely engaged stakeholders.

Stakeholder engagement is not the mere involvement of stakeholders to “mitigate” or manage their expectations (stakeholder management) but, rather, it's there to create a network of mutual responsibility, (Andriof, Husted, Waddock, & Sutherland-Rahman, 2002). Stakeholders are thus participants in business management through the submission of questions and issues. External stakeholders can engage in a set of actions such as protests, civil suits and letter writing to advance their interests and demands, (Eesley & Lenox, 2006).

The stakeholder's responsibility is therefore to avoid making matters that might cause unintended negative externalities on the company, other organisations or local communities, (Andriof *et al.*, 2002). The positive actions of stakeholders can provide strong incentives for companies to meet stakeholder demands and companies develop what was termed "collaborative relationship" by Onkila (2010), where perceptions of company stakeholder relationships are based on equality. The engagement between the two (company and stakeholders) thus becomes strongly interactive, if stakeholders have responsibilities and rights then their interest in the relationship goes beyond the scope of mere satisfaction of ambitions and expectations, (Manetti, 2011). His work further argues that stakeholders as petitioners with legitimate expectations assume the role of moral agents, with the responsibility to consider rights and interests of the company and the other parties to promote effective and ethically correct relationships.

The other important aspect that has to be understood, to fully grasp the company stakeholder relationship is the quality of stakeholder engagement. Zandek and Ryanard (2002) suggest three dimensions of quality: procedural quality (how the engagement was done, undertaken whether it was consistent with declared purposes), responsiveness quality (how the organisation answers to the stakeholder needs) and the quality of outcomes (tangible evidence of policies and practices by sustainability managers in line with stakeholder engagement). This research project will consider this aspect in assessing the value creation process, to develop an argument for role and influence of quality

of stakeholder engagement in determining whether or not a company meets stakeholder needs and demands.

Other researchers have however argued that though it may appear plausible on paper, it is not feasible to engage with all the stakeholders based on collaborative relationship due to the multiplicity of stakeholders' expectations if a company intends to maximise shareholder value for all, (Mainardes *et al.*, 2011). Sundaram and Inkpen (2004) emphasised that the relationship and engagement between stakeholders and company is either refutable or inconclusive in various empirical studies. This prompted Mainardes *et al.* (2011) to propose further research to understand the underlying nuances that influence the relationship and interaction between the company and each of its stakeholders.

Manetti (2011) argues that although there has been an unprecedented level of stakeholder engagement, the sincerity and impact of these practises on serving stakeholder interest remains questionable. His work on quality of stakeholder management based on ideas developed by Zandek and Ryanard (2002) showed the following factors as influencers of stakeholder engagement;

- Low stakeholder involvement in defining content of reports
- Lack of nomination of representatives from various stakeholder groupings
- Except where required by law, the rare presence in management bodies of groupings not directly emanating from shareholders

- Lack of objective judgement as to the material and relevance of information in the report and
- Rare adoption of guidelines and engagement by companies analysed, (Manetti, 2011).

These factors therefore cement the earlier held notion of prevailing stakeholder management, rather than of any real engagement, (Andriof *et al.*, 2002). These results indicate an opportunistic approach to the stakeholder theory of Freeman (1984) where companies seek to involve stakeholders in order to reach social consensus necessary for economic success, without acknowledgement of their legitimate interest, (Hart & Sharma, 2004). Based on these outcomes, it becomes important to understand how stakeholder engagement is performed by a company and how the lack of or presence company- stakeholder relationship influences the benefits derived.

CHAPTER 3: RESERACH QUESTIONS

3.1 Research Questions

This study will investigate whether sustainability reporting is generating value for stakeholders of companies that are undertaking sustainability initiatives and reporting on them. The stakeholder value refers to the perceived tangible and intangible benefits as defined by the any organisation, societal groups and individuals who are affected by an organisation's practises, policies and actions. The main focus is to explore the derived values with no preconceived notions of what these values are, but rather to use the exploratory research approach to respond to the following research questions:-

- Research Question 1: What is the role and influence of stakeholder engagement and prioritisation in determining the stakeholder value of the various stakeholders' groupings?
- Research Question 2: What are the perceived values of sustainability reporting to the various stakeholders from a company perspective?
- Research Question 3: What is the stakeholder value, if any, that is derived from sustainability reporting by the various stakeholder categories?
- Research Question 4: Is there any merger or divergence in stakeholder value as perceived by the company compared to the perspective of the various stakeholder groupings?
- Research Question 5: Do these various stakeholder groupings have different expectations and therefore different stakeholder value?

CHAPTER 4: Research Methodology

4.1 Research Method

4.1.1 Rationale for the research method

The main objective of this study was, to explore and get insights into the perceived value that stakeholders are getting from the companies that are currently engaged in sustainability initiatives and reporting on them. Sustainability is focussed at addressing the needs of the various stakeholder groupings, taking into account their various needs and inherent differences. There is therefore a need for an in-depth unstructured interview to assist in understanding the various perceived values derived from sustainability reporting from their own point of view.

A qualitative research design is highly recommended in instances where the main focus is to try and interpret a certain trend around an event that has a deeper meaning around it, where the meaning is only fully understood through deep one-on-one conversation, (Creswell, 2003). Blumberg, Cooper & Schindler (2008) recommends an exploratory approach where a researcher wants to gain insight into what the respondents, who are the various stakeholders, consider relevant and how they interpret the situation. The flexibility to respond to the patterns revealed by successive iterations in the discovery process is a very important attribute of this process. The continual probing process, where the researcher had the opportunity to continuously question the data presented by the stakeholders, led to the discovery of real knowledge of value, if any, that stakeholders are deriving from sustainability reporting or disclosure. Based on reasons discussed above, a qualitative approach which included semi-structured interviews with company

sustainability experts and in-depth interviews of identified stakeholders representing the various identified stakeholder categories was therefore chosen for this study.

4.1.2 Research Process

The research project was divided into phases. In the first phase a stakeholder analysis was undertaken to identify the stakeholders that belong to various stakeholder categories that are impacted by activities, policies and actions of the two selected companies. This was followed by semi-structured interviews, using a pre-developed interview guide with sustainability experts in the two identified companies, to assess from a company perspective what they perceive to be the value of their reports to their various stakeholders. This information was compared with information in the company's annual sustainability reports to fully understand the perceived value of these reports from a company's point of view.

The two selected companies were companies that belonged to the same industry, the mining sector since this industry addresses all the major sustainability issues. The selected companies are listed on the JSE therefore they disclose and report on their sustainability initiatives on an annual basis and this allowed the researcher to access information that was already available in the public domain. The rationale behind this approach of selecting companies in the same sector was to eliminate the industry effect as industry is known to have an influence on stakeholder engagement and reporting, (Boesso & Kumar, 2007). Companies from the same industry experience the same externalities, have similar stakeholders though in different contexts, this will allow the

researcher to assess if degree and rigour of sustainability reporting influences the value derived by these stakeholders.

The next phase was an in depth semi structured interviews with the various identified stakeholders that belonged to the different stakeholder categories to ascertain and get insight into what they expect and perceive to be the benefit of sustainability reporting of these selected companies. The researcher identified some of main stakeholders linked to the two identified companies based on sustainability reports but, the complete list was finalised after interviews with sustainability experts from the two companies. The identified stakeholder groupings of the two selected companies are as indicated in figure 1 below.

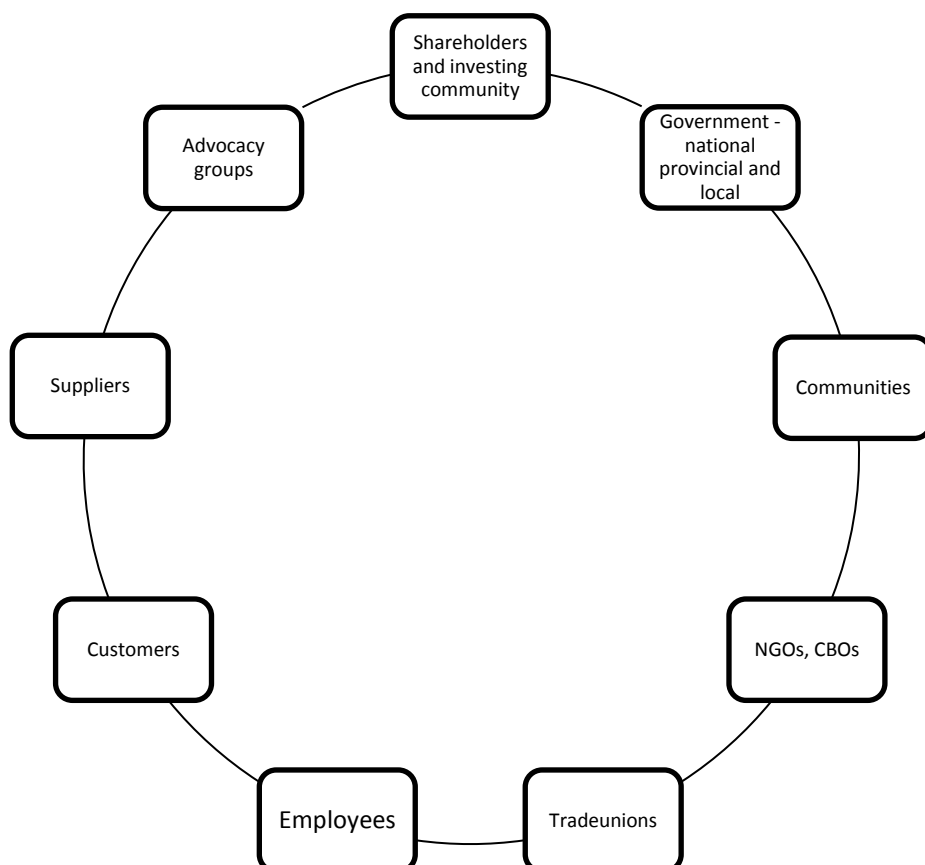


Figure 1: Stakeholder groupings impacted and affected by actions and decisions of the two selected companies.

4.2 Proposed population and unit of analysis

The population of this study was all the stakeholders and sustainability experts of the selected companies that were part of the Ernst and Young Excellence in Sustainability Reporting of 2010. The two selected companies were ranked as “excellent”, performers in the same report. An “excellent” performing company has integrative sustainability reports that can compete with best reports published internationally, it’s doing more than the bare minimum of sustainability reporting, (Ernst and Young, 2010).

4.3 Size and nature of the Sample

The companies that are listed in the Ernst and Young Excellence in Sustainability Reporting of 2010 constituted the sampling frame. The sample was made up of at least a sustainability expert from each company and one stakeholder from each identified category per company. The sample size influenced and depended on the number of identified stakeholder categories. The non-probability sampling involving a combination of purposive and snowballing sampling, was used to acquire names of experts that represented these various stakeholder categories. Purposive sampling was used so that, at least, each stakeholder category is represented in the final sample.

4.4 Data collection, Data Analysis and Data Management

The researcher used qualitative procedures to collect the data, taking into account the very nature of qualitative research in that it is emergent rather than tightly preconfigured. Some of the research questions changed and were

refined as new themes emerged during the iterative process. The procedure recommended by Creswell (2003) for data collection, analysis and data management was followed as detailed below:-

- Interviews were conducted with sustainability experts and representatives of the stakeholder groupings
- Transcribed the interviews - the interviews were recorded with the researcher taking limited notes although the researcher only took notes in some cases were interviewees were not in favour of being recorded.
- The interviews were analysed to assess if any themes were developing
- Comparative analysis was done to assess if there were any common themes among company responses and the various stakeholder groups
- The information from interviews with sustainability experts and various stakeholder groupings was triangulated with company reports to illicit meaning out of the responses
- Ideas/themes/issues that developed were interpreted to get meaning of the data. The data was then compared to literature.

4.4.2 Data Collection

The study used semi-structured interviews with the assistance of a pre-developed interview guide with sustainability experts. In-depth semi-structured interviews with assistance of an interview guide were used to interview the various identified stakeholder groupings. In depth interviews were used to assess stakeholder value from the stakeholder's point of view hence the use of open-ended questions that allowed the researcher to illicit views and opinions

of the respondent, (Creswell, 2003). Value as defined by Rescher (1982) is an individual perspective hence the true value derived from sustainability reporting unfolded as the researcher probed the respondent for more information as the argument developed.

4.4.3 Data Analysis

For this type of research the data analysis process was an ongoing process, it involved continual reflection about the data, the researcher asked analytical questions and wrote memos throughout the study, (Rossman & Rallis, 1998).

A combination of content analysis and narrative analysis was used to analyse the data generated from the in depth semi-structured interviews. To check for convergence of values from a stakeholder and company perspective, comparative analysis was used. However, as stated by Creswell (2003) in qualitative research the methods of analysis may be interchanged or combined depending on the emerging pattern of the data gathered.

4.5 Data Validity and Reliability

Validation is the strength of qualitative research; it was used to determine whether the findings are accurate from the researcher's point of view; however reliability played a minor role in this qualitative study, (Creswell & Miller, 2000).

The researcher made use of an external qualitative research expert who assessed if the researcher has managed to interpret the findings and determine whether the results are a true reflection of information obtained from the interview process. This assisted in the elimination of researcher bias, which is

likely to be introduced as the researcher brings in her own views during the interpretation of the interviews, (Creswell, 2003).

4.6 Potential Research Limitations

This project was undertaken during a specified time frame; hence the following limitations were identified;

- Each stakeholder category is likely to be made up of a number of stakeholders but, the study was limited to stakeholders that can be directly linked and are directly impacted by activities of selected companies that were surveyed in the Ernst and Young Excellence in Sustainability Reporting of 2010.
- The stakeholders were registered and domicile in South Africa except for international investors.
- The study was limited to views of stakeholder groupings and not views of the each individual stakeholder.

CHAPTER 5: RESULTS

5.1 Contextualising sustainability reporting by the selected companies

The study focussed on sustainability reporting by two companies, Company X and Company Y. The two selected companies belonged to the mining sector. The companies also mine the same resource and are of comparable sizes in terms of market value and are both are listed on the JSE as well the SRI Index.

Two sustainability experts each belonging to Company X and Y were interviewed using semi structured questionnaires (Appendix 1) to initially contextualise and understand sustainability reporting by the two companies. The sustainability reports by the companies were also reviewed to further understand sustainability reporting by the companies and the experts also referred the researcher to these reports for detailed information. Summary of the key points that are of relevance to the study are highlighted in Table 1 below.

Table 1: The key highlights from the review of sustainability reports of company X and Y

Issues of significance	Company X	Company Y
Type of report	An integrated report	An integrated report
Frameworks/Guidelines used to prepare reports	GRI's G3 Guidelines, UN Global compact, ICMM principles & mining and metals sector supplement	GRI's G3 guidelines UN Global Compact, & ICMM principles
Model used to prepare report	Five capitals model, which entails five separate stocks, namely natural, human, social, manufactured and financial capital.	
Rating based on GRI	A+	B+
Ernst & Young rating (2010)	Excellent	Excellent
GRI Compliance Score (%) (2010)	89.4	76.4
GRI Compliance Rank (2010)	9	34
Assurance by third party	Yes, an internationally recognised audit firm	Yes, an internationally recognised audit firm

5.2 Understanding the key stakeholders of the two companies

Assessment of the companies' sustainability reports and interviews with the sustainability experts showed that companies have a wide range of stakeholders. The stakeholders that were selected for interviews are listed in table 2 below. In depth interviews using semi-structured questionnaire (Appendix 1) were used to interview a total of 16 respondents belonging to the different stakeholder groupings were interviewed to get insights into value, if any, they derived from sustainability reporting by the two companies.

Table 2: Details of the key stakeholder groupings that were interviewed

Stakeholder grouping	Company X	Company Y
Investing community (2)	Pension Fund Managers	
Government (3)	National government represented by department of mineral resources, department of water and environment	
Communities (2)	Community leadership represented by chairperson of the community forum	Community leadership represented by chairperson of the community forum
NGOs (2)	International NGO that focuses on poverty alleviation	Local NGO that focuses on human rights
Customers (1)	Jewellery company	
Suppliers (2)	Regular supplier to company X	Regular supplier to company Y
Trade Unions (2)	Regional Trade Union	Regional Trade Union
Sustainability Reporting analysts (2)	Sustainability Reporting Analyst and Researchers	

NB: The number in brackets refers to the number of interviewees per stakeholder grouping.

Some of the interviewees were common to both companies as shown in table 2 where the companies shared a common stakeholder. Investing community was

represented by pension fund managers who differed in their investment philosophy. The customer group was only represented by one of the major customers (jewellery) as the researcher failed to get a response from the other customers (auto catalyst industry). Sustainability reporting analysts were represented by reporting analyst and researchers who were common to both as they reviewed reports produced by the two companies.

5.3 Stakeholder Prioritisation

The interviews with the sustainability experts of the two companies X and Y showed that the stakeholder prioritisation by the two companies is similar for investor community but different for other stakeholder groupings. Both companies rank the shareholders and potential investors as the first and most important stakeholder. The two experts representing the two companies summarised it as follows;

“Shareholders and potential shareholders are at the top as they always want to know that we are attending to the business properly”, Company X.

“Top stakeholder is still the shareholders and perhaps that’s still crystal correct as they are the people who invest in the company”, Company Y.

The prioritisation of other stakeholder groupings by company X is based on the history that the stakeholder shares with the company. Issues that are considered include the relationship that the company has with a particular stakeholder, number of previous interactions and number of issues that the particular stakeholder has raised.

“We mainly identify our key stakeholders based on their ability to influence our business and that largely has to do with the size of who they are”, Company X.

For company X suppliers who offer them large quantities of material for their operations are among the top key stakeholders. As a company that basically has two customers the auto catalyst industry as well as the jewellery industry the company prioritises its two and only critical customers. An employee group such as the National Union of Mines is also prioritised due to the fact that most of the employees of the company X are members of this union. Although communities were referred to a lot, there was no mention of how the company ranks them. In the sustainability report the company reported that through its community relations and development program it will continue to demonstrate that it values and cares about the communities around its operations.

There is no formal prioritisation by company Y but the company uses closeness (how easily the stakeholders influence the business) to prioritise its key stakeholders. Employees and communities are ranked as top key stakeholders as narrated below;

“Our employees and local communities where we operate are closer and easier to communicate with.....they are part and parcel of the organisation”.

The sustainability reports of the two companies indicated that in addition to what was mentioned by the experts, both companies identified and prioritised stakeholders based on how significantly they are impacted by their businesses and their influence on the long-term viability of the company.

5.4 Stakeholder engagement

The companies consider themselves to be actively engaging with stakeholders. Each stakeholder grouping is communicated with through the various channels, although the frequency of communication varies as indicated below in table 3. However currently the companies do not have formal stakeholder engagement strategies and processes in place, they both intend to formalise these in the near future. It's important to note that after the interviews company Y produced its latest report where it indicated that it has formalised the stakeholder engagement process. Over and above these communications engagement channels, company X is highly visible in the local media through its country wide billboards, its presence in the daily local newspapers and radio stations. This is regarded as a way of constantly communicating with all its stakeholders.

Company X regards stakeholder engagement as a key and important business process as reflected in this statement:

“As you know nowadays days for an organisation to create value it needs to demonstrate that it is engaging with and attending to other key stakeholders’ issues. We have to obviously incorporate and demonstrate it in our sustainability reports; which we compile with other certain stakeholders in mind over and above the shareholders”.

Company X after stakeholder engagements through the various channels, it takes into account material sustainable development issues raised by these stakeholders and it extracts them by reviewing minutes and records of engagements.

Table 3: Stakeholder engagement as presented by Company X and Company Y

Stakeholder groupings	Company X	Company Y
Investing community	Meetings with major shareholders and results presentations, media for the rest of the investor community	Annual and quarterly reports, interim results, website, factsheets, road shows, presentations and one-on-one conferences.
Government	Formal and informal meetings through the company's government relations department	Close liaison with and reporting to national, provincial, district and local government.
Communities	Community engagement forums and through the CEO bi-annual stakeholder engagement forums.	Community stakeholder forums, monthly or quarterly One-on-one meetings with traditional council leadership on request.
NGOs	Non-governmental organisations forums	Public open days on mines, environmental hotline, community liaison offices, publications
Employees/Unions	Continuous internal meetings and committees with employees. Partnership structures in place with organised labour (unions)	Group in-house publications, reports, presentations and road shows, relevant mine-based committees and publications, intranet. Socio-economic development programme, collective bargaining, operational forums with unions
Suppliers	Contract one-on-one monthly meetings and correspondence. Supplier conference (2009) where sustainability issues specifically were discussed.	Suppliers' forums, equipment forums, presentations and workshops
Customers	Meetings and written correspondence meeting at least once a month	Relationships maintained with key long-term customers through personal visits, quality control, and regular meetings

The company's representatives from the safety, health and environmental and sustainable development (SD) departments attend these key engagements. The sustainability issues raised by the various stakeholder groupings are discussed with company X's functional units responsible for the respective engagements to prioritise issues raised. Company X however, does not discuss the list of material issues it identifies through the materiality assessment process with stakeholders for their final input and comment prior to finalisation. The company uses an external review panel to review the report's materiality, inclusiveness and responsiveness, guided by the AA1000 assurance standard. Upon approval by the board the material issues are taken to key stakeholder groupings to inform them of the key sustainability issues.

On the contrary Company Y is very conservative and rarely visible in the print media and this they link to the culture of the organisation, the sustainability expert expressed it as follows:

"It's the traditional way we have always done things and for us it's a deliberate move, not because we are secretive, we have a belief that we should stick to what we know best, mining and everything will take care of itself", Company Y.

Company Y acknowledges that it's stakeholders are important and are engaged according to their needs, it maintains key strategic relations with communities, government, employees, investors and customers who are believed to be central to the sustainability of the company business over the long term. The intention of Company Y is to change their communication and engagement

strategy as the company is of the opinion that the current approach is no longer effective as summarised below:

“However we are starting to realise that we might have to change our current below the radar approach. We are not visible out there but we do engage with stakeholders, whether that’s effective it’s a difficult thing to measure but, we have a group of people in charge of face to face interactions with our stakeholders”, Company Y.

Company Y acknowledges that it faces challenges with regards to some stakeholder groups that they don’t have a good relationship with such as unions. It refers to the relationship as “adversarial”. The problem is perceived to be as a result of the level of organisational capacity within union structures or lack of structures especially at regional and local level. The company has been addressing this through collaboration with unions to build capacity as it has realised that lack of structure and capacity complicates the relationship between the two parties.

5.5 Company’s perspective on stakeholder value derived from sustainability reporting.

The interviews resulted in very interesting views on what the two companies perceive to be the value derived from sustainability reporting by their companies. For any stakeholder group to get any value out of the report they need to have read the report. Both companies are of the opinion that the reports are not reviewed widely by the intended audience as summed up in the following statement;

“The other day one colleague of mine informed me that it was quite amusing to hear that one member of the public called in and commented on something he had read in the annual report, they were quite shocked and amazed that someone had actually read it”, Company Y.

Company X is of the opinion that the report can serve as reference guide to key stakeholders. It used to be physically post to all shareholders but it's now producing an integrated corporate report which includes all the material sustainability issues for that stakeholder group. The company does a targeted distribution of the full sustainability report as it has realised that it is only a unique audience that's looking for all the details of a sustainability report. Company X mails out the reports to over 200 stakeholders to ensure that the reports are distributed to the major stakeholders, whereas company Y places the report on it's website for all it's stakeholders to publicly read and review. Both companies are of the opinion that very few of their stakeholders read this report, although they are prepared with all stakeholders in mind as stated below:

“Sustainable Development Report of Company X forms an important component of our overall communication plan with stakeholders, it is intended to be read by South African and international stakeholders interested in our business”, Company X.

“The sustainability report of company Y is aimed primarily at existing and prospective stakeholders, as well as socially responsible investment analysts

and investors. Other audiences include national, provincial and local government, industry organisations, trade unions, employees and their families, communities associated with our operations, contractors and contracting partners, non-governmental organisations (NGOs), suppliers, customers, joint venture and business partners and the media”, Company Y.

Both companies are of the opinion that a very small group of stakeholders potentially realise the value of reading the sustainability reports. The main users of their reports are, key stakeholder groups like NGOs, SRI analysts, government departments and to some extent communities.

These stakeholder groupings are different and the two companies acknowledge that the report will mean different things to their stakeholders. The perceived values of the reports are discussed per stakeholder grouping.

5.5.1 Value for the investor community as perceived by the company

The investor community is perceived to be looking for information that the company is performing well in terms of the three pillars of sustainability, so as to ensure positive business growth by both companies as summarised by Company X;

“We still produce reports for shareholders (current and future) so that they know we are attending to the business properly which includes engagement with all the key stakeholders”, Company X.

The perception of company X is that current and future investor's use the report to assess if the company is articulating all the sustainability issues that are relevant for them in an inclusive manner.

Company Y is of the opinion that it's business operates in an environment with certain external factors that are likely to impact on the growth and profitability potential of the company. The company therefore had to demonstrate how it intends to mitigate against these potential risks to the investor community in their sustainability reporting. The company as a resource based organisation believes that the investor community will be looking for risk mitigating plans in the reports, such as, how the company is intending to handle resource nationalisation within the country and the indigenisation process in one of the countries where its operations are based.

5.5.2. Value for communities as perceived by the company

The two companies are of the opinion that communities are highly unlikely to read their reports. However, in addition to mailing out these reports to communities Company X extracts the main environmental and community data and so on, from its overall annual sustainability report and it produces separate reports for these stakeholders. For the company's next reporting cycle it's translating the part of the sustainability report into local language at the same time using appropriate illustrations and diagrams for the report to be user friendly and appropriate for communities. The main purpose of the company in doing this, is to communicate better with local communities so that communities

understand how the company functions. The company has three community development priorities detailed in its sustainability report which are as follows:

- host community settlement through provision of basic infrastructure;
- community education and skills development;
- community safety, health and welfare; and enterprise development.

Even with these efforts the company still believes that communities would still want to prioritise issues that are of material interest to them, such as jobs.

The sustainability reports of Y are only available to communities on the website and the company is aware that community leaders cannot access these reports as they do not have access to the internet. Even if they were to read them the company is of the opinion that the information in the reports is irrelevant to communities as highlighted below;

“We don’t sit in our offices and hope community leaders read these SD reports. I don’t think communities would want to read these reports. These reports don’t tell communities what they want to hear about an organisation hence they don’t read it for this reason”, Company Y

The company however is making efforts to effectively engage with communities to understand what they would want to hear from the company, it intends to formalise the stakeholder engagement process.

5.5.3 Value for government as perceived by the company

The companies perceive government departments to be key stakeholders that are included in the small group that are interested in sustainability reporting and hence review and read these reports. Both companies have specific units that deal with the government relations and these liaison units are in constant contact with key government departments such as the department of mineral resources and department of water affairs and environment. They view these departments as key regulators and policy makers who will review these reports to assess if the companies are indeed running their operations as per government policy and regulations. The reports are therefore a useful reference point for government departments to monitor mainly environmental standards, safety standards and worker rights.

5.5.4 Value for non-governmental organisations (NGOs) as perceived by the company

Company X perceives NGOs as a group that uses information in the sustainability reports against them. The company publicly discloses in its reports for example the number of environmental incidences and fatalities it has experienced at its operations throughout the country. In the past this information has been used by NGOs against them especially when they are applying for a license to open a new mine as expressed below;

“A number of NGOs have taken our SD reports and said that look company X cannot run their business, look at how many incidents they have had and so why should they be allowed to open any more new mines”, Company X.

Company Y shares the same sentiments; they view NGOs as very vocal and very much against them but, still are of the opinion that NGOs have the power to influence the sustainability debate as summed below;

“Do they embrace and love us as partners, no they don’t, maybe they never will because that’s who they are and that’s the place they should be playing in the debate”, Company Y

The company further on perceive NGOs as having low regard of their reports and it’s convinced their reports are not trusted, treated as just rhetoric on pieces of paper. This is illustrated in the following statement by company Y;

“NGOs think our reports are just mere window dressing and that’s the mindset every NGO has, they don’t trust us, and reports are just reports with nice pictures we won’t overcome this notion”, Company Y

5.5.5 Value for employees as perceived by the company

Within both companies employees are known for not reviewing sustainability reporting by their own companies. Sustainability reports though available internally on the company intranet as well as being publicly available on their company websites, employees don’t read the reports and a statement by company X clearly demonstrates this point;

“Recently I was in a meeting with my colleagues, we were being asked to produce a lot of information that I know is in our sustainability report and I took it

out said look do you know we said this last year and have a look it's all in here and they are like, I didn't realise it was in there", Company X

Company X in corroboration with the parent company, has for the first time this year extracted key issues and key aspects from their sustainability reports and incorporated them into their normal corporate communications programs. The company perceives safety issues to be of high priority for their employees as well as environmental issues as most of them live close to the mine operations hence these were included in the special extract for employees. These are the issues that are highlighted in the tailor made sustainability reports that are distributed within the company.

Company Y associates lack of interest in sustainability reporting within the organisation to the poor communication strategy within the organisation. The company has been engaging all its employees on sustainability without actually incorporating it into their business and communication strategy. The company has been *"talking the right game for a while, but is now really at the stage of starting to walk on the field at least not just shouting from the touchline"*. The company states that it needs to generate value internally as the company is investing a lot of money and spending enormous time and effort coupled with anxiety picking words that go into these reports. The expert concedes that the task will be very difficult as the corporate culture is likely to limit prompt uptake as the company does not easily embrace new changes outside of core business. The trade unions affiliated to these employees are perceived to be looking for the same issues of protection of employees in the workplace as well as worker remuneration and long term plans on salaries and wages. The companies are of

opinion that they read the reports to check on profitability of the company compared to worker remuneration.

5.5.6. Value for customers as perceived by the company

The companies both in the platinum industry have only two sets of customers as highlighted earlier, auto catalyst and jewellery industry. These industries by very nature, according to the companies are green, morally and ethically responsible global customers who value sustainability reporting. The companies X and Y therefore need to have their credible sustainability reporting to meet the needs of their customers. One of the experts of company Y summarised it as *“being pushed by the customers’ customer”*, so as to achieve global acceptability of their business. For example in the jewellery industry the companies are the two main suppliers of platinum hence once tainted *“blood platinum”* they reckon their industry will suffer the same fate of the diamond industry. The companies perceive customers to be reviewing the sustainability reports to check if the two companies are indeed taking into account key sustainability issues in their operations, so as to meet the needs of their own customers. Company X is part of an internationally recognised customer grouping where all producers get together as a sustainability committee so that as an organisation company X can demonstrate to its key customers its sustainability programs.

5.5.7 Value for suppliers as perceived by the company

The suppliers for both companies are locked into long term contracts with the companies. Both companies are of the opinion that some of these suppliers, who were chosen on the basis of sustainability profile, read their reports and use their reports as benchmarks for their own sustainability initiatives in order to

meet demands exerted on them by the two companies. The other suppliers such as preferential suppliers are perceived to be keenly interested in the reports mainly from a financial perspective where they are looking at viability of company X and Y in the long term for their own survival.

5.5.8 Value for sustainability reporting analysts and researchers as perceived by the company

This group of stakeholders though not in constant engagement with the companies, is perceived to be the main audience for the sustainability reports. This stakeholder group is constantly reviewing the current reporting frameworks, guidelines, processes and reports produced by these companies to point out the knowledge gaps and areas of improvement. The two companies are of the opinion that this group derives value out of sustainability reporting as it uses the reports as reference material to shape the sustainability debate and to enrich the field of sustainability reporting.

5.5.9 Overall value of sustainability reporting by the companies

The experts from the two companies had their own opinion on the value of sustainability reporting and the reports they generate. Company X expert regards sustainability reporting to be of high value internally as the reports generated can serve as an institutional memory *“a snapshot in time” prepared with rigor through the assurance process* thus it has become an internal reference document for key internal managers and key functions. Company Y however is not certain of the real value of sustainability reporting, due to lack of clear integrative strategy as to why the organisation is focussing on

sustainability issues and reporting on them. The expert anticipates diversity of opinions from management such as *“reporting is the right thing do”* and *“we do it because we are forced to do it”*.

5.6 Value of sustainability reporting as perceived by the stakeholders

The interview with the various stakeholder groupings showed that each stakeholder grouping is interested in issues that are of material interest to them first and foremost, before taking into account the interests of the company X or Y. Most of the stakeholder groupings are aware of sustainability reporting and reviews the reports, except for communities, government departments and regional labour unions. The level of engagement, stakeholder expectations and perceived value are discussed below per stakeholder group.

5.6.1 Investor community’s perceived value of sustainability reporting

The institutional investors select companies to invest in, based on the invest philosophy of the investor compared to that of the company in which they intend to invest in. The investors use a whole range of metrics that will include sustainability reports of the company in addition to financial performance. One of the two representatives of the investor community interviewed had an interest in sustainability issues covering the three sustainability pillars (namely environment, social issues and governance). The investor however emphasised that exactly what percentage of investment decision is attached to these reports is highly dependent on the investment manager, as well as the information presented in the reports. He highlighted that it’s often the biggest companies with the biggest head offices that normally present detailed and the longest reports. However to overcome this problem the investor interrogates the data

presented, checking on consistency with other company reports within the organisation, checking for gaps and holes within the report that create inconsistency within the report before an informed investment decision is made. The ultimate decision will be based on the philosophy emanating from the report and the investor philosophy which was summarised as resulting in three choices, *“the political case, the business case and moral case”*

- Political case -more than one human being on the planet, therefore the politically correct decision is to invest in companies that take care of the earth
- Business case- I will make more money out of this through a good investment decision
- Moral Case - When you sit there and something doesn't feel right morally and ethically.

The other institutional investors representing pension funds, stated that, investment decisions were based first and foremost on profitability before anything else. The pension fund investor clearly stated that they have a mandate to create value for members of the pension fund hence their focus on return on investment. The only instance where they turn to sustainability issues is, if the companies they intend to invest in, are all offering the same returns then, their investment decision will come down to sustainability reporting. The respondent however indicated that unless the pension fund holders demand to invest in sustainable organisations the value of these reports for now will be limited to supporting evidence after the fact.

The two investors perceive the investor community to be still lagging behind in terms of understanding and valuing sustainability reporting as, sustainability still needs to make a business case. For the investing community it is very hard and not easy to evaluate the value of reporting as highlighted in the following statement by one of the investor community representative;

“The value of the last tuna before its fished out is very difficult to measure, it’s difficult to value biodiversity, it is something you can’t put a value to, value is in the eyes of the beholder”.

5.6.2 Communities’ perceived value of sustainability reporting

The community leaders who are the elected chairpersons of the community engagement forum are very disgruntled with the way the company X & Y is communicating and engaging them. Both companies indicated as highlighted earlier, that they are actively communicating and engaging communities. However, communities feel that they are being marginalised and are being treated as peripheral partners. Communities are of the opinion that the companies are talking to them to appear good on paper without really listening to their key expectations and needs that can sustain them as a community into the future. The community leaders have not accessed sustainability reports by the respective companies yet they feel maybe some form of reports might clarify a lot of questions that communities want answered. This lack of communication and engagement is creating a very tense community which is prepared to be radical to get their messages across to the company X and Y. The community leader at one of the operations expressed it as follows;

*“If you are soft and listen to what company X says you will be brushed aside and sleep forever, therefore we must be radical, they only listen if you march, disturb them through work stoppage..... you stop production they listen”,
Community X*

The two communities have similar expectations of what the companies ought to be doing for them. They expect the company to meet their demands as compensation for the land that was taken away from them, when the companies opened their operations. The land used to be their source of livelihood, Their expectations can be classified into the following three broad categories;

- **development** i.e. the provision of basic infrastructure such as construction of access roads, houses, clinics and provision of water.
- **empowerment** i.e. creating opportunities for local people to provide certain services to the mine as they realise that not all of them can be employed by the mine
- **employment**, i.e. historically the companies brought skilled labour from outside due to lack of skilled labour, hence communities are now demanding training and employment of local members of the community.

The community leaders are of the opinion that, for the reports to be of benefit to them, the company must report on the above issues so that the community leaders can report to the community how the company is taking into account their needs. In addition they hope the reports can shed light on what the companies are planning to do with regards to environmental damage. For

example the “dewatering” of groundwater as communities believe that drying of boreholes in the area is due to mining activities that are using up a lot of water.

5.6.3 Government departments’ perceived value of sustainability reporting

The selection of government departments was based on information provided by the companies which singled them as key stakeholders that the companies constantly interact with. The three government departments were presented by the appropriate directorates but, it was very difficult to select the appropriate directorate as some of the key sustainability issues are spread across various directorates. The respondents that were interviewed in all the departments have not reviewed sustainability reporting by the two companies but, are aware of the availability of the reports in the public domain. Their opinion is that companies are required to produce them anyway annually for reporting to shareholders and as a listing requirement on the JSE. All the departments however, expressed interest in reviewing the reports at a later stage as the companies in question are the largest in that industry as stated by one department;

“I have just downloaded one of the reports; there is some good practises and information there that’s useful for my directorate”, One of the Government Directorates

Two of the departments are of the opinion that the reports might actually be useful as they might contain useful data that they need to compile national statistics on issues such as water and energy usage, mining safety records and emission levels. As policy makers and regulators the departments are satisfied with their programs that they have in place to assess mining operations of the

two companies. The departments are actively communicating and engaging with the two companies on critical sustainability issues through the various committees and programs as highlighted by the companies in Table 3 above.

5.6.4 Non-governmental organisations' perceived value of sustainability reporting

This stakeholder grouping, even though one is local and the other international was very clear at the interview that their concerns are similar; they consider themselves “*voice of the voiceless*”. Their aim is to advocate for basic rights of communities that reside next to the mining operations by the two companies. As a result they are constantly communicating and engaging with the respective companies proactively in good times and reactively when there is a crisis. This group, as was stated by the sustainability experts, reviews all the sustainability reporting by the two companies. They believe and trust some of the information but in most cases they are suspicious of the information as they think the information is polished for the sake of the shareholder as highlighted in the following expression;

“ You will never see a statement like the rock fall at (name withheld) was because of poor engineering design or unsafe working conditions, it's always accidental or a result of tremors otherwise funders will be furious”, NGO X .

The companies are considered to be too powerful as they generate much revenue and employment hence at times NGOs have to be assertive to be heard among these industry giants. The NGOs think too much effort is spent in producing elaborate reports yet very little implementation on the ground. They

consider these companies to be profit driven and produce these reports to keep them quiet. They read and review the reports to affirm their assertions about the reports, so as to engage effectively with companies.

5.6.5 Labour Unions' perceived value of sustainability reporting

The regional labour union leadership for two regions that were sampled has not read the full report but they have had access to company current reports on workers issues, in particular, the summary prepared by company X for its employees through their collaboration with workers' committees at operational sites. They are satisfied with their engagement with the companies through the long standing forum of engagement. In the reports the union leaders regard information on worker's working conditions in terms of mine safety as of importance, as it highlights that the companies are making efforts to reach zero fatalities.

However, they are of the opinion that the reports do not address worker remuneration and conditions for contract workers. They are of the opinion that the current stringent labour laws of the country, being powerful in numbers and vocal at all times has led to better worker protection for permanent employees. The issues that's of importance to them is that of contract workers who are poorly remunerated and who tend to lose company benefits upon contract termination in some cases due to injury that renders them incapable to continue with work. For now these reports are of little value to them as they don't address or provide details of the companies intend to address the issues raised above. They want the companies to be report about how they intend to resolve these issues.

5.6.6 Suppliers' perceived value of sustainability reporting

The suppliers consider themselves to be part of the two companies; they are always in constant engagement with the company as they are locked into long term contracts. Their main expectation is for the company to honour the supplier contract first and foremost for the sake of their own survival. They are aware and review sustainability reports by the respective companies for their own benefit as well as indicated below;

“Sustainability is core for our business, we learn a lot from company Y which has been reporting on these matters for a long time”, supplier A.

“Ours is a mutual relationship, we need to know their areas of focus with regards to sustainability so that we can work together since our products are like raw material for them, for us, it’s a one plus one equals ten relationship”, supplier B.

The suppliers review the report as there is a direct but mutual benefit for them in terms of maintaining the supplier contract and also they use the reports as benchmarks for their own sustainability reporting.

5.6.6 Customers perceived' value of sustainability reporting

The customer interviewed considers the company to be a socially responsible company as summarised in the company vision below;

“At (name withheld) we endeavour to strike a balance between our business interests and the obligation we feel towards the environment, our workers and

the community. To this end we have involved ourselves in a number of projects enabling us to give back to our community, our country and the world."

The respondent clearly defined that they consider their company to be a global brand with sustainability at the core of its business strategy throughout the value chain starting with procurement of the gems and material. This stakeholder is very aware of the conscious consumer at the end and repeatedly stated that as brand synonymous with quality, beauty, value for money and customer care, it will do all it can to maintain the brand. One of the issues the company does is to source sustainably mined minerals. They therefore review the supplier (company X and Y) sustainability reports. The respondent mentioned that a few wealthy clients who buy pieces from them running into millions are starting to demand information that demonstrates that the material used to make the piece is free of conflict, blood and unfair labour practices. According to them the demand from end users is likely to increase after the "blood diamond" debacle as jewellery is all about sentiment and individual core values. In summary this particular stakeholder is therefore using reports to check if supplier (company X or Y) is meeting internal sustainability requirements so as to meet the needs of the end user.

5.6.7 Sustainability analysts and researchers' perceived value of sustainability reporting

This group of stakeholders does not directly engage with the two companies but, engages indirectly through the business reviews, opinion pieces in local media and papers they present and publish in different business magazines and journals. They review frameworks and reporting by these companies and many

others by other companies who report on sustainability. They are of the opinion that sustainability reporting is necessary as part of compliance with King III reporting, JSE and SRI index listing but are not exactly sure of what value it has generated for society at large. One of the analysts described sustainability reporting as a *“product in metamorphosis as the field is still maturing in the country regardless of the country being one of the best sustainability reporters”*.

The two respondents indicated that as the reports are reviewed, the report must have elements of trustworthiness, transparency, showing the good and bad decisions. They think that companies can achieve this level of reporting by addressing the following critical issues;

- Materiality - evidence in the report that indicates that the company is addressing relevant issues that meet the company and stakeholders needs.
- Integrity of information - evidence that there is a direct relationship between what the company does and the sustainability strategy showing how the company integrates sustainability factors in its business model.
- Practical report that allows the reader to be able to get the information easily.
- Evidence of leadership and management quality within the organisations in tough situations as well as focussed short and long term business decisions.
- Innovative products which indicate that the company is thinking through issues, looking into the future taking into account the sustainability issues.

5.7 Comparison of company's and stakeholder's perceived value of sustainability reporting

In order to assess whether there is any merger or divergence in stakeholder value as perceived by the company compared to the perspective of the various stakeholder groupings their views on the benefit of sustainability reporting are compared. The comparison is based on company opinions versus stakeholder opinions expressed in section 5.5 and 5.6 above.

Table 4: Stakeholder values as perceived by the company compared to stakeholder groupings

Stakeholder Grouping	Company's view of perceived benefit	Stakeholder's view of perceived benefit
Investing community	Performance assessment of company in terms of sustainability and used to review risk management by the company	As part of investment decision making in conjunction with other metrics
Government	Reference to check if companies are operating as per policy and regulations	As source of data for compiling national statistics even though they haven't reviewed the reports
Communities	Communication tool so that communities understand how the company functions	No value though they think reports can serve as source of information on company's efforts to meet their needs
NGOs	Use reports as source of information to use against companies	Information not trusted, view reports as means to keep them quiet, thus they use reports as source of information to base arguments when engaging with companies
Customers	To check if the companies are meeting their sustainability requirements	To check if companies are meeting internal sustainability requirements
Suppliers	Benchmark the supplier sustainability performance versus the company	Benchmark for own sustainability initiatives and reporting
Trade Unions	Assess employees rights, company profitability compared to worker remuneration	Review of worker conditions, safety, remuneration
Sustainability Reporting analysts	Reference material to shape the sustainability debate	To review level and rigour of reporting to improve sustainability field

The opinion by the two companies is combined and the compared to stakeholder group and the results are as presented in table 4.

5.7 Comparison of stakeholder groupings' expectations and its effect on value derived from sustainability reporting

The expectations of the stakeholder groups are compared to each other to assess if there is merger or divergence of expectations across the various stakeholder groupings. These expectations refer to the needs and demands of the stakeholder grouping to the two companies. The intention is to then assess if these various stakeholder groupings have different expectations and therefore different stakeholder value. The results are as presented in table 5 below which show that the expectations are different for each stakeholder grouping.

Table 5: Expectations of the various stakeholder groupings

Stakeholder Grouping	Stakeholder group's expectations
Investing community	Good return on investment based on a sustainable business strategy that transcends across the value chain. Reports need to present a business case for sustainability.
Government	Reporting on key sustainability issues of national importance such as water, energy, emission levels and mine safety records
Communities	Development, empowerment and employment for local community members
NGOs	Detailed information on how companies are addressing rights of communities supported by implementation on the ground
Customers	Supply of products that have been produced in a sustainable manner to meet their customers' needs
Suppliers	Honouring supplier contracts and benefiting from the companies' sustainability expertise
Trade Unions	Protection of worker's rights, safe working conditions, remuneration and improved salaries and working conditions for contact employees
Sustainability Reporting analysts	Balanced reporting that's transparent, trustworthy showing good and bad. Report to be practical based on materiality, showing evidence of good leadership and that the company is thinking through issues

CHAPTER 6: DISCUSSION

6.1 Contextualising sustainability reporting by the selected companies

A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation, including both positive and negative contributions, (Fonseca, 2010). The reports by the two companies are reported as integrated reports implying that the reports are a materiality based summary of the company financial statement and sustainability report, combined together to provide an effective discourse on the inter-relatedness and co-dependency of social, environmental and economic performance. This is also supported by their adoption of the GRI framework which compels the companies to disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach as reported by Buhr (2007). In some instances some of the key sustainability issues were interpreted in terms of their impact on the company's financial performance as demonstrated in the case of company Y which uses the sustainability approach to minimise and mitigate against financial risk.

The reporting is also influenced by the legislative framework in the country which compels JSE listed companies as part of compliance with King III to report on their sustainability initiatives. The companies take into account the UN Global Compact in their reporting as both companies are signatories to this initiative. The companies in their sustainability reports, report on performance against their stated commitments with regards to human rights, labour rights and environmental protection in line with this initiative. Both companies are not

members of the International Council on Mining and Metals (ICMM), but they subscribe to all the council's principles in accordance with GRI guidelines. This shows that industry initiatives at a global scale are driving and guiding sustainability reporting.

In addition to being integrated the use of GRI reporting framework compels the companies to do an independent evaluation of their sustainability reports on three reporting levels C, B, A as they appear in GRI sustainability reporting framework. The A + and B+ reporting level for company X & Y respectively, indicates the companies disclosed a certain amount of information in the reports with the plus (+) indicating that the sustainability reports were checked by other external parties. Assurance by an independent third party as stipulated in the King III report of 2010 is widely accepted as the ultimate indicator of sustainability related transparency and accountability which makes the reports credible and acceptable by some of the stakeholders, (Fonseca, 2010). Credibility is the starting point in creating value for stakeholders, as they need to trust the information presented to them. This argument is particularly strong in the mining context, given the sector's apparent incompatibility with sustainability, and its legacy of social and environmental impacts.

The A or B rating is an indicator of the rigour in which the reports were prepared and does not imply an A rated report is better than a B rated report, all it shows is company X is a better at disclosing its sustainability issues than company Y and this was supported by evidence gathered throughout the interviews with the sustainability experts.

6.2 Key stakeholders identification

The stakeholders for the two companies are categorised into stakeholder groupings as identified by Tencati *et al.*, (2004), therefore any stakeholder selected from the group to give views with regards to that group, can be regarded as representing the general perceptions of the group. This simplifies stakeholder management but, can lead to loss of complexity in the real relationships within stakeholder groupings. Stakeholder groupings, though they have common interests, are not homogenous in nature as shown by the two non-governmental organisations, in agreement with the work of Mainardes *et al.* (2011).

The identification of key stakeholders and peripheral stakeholders by the organisations clearly demonstrates the principle of external and internal stakeholders, in agreement with work by Clarkson (1995). In the case of company X a “key stakeholder” is identified based on one specific material issue, or on their ability to support or hinder the organisation’s progress (i.e., exercise influence over the organisation), or on the organisation’s direct and/or indirect impacts on the stakeholders overall well-being (either positively or negatively) as in earlier work of Ogden & Watson (1999). For company Y a key stakeholder was identified based on, the organisation’s direct and/or indirect impacts on the stakeholders overall well-being. As a result employees and communities who are directly impacted by decisions made by the organisation were regarded as key stakeholders in addition to shareholders.

6.3 Stakeholder prioritisation

Based on the work of several authors (Boesso & Kumar, 2010, Epstein & Widener, 2011, Friedman & Miles, 2006 and Mitchell *et al.*, 1997), it was argued

that the prioritisation decisions by companies would be based on company perception of three characteristics associated with a stakeholder group namely power, legitimacy, and urgency. The prioritisation of stakeholders by the two companies is clearly demonstrated by Mitchell *et al.* (1997) stakeholder saliency theory. Although the study did not evaluate the three factors that influence stakeholder saliency, deductive reasoning was used to assess it based on the analysis of the in-depth interviews, as the interview guide was designed to elicit these views. Each stakeholder group will be discussed based on the three salience factors, taking into account that the perceived salience that each sustainability expert associated with a stakeholder group is the result of cumulative stakeholder attributes of power, legitimacy and urgency. The relative significance of these factors individually seems to vary from one stakeholder group to the other and was influenced by the nature of relationships that exist between the company and each of these stakeholder groups as reported in earlier work by Mainardes *et al.* (2011).

Reviewing of the **investors/shareholders** (current and future), group it became evident that each of the three factors is important in determining the salience associated with this group. This is perhaps because the companies reported routine and frequent interactions with this group and was more discriminating in determining the salience they associate with this group. This group has a high power and a legitimate claim over the company as they provide the funding needed to grow the business and their needs are urgently addressed hence are regarded by both companies as having high saliency and are therefore highly prioritised.

Employee groups such as the regional labour union which represents the workers' interests are considered an important group. They are perceived to be powerful and their demands perceived to be urgent as well by both companies which increases the salience associated with this group. The trade unions are therefore prioritised as this group is powerful enough to affect company operations through disruptions if the companies do not meet their needs. The same reasoning can apply to **communities**, they have power and their demands are considered urgent though, not legitimate however as a result of the cumulative high power and urgency they have high saliency and are thus prioritised by both companies.

Customers and suppliers groups had power as a result of the long term relationship between them and the two companies. In addition, these two groups have a legitimate claim over the company as providers of services/goods (suppliers) and takers of end products (customers). The combination of high power and high legitimacy results in high saliency hence these two groups are also prioritised. An interesting stakeholder group though not currently a direct key stakeholder is the customer's customer with similarly high buying power and high legitimacy of crediting or discrediting the companies. This supports work by Mainardes, Alves & Raposo (2011) where they argue that stakeholders are dynamic and subject to change, the peripheral stakeholders today can become key stakeholders of tomorrow. Even further he argues that stakeholders may hold one of the attributes of the salience model today and acquire another one or two attributes tomorrow.

The **non-governmental organisations** are deemed to possess high power to impose their will upon both organisations and are capable of forming coalitions

with communities, resulting in their influence being felt in a much more pronounced way. The group therefore can be regarded as having high saliency and are thus prioritised by both companies.

Government departments have a legitimate claim and are regarded as having high power as industry regulators and are therefore prioritised. However, even though **sustainability analysts and researchers** are regarded as main audience of the sustainability reporting by both companies they are not prioritised as they have low power, urgency and have no legitimate claim over the businesses.

Although all the groups except for sustainability expert and researchers have high stakeholder saliency and are prioritised their level of engagement with the companies was varied. This shows that even within prioritised stakeholders others are more important than others. In this study it's evident that after shareholders and employees are prioritised above others by the two companies. This is in direct agreement with work by Boesso and Kumar (2010) where stakeholders' needs are prioritised based on society-specific demands and expectations, hence some stakeholders will derive more value than others, due to their difference in salience and prioritisation. In the local South African context this is true; employee groups are more vocal in terms of expressing their needs and the situation is exacerbated by strong and vocal national labour unions. Companies are therefore seeking to establish congruence between their actions and societal values as argued by Matthews (1993). Earlier work by Boesso and Kumar (2010) also showed that country specific issues influenced stakeholder prioritisation.

6.4 Stakeholder engagement

The companies in their different approaches of stakeholder engagement, have demonstrated that they are not merely involving stakeholders to “mitigate” or manage their expectations (stakeholder management) but, rather that their engagement is there to create a network of mutual responsibility. The way the companies are approaching stakeholder agreement is in agreement with the work of Andriof *et al.* (2002). The approach is vital, as the level of engagement is known to ultimately influence stakeholder value. However, when compared to the information presented by the stakeholder groupings the situation is different. Communities and non-governmental organisations, though they engage with the company through the various engagement forums to address issues that of importance to them, they perceive the level of engagement with the companies as unsatisfactory. They are of the opinion that sustainability issues that are of key importance to them are not adequately addressed. This situation can be explained by the idea put forward put by Freidman & Miles (2002) & O’Dwyer *et al.* (2006), where even though the two groups have high stakeholder saliency, they are what are termed “economically powerless” stakeholders as the company will dialogue and engage with them less, compared to economically powerful stakeholders. Companies are indeed trying to address community needs but communities will always complain about engagement and exploitation a view that was shared by Kepore and Imbun (2010) in their work with multinationals in Papua New Guinea. Despite a long history of community engagement the local communities are constantly protesting against multinational mining companies in that country resulting in a long-term “love-hate relationship” between the two parties. (This was not reviewed in the

literature review section as it was outside the scope of this report, was only reviewed to understand communities around mining operations.)

The other view could be that the companies are at a point where they are acting according to thinking of Manetti (2011) who argued that, although there has been an unprecedented level of stakeholder engagement, the impact of these practises on serving stakeholder interest remains questionable. At corporate level there is evidence of commitment towards continuous engagement with communities but maybe companies are experiencing challenges at operationalising the strategy. This is very difficult to ascertain whether if that's the case as companies on one hand, are convinced that they are effectively engaging with these stakeholders yet all four respondents representing these two stakeholder groups believe that the engagement is ineffective. The dilemma was also highlighted by Schaltegger & Burritt (2010), who conceded that there is a shortage of evidence within sustainability reports, that such effective engagement and dialogue is taking place. The companies are looking at means of improving the situation such as their plans to formalise these engagements. This is so as to avoid a situation where dissatisfied external stakeholders resort to engaging in a set of actions such as protests and civil suits to advance their interests and demands as reported by Eesley and Lenox (2006). Such a threat was highlighted by the community leadership who are dissatisfied with level of engagement with the company.

Using the framework proposed by Zandek and Ryanard (2002) which suggests three dimensions of stakeholder engagement quality, it can be argued that both companies are not effectively engaging some of the stakeholder groupings. In

terms of responsiveness quality, the companies are not responding to all the needs of the stakeholders and in terms of quality of outcomes there is no tangible evidence of practises in line with stakeholder engagement, as reported by communities and NGOs. Again this demonstrates that though stakeholder approach in sustainability is good for business it has its own drawbacks. Companies struggle to accommodate their own material issues and at the same engage stakeholders effectively without allocating too many resources to stakeholders' giving away the store' just to satisfy stakeholders, which can potentially result in decreased returns for the company as reported in work by Harrison *et al.*, (2010).

With all the arguments that were mentioned above, companies still feel that the engagements with non-government organisations through forums are important. They are of the opinion that non-governmental organisations are acting as petitioners with legitimate expectations assuming the role of moral agents, in support of work by Gibson 2000. Their perceived responsibility is to consider rights and interests of the company and the other parties and promote effective and ethically correct relationships. This role is also equally played by trade unions as they engage with the company on matters that concern employees. The engagement with NGO forums is important and is in line with the current trend where companies are forming partnerships with NGOs to address social or environmental community needs as reported by Hansen & Spitzeck (2011). NGOs have realised that they are not being constructive by being adversarial, and feel that by partnering they will be able to influence from the inside. This viewed is evidenced by numerous existing partnerships for examples

Conservation International and WWF who are working closely with companies to improve performance of the company to address the needs of communities while assisting companies to meet sustainability targets.

The other stakeholders, particularly the customers and suppliers are satisfied with the level of engagement. This can be explained by the form of a “collaborative relationship” that exists between the company and this group of stakeholders as explained by Onkila (2010). The suppliers and customers are perceived to be part of the value chain and they also have a perception that the company stakeholder relationship is based on equality and beneficial to both parties, they have forged some form of a synergistic relationship. The engagement between the two (company and stakeholders) thus becomes strongly interactive. The stakeholders feel that they have responsibilities and legitimate rights therefore their interest in the relationship goes beyond the scope of mere satisfaction of ambitions and expectations in agreement with ideas proposed by Manetti (2011). The fact that these groups are economically powerful as postulated by the above, could also be a contributing factor as to why they are satisfied with the level of engagement, as companies tend to engage with economically powerful stakeholders.

Based on this information presented, both companies are making efforts to engage stakeholders through their adoption of the correct stakeholder engagement framework, the AA1000 framework. However the evidence presents positive and collaborative relationship with the other stakeholder groups and ineffective stakeholder engagement with others. This situation thus

supports the opinion by Mainardes *et al.* (2011) that it's not feasible to engage with all the stakeholders based on collaborative relationship due to the multiplicity of stakeholders' expectations. It therefore leads itself to the conclusion that in stakeholder engagement, others will be satisfied and others not, as the company strives to engage stakeholders without compromising the core business of increasing future value of the company in agreement with ideas put forward by Moneva *et al.* (2006).

6.5 Stakeholder value derived from sustainability reporting.

The main focus of sustainability reporting as defined by Gray (2006) and Buhr (2007) is to serve as a communication tool with potential, to influence the attitudes and perceptions of stakeholders and in the process, build trust and enabling the benefits of positive relationships to deliver business advantage. First and foremost the reasons given by these companies as to why they report on sustainability are in agreement with work by Buhr (2007) and Gray (2006). The reporting is done to meet King III requirements and by so doing they manage risk and reputation, reduce external pressure, promote investor relations and corporate performance. The companies in this case are reporting for the correct reasons.

The companies are of the perception that the reports are of value to some groups and irrelevant for some stakeholder groupings. The results showed that the value derived by one group is different from the other and is defined by the stakeholder grouping's main interests as 'value' is one ambiguous term, with no widespread consensus with a myriad of definitions as proposed by Rescher (1982). Although the researcher attempted to define stakeholder value as being

individualistic based on Rescher's (1982) work this was also evident in the response by the two experts on the perceived value of sustainability reporting for their organisations.

The varied responses in terms of value derived indicate the controversial nature of stakeholder interests and expectations for companies dealing with sustainability issues, (Greenley *et al.*, 2004). This in turn adds to the confusion of how to prepare the reports so that each and every stakeholder who reviews the report feels that their needs were addressed. The challenge is what one stakeholder considers being a benefit may hold little value to another, and rewards to one stakeholder may conflict with the interests of another stakeholder. For example demand for employment of local community members by communities is in conflict with the investor needs of a full set of highly competent employees for the company to be innovative and remain competitive.

Proponents of the stakeholder theory such as Freeman (1984), Gibson (2000) and Walsh (2005), argue that the company's welfare is optimised by meeting the needs of the company's important stakeholders in a win-win fashion. The results have indicated that it's not always possible to have a win –win situation where there is conflict of interest between the company objective and stakeholder perspective. In cases where there are differences companies fail to create any tangible or intangible benefits for that particular stakeholder through sustainability reporting and disclosure despite the company's best intentions.

Among the list of stakeholders that are perceived to deriving value out of sustainability reporting investors are included. This is to be expected as the

report though written for stakeholders is still shareholder oriented as business will always be accountable to shareholders/investors first and foremost maximising returns for company shareholders. The results indicated the companies to be stakeholder oriented in support of the view by Geva (2008) that as companies utilise societal resources, they have social responsibilities that go beyond maximising shareholder value.

The other stakeholders that derived value are consumers and suppliers which can be classified as internal stakeholders. This is in support of earlier work by O'Dwyer *et al.* (2006) that showed sustainability reporting is still focussed at internal stakeholders who are financially stronger and relevant in the company's value chain. In their studies Wagner *et al.* (2009) reported that consumers by their very nature are increasingly placing importance on firms' social and environmental responsibility when making purchase decisions,) an issue that was highlighted by both companies with regards to their consumers in the jewellery industry.

It's important to note that the company's view of perceived value differed from stakeholder's view of value for communities in particular. While companies were of the opinion that if communities were to read their reports, the reports might help the communities understand company's efforts to engage and demonstrate all the good things the companies are doing. Communities were however cognisant of that fact but still focussed on issues that are of material to them. The disparity can be explained by a recent study by Tsang *et al.* (2009) which found that many companies, while disclosing community investments in accordance with GRI, were doing so in a meaningless way. These companies

were mostly disclosing what they were doing (performance) as well as what changes, and how these damages or benefits have impacted communities. However, in this research the reports produced by the companies are elaborate on what changes, damages and impact are there in the community as a result of mining operations but despite these efforts communities are not convinced. The has promoted companies to develop tailor made reports in a simplified format for communities so that maybe communities can realise that the company is actually working at accommodating them not against their demands.

The role of stakeholder prioritisation, saliency and engagement and how it determines whether a stakeholder derives any tangible or intangible benefit from sustainability reporting is evident, based on the above discussion in support of the Mitchell *et al.* (1997) model. Stakeholder groupings such as communities and NGOs are associated with high stakeholder priority and saliency, are not deriving any value which is not consistent with work by Eesley and Lenox (2006). Even though these stakeholders are vocal and are associated with high societal value they are less powerful relative to the company in terms of resources implying that it's a combined effect of these factors that determine level of engagement and ultimately determine value derived as put forward by Manetti (2011). However, with the current trend of increasing community involvement and activism, as seen recently in numerous instances of community power, there is need for companies to improve level and quality of engagement through sustainability reporting. Recent examples of community activism include the, BP oil disaster and AngloGold Ashanti

shutdown by communities in Ghana. As local communities are increasingly acknowledged as 'key and important stakeholders' with increased saliency, companies will be pressured more to pay attention to their development demands, in order to fulfil their corporate objectives, (Hansen & Spitzbeck, 2011).

The interesting groups are the peripheral stakeholders, sustainability analysts and customers' customer who are deriving social capital value from the sustainability reports and this cannot be explained by the Eesley and Lennox (2006) approach, which is based on the stakeholder saliency model. This implies that it's possible for the very external stakeholder groups to seek value in instances where they are not valued and turn themselves into future stakeholders. These stakeholder groupings based on value, they are bringing to organisations are likely to have high power, urgency and legitimate claim over businesses in the near future such that they will be listed, prioritised at the same level as current key stakeholders.

In summary this work has demonstrated that sustainability reporting is of value to certain stakeholder groups such as investors, customers, suppliers and to some extent trade unions that are classified as internal stakeholders, as opposed to communities and NGOs who are regarded as external stakeholders. Internal stakeholders are thus highly prioritised and are in constant engagement with the organisations based on their collaborative relationship with companies. External stakeholders though highly prioritised, are still yet to derive any benefit

though making enough noises to be heard. The value derived is indeed as perceived by the stakeholder grouping.

CHAPTER 7: CONCLUSION

7.1 Introduction

Sustainability reporting is being used by businesses that intend to increase their current and future earnings by focussing on a stakeholder approach in their sustainability reporting covering economic, social and environmental issues. All the current policies and frameworks that promote sustainability reporting and disclosure have one common main objective, which is to meet the emerging needs of relevant stakeholders such as government, other legislative bodies, communities, investors and civil society. Therefore the focus of this report was therefore to understand from a stakeholder's perspective, if indeed the sustainability reporting is meeting their needs and creating value for them.

7.2 Summary of results and recommendations

The results showed that companies prioritise and engage key stakeholders (research question 1) depending on the saliency associated with that stakeholder and whether stakeholder expectations and needs is of material to the company.

The value derived from sustainability reporting by each stakeholder grouping as perceived by the company (research questions 2) varied per stakeholder grouping, with companies acknowledging that very few stakeholders (investor community, customers, suppliers and to some extent trade unions) derive some value out of these reports.

The perceived value derived from sustainability reporting by the different stakeholder groups varied (research question 3) with traditional internal stakeholders benefiting from these reports and external stakeholders deriving very little value out of them. The stakeholder groupings mainly NGOs and communities and are not satisfied with level of engagement and prioritisation which is ultimately influencing their perception on stakeholder value.

The company's perspective of value of sustainability reporting differed from the of stakeholders' perspective of value mainly for those classified as external stakeholders (NGOs and communities), (research question 4). The expectations of the various stakeholder groups (research question 5) differed among the various groups. The divergence in stakeholder expectations clearly demonstrated the challenges companies face in trying to meet the needs of these multiple stakeholders.

7.3 Limitations of this Research

This project was undertaken during a specified time frame; hence the following limitations were identified:

- Each stakeholder category was made up of a number of stakeholders but the study was limited to stakeholders that can be directly linked and are directly impacted by activities of selected companies. Although the intention was to directly link each stakeholder to a specific company this was not possible as some stakeholders (investors, government departments and sustainability analysts and researchers) were common to both companies. Their views were therefore a perception based on

reporting by the two companies as a group and not as individual companies. The researcher could not link their perspective to a specific report by the respective company, implying that views expressed could be a combined view of reporting by the two companies.

- The companies were represented by sustainability experts who are intricately involved in preparing these reports hence their perception on value derived from reporting is likely to be different from the rest of the management team in other sections of the company. With time permitting it would be important to get diverse opinions on value of reporting from other members of management in the organisation.
- The stakeholders were registered and domicile in South Africa and were limited to investors domicile in the country though effort was made to interview international investors but the researcher failed to get any feedback. The idea of limiting the stakeholders to those domicile South Africa was due to limited time therefore the researcher failed to illicit views from stakeholders outside yet the two companies have operations outside South Africa. This implies that the researcher could not on country specific societal expectations of the other country which is known to influence stakeholder prioritisation and engagement.
- The study was limited to views of stakeholder groupings and not views of the each individual stakeholder hence opinions of interviewees were analysed as views of the stakeholder group. The study was however limited to two companies in the mining sector, therefore the results cannot be generalised to be views of stakeholders in that sector.

7.4 Future Research Ideas

In light of the limitations above, the following issues could be followed up in future research;

- An in-depth study could be conducted across sectors to understand specific and nuanced perspectives on stakeholder value as perceived by a stakeholder grouping such as investor community so as understand how reporting can be modified to address the needs of each individual stakeholder grouping.
- The study did not address stakeholders outside South Africa; future research could focus on including stakeholders in different context to assess if the stakeholder value is indeed influenced by country specific context.
- The study was based on the companies in the same industry; the same study could be carried out in a different industry to assess if the stakeholder value derived varies per industry sector.

7.5 Conclusion and recommendations

Based on the results it has been clearly demonstrated that that reporting does not necessarily translate to creating stakeholder value for all the multiple stakeholders with their multiple interests and in some cases these interests are in direct conflict with company's business strategy. The process followed in stakeholder identification, prioritisation of these different stakeholder groupings and level of engagement, has an important role to play in creating any tangible or intangible benefit. The recommendation is that companies have to address these attributes related to stakeholder salience in order for them to meet needs

of stakeholders interested in three sustainability pillars while creating value for investors.

The results showed that stakeholder engagement by companies which influences the stakeholder value derived needs to be effective and inclusive. For many companies especially in the mining sector and all businesses that have significant societal and environmental damage this is critical. Communities and civic society are becoming aware of sustainability issues and are demanding their voices to be heard. Companies therefore need to improve engagement with civic organisations and communities through formalised processes that recognise both parties as equal partners. The reports produced as a result of this inclusive engagement need to be simplified and translated into local language if necessary to ensure effective communication. This can start at project inception with companies communicating clear policies to create awareness in the local communities, how their activities will impact their lives and how the company is prepared to overcome these challenges. Formation of corporate partnership with key players, such as government, unions and NGOs will result in all parties being fully aware of needs and benefits of this collaborative relationship. The recommendation is that corporate need to strengthen these partnerships as both parties need each other to create a sustainable future that's beneficial to the business and society.

The sustainability reports produced by companies need to take into consideration a few critical issues to be of value to stakeholders. They should provide a balanced and reasonable representation of the sustainability

performance of a reporting organisation. The issues that are of critical importance to the stakeholders but, mainly to the investor community that must be evident in the report are elements of trustworthiness, transparency, showing the good and bad decisions that were made by the organisation. This can be achieved by businesses adopting the GRI Reporting Framework which discloses positive and negative outcomes, that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach.

The important factor to note is that the framework takes into account the practical considerations faced by a diverse range of organisations since it is designed for use by organisations of any size, sector, or location. A company therefore needs to understand its business process to use the framework to develop reports that are relevant in addressing stakeholder expectations. All the sustainability reports developed using this reporting process are tracking and seeking consensus through dialogue between stakeholders and business, the process is thus stakeholder inclusive. The adoption of GRI based reports therefore allows the stakeholder to trace the whole sustainability case of the company through the entire value chain. In addition to this, the adoption of this framework assists the company in addressing the requirements of major global and industry based initiatives focussed at sustainability initiatives. Based on this research companies are recommended to continue or start producing sustainability reports as they can be used for the following purposes, among others:

- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives.

This is very useful internally for specific business functions and for government departments and other regulatory bodies.

- Demonstrating how the organization influences and is influenced by stakeholder expectations with regards to sustainability issues. This aspect can be used by businesses to build collaborative relationships or partnerships with civic organisations, communities as well as labour unions.
- Comparing performance within an organization and between different organizations over time. This allows the business to map out its sustainability roadmap into the future using the reports of previous years as institutional memory. In addition the report can be used by businesses to compare sustainability performance relative to peers in the industry and other top global sustainability reporters.

8. Consistency Matrix

Title: STAKEHOLDER VALUE DERIVED FROM SUSTAINABILITY REPORTING Research Question 1: Research

Research Questions	Literature Review	Data Collection Tools	Analysis
Research Question 1: What is the role and influence of stakeholder engagement and prioritisation in determining the stakeholder value of the various stakeholders' groupings?	Boesso & Kumar 2010, Greenlay <i>et al.</i> , 2004, Mitchell <i>et a.l.</i> , 1997	Interview guide and Sustainability reports	Comparative analysis of stakeholder interview, company interviews and sustainability reports
Research Question 2: What are the perceived values of sustainability reporting to the various stakeholders from a company perspective?	Harrison <i>et al.</i> , 2010, Sisodia <i>et. al.</i> , 2007, & Walsh, 2005.	Interview guide and sustainability reports	Content analysis; determine if they mention any values that follow under the broad themes of sustainability, i.e. society (human capital), environment and financial benefits.
Research Question 3: What is the stakeholder value, if any, that is derived from sustainability reporting by the various stakeholder categories?	Greenly <i>et al.</i> , 2004, Boesso & Kumar 2010, Burritt, 2010.	Interview guide	Content analysis of the respondent to ascertain topical issues or stories under the broad field of economic, environment and society that will emanate from various stakeholders interviews
Research Question 4: Is there any merger or divergence in stakeholder value as perceived by the company compared to the perspective of the various stakeholder groupings?	Sisodia <i>et al.</i> , 2007, Harrison, <i>et al.</i> , 2010.	Interview guide and sustainability reports	Comparative analysis of company and stakeholder perspective of stakeholder value
Research Question 5: Do these various stakeholder groupings have different expectations and therefore different stakeholder value	Mainrades, <i>et.al</i> , 2011, Boesso & Kumar 2010.	Interview guide and any documents collected from stakeholders	Content and narrative analysis of interviews with stakeholders followed by understanding of ideas and the uniqueness of each stakeholder group.

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Appendix 1: Interview Guide for Sustainability Experts and Key Stakeholders/Stakeholder Groupings

Informed consent letter

I am doing research on sustainability reporting and stakeholder value and trying to investigate if sustainability reporting and disclosure by companies is indeed creating value for stakeholders or different stakeholder groupings. Our interview is expected to last for about an hour, and will help us understand how you have benefited from sustainability as a stakeholder of company X. Your participation is voluntary and you can withdraw at any time without penalty. Of course all the data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher: Esther Ngorima

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Phone: 083 2664940

Phone: 011 7714288

Signature of participant:



Date:

Signature of researcher:

.....

Date:

.....

Part A: Interview with company sustainability experts

The researcher intends to cover the following issues during interviews with sustainability experts from company X.

1. Contextualising sustainability reporting with the company policies and legislation

1.1 What policies and frameworks are used by company X in developing sustainability reports?

1.2 Discuss in detail sustainability issues (social, environmental and financial) that are addressed in the sustainability reports produced by company X.

2. Stakeholders/stakeholder groupings of relevance and how they engage with the company X.

2.1 Who are the major stakeholders/ stakeholder groupings of company X?

2.2 Discuss the level of importance associated with each stakeholder/stakeholder groupings.

2.3 Discuss how the stakeholders/stakeholder groupings access the company's reports.

2.4 Has company X formalised the stakeholder engagement process? Discuss in detail how it has formalised the process.

3. Merger and divergence of stakeholder expectations.

3.1 Do these stakeholders/stakeholder groupings of company X exert the similar/different demands on them?

3.2 How different/similar are these demands? Explain in detail the demands exerted by each stakeholder/stakeholder groupings.

4. Company's perspective of stakeholder value derived from sustainability reporting

- 4.1 What does the company perceive to be the value generated by their reports to each of the mentioned stakeholder/stakeholder groupings?
- 4.2 Has the company sought feedback from its stakeholders/stakeholder groupings, in terms of value they derive from the sustainability reports?
- 4.3 How does the company handle the feedback from the stakeholders/stakeholder groupings?
- 4.4 Does the company intend to improve its stakeholder engagement and reporting system to improve the perceived stakeholder value?

Part B: Interview with company identified stakeholders/stakeholder groupings

The researcher intends to cover the following issues during interviews with the company's identified stakeholders/stakeholder groupings.

5. Contextualising stakeholder/stakeholder groupings and sustainability reporting

5.1 Discuss in detail the stakeholder/stakeholder grouping interests in relation to sustainability issues and sustainability reports of company X.

6. Stakeholders/stakeholder groupings of relevance and how they engagement with the company.

6.1 What is the relationship between company X and the identified stakeholders/stakeholder groupings?

6.2 Discuss the level of importance they attach to their relationship with company X.

6.3 In your opinion, who are the other major stakeholders/ stakeholder groupings of the company X?

6.4 Where these stakeholders/stakeholder groupings included in the formulation of the company's sustainability strategy? Discuss in detail their role in the process?

6.5 Discuss how the stakeholders/stakeholder groupings access the company's reports.

6.6 Have they formalised their stakeholder engagement process with company X?

Discuss in detail how it has been formalised.

7. . Merger and divergence of stakeholder/stakeholder groupings expectations.

7.1 What is the company doing to address these issues that are of concern to them?

Provide in detail including examples of how the company addressed them.

7.2 What are they doing to exert their demands on company X?

7.3 How are their demands addressed by company X? Discuss in detail.

8. Stakeholder perspective of stakeholder value derived from sustainability reporting

- 8.1 Discuss in detail, benefits, if any, they are deriving by being a stakeholder of company X.
- 8.2 How do they evaluate the value they derive from these reports?
- 8.3 In instances where no benefits are derived from sustainability reporting by company X, discuss in detail why this is the case?
- 8.4 , Have they provided feedback/ complaints to company X and how did they provide feedback?
- 8.5 What are their views as to how the company handles the feedback?
- 8.6 Will they engage the company in future to improve their stakeholder engagement and value?