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Stakeholder Engagement in the Determination of Materiality for Sustainability Reporting

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MASTER OF BUSINESS ADMINISTRATION

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ABSTRACT

Sustainable business practices are fundamental for the future of business, society and the environment within which business operates. In this journey, stakeholders provide a sustainability compass that must be consulted by companies in determining and realigning the business context to their legitimate needs. Businesses have constantly been accused of an imperious attitude towards stakeholders that manifests in one directional conversations designed to manage rather than engage and report objectively on the state of their relationship with stakeholders.

Whilst much exploration has been conducted on stakeholder engagement, the cardinal objective of this research was to explore the role of this engagement in determining the gradation of issues in the businesses' sustainability reporting process. A review of other significant scholarly material highlighted gaps in the realm of this broad subject that were used in the construct of the research questions. Data in this qualitative study was obtained from sustainability practitioners employed by companies listed on the Johannesburg Stock Exchange. This was achieved through content analysis of their reports and structured in-depth interviews that sought to understand the materiality concept through their stakeholder engagement process.

The findings suggest that stakeholder engagement and materiality determination in particular is a complex area fraught with a lot of challenges as well as diversity in approach and purpose. The findings also suggested that the determination of the sustainability content is a unilateral process instituted and guided by the reporting entity with no involvement of other stakeholders beyond the data-gathering phase.

Keywords: Sustainability reporting; Integrated reporting; Materiality; Corporate governance; Stakeholders

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: 10 November 2014

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My deepest and sincerest gratitude to the Lord Almighty for his unending shower of blessings in my life. You have always been there.

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CHAPTER 1: INTRODUCTION

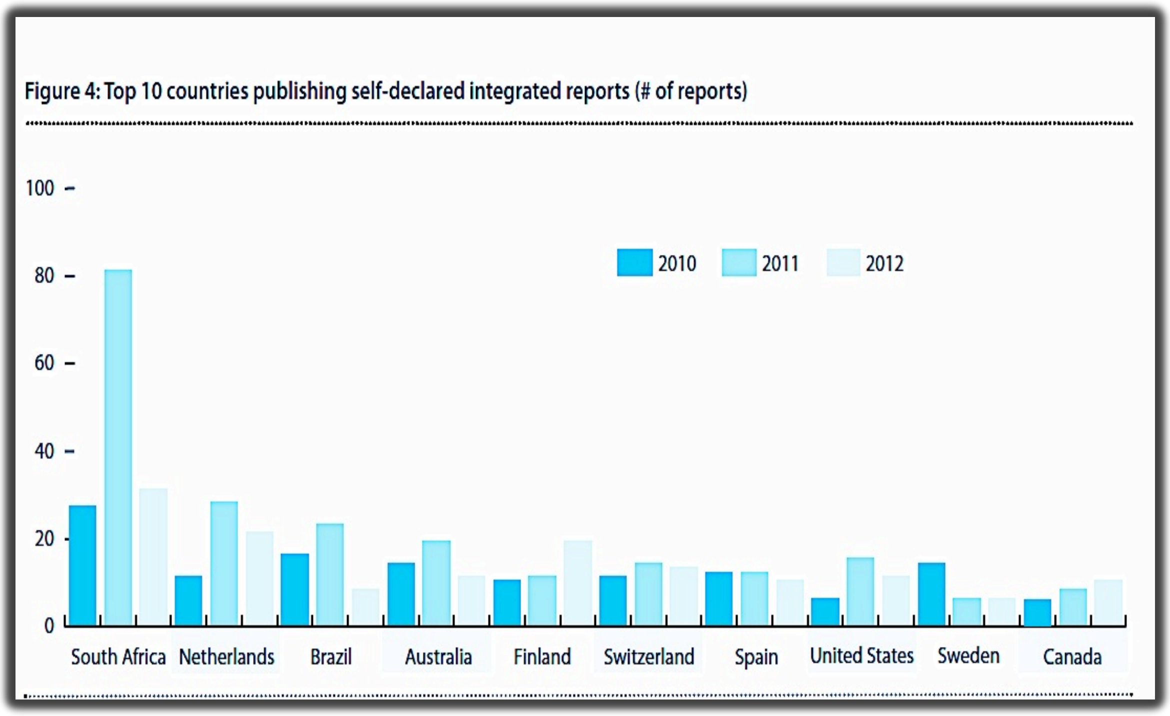
1.1 Introduction to Research Problem

Sustainability initiatives are at the heart of businesses' attempts to identify and resolve the economic, social and governance problems that threaten the mutually productive existence of businesses and their stakeholders (Murphy & McGrath, 2013; Boiral, 2013). After all, various inhabitants share the world and so decisions taken have an impact on various stakeholders. Over time businesses have steadily moved away from the shareholder-centric, capitalist view of bottom line accountability mobilised by an increasing awareness of the need to be accountable to a wider stakeholder community (Visser, Matten, Pohl, & Tolhurst, 2010).

Sustainability reporting involves the reporting of the impact, value creation and distribution along economic, social and governance implications that companies have on the wider community. The successful engagement and objective determination of materiality is therefore key in reporting the sustainability drive of organisations.

Monitoring and reporting of the United Nations Global Compact (UNGC) Principles and the Organisation for Economic Co-operation and Development (OECD) principle on corruption are mandated in South Africa through the Companies Regulations, (2011). The Global Reporting Initiative's (GRI) Sustainability Reporting Framework is also rapidly gathering momentum. The UNGC, OECD and GRI codes are based on best practices in sustainability reporting which forms part of good corporate governance. However, despite the popularity of these codes, there still appears to be teething problems around how to effectively engage stakeholders and transitioning this aspect to what is material and to whom. Indeed, Eccles, Krzus, Rogers & Serafeim (2012) question the robustness of these standards by contending that without rigorous standards, it is difficult to measure and report on some dimensions of sustainability reporting.

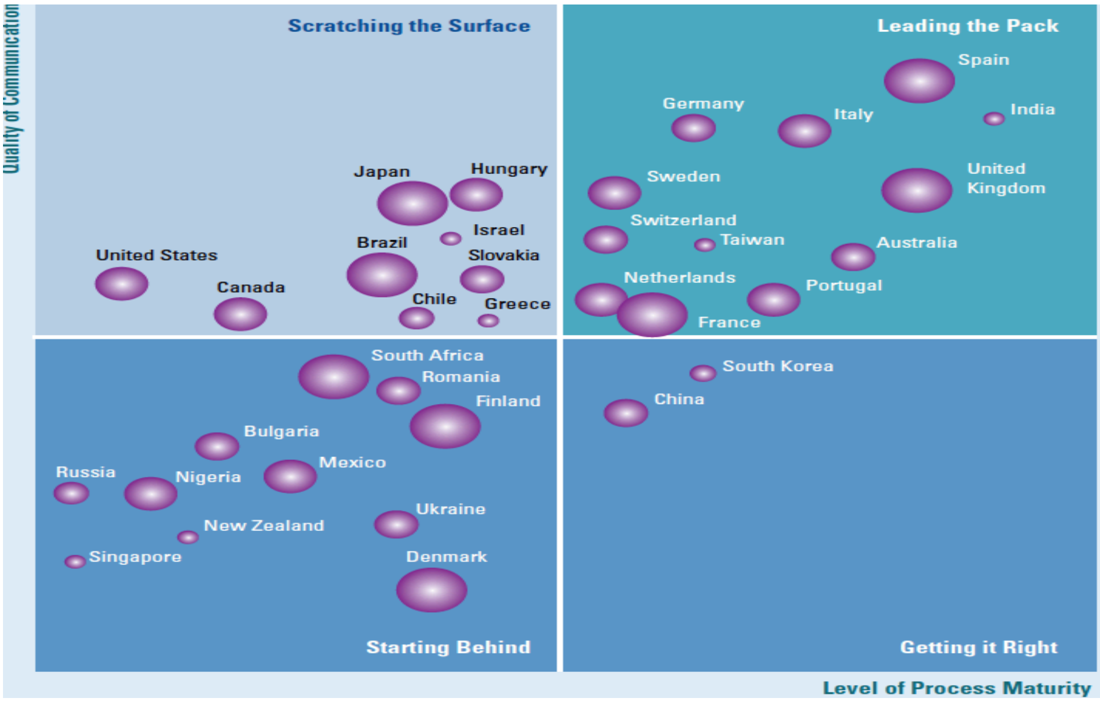
Figure 1: Top 10 Countries Publishing Self-Declared IR



(KPMG International Survey of Corporate Responsibility Reporting, 2011)

South Africa is leading the way in Integrated Reporting disclosure, which includes the sustainability content (GRI, 2012) as seen in the graph above. The report attributes this strong showing to the mandating of Integrated Reporting by the King III Report on Corporate Governance (Institute of Directors in Southern Africa, 2009). However, notwithstanding this, the reporting maturity levels and quality of information contained in the reports is still far behind the leading pack (KPMG, 2011).

Figure 2: Integrated Reporting Maturity Matrix



(KPMG International Survey of Corporate Responsibility Reporting, 2011)

Materiality is a key principle in considering the content and quality of reported content. As illustrated above, within the South African context, the role of stakeholder engagement is heightened in light of the perceived quality issues around the reported content.

Eccles *et al* (2012, p.66) argue that the various regulatory accounting bodies do not address the issue of "material to whom", whilst only the US Public Company Accounting Board focuses on the perspective and decision making of a "reasonable shareholder". van Zyl (2013) indicates the need to clarify two pertinent questions that determine the usefulness and value of Integrated Reports:

- To whom are companies accountable?
- For what are they responsible?

The answers to these questions and the companies' viewpoints with regards to accountability and responsibility will directly influence their stakeholder engagement process and the judgments required to rank stakeholders' concerns (IOD, 2009).

These issues are further complicated by the inability of these codes to put a threshold on qualitative information but rather leaving it to the subjective determination of the preparers of these reports. This would necessitate a high degree of judgment, care and skill (IRC, 2011). The codes have left it to the discretion of those charged with governance to determine what is material for inclusion or not. It is therefore necessary to investigate how these informal trustees are executing oversight and in so doing, to what extent there is consultation with stakeholders towards inclusive reporting.

1.2 Research Scope

The scope of the research limits itself to the Sustainability Report as distinguished from the Integrated Report. An Integrated Report consists of both the Financial Report and the Sustainability Report. An **Integrated Report** (IR) is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term (International Integrated `Reporting Council Framework (2013). For companies that do not publish a separate Sustainability Report, the research will therefore be concerned with the sustainability content published by the organisations irrespective of whether this information is published in a single Sustainability Report, or an Integrated Report.

The corporate world has slowly moved away from the single bottom line reporting to a more inclusive approach that considers the varying interests of other stakeholders (Max & van Dyke, 2011). The King III defines sustainability as follows:

> *"[. . .] the sustainability of a company means conducting operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. It means having regard to the impact that the business operations have on the economic life of the community in which it operates. Sustainability includes environmental, social and governance issues. "*

This study was exploratory in nature with a particular focus on Johannesburg Stock Exchange (JSE) listed companies. Whilst governance issues apply to all entities, the requirement for JSE listed companies to comply with pro sustainability codes and legislation made the JSE a fertile ground for this study. The selected companies were from varying industries such as mining, telecommunications and banking.

1.3 Research Aim

The project sought to understand the processes undertaken in determining materiality in the sustainability reporting process and the extent to which such processes are stakeholder inclusive. Various literature exists that concludes that there is evidence that the corporate world has moved to an inclusive engagement process with stakeholders (Boiral, 2013; Eccles et al, 2012; Ramlall, 2012). The focus of the research was also on understanding whether this engagement has also been used to determine the information that is published in the sustainability reports. This had a direct bearing on the materiality aspects expounded by King III.

Concurrently, the study also investigated the role that stakeholders play beyond the reporting process for example, in the assurance process. In so doing, there was an attempt to investigate whether stakeholders have the opportunity to endorse information contained in the sustainability reports and therefore enhances its reliability and credibility. In broad terms, the research aims to:

Determine the current processes used to determine materiality for sustainability reporting?

Determine the nature of the stakeholder engagement process; and its use in the reporting process

Determine the role of stakeholders in the assurance of sustainability reports

It is intended through this research to contribute to existing literature on sustainability reporting as well as participate in the drive to improve businesses processes to be more inclusive. The research is intended to investigate the existence, if any, between the requirements of the theoretical frameworks in place and the realities of practice. Within the South African context, the Johannesburg Stock Exchange Socially Responsible Index (JSE, SRI), The King 111 on Corporate Governance and the Companies Act all compel companies towards sustainable business practices. There is therefore a need to see if all these initiatives have resulted in a progressive report that comprehensively and objectively accounts for their sustainability activities.

CHAPTER 2: LITERATURE REVIEW

2.1 Sustainability Reporting

As business has evolved, companies have come under pressure to account for their operational processes in a holistic manner, comprehensively demonstrating how they continue to create and deliver value to stakeholders. Increasingly, investors have been demanding that companies report along Environmental, Social and Governance (ESG) parameters (Murphy & McGrath, 2013) and to use this platform to highlight the real sustainable-development problems (Boiral, 2013). It is accepted that sustainability reporting has gathered momentum (Zicari, 2014) and turning a blind eye to sustainability issues is a ticking time bomb (GCSR, 2013). However, the reliability of the information, and the control of that information by senior management of reporting companies has tended to undermine transparency of disclosed information in sustainability reports (Cho, Michelon, Pattern & Roberts, 2014); (Romolini, Fissi & Gori, 2014).

Sustainability reporting as a process has been developing. Ramlall (2012) proclaims that before the South African Companies Act (2008), the government steered companies towards being good corporate citizens by enacting a range of laws that indirectly compelled companies to consider sustainability issues. Examples of such Acts include Broad Based Empowerment and Employment Equity Act (BBEEE); Employment Equity Act 55 of 1998; National Empowerment Fund Act 105 of 1998; the Preferential Procurement Policy Framework Act 5 of 2000, and the Skills Development Act 97 of 1998 (as amended in 2003). The South African Companies Act (2008) regulations mandated the formation of a social and ethics committee for every listed company. The regulations required the committee to monitor the companies' activities using, amongst others, the UNGC's 10 principles as well as the OECD recommendations regarding corruption. This was a significant move as it meant sustainability monitoring and reporting could no longer be just a “nice to have” but was thus a regulatory matter for which non-adherence would be unlawful.

However it is noteworthy that whilst the Companies Act regulations regard the UNGC and OECD as prevailing codes of best practice, the codes themselves have not been prescriptive and/or regulatory but have rather operated on a comply or explain basis. This flexible approach to corporate governance, for which sustainability reporting is a part of, has been be open to abuse if entities have failed to justify their deviations from recommended practice. Only the sophisticated reader and those well acquainted with governance issues have been positioned to be able to discern deviations, (KPMG, 2011). The flexibility is important as it is not possible to have a generic solution that fits all situations, however this does introduce the risk of too much latitude being taken and thus making monitoring and compliance arguably difficult.

Mervin King in the King III code argues that, “In reality, the ultimate compliance officer is not the company’s compliance officer or a bureaucrat ensuring compliance with statutory provisions, but the stakeholders’’ (King III, 2009, pg.5). It seems therefore, by deduction, to be assumed that the various stakeholders are competent enough to police adherence to the requirements of the code.

Given the above scenario, what would be of benefit would be the assurance of these sustainability reports. Assurance would enable comparability of the various reports and provide some measure of integrity to the reported content. However, there are doubts as to whether the assurance of information contained in the integrated report can be conducted without assurance of the underlying processes, such as stakeholder engagement (Cheng, Loannou & Serafeim, 2014). Liability of the major accounting firms as well as the lack of consensus on what a true and fair view of a sustainability report is, are the other key concerns around reporting (Cheng *et al*, 2014).

Gilbert & Rasche (2008) contend that the cost of reporting is also one of the problems posed by the sustainability reporting standards. The costs range from training, management time, and verification costs among others. This is arguably important because companies who do not view sustainability issues, including reporting, as a value creation exercise may inevitably view these costs as losses thus compromising their engagement in such processes.

Businesses have by and large been accused of using sustainability issues, including reporting as a marketing tool whilst paying lip service to the real issues (Ramlall, 2012). If this were true, by deduction, it would therefore make any stakeholder engagement process and the resulting materiality determination, a farce. It is therefore critical to discern whether businesses are engaging and reporting because of the true understanding of the long-term value creation of conducting business sustainably, or because of the required compliance created by King III and the Companies Act, 2008.

2.2 Stakeholders

The Stakeholder Theory, first formulated by Freeman (1984), has now been core in shaping some of the thinking in management sciences for two decades . Freeman defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organisation's objectives." The theory suggests a mutually beneficial relationship between stakeholders and the organisation's performance. Bridoux & Stoelhorst (2014) categorise primary stakeholders as investors, employees, customers and suppliers. Manetti (2011) argues that the determination and identification of stakeholders is key in determining materiality. The interaction between the organisation and its stakeholders is therefore important in the reporting process.

Freeman's (1984) Stakeholder Approach has further developed to assume a gradual growth path of stakeholders' involvement and participation (Manetti & Toccafondi, 2012) that involves the following 3 phases:

1) Stakeholder mapping – identification process
2) Stakeholder management – expectation management
3) Stakeholder engagement – inclusive/consultative process

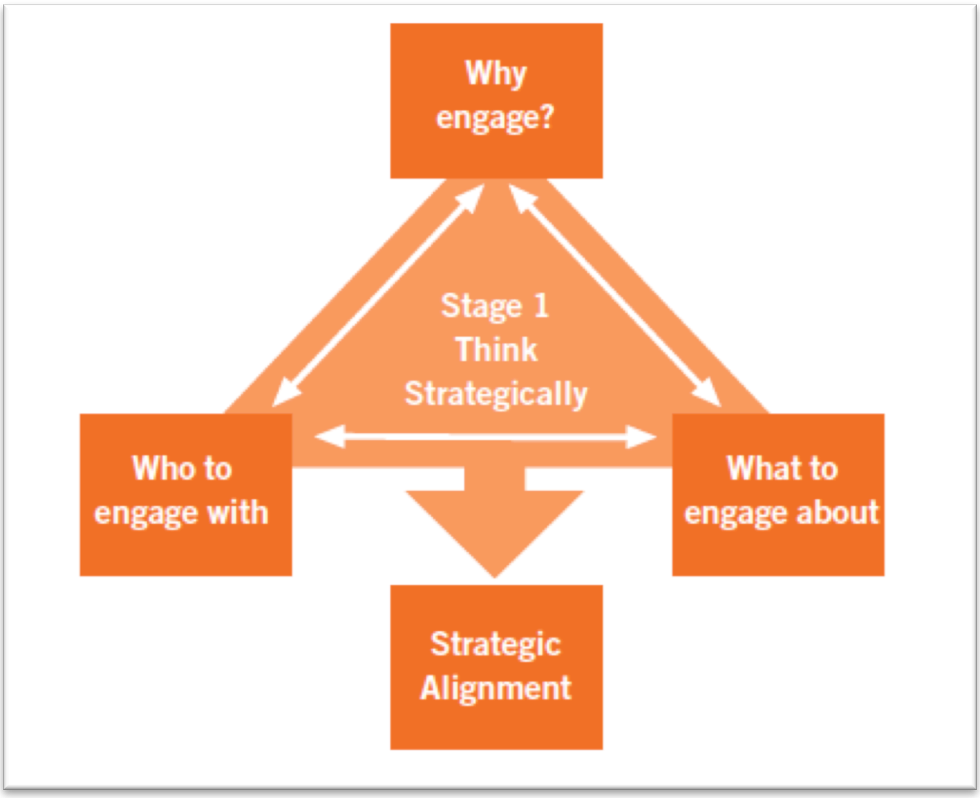
Manetti (2011) argues that the results of his work in this area indicate that this interaction is no more than a one-way stakeholder management (as opposed to engagement) process. It is also arguable whether the expectations of varying stakeholders with varying measures of what constitutes value can be met and indeed measured and documented. Harrison & Wicks (2013) propose that much of business' understanding on stakeholder needs and expectations focuses on economic returns. The same authors also contend that existing business literature posits that the interests of stakeholders are in conflict. Resolving these conflicting interests may be crucial in order to harmonise the determination of what is material. Manetti & Becatti (2009) propose that materiality should be assessed from the viewpoint of targeted stakeholder groups. This would entail a complex process of stakeholder identification, categorisation and prioritisation.

Businesses are therefore confronted with a dilemma; stakeholders may have distinct differences in their expectations of the content of the sustainability report depending on what they deem to be important and therefore material to them. Sangle (2010) further emphasizes that the ability to manage stakeholder groups is associated with satisfaction with corporate social responsibility. However, Manetti & Toccafondi, (2012) contend that these various differences can be managed through a gradual growth path of stakeholders' involvement and by classifying them into primary (which determine the survival of the organisation) and secondary (which affect or are affected by the organisation but do not determine its survival).

In reality, corporate decisions such as how to manage social accountability and stakeholder relations are influenced by the particular nature of their sector and the organisation's own corporate culture (Romolini *et al*, 2014). This may make any standardization of relevant and material reporting difficult. In light of this it is important to explore why recent developments in sustainable business practices have incorporated stakeholder engagement as a key ingredient of sustainability reporting.

Figure 3 shows the critical dimensions of stakeholder engagement that must be critically aligned in-order for effective engagement to take place. These dimensions form the core of corporate philosophy on stakeholder engagement by coordinating and defining the three pillars that shape the quality of information obtained through the process.

Figure 3: Stakeholder Engagement Process



Source: The Practitioner's Handbook on Stakeholder Engagement (2005)

2.3 **Materiality**

International Standard on Auditing 320 (2009) defines materiality in the context of financial reporting in the following terms:

> "*Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."* (p2)

The GRI states that materiality for sustainability reporting is concerned with a wider range of impacts and stakeholders. It further argues that determining materiality for a sustainability report also includes considering economic, environmental, and social impacts. Herein would lie the challenge for integrated reporting, which includes both the financial statements, and the sustainability report.

Various regulatory bodies such as stock exchanges, Accounting Standards Board, GRI etc. govern much of what is contained in company annual reports. The rules and regulations expounded by these bodies are fairly general and "principles-based" (Eccles *et al*, 2012). One such example is the International Reporting Council's (IIRC) Integrated Reporting Framework that has codified a set of principles to regulate its voluntary membership. The IIRC's Framework argues the need for balance between prescription and flexibility in-order to take into account varying circumstances between reporting entities. It has remained arguable whether allowing reporting entities this flexibility will allow for uniform materiality determination and indeed comparability in the resultant reports.

Eccles *et al* (2012) put forth a proposition for sector specific materiality. However, even in this case, the specific processes of determining the material issues especially in light of the varying stakeholder interests have not been defined.

Given that the responsibility of a company's reporting is the responsibility of management as mandated by the Companies Act, 2008, it may therefore also be reasonably concluded that it is also the responsibility of management to "choose" what to report and what not to report. This, of course, should be within the confines of the applicable reporting guidelines.

International Auditing Standards that govern the financial and other audits of entities state that an item is material if its omission affects the decisions of users. The standards are not prescriptive on how qualitative information should be subjected to a materiality threshold. Hsu, Lee & Chao (2013) hypothesize that a model of materiality analysis in sustainability reporting that aims to determine material and relevant issues in accordance with stakeholder needs has not been found in previous literature. Although the same authors propose a model for materiality analysis in their paper, there are acknowledged limitations of the scope of their research, as it was only limited to a single case application.

Romolini *et al* (2014) highlight the need for standardized rules in order to avoid manipulation of sustainability reports especially as there maybe concerns about disclosing additional information to the market (Zicari, 2014). Reporting must be objective for it to be relevant to stakeholders (Gilbert & Rasche 2008). In the literature review, a scientific process for determining materiality of narrative information such as that available for quantitative information has not been found. It is important to note that materiality may need to be determined at two levels. Firstly, companies need to determine the material stakeholders, primary stakeholders according to Bridoux & Stoelhorst (2014). This is necessary because it is arguable whether an immaterial stakeholder can have material requirements upon the reporting of a company. Secondly, materiality will need to be determined at the content level to determine the information that finally makes up the sustainability reports. This process is akin to the one undertaken for the determination of materiality for the audit on financial reporting whereupon materiality is determined at both the financial statements level (reporting level) and the individual balances and transactions level (content level) (International Standard on Auditing (ISA) 320).

2.4 **Assurance of Sustainability Reporting**

The AA1000 Stakeholder Engagement Standard (2011), p.g 44 defines materiality as

> *"Materiality is determining the relevance and significance of an issue to an organisation and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organisation or its stakeholders".*

The need for assurance of sustainability reporting results from the extension of corporate governance concerns to the interests of other stakeholders, not only the interests of its shareholders (Marx & van Dyk, 2011). Assurance is fundamental in assuring the credibility and reliability of SR (Edgley, Jones & Solomon, 2010). The associated costs of assurance are borne by the reporting entity and the reporting guidelines are discretionary to the corporations (Manetti & Becatti, 2009).

KPMG, 2009 list the following benefits obtained from the assurance of SR:

Table 1: KPMG 2009

1	Provide confidence to stakeholders, directors, and senior management as to the accuracy and credibility of publicly disclosed performance data and associated information
2	Provide comfort to management that the sustainability information supplies a robust basis for decisions and an accurate presentation of performance against business objectives
3	Become a tool for mitigating risks associated with the potential disclosure of inaccurate or misleading information
4	Add independent credibility to publicly disclosed performance data and information
5	Provide useful feedback on better practice observations

Assurance may be the link that ensures that the material issues identified in the process of sustainability, through stakeholder engagement, are completely and accurately disclosed in the sustainability reports to dispel any increase in society's concerns around the reliability and transparency of information provided by reporting entities (Gillert, 2012). Arguably, these concerns may be alleviated through the assurance of sustainability reports (Kolk & Perego, 2010).

Manetti & Becatti (2009) suppose that there is a credibility gap in sustainability reports, making them useless to stakeholders. The contention from Manetti & Becatti (2009) is that legislation is required to govern SR or in the absence thereof, then assurance being provided on assurance reporting. However, no statutory or regulatory requirements for assurance on sustainability reporting currently exist, either internationally or in South Africa (Marx & van Dyk, 2011). Presently, guidelines such as King III and the GRI only recommend rather than mandate the assuring of sustainability reports as part of good corporate governance practices.

Manetti & Toccafondi (2011) indicate that it is not possible to guarantee highly reliable levels of verification of SR reports due to the highly intrinsic nature of the matter involved. The same authors further hypothesize that the mapping of stakeholders and embedding of their opinions are highly subjective processes that are difficult to formalize. The level of this subjectivity coupled with the diverse interests of stakeholders (Harrison & Wicks, 2013) requires the consultation of various experts and stakeholders. For instance, chemical engineering expertise is required to verify environmental data reported and labour experts for industrial relations (Waddock, 2008).

Wicks & Goodstein (2009) contend that due to principles of reciprocity and interdependence existing between corporations and stakeholders, the responsibilities of stakeholders includes aiming to avoid formulating issues that have unintended negative externalities on the organisation. Manetti (2011) indicates that stakeholders are involved in identifying information and data that should be included in the sustainability reports. In a reversal of the roles, Manetti & Toccafondi (2011) contend that in the assurance process stakeholders have a supervisory and watchdog role since they contribute in checking the information contained in the reports. Given the foregoing, it is clear that the effective and inclusive engagement of stakeholders is crucial to the perceived quality and credibility of the sustainability reports.

2.5 **Stakeholder Engagement**

Stakeholder engagement in the assurance process may provide a mechanism with which the assurance providers may validate the content as well as the stakeholder engagement process. However, given the degree of control over the assurance process that management exercises, the transparency and independence of the process is questionable (O'Dwyer & Owen, 2005). This is supported through the findings of Manetti & Toccafondi (2011) who found that only rarely are assurance statements addressed to stakeholders. Assurance providers prefer to address them to managers, CEOs and directors. The same authors accept that this may be due to the mandate being given to them by managers CEOs and directors but conclude that such an approach would "favor information requirements of managers and assurors in the SR and SR assurance processes, to the detriment of impartial organizational accountability and the true interests of stakeholders."(pg.366)

Thomson& Bebbington (2005) put forth that despite the quality of reporting being intimately linked to the quality of stakeholder engagement, the assurance process itself does not bear signs of dialogue with the stakeholders but is rather more concerned with confirming facts and data. Despite this Manetti & Toccafondi (2011) insist that in-order to overcome the credibility gap of SR assurance, stakeholder engagement must be reinforced in-order to guarantee materiality and relevance of information contained in sustainability reports. The same authors state that this is fundamental on 3 levels:

To enable prioritization by the assuror of important sections of the reporting process;

- To enable prioritization by the assuror of important sections of the reporting process;
- To indicate the completeness and accuracy of the information contained in SR reports so as to give credence to the materiality and relevance of the content therein;
- To contribute to improving assurance standards

Regarding the second bullet above, it is evident that the assurance process plays an integral role in in legitimising the content of the sustainability report and therefore managing the expectations of stakeholders (Spence, 2007).

Integrated Stakeholder engagement view

The literature review has demonstrated the need for stakeholder inclusiveness in sustainability reporting (Manetti & Becatti, 2009; Hsu *et al*, 2013; King III; GRI) with the aim of explaining how the organisation creates value over time. To achieve this, material information must be included in the report, (Eccles *et al*, 2012). Furthermore some writers have argued the need for a standardized process in the reporting activity to avoid manipulation of the reports (Romolini *et al*, 2014). Whilst the alternative view is for the current state which allows flexibility and recognition of the varying differences in stakeholders and industry circumstances (Cheng *et al,* 2014). By inference, the interrelatedness of reporting, stakeholders, and materiality is clear.

Presented below is an integrated model that aptly represents the interpay of the various pillars for effective stakeholder engagement.

Figure 4: Effective Stakeholder Engagement

Source: The Practitioner's Handbook on Stakeholder Engagement (2005)

Summary

From the discussion thus far presented, it was opportune to investigate the extent to which companies are including stakeholders in the determination of materiality of focus issues and in the assurance of sustainability reporting. In South Africa, through the GRI and King III which both advocate for the comply, apply or explain principles, there is need to study how the flexibility offered by this basis affects the objective determination of their sustainability activities with particular emphasis to reporting.

The ensuing chapter will detail emergent propositions and questions that were identified for further primary research investigation through engagement with South African sustainability practitioners in a selected number of JSE listed firms.

CHAPTER 3: RESEARCH HYPOTHESIS

3.1 Research Propositions

Proposition 1

Stakeholder engagement is emerging as an essential antecedent for the effective management of corporate consciousness to external environment contexts. Companies are facing increasing pressure to groom improved competencies such as sustainability reporting towards the enhanced of their engagement processes

Question: Is stakeholder engagement a two-way interactive process that enables stakeholders to participate in sustainability reporting?

Proposition 2

Materiality of concerns for sustainability reporting must be rooted in stakeholder perspective and thus be obtained through stakeholder engagement.

Question:

What are the current processes used to determine materiality for sustainability reporting?

Proposition 3

Sustainability reporting assurance is gaining recognition as an essential standard that companies must embrace in order to nurture stakeholder trust building through transparency.

Question:

What has been the role of stakeholders in the assurance of sustainability reports and how does this need to evolve?

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter describes the methodology used by the researcher for the primary research work carried out to explore the propositions and answer the related questions outlined in Chapter 3. It reports on the research approach, population and sampling methods chosen. The chapter also details the data collection and analysis methods, culminating in the declaration of some process limitations.

4.2 Rationale for Research Method

The main objective of the research was to understand the stakeholder engagement process and its role in determining the materiality of content included in sustainability reports. Given the youthfulness and largely under specified nature of sustainability reporting it was anticipated that various reporting entities would exercise considerable discretion in their methodology of stakeholder engagement and materiality determination. Furthermore, sustainability reporting would, in part, involve the reporting of non-financial information and this would inherently require some subjectivity. This was confirmed by the findings of the literature review that called for a deeper understanding of stakeholders' engagement and materiality processes within organisations.

Creswell (2013) recommends a qualitative study in situations where the focus is to try and interpret a trend around an event with a deeper meaning that can only be understood through a one on one conversation. For these reasons it was deemed appropriate to conduct unstructured, in depth interviews to enable a greater appreciation of the thought processes around this area from the reporting entities' point of view.

Blumberg, Cooper & Schindler (2005) consider exploratory research relevant in instances where a researcher seeks an appreciation of the respondents' interpretation and opinion of a situation. Through a qualitative, exploratory approach, the researcher is able to establish deeper meaning through follow up questions and unrestrictive in-depth discussions. This process proved vital in gaining insights into the respondents' viewpoints when answers were interrogated in an effort to understand their approach to sustainability reporting.

Qualitative designs do not result in definitive conclusions about a phenomenon but rather may give exploratory outcomes. This is due to the data being gathered from a smaller sample as would be for quantitative data and, more importantly, the data primarily consisting of the views, opinions and perceptions of the respondents. In this case, qualitative designs do not attempt to generalize the outcomes of the research into the larger population, but rather to furnish pockets of insights into the phenomenon.

4.3 Research Process

The research project was divided into two phases. The first phase entailed the content analysis of sustainability reports sourced from the companies' websites. The aim of this process was to understand the reported content of the reports with regard to stakeholder engagement and its relationship with materiality. This process was vital in understanding the reporting context of the selected companies and the compliance code of choice, which informs its reporting requirements. The sample was drawn from JSE listed companies and as such all of these companies report on their sustainability activities. The reports were sourced from each company's individual official website.

The aim of the researcher in this first phase was to familiarize with the sustainability issues faced by the sample pool companies representing a number of industry segments. This prepared the researcher and gave background to each individual company before the respective interviews were conducted, allowing for a more intuitive and interactive interview session. The initial phase also allowed the researcher to identify any questions from the questionnaire that were answered by the reported content. Any ambiguity noted and conceptual gaps were further followed up in the next phase.

The next phase consisted of in-depth semi structured interviews with preparers of sustainability reports within the chosen sample companies. In some companies one person was interviewed whilst in others up to 3 people participated. The interviews were highly interactive with the respondents encouraged to elaborate on their views and in some cases to contrast between their companies' approach to perceived industry practice. The chosen respondents were individuals directly involved in Sustainability activities within their roles and more importantly had an input into the organisations sustainability reports. The interviews were open-ended thus adding a lot of dynamism to the process and allowing respondents to give deeper insights as the conversations progressed. Within this phase, the researcher took the opportunity to clarify any ambiguous contents of the sustainability reports as well as seek insights into the reasons why particular issues in the interview questionnaire were not addressed in the sustainability reports.

4.4 Unit of Analysis

The unit of analysis for the study was the individual specialist practitioner responses from the JSE listed firms identified as informants for the research.

4.5 Population and Sampling

The population for the study comprised of sustainability practitioners employed in Johannesburg stock exchange listed firms. The JSE requires companies to produce integrated sustainability reports as part of their listing requirements.

Whilst the Companies and Intellectual Property Commission (CIPC) would have been a good database for obtaining all companies in South Africa, the study limited itself companies listed on the JSE. as an accessible pool of firms with senior level sustainability professionals in roles that had a direct input into the sustainability reporting and in such capacity to make sustainability policy and reporting contributions, and hence would serve as well acquainted target informants to evaluate and benchmark their practises.

Consideration was also made of the likelihood of individuals working in this space at this level would be highly likely to have a greater exposure to best practices locally and internationally. Secondly, the requirement but by the JSE for an annual integrated report ensures that on an annual basis the target population is at least involved in reporting processes of sustainability concerns, which was fundamentally key to this research.

4.6 Sampling

Purposive sampling is used where a researcher uses their judgment to actively choose those who will best be able to answer the research question and meet the objectives (Saunders & Lewis, 2012). This approach resulted in the selection of companies listed on the JSE as a sampling universe.

Judgment was used to select from the population, companies that have a greater impact on economic, social and governance (ESG) factors. For example, it was envisaged that individuals employed in mining operations would have greater exposure to sustainability issues due to the nature of their operations that have a greater impact on the environment, climate change and ecological degradation. In so doing, this gave the research an opportunity to identify particular companies with greater exposure to topical sustainability issues. This was important to the research as the selection of these individuals gave a better opportunity to answering the research questions because of the greater immersion of their companies' operational processes in ESG factors. Further, the need to obtain views from other industries was recognised. This was mainly because it was anticipated that stakeholders would vary between industries and was thus accommodated through the selection of respondents from other industries such as oil and banking.

4.7 Data Collection

Questionnaire Design

The discussion guide, as presented in Appendix 1, was formulated with reference to the research questions in Chapter 3. The aim was to breakdown the broader research propositions into a series of questions that would aid information requirements of the study. The complexity and subjectivity of the sustainability practices required a breakdown of these intricate matters into an “easy going colloquial form (that) enables more effective interrogation of intrinsic and extrinsic motivators through off the cuff responses” (Flick, 2007, p. 58).

Content analysis of the sustainability reports was used to familiarize the researcher with the company’s context regarding sustainability reporting. This enabled the researcher to have perspective in understanding the responses and probing further where required. The outcomes of the analysis of the sustainability reports carried out by the researcher were pre-noted into the interview guide and served as prompts for further discussion of particular issues.

The questionnaire was designed into 3 sections in a logical flow that stimulated discussion and followed through on the likely sequence of materiality determination in practice. The integrated stakeholder model as presented in Chapter two was used to guide the conceptualisation of the key investigation themes. The rationale behind the use of the framework was its assertion on the interdependence of the various processes from stakeholder mapping, to stakeholder engagement, to determination of materiality and reporting and assurance.

This structured process pre-empted the data analysis coding process by providing a structure to support the coding of interview material. A pre-interview run was completed in-order to test the effectiveness of the instrument as well as obtain feedback on the clarity and flow of the questionnaire. This process assisted in tweaking and finalizing the instrument as attached in Appendix 1.

4.8 Data Collection

Data was collected through face-to-face semi-structured interviews with the interview guide allowing flexibility to probe and follow on core issues as the interview progressed. The flexibility allows for a strong element of discovery whilst the structured focus enables greater analysis in terms of commonalities Gillham (2005). Data was collected by means of an electronic voice recorder for each interview. The interviews were later transcribed onto Microsoft Word documents, which served as the basis for data analysis.

4.9 Data Analysis

In the analysis and interpretation of the data, computer-aided qualitative data analysis software, Atlas-ti was used. Data collected was in the form of tape-recorded interviews that were then transcribed into text. The software allows for the importation of the raw data, in form of the text transcripts, into a project set up for the specific analysis. The data was then coded and categorised in-order to label the units of qualitative data into themes. An inductive approach to thematic analysis was used in-order to identify and group similar thematic aspects in the data (Frith & Gleeson, 2004). Throughout this process the research questions were used as the guiding principles for coding and grouping the data.

A second stage to the data analysis linked the most significant themes into concept families. The software allows a view of these abstract families in a network in-order to illustrate the higher-level relationships and associations emerging from the data. "Abstraction builds on categorization by collapsing more empirically grounded categories into higher order conceptual constructs or classes (Spiggle, 1994, p. 493).

In the final analysis process, the emergent themes and concepts were evaluated in light of the relevant literature (Plakoyiannaki, Kampouri, Stavraki, Kotzaivazoglou, 2014) and the research questions in Chapter 3 in-order to draw insights that aid in concluding on the research hypothesis.

Plakoyiannaki *et al*, 2014 distinguish between quantitative research where statistical generalization is sought by inference to a larger population and qualitative research, which concludes on the basis of analytic generalization.

4.10 Limitations of the Study

A qualitative study will have inherent limitations in its design. Presented below are the limitations that have been borne in mind in drawing the conclusions to this study.

Table 2: Limitations of the Study

Limitation	Mitigating Action
Qualitative design by its nature will not enable any conclusions to be extrapolated to the population. Judgmental sampling does not result in a representative sample and introduces elements of selection bias as no statistical boundaries were used to regulate the selection.	Limitation accepted. Carried over to suggestions for future research.
The maturity of sustainability reporting and processes may be under-developed in the research population and may have limited the ability to effectively answer the research questions.	Content analysis was performed on the company's sustainability reports to obtain context and aid in clarifying any unclear circumstances.
Respondent bias may exist in the responses if practitioners attempt to illustrate a more positive picture	Content analysis was performed on the company's sustainability reports to obtain context and probe responses against published content.
Interviewer bias may be present due to either the level of care and skill of the interviewer as well as the subjective interpretation of the data obtained.	Whilst some level of subjectivity is unavoidable in qualitative research; the use of Atlas-ti software aided a structured data analysis approach that improved the quality of the outcomes.

CHAPTER 5: RESEARCH RESULTS

This chapter presents the results obtained during the data collection phase. The data has been set out in a summarized form that captures the variety of input from the respondents. The chapter commences with a description of the research sample followed by the results presented based on the propositions and answering the research questions as detailed in Chapter 3.

5.1 The Sample

Respondents were selected from JSE listed companies and were typically in Sustainability Reporting roles. Their roles varied from Safety, Health and Environment (SHE) Managers to Group Sustainability Managers. Eleven companies were selected with the distribution as follows: six companies from the resource extractive industry, three from financial services industry, one from the telecommunications industry and one company with diverse business units. Below are some sample descriptions of the respondents' roles and their respective industries:

Table 3: Sample Description

Industry	Designation	Descriptions of role
Banking - Respondent 1	Head of Sustainability Management	*I'm responsible for the information that goes into the Integrated Report".*
Banking - Respondent 2	I'm not a banker. I'm a Sustainability Professional, not a Banker.	*"So in my space I am accountable for environmental and social risk policy and that would include operational and environmental issues. It also includes responsible lending. It would include how we engage with the external world on things like climate change. I'm also responsible for the human rights policy in the bank.*
Banking - Respondent 3	Ethics Officer - Enterprise Governance and Compliance	
Mining - Respondent 1	Head of Sustainable Development	*"My main responsibility is the Sustainability Report and everything else that it contains".*
Mining - Respondent 2	Sustainability Manager	
Mining - Respondent 3	Group Sustainable Development Manager	
Mining - Respondent 4	Executive Head Safety & Sustainable Development	
Mining - Respondent 5	Manager: Sustainability	
Petroleum	Safety Health and Environment Officer	*"I head up the health, safety and environment department and I make sure that we comply with the Governance*
Diverse Group	Corporate Social Responsibility Manager	

5.2 Presentation of the Findings

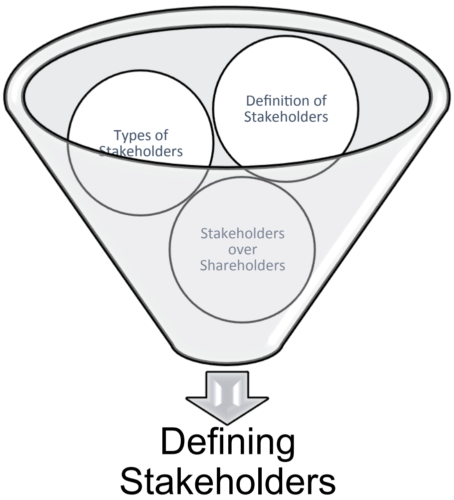
5.2.1 Stakeholder Engagement

Research Question 1: Is Stakeholder engagement a two-way interactive process that enables stakeholders to participate in sustainability reporting?

In-order to answer the research question, it was necessary to define stakeholders, understand the stakeholder identification and engagement process as well as understand the engagement process in the context of sustainability reporting. The results have thus been presented under these key themes.

5.2.1.1 Defining Stakeholders

Figure 5: Stakeholder Definition - Key Themes



The interviews yielded interesting results in how the various companies define and categorise their various stakeholders. The notion of 'impact' on the business and its strategic mandate was prevalent in how the companies view stakeholders. To this end, stakeholders were viewed as *"any person or group that is capable of impacting us in a significant way and impacts on achievement of strategy".* (Mining Respondent 2) During the interviews some companies noted that due to the expansive diversity of stakeholders interacting with their operations, their approach was to look and define only ‘material stakeholders’. This was captured in the following verbatim:

“Yes we define stakeholders well, or maybe I should say we define our material stakeholders because there are a lot of stakeholders, but we look at stakeholders that are material to the business either because we have an impact on them or they have a vested interest in us or they have a direct impact on our own ability to create value.” (Mining - Respondent 1)

The significance of this was the presence of an implied prioritisation system in which the company defined stakeholders into material and non-material. In essence this would mean that where a stakeholder is deemed as non-material then this stakeholder’s interests are not taken into account. Therefore only material stakeholders’ interests were deemed material.

It was also interesting to note however that in the context of the ‘material stakeholders’ other companies were able to cite whom their most material stakeholders were, thus providing a perspective on their stakeholder prioritization. For instance, one company elaborated as follows,

“*Well I suppose to a large extent our stakeholders are the chief executives of our divisions. For example, when it comes to it, because we look in their eyes to give us accurate, credible and robust information, so I suppose and that’s our immediate stakeholder group.”* (Diverse Group Respondent)

The following was also noted from another interview, “*From a group perspective clearly we’ve got to look at all those stakeholders within the individual businesses. Our contact with stakeholders would primarily be the investors.”* (Banking – Respondent 2)

This revealed the diversity of definition in stakeholder approach within the respondents and the clear existence of both the shareholder primacy model.

When this is read together with the findings that indicated engagement only with material stakeholders, the results would reveal close attention being paid to the interests of investors and providers of capital. The emergence of this aspect is aligned to some findings in literature that suggest companies' prioritisation of shareholder interests.

5.2.1.2 Types of Stakeholders

The table below shows the key stakeholders as emerged in the various interviews. The responses revealed the assortment of stakeholders within and across the broad industries ranging from differences in regulatory stakeholders to customer or client stakeholders. Progressing the discussion from the stakeholder prioritisation concept, the pool of stakeholders indicated the range within which respondents have to sift through and rank significance in engaging various parties and their interests in and around the organisational context.

Table 4: Types of Stakeholders

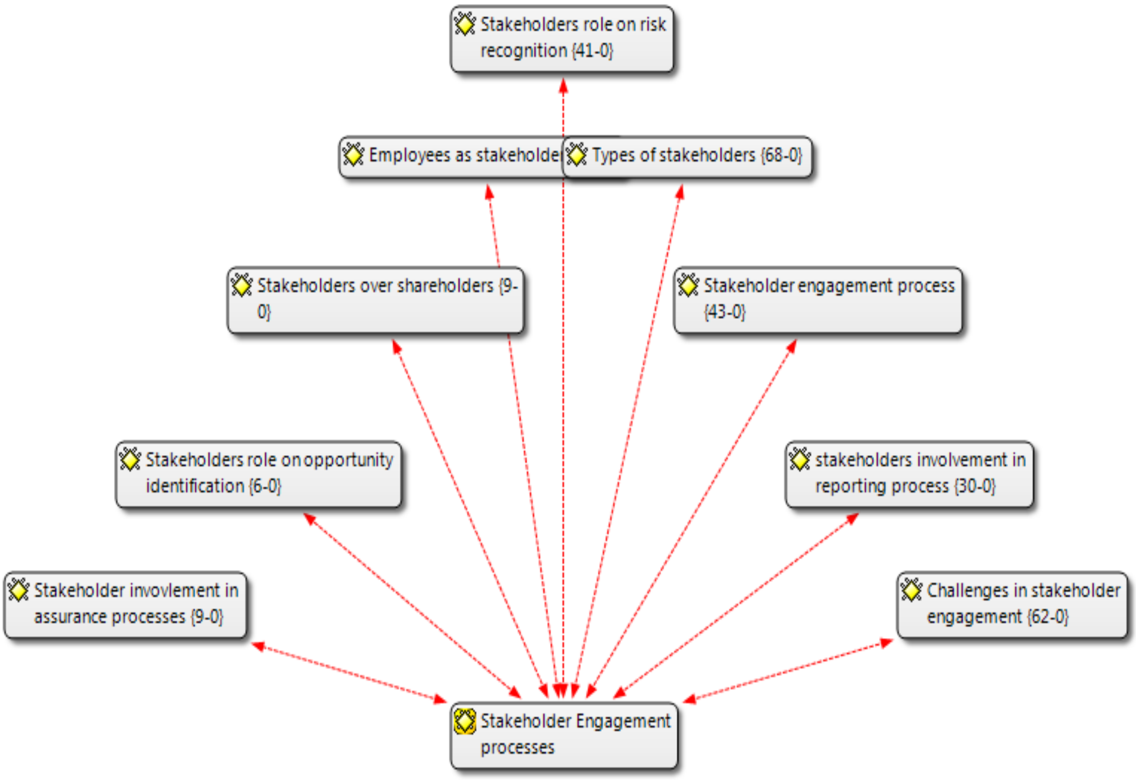
Industry	Types of Stakeholders Mentioned
Mining	Neighbouring farms or regulators Leadership board and Exco Specialist suppliers The communities NGOs, governments, media Vendors Developers Group general council, Investors I think the biggest stakeholder for us is our employees. Other alternative suppliers Our BEE partners The Exco, the Executive Committee Amcoo has become a significant material stakeholder Our material stakeholder is the union, The chamber of mines has become a material stakeholder Broader context of the industry Unions Interested parties Those directly affected, both positively and negatively, by our activities
Banking	The ombudsman Business owners, Decision makers Business level people Customers

	Regulators The board Reserve bank Government departments Parliament Other identified groups Employees Business organisations Peers, Industry association Heads of functions Internal people who hold these key relationships Ngo people Environmental NGOs & social NGOs Media Farmers Small business clients Private sector
Petroleum	Municipality, Community
Diverse	Investors Communities, all communities, People in neighbouring areas All levels of society Cleaners, or middle management, even senior management Providers of capital, Rural schools Kids Teachers School principles Department of education

Amidst this diversity though some commonalities were noted in stakeholders such as government and employees. Employees and the unions emerged as the ‘biggest’ and most ‘significant’ stakeholders within respondents in the mining industry indicating, perhaps, the importance of historical circumstances on a company or industry’s view on stakeholders.

5.3 Stakeholder Engagement Process

Figure 6: Stakeholder Engagement Processes - Sub-Themes



The figure above shows the various sub-themes that emerged as topical in the stakeholder engagement process. The clusters indicated responses given to questions pertaining to engagement in processes such as reporting or risk identification and some emerging themes where the majority of respondents underscored significant concepts, such as the role of employees as stakeholders.

The responses in this section gave interesting insights into the stakeholder engagement process. Stakeholder identification was also included as part of the engagement process. Some companies categorised the identification process into two distinct processes; a formal proactive identification process and an 'issues driven process'. This was summarised by one respondent as follows: …"

In that case it's either an issues-driven stakeholder identification or it could have been found through a deliberate process of identification." (Mining – Respondent 1)

However the respondent appeared to have less of a preference for the issues driven process, rather viewing it as more reactive, citing the issue as follows:

"the one thing we have done is to try and have a progressive and a proactive engagement process, so rather than having it be reactive, what we are endeavouring to do now is to have an on-going engagement process, so you don't engage purely on issues that come up they are dealt with in a concise and effective manner. Because often when it's an issues-driven engagement, it's already peppered with a lot of mistrust." (Mining – Respondent 1)

The issues-driven identification process results in 'ad hoc' stakeholders and a continuous change in a company's stakeholders. This process was ingrained in the daily operational processes of the company suggesting that this engagement is done at various levels within the company depending on where the issues originate. However, the issues-driven process also results in changes in stakeholder prioritization and therefore engagement tactics. Once particular issues become topical, such as labour unrest in the mines, then employees as stakeholders as well as labour unions rise in significance as stakeholders. This changing landscape in stakeholder identification and engagement was cited by respondents as a challenging one to navigate as elaborated by one respondent from the mining sector.

"For example, Amco. Amcoo has become a significant material stakeholder whereas five years ago nobody knew about Amco. (Mining – Respondent 3)

The formal processes identified by respondents were also varied. Media scans, engagement workshops, dedicated engagement managers at each operating site, website comments as well as a risk based identification process.

Respondents described the latter process as one that involves an internal risk assessment system whereupon all identified risks are logged onto a risk register. Through an internal risk team the risks are prioritized to come up with the material risks. Once material risks are identified, the company then maps out the relevant stakeholders associated with the identified risks. The process described by respondents did not involve any stakeholder engagement.

A key issue highlighted around sustainability reporting is the lack of interest in the process by stakeholders. Practitioners were of the view that stakeholders did not read the sustainability reports and where in most instances concerned only about the issues that affected them. Two respondents expressed the following sentiments:

"No it's great, what you are doing is fine." Why are they saying that? It's because they can't really be bothered, unless they've got an issue in which case you hear it in triplicate and neon colours and highlighted, you know." (Diverse Group Respondent).

"We've bought people lunch and we've given them our reports and said what do you think? And done this whole stakeholder engagement session, and they actually not, they don't really care." (Banking – Respondent 2)

5.3.1 Stakeholders Role in Risk Identification

The results in this area showed that some respondents' risk assessment processes inform the material issues. The involvement of stakeholders was seen to be only in the data-gathering phase of the risk identification phase only. This finding was misaligned with the literature that suggested that for effective engagement to take place stakeholders involvement must be throughout the sustainability process and be ingrained in the daily operational processes of the company. However the description of the risk assessment process indicated a purely internal system that prioritised material issues from the company perspective. This was captured by the following comments:

"..so we'll get information from multiple channels that then comes into this reporting process, that then is, fed into the board structures, so that the key risk issues can be identified and, um, do that test on inherent importance, so fundamentally how important is it, and then based on our current circumstances and existing processes, how much residual risk is left over." (Mining – Respondent 4)

This informed the research that beyond the initial input gathered from multiple sources, including stakeholders, the ranking and prioritization of risks was to the discretion of the company's internal processes.

Other respondents' comments were as follows:

"So we are a risk-based organisation, I think I have said that, and we define what is important based on those risks." (Mining – Respondent 1)

"We used to follow the risk process, so we had an internal, bottom-up, top-down risk process, and the outcomes of that risk process were the issues that define materiality in the context of the Sustainability Report." (Banking – Respondent 1)

One respondent had a different view and concluded that risks are identified during the stakeholder engagement process. A strong focus was put on relationships as an indicator of potential risks. Relationships were seen as licenses to operate, given by the various stakeholders. The point was made that during engagement, the strength and nature of these relationships are tested and thus risks were identified:

"Our license to operate really is about relationships, whether it's with communities, with government, with investors, with employees. That effectively is a risk identification process that speaks to relationships and stakeholders. So as much as it might be an internal process from a documenting process, the risk identification is actually during the stakeholder engagement process." (Mining – Respondent 1)

This view therefore indicated that the risk identification process is not a desktop exercise but was a result of stakeholder engagements during the course of business. The contrast in views and philosophy on sustainability was noted in most responses received showing differences in understanding of sustainability processes.

5.3.2 **Challenges in Stakeholder Engagement**

The respondents reported various challenges faced during the stakeholder engagement process. Engagement was said to be non-exhaustive and therefore the reliance on a sample meant an element of subjectivity in the engagement processes. Given the "volume and diversity" of the stakeholders involved, assumptions about representations are made. This process itself is a part of the materiality determination of stakeholders that allows companies to prioritise its stakeholders, and on this basis considers the worthwhileness of engaging particular groups. The following comments illustrated this concern:

"Engagement is not exhaustive. You still have to rely on a reasonable sample. For starters, it is the volume and diversity of stakeholders that one has to accommodate and consult in our sampling, we make assumptions about representation." (Mining – Respondent 2)

"The third one – would be managing the diversity of opinion and conflicting messages because of the different types of stakeholders you have." (Mining – Respondent 2)

The absence of trust between stakeholders and reporting companies was clearly spelt out. In some instances respondents felt this was exacerbated by a continuously changing landscape of labour relations, environmental requirements and general on-going stakeholder demands. Practitioners offered no solutions to this challenge and also confessed to not reporting the challenges in the sustainability report.

Respondent's also appeared to show frustration with the engagement process and clearly showed a lack of belief in the usefulness of the process either for their companies or in its value for stakeholders. Again further probing indicated that these sentiments where not expressed in their sustainability reports and no solutions to these challenges were offered. Below is a table consolidating views indicating some key concerns around this issue.

Table 5: Respondent's Feedback

Diverse Group – Respondent	*I tell you what my biggest challenge is, and it's this perception that companies need to get their stakeholders in a room and ask them how they feel about the company. You know, you go and try find a supplier who's interested in a customer and an employee and get people to engage with you on your kind of state as a corporate citizen, and they don't really care.*
Banking Respondent 2	*The biggest challenge in my part of the exercise is trying to sort of extract this extra special information that somebody out there seems to think exists. The, the reality is that it's, it's just a grind*
Banking Respondent 3	*There's this democracy thing, this inclusion thing, there's this scientific thing around understanding new challenges. I'm willing to bet that four or five have not solved that problem. It's not clear in people's minds."*

5.4 Stakeholders versus Shareholders

A noteworthy observation that emerged from the data was the notable dilution of focus on shareholders as the primary focus group determining a firm's survival. Global trends as well as recent local events seem to have rebalanced perspective towards raising profile of in some cases, formerly less prioritised communities as being equally influential on the business's primary interests. No doubt the investor community remains of prime concern for engagement attention but recognition of the need to sometimes subordinate this group to other stakeholders has evidently taken root. This was particularly evident in organisations that had more integrated structures and hence a centralised sustainability management structure as illustrated by some of the ensuing quotes.

Table 6: Key Responses

Stakeholder Involvement in the Reporting and Assurance Processes.	
Banking Respondent 3	Our contact with stakeholders would primarily be the investors."
Diverse Group Respondent	"…the audience for an Integrated Report is actually the providers of capital."
Banking – Respondent 1	"his view (CEO) was very clear in terms of that we have a social compact and that social compact talks about building a bank for the future and doing it in conjunct with a variety of interests in mind. So it's moved away from a shareholder primacy model to a stakeholder engaged model."

5.5 Value Creation

Value creation is closely tied in to a company's impact assessment as it is through this assessment that a company determines its creation or erosion of value. Closely linked to this concept are the expectations of stakeholders, as any difference in interpretation of value requires engagement.

In this section, respondents were asked for their understanding of the value creation concept. Respondents understood this concept to refer to a business model that serves the interests of the company as well as those of stakeholders.

"The value creation has to be a sense of shared value, it can't just be value for the shareholder at the cost of other people. But that you'll find articulated quite well in our sustainability report and in our annual report actually." (Mining – Respondent 1)

"Value is not only bottom line, but a positive impact on each and everyone that surrounds us." (Banking – Respondent 1)

However some respondents emphasized that there is still need to prioritise the interests of shareholders. This view continued some of the respondents' earlier conviction that stakeholders should be ranked and the interests of primary stakeholders prioritised. This was captured in the following comments:

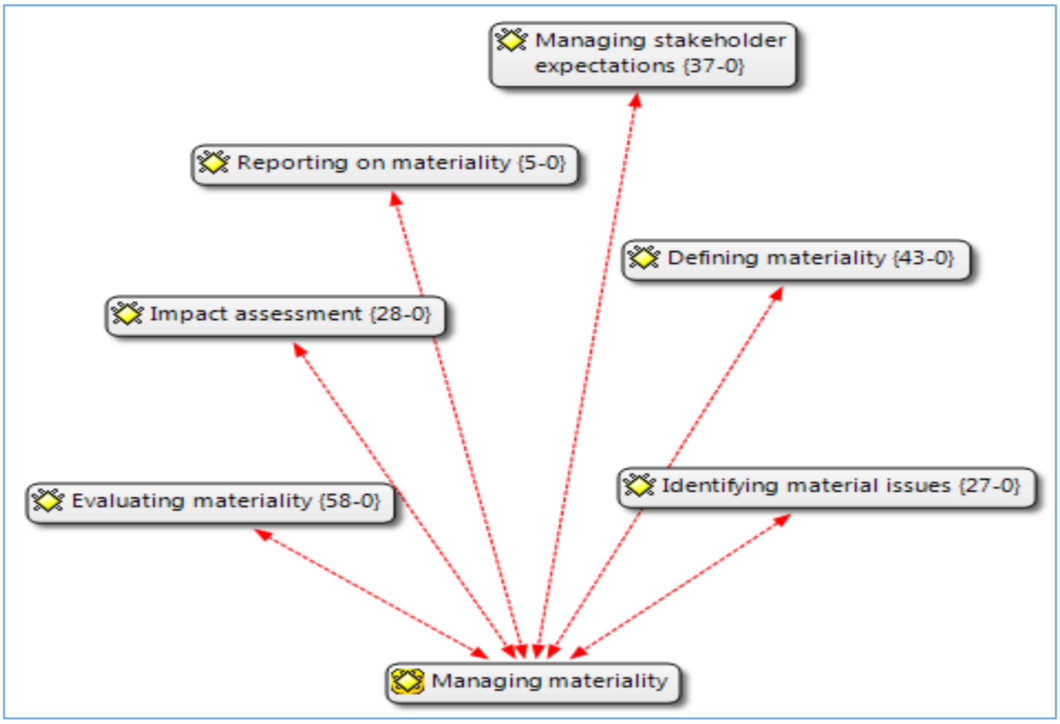
"Value creation for any business worldwide is ensuring stakeholders, but particularly your providers of capital, are kept happy and even though we'd also like to believe that the world has a different focus, at the end of the day if a company isn't making money but it's wonderfully socially aware, people aren't going to invest in it. (Diverse Group – Respondent)

"You know, of course we do. We're a for profit company. We, that's what we exist to do. To create value. So, we're talking about financial value, yes, we believe in creating financial value. (Banking – Respondent 2)

5.6 Materiality Process

Research Question 2: What are the current processes used to determine materiality for sustainability reporting?

Figure 7: Materiality Processes - Key Themes



5.6.1 Defining Materiality

Various themes emerged from the concept of materiality indicating that the process had various interplays with other sections of sustainability reporting. This indicated that the materiality process involved much more than a selection of the key issues to constitute a sustainability report but rather a process that influenced other areas such as a company's impact assessment on stakeholders and the management of stakeholder expectations.

The research attempted to gain an understanding of practitioners' views on what constituted materiality. Given the roles of the respondents in the production of sustainability reports for companies, their understanding of materiality is undoubtedly key in shaping the companies' philosophy and the resultant reports. In this section some of the respondents referred to the definitions in their reporting guidelines, such as GRI, citing no definitions from their own perspective. For the respondents that did express definitions, the following was noted:

"SO it is something that impacts the perceptions and relationships we have with stakeholders. So for us, I think what is often confused is materiality in terms of what gets addressed in the report, and materiality in terms of what drives the business. Our materiality is based on what drives the business."

" (Mining – Respondent 1)

"Um, with your non-financial things, I think the reality is you kind of have to be, kind of apply reasonability test and say, you know, how important is this thing to our, to our business? High, medium, low?" (Banking – Respondent 2)

There was no clear or uniform understanding of what materiality for sustainability reporting entailed. Often, the responses confused materiality in the context of what is material or important to the business as opposed to materiality in the context of the report. In most instances, materiality was defined and viewed from the company's perspective. This was consistent with the findings in other areas of the report that showed no participation of stakeholders beyond the data-gathering phase.

5.6.2 Identifying & Evaluating Materiality

The insights in this area focused specifically on how respondents chose and appraised the information gathered into material issues for sustainability reporting. The risk-based approach was cited as contributing to the evaluation of what is material. In such instances the process was said to be internal and judgmental in terms of filtering through the issues that are deemed material.

"*now we use the risk as a foundation, we identify what is really material to us and this is how we have identified those material items in this report and then from that you identify which indicators, in other words, standards [on basic criteria] that are related to these material aspects that have been identified."* Banking – Respondent 1)

Whilst a second response expressed the following:

"So the way we do it… what are the things that mean you won't be in business tomorrow? Is there one, two or just a couple of things that if they were to go pear-shaped your business wouldn't be here tomorrow? So it's actually just making it as simple as that." (Diverse Group – Respondent)

Evident from the conversation was how practitioners offered no objective method for determining material items for sustainability reporting. The insights given spoke to risks from a business continuity perspective and where akin to the issues addressed in ensuring the going concern status of a company.

5.6.3 Impact Assessment

The measure of impact that a company has on stakeholders informs the materiality of the value added or destroyed for stakeholders. The respondents were asked how they measured their impact on stakeholders. In some cases, respondents referred to measurement criteria referred to in certain practicing standards such as the GRI, however in most cases the impact assessment was said to be an internal system that looked at a variety of dimensions including, inter alia, relationship climate, media coverage, as well as benchmarking against set objectives.

*"How do we determine whether we've had an impact? Really it's determined by the climate of the relationship" (*Mining – Respondent 2)

"We do a media scan on what was the most reported issue in our sphere over the last year," (Mining – Respondent 1)***.***

"Performing against set objectives and parameters What I've just noted here is that it is quite project-specific, so the best way to describe it that will make sense to you is when we do projects in the community, let's say we build a school, we will go back and have a look -- before we start a project we have clear objectives -- we will go back and say have we addressed the objectives." (Mining – Respondent 4)***.***

No stakeholder engagement was in evidence throughout the assessment described by the respondents. The magnitude of impact, both negative and positive, was said to be assessed from the company's point of view through the internal mechanisms described by some of the respondents above.

5.7 Sustainability Reporting Assurance

Research Question 3 - What is the role of stakeholders in the assurance of sustainability reports?

There was unanimous confirmation that external stakeholders had no role in the assurance process of the sustainability report. The extent of stakeholder involvement indicated was through employees who wrote the report or furnished the data to the assurance providers. Interestingly, some respondents gave the perception that engaging stakeholders would remove the objectivity and as such this should be limited to third party supplier verification. This point was aligned to earlier finding as well as the views of some academics that suggested the presence of an element of distrust among companies and stakeholders.

Summary key responses are presented in the tables below:

Table 7: Reporting & Assurance

Stakeholder Involvement in the Reporting and Assurance Processes.	
Banking Respondent 2	*I mean we, we assure our information by saying we're going to publish something, we want a third party to say to the reader of that information, we think it's accurate and reliable. We don't go to broad stakeholders and say, you know, what do you think of our data.*
Mining Respondent 2	*It depends on how you define stakeholders, but yes, obviously, employees will be involved, very much a part of that process. And we check the data with them. So that's how stakeholders are involved.*
Diverse Group Respondent	*What do you mean, in the assurance process? No the auditors do that. They determine what they need to look at, of course we assist them with the info they need, so I suppose you could say employees are involved.*

5.8 Summary

The results obtained, though varied, per question, emerged very insightful practitioner perspective. The selection of quotes included served to illustrate the depth as well as variance of the sustainability practices. Practitioners also cited the challenging but progressive nature of sustainability reporting and spoke in earnest about the teething problems facing the process. The responses obtained per each research question where designed to uncover themes that would add dimension to the research propositions. . Below are some key insights from practitioners.

CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 Introduction

This chapter provides an analysis of the results presented in the previous chapter. The analysis is referenced against views expressed in the literature review, and in so doing, attempts to lend credence to the positioning of these findings when measured against the views held by other academics. The analysis has been presented based on the research questions promulgated in Chapter 3 to enable a consistent and logical flow to the debate presented.

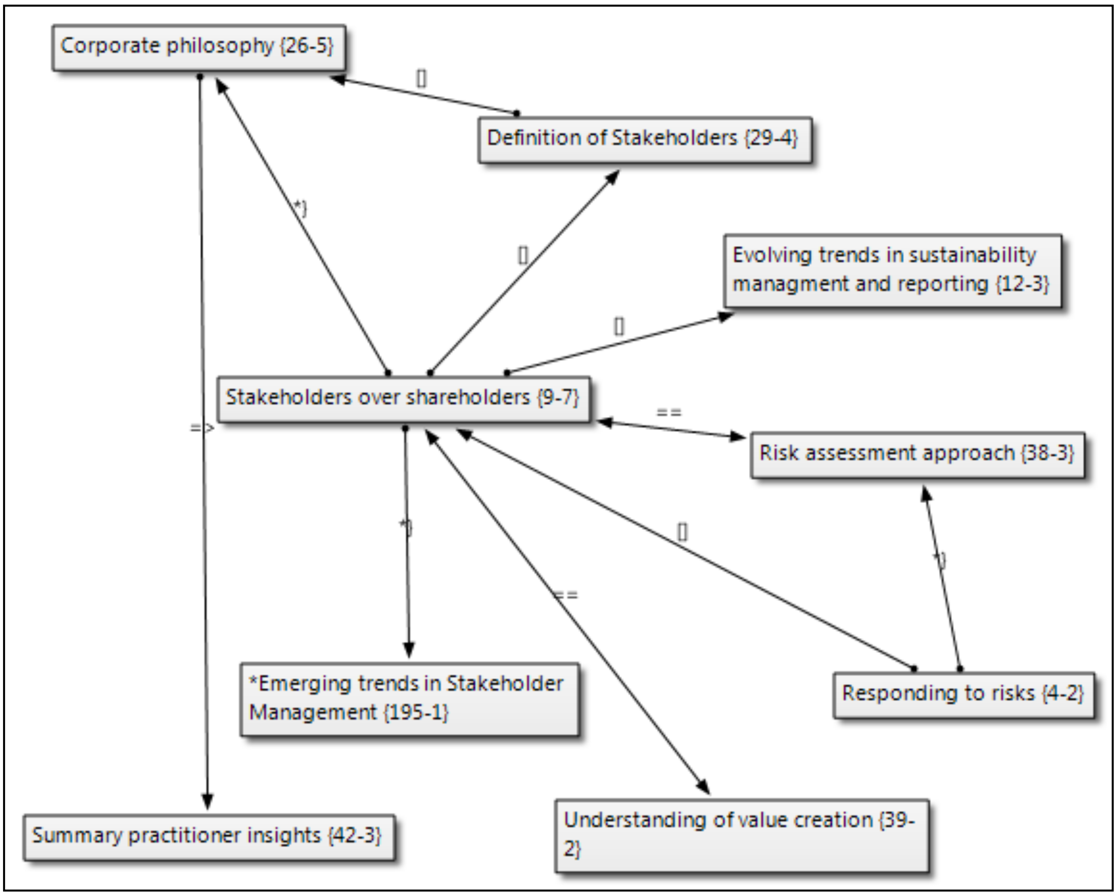
Research Question 1: Is Stakeholder engagement a two-way interactive process that enables stakeholders to participate in sustainability reporting?

An emerging underlying premise indicates that optimal benefit of engagement can only be drawn from mutual interactions and exchanges with the right counterparties. However, there emerged significant elasticity of opinion as to who these proponents were. Two extremes were identified being on one hand elements with an "impact or who can be impacted upon" by the organisation. The polar end surfaced the more traditionally established view of shareholders or investors as primary stakeholders. Harrison & Wicks, (2013) contend that much of businesses understanding of stakeholder concerns focuses on economic returns.

How entities define stakeholders weaves the fabric that defines the company's philosophy on sustainability and sustainability reporting. Certainly if organisations still contend the business' stakeholders are its investors, then the focus of engagement energies will tend towards providers of capital (Murphy & Mcgrath, 2013). Thus the resulting sustainability report will lean towards the concerns of these stakeholders.

Corporate philosophy is framed by those charged with governance of companies. In this case, it is critically important to get the philosophy right since this will filter through the range of elements that shape a company's sustainability processes. Risk assessment processes and value creation programs are critical elements of the sustainability processes that are directly related to a company's perspectives on the definition of a stakeholder. Given the respondents assertions that sustainability processes are ingrained in the daily operational processes, these processes will therefore be devoid of the processes that could potentially address the concerns of other legitimate stakeholders.

Figure 8: Modelling key Influences on Stakeholder Definition



6.2 Stakeholders over Shareholders

Manetti & Toccafondi, (2012) proposed that stakeholders could be mapped into primary and secondary segments depending on their influence to the organisation. Whilst respondents in this research were not specifically asked to prioritise their stakeholders, their responses to other questions inferred a prioritization within respective organisation. Critically this prioritization would inform the company's perspective on the material issues of concern. Given this standpoint, the stakeholders lower down the priority list would face a difficult task in having their issues classified as material. This finding was supported by Bridoux & Stoelhorst, (2014) who underlined the need to prioritise stakeholders in an organisation's efforts to manage its stakeholders.

The above also poses challenges at the opposite end of the scale. Whilst some respondents have acknowledged the diversity of stakeholders on the basis of impact, the prioritization of shareholders above others was spelt out. This indicates that some organisations have not moved away from a shareholder primacy model and as such the determination of any material issues for sustainability reporting will be assessed from this perspective.

For the respondents that indicated a clear understanding of the inclusive concept of organizational stakeholders, the engagement model articulated was one that showed an appreciation of good corporate citizenry. It was therefore clear that there are still very divergent views or knowledge gaps (van Zyl, 2013) within the respondents in the area of sustainability processes and reporting. It was clear from certain respondents that the stakeholder model was yet to be fully embraced or understood. In the context of this research, materiality determination cannot be possible without a firm understanding of stakeholders as well as a coherent process of engagement that filters through complete and objective information from source (Gilbert & Rasche, 2008).

6.3 Stakeholder Engagement

Two distinct stakeholder engagement processes emerged. The formalized stakeholder processes such as media scans and stakeholder workshops indicated a proactive approach to engagement. This suggested a need from organisations to seek out stakeholder concerns and actively address them before escalation. The view is opposed by Spence, (2007, p.262) who submits that organisations “handle external information in a way that supports internal concerns rather than questions them.” This results in stakeholder engagement that is no more than a one-way process for managing stakeholders. However the use of media scans and stakeholder processes for identification of issues may also be argued to be a reactive process to identify issues that may at that point already be topical.

The dominance of the use of an internal risk management system for materiality determination was reflective of organisational attempts to send risk management signals to investors (Spence, 2007). This further emphasizes the shareholder centric view that stakeholder identification mechanisms in place are there to identify the issues to manage (Manetti, 2011). This finding is critical to the research in that it shows that engagement with stakeholders is only at the preliminary stage of ‘data pooling’. Thereafter, the determination of how critical the issues are is solely through a process that is based on an internally generated ranking system. The non-involvement of stakeholders in the ranking or prioritization of the issues (risks from the company perspective) indicates a strong dominance over this process by management.

Whilst the practicalities of involving stakeholders in the prioritization of issues that came out of engagement will need to be investigated, the absence of any attempt to involve stakeholders in this process clearly leaves sustainability reporting content to the discretion of organisations.

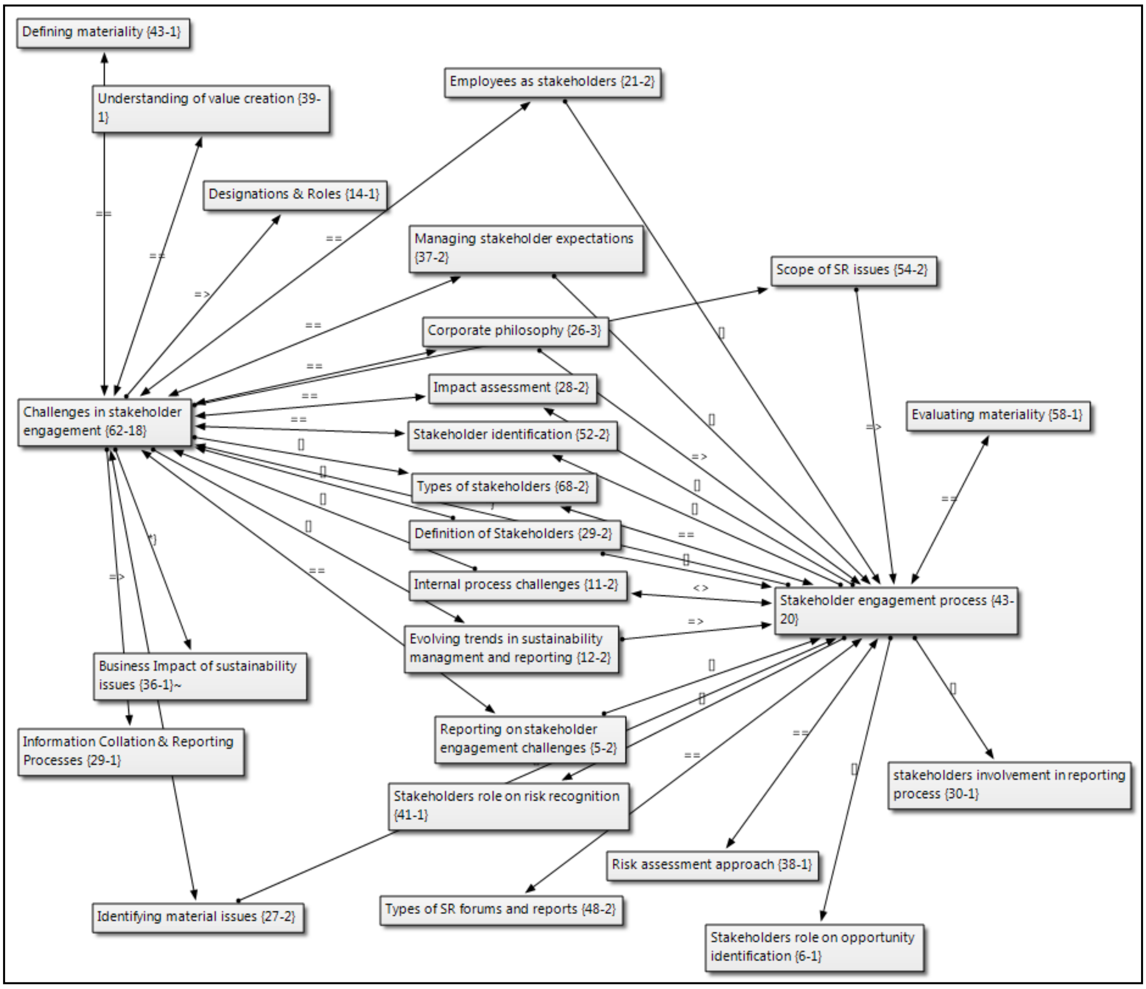
6.4 Challenges in Stakeholder Engagement

Practitioners face numerous challenges in stakeholder engagement, which thus impacts on the nature and outcomes of this process. These challenges informed some of the problems that organisations have in achieving an effective engagement process. In the context of this research, effective engagement should include the input of the various stakeholders. The findings noted the various conflicting interests of stakeholders (Harrison & Wicks, 2013), making it even more important to capture and give due attention to the various divergent views. The variance of these views, when taken in the context of the complexity and divergence of problems faced in stakeholder engagement, results in uncertainty as to the quality and effectiveness of the process (Thomson& Bebbington, 2005).

Figure 10 maps the scope and interaction of factors that emerged from practitioners. It was revealing to note the strong endogenous nature of the challenges with a multiplicity of touch points being highlighted as relevant. Similar to the assertions of Klettner, Clarke & Boersma, 2014 the corporate philosophical stance was raised as an important influence on how stakeholders are perceived and hence strategically addressed by the leadership levels and how well integrated this process can be. Clarity of roles and responsibilities distinguishing clear accountabilities were recommended as critical in establishing ownership of the stakeholder and sustainability agenda. Having said this though, there was recognition of the need to drive cross organisational contribution to enable adequate framing of the typically expansive frame of stakeholders and subsequently identifying of materiality.

Harmonisation of definitions, impact assessment and integration are challenging to attain particularly in highly diversified organisations. In such contexts it becomes near impossible to effectively centralise stakeholder engagement processes. Consequently stakeholder processes are being held at the business unit level with the opportunity for appreciation of the consolidated group impact potentially being missed.

Figure 9: Complexity of Stakeholder Engagement



In light of this it is insightful to note South Africa's ranking in terms of the maturity of the sustainability reporting processes, which confirmed that the processes are still in their infancy. When this literature finding is triangulated with the findings in Chapter 5, it is concluded that the diversity and complexity of the processes pose a myriad of challenges for practitioners resulting in injudicious sustainability reports.

Despite the density of these challenges and apparent complexity in the processes, practitioners indicated that these challenges received no column inches in their reports. In every instance, the sustainability reports of the companies selected were all assured and given a clean bill of health on the basis of the third party contractor assurance mandate.

A particular panacea offered for the problems stemming from the diversity of stakeholders and the related issues was the use of sampling. This challenge compromises the effectiveness of the engagement. Manetti & Becatti (2009) propose that materiality should be assessed from the viewpoint of targeted stakeholder groups thus suggesting that organisations should work with targeted stakeholders, perhaps given the volume and diversity of stakeholders. It can be interpreted in the context of this research that Manetti & Becatti (2009) acknowledge the inability of organisations to reach all stakeholders.

The outcomes are somewhat typical of most emerging processes, fraught with teething problems. The interplay between the process and the associated problems has a direct bearing on the eventual issues identified as material. For instance, a challenge advanced by respondents was the perceived lack of interest in the sustainability processes by stakeholders. Such views at the higher governance levels in an organisation shape the corporate philosophy with regards to sustainability processes. This was a rather interesting finding as it can be deduced from the comments of the respondents that the stakeholders are under informed about the need for them to play a role in the sustainability reporting processes.

The lack of trust between companies and stakeholders was cited as a hindrance to an effective engagement process. The sources of this mistrust could be the historical imbalance of the shareholder-centric model of accountability that encourages companies to prioritise and respond to shareholders, as the main stakeholder, Harrison & Wicks (2013).

Summary

Stakeholder engagement was underlined as a key ingredient in the determination of material issues for sustainability reporting. The issues raised by academics such as Manetti (2011) concerning the diverse interests of stakeholders were clear impediments to effective engagements. Whilst some data revealed an understanding of the inclusive nature of stakeholder engagement processes, it was evident that such processes were only in the preliminary data-gathering phase of the engagement. Beyond this point, the prioritization of the diverse issues and subsequent reporting of the same is an internal process. The practical realities of companies holding hands with stakeholders throughout the whole process will require investigation, however, the perception that stakeholders are not interested in the sustainability reporting process will not aid the cause.

6.5 Materiality Process

Research Question 2: What are the current processes used to determine materiality for sustainability reporting?

Figure 10: Managing Materiality

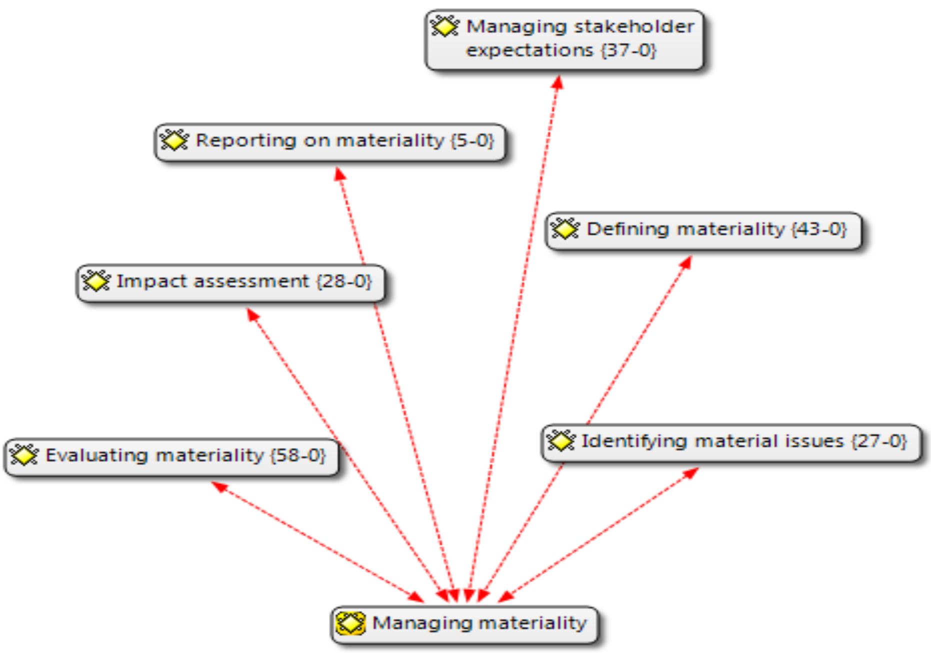


Figure 11 illustrates the dynamism of the materiality concept and its activation. Practitioner's lamented the variety and intensity of challenges faced in collecting and assessing the information relevant to its determination. The definitions given by respondents showed that the concept of materiality, especially when relating to qualitative elements is very abstract. The infancy of the reporting processes was exposed through various respondents deferring to the definitions contained in the guiding codes. This position is consistent with the findings in literature; Hsu, Lee & Chao (2013) hypothesize that a model of materiality analysis in sustainability reporting that aims to determine material and relevant issues in accordance with stakeholder needs has not been found in previous literature.

The processes brought forth by the respondents where dominated by the use of an internal risk framework. As argued in the previous section, this approach excludes the participation of stakeholders in prioritising the material risks to the company. In a sustainability reporting sense, these risks would encompass the issues affecting stakeholders. The International Integrated Reporting Council's lobby for a flexible approach to materiality determination which would range from, one extreme, a principle based model to, on the other end, a totally flexible system that leaves much discretion to the producers of sustainability reports. This flexibility was evidenced by the variety of views from practitioners indicating various divergent philosophies from the reporting companies. The IRC, (2011) contends that this area requires much judgment, care and skill. Given the budding nature of sustainability reporting these attributes may not yet be fully developed. This is evidenced by the various challenges faced by practitioners and the lack of clarity or indeed willingness to report on these challenges.

A subjective element of sustainability reporting that surfaced within the context of literature, and the results was that of "material to whom?" ((Eccles *et all,* 2012, p.66). The interplay between the practitioners' views on this element and their definition of stakeholders was very evident. This underscored the importance of corporate philosophy on sustainability and its cascading effect on the rest of the processes whose outcomes inform the sustainability report.

Materiality must be seen from multiple perspectives that include both the company and its stakeholders. Sustainability reports often contain, not only the issues raised by stakeholders but the responses to these issues by the companies. In so doing, companies make assertions on the impact that they have had on economic, social and governance factors, Murphy & McGrath, (2013). This necessitates stakeholder engagement in objectively measuring the impact that companies' operations have had. This consultative process allows for the filtering of information contained in the sustainability report.

The responses received from respondents indicated that the impact assessment is an internal process measured through forums such as media and project assessments against targets. The reliability of the information, and the control of that information by senior management of reporting companies undermine transparency of disclosed information in sustainability reports, Cho *et al*, (2014); Romolini *et al* , (2014).

Organisations may not yet be fully confident of their processes given the various challenges faced. With the non-negotiable requirement to produce an Integrated Report by the JSE as supported by King III, the continued increase in the production of these reports despite the challenges being faced indicates a flaw in the system. The inability of the assurance process to highlight these issues, for a variety of reasons, inter alia, the absence of stakeholder involvement in assurance, the control of the process by management and the scope of the assurance process amongst other reasons exacerbate this.

6.6 Value Creation

To whom are companies accountable? For what are they responsible? (Van Zyl, 2013). It is strongly suggested that the answers to these questions are necessary in order to determine companies' perspective on the concept of value creation. Without an understanding of the various facets that constitute their licence to operate, their sustainability drive, and indeed report, will not be meaningful. The Companies Act, 2008 and King III require companies to consider and ensure the long-term value creation of their processes. The value created must be for the sustainable benefit of the companies' stakeholders. In order to do so, a company must be able to objectively engage and report Gilbert & Rasche (2008).

The proposal by Harrison & Wicks (2013) that much of business' understanding on stakeholder needs and expectations focuses on economic returns was seen in evidence where respondents prioritized economic returns as the foremost objective under value creation. These respondents demonstrated knowledge of the value creation concept specifically, that it should be for the benefit of all stakeholders. However according to Bridoux & Stoelhorst (2014), materiality determination is a two-stage process that first requires companies to determine their material stakeholders. This categorisation of stakeholders is likely to have a follow through effect on how value is created and shared by the companies. Indeed, given that this process is to the discretion of the company, with due regard to guiding principles and internal mechanisms, the absence of involvement of stakeholders in the latter stages of the sustainability processes may prejudice an objective outcome.

Some respondents acknowledged the creation of value for the wider benefit of all stakeholders. This supported the proposition by Boiral, (2013); Eccles et al, (2012); Ramlall, (2012) that there is a gradual acceptance of inclusivity in sustainability issues. However this acceptance must be built into the processes to ensure meaningful and objective outcomes. Thus far, the diversity in definition of stakeholders, the engagement process, the creation and sharing of value as well as the determination of what is ultimately material demonstrates that there is disparity in practice on the handling of these sustainability issues.

Summary

The concept of materiality is still in its infancy. Practitioners are still very reliant on the principles in the guiding codes without a firm grip on the requirements of total stakeholder inclusion in the sustainability process. A risk framework used to prioritise issues that came up during engagement is not stakeholder inclusive. Without stakeholder inclusion in the determination of what is material it is doubtful whether an objective report that caters for the interests of all stakeholders can be produced. The sustainability report caters for a variety of sustainability dimensions, including how value was created and distributed.

The number of reports being produced in South Africa indicates the country is ahead of the pack, possibly showing the impact of legislation requiring these reports. The sustainability codes supporting this legislated requirement are voluntary and non-prescriptive. Although the theoretical frameworks have set the groundwork, the control of these processes by those charged with governance undermines the involvement of stakeholders.

6.7 Sustainability Reporting Assurance

Research Question 3 - What is the role of stakeholders in the assurance of sustainability reports?

After the identification and engagements with stakeholders, determination of material issues and impact assessments (positive and negative) the involvement of stakeholders in the process of reporting and assurance present the next logical hurdles. The need for assurance of sustainability reporting results from the extension of corporate governance concerns to the interests of other stakeholders, not only the interests of its shareholders (Marx & van Dyk, 2011). Given the evident minimal involvement of stakeholders throughout the sustainability processes thus far demonstrated, expectation gaps are likely to occur. Assurance is fundamental in establishing credibility and reliability of SR (Edgley et al, 2010).

Costs of the assurance process are borne by the reporting entity and the reporting guidelines are discretionary to the corporations (Manetti & Becatti, 2009). Given practitioners views that stakeholders are not interested in the sustainability process, this compounds the weak engagement processes. This is affirmed by Thomson& Bebbington (2005) who contend that the quality of reporting is intimately linked to the quality of stakeholder engagement. The authors further maintained that the assurance process itself does not bear signs of dialogue with the stakeholders but is rather more concerned with confirming facts and data. Management issues the mandate and scope for the assurance engagement. Consequently, Manetti & Toccafondi (2011) found that only rarely are assurance statements addressed to stakeholders but rather direct back to management as the assignment commissioners and remunerators. This strengthens the argument that these processes are not totally inclusive but are tightly controlled and in the realm of management control. Under these circumstances, identification of what is material, and thus important to stakeholders cannot be objectively determined.

The inclusion of key material stakeholders in the reporting process, though progressive, raises similar issues about subjectivity, sampling and assumptions about representation, all of which are attended to internally. To this end, Manetti & Toccafondi (2011) indicate that it is not possible to guarantee highly reliable levels of verification of SR reports due to the highly intrinsic nature of the matter involved. The same authors further hypothesize that the mapping of stakeholders and embedding of their opinions are highly subjective processes that are difficult to formalize. The level of this subjectivity coupled with the diverse interests of stakeholders (Harrison & Wicks, 2013) requires the consultation of various experts and stakeholders.

6.8 Conclusion

Stakeholder engagement has various dimensions that that all play a pivotal role in the collating of information required for an objective sustainability report. The dimensions may entail a series of processes, all equally important, which are informed by a company's philosophy on sustainability. The pace at which sustainability issues have gathered momentum in South Africa, in part due to legislation and the King III appears to have left practitioners with various challenges. A total change in philosophy from a shareholder model to a stakeholder model of engagement cannot be generalised with some pockets still championing a shareholder primacy model. It is evident that sustainability reports are being produced in South Africa through a process charged with complexity and challenges. Engagement under these circumstances is not effective, ultimately feeding into the report information whose materiality is heavily based on the company's viewpoint.

Stakeholder engagement cannot be in parts or in phases. This must be a continuous and complimentary process from stakeholder identification right through to production and assurance of the report. The non-inclusion of stakeholders post the data collection phase may indicate that engagement reporting is done primarily as a compliance driven exercise.

CHAPTER 7: CONCLUSION

7.1 Introduction

The chapter concludes the research by providing an overview of the research process undertaken, a brief of the results and the researcher's recommendations. Some areas of potential further study will conclude the chapter.

7.2 Research Background and Objectives

Sustainability reporting is a process that has gathered momentum and provided businesses with an outlet within which to report to stakeholders on their long-term value creation initiatives. Various reasons for this momentum have been put forth, inter alia, legislative requirements and stringent ESG requirements from investors. As a result of these pressures businesses have at times been accused of reacting to sustainability issues either for compliance purposes or as a marketing drive to fend off negative publicity.

Various reporting codes offer guiding principles to their voluntary members on how to prepare a sustainability report. One such principle is the principle of Materiality which endeavours to ensure that the sustainability report contains matters of significant value and impact to all stakeholders. The objective of the research was to understand the role of stakeholder engagement in the determination of the content published in a sustainability report.

7.3 The Findings

Summarised below are the main findings of the research:

i. The data confirmed the assertions of Manetti, 2011 that the interaction between companies and stakeholders is no more than a one-way stakeholder management process as opposed to an engagement process. Stakeholder engagement is mainly in the data-gathering phase of sustainability reporting.

ii. The dominant use of a risk assessment approach to materiality determination suggests practitioners primarily view materiality from the company's perspective.

iii. Sustainability reporting as a process is still in its infancy. The various dimensions at play are complex and fraught with challenges from stakeholder identification to report assurance.

iv. There is still divergence in practice on the concept of stakeholders and to whom companies are accountable. Within the bounds of shareholder centrism and stakeholder advocacy lays clusters of companies on a developmental journey of sustainability reporting.

7.4 Recommendations

Engagement modelling The over-arching principle must be a change in philosophy to a stakeholder-engaged model. This requires total buy-in from companies as to the merits of sustainability and the business case for it. For this to happen, engagement must be proactive with a sincere view to understand stakeholder issues. Stakeholder engagement must be ingrained in the daily operational processes of the business to allow meaningful participation from stakeholders on the short and long-term decisions that affect them.

For engagement to be meaningful, companies must ensure that interactions are taking place at every stage of the sustainability process, from stakeholder identification, engagement and issues identification, prioritisation and materiality assessment, feedback and assurance. This process may be formal or informal and may include select groups of all identified stakeholders. Companies must realise the need to eradicate their profit-at-all-costs legacy issues in the minds of stakeholders and thus foster a sense of trust as an enduring denominator of the process. Business partnerships with other organisations such as government, NGOs, fostered specifically for sustainability issues will result in stronger and more effective relationships. In so doing a number of practices are recommended to ensure more effective engagement:

a) *Collaboration and benchmarking sustainability processes.* Companies must form collaborative groups and workshops in-order to share practices and codes and align their perspectives on stakeholder engagement. This is important to reduce the diversity of opinion on value creation and stakeholder definition and identification. Companies must move towards a stakeholder engagement model.

b) *Sustainability reports must detail the challenges that companies face in stakeholder engagement*. This ensures a more objective report but more importantly allows stakeholders to understand challenges from the company's perspective and thus offer suggestions for improving the engagement process. It is important to elevate the transparency of the process starting with companies understanding that all material information must be reported including the failures and negative aspects.

c) The setting up of Sustainability Review Committees that include internal and external stakeholders, in equal representation, may improve stakeholder engagement and sustainability reporting. It is proposed that representatives of all identified stakeholders constitute such committees. The committee must play a sustainability oversight role, akin to the role of an Audit Committee on corporate governance structures and processes of an organisation, and be chaired by a representative of an external stakeholder.

d) The Sustainability Review Committee should appoint the assurance provider and be involved in the assurance process. It is important that assurance providers be mandated to do more than check facts and figures, but must interact with the key stakeholders and be able to do a walk through of the entire sustainability reporting process and report on it. It is through such exercises that assurance providers can add value through recommendations, but also report on the substance of the sustainability processes rather than merely the outcomes.

7.5 Limitations of the Study

Qualitative research by its nature will not yield conclusions that can be inferred on the general population. The results obtained can only be seen in light of the conclusions of academics as reviewed in Chapter 2 and not as a reflection of the general practices sustainability professionals in South Africa or that of JSE listed companies.

The respondents were limited to employees in sustainability roles within the chosen companies and no triangulation was done to obtain the views of stakeholders on their participation in the materiality process. This approach would have provided a base within which to understand the differing perspectives of companies and stakeholders in a more objective manner.

7.6 Suggestions for Further Research

Several research suggestions are proposed in light of the research findings and the general methodology of this research that presented limitations that can be overcome by utilising a different research methodology.

A more explanatory research methodology utilising quantitative data analysis techniques may yield more insight into the prevalence of certain types of stakeholder engagement or the causal issues of difficulties in determining materiality. This will allow for an understanding of the modus operandi in South Africa and perhaps a focus on specific industries within the JSE.

During the research phase it was noted that company perspectives on sustainability or even on the debate between stakeholders versus shareholders were, in part, shaped by their history. The mining industry has in recent times been ravaged by labour unrest that has in some instances resulted in temporary closure of some mines. This has elevated the status of the employee as a stakeholder and therefore there is an opportunity to understand the employee and shareholder balance in light of the prevailing unrest.

Related to the above, the sample in the research inadvertently had two distinctly large proportions of banking and mining industry companies. Whilst it was not the objective of the research to contrast sustainability practices of the two industries, future research may benefit from understanding the industry differences and similarities of sustainability practices between different industries. This is especially important in light of the varying stakeholder prioritisations in different industries and its impact on a company's sustainability policy.

Respondents contact details were obtained off the sustainability reports. The detailed people who were responsible for the reports and could be contacted by stakeholders for any issues pertaining to the content of the report. In an effort to contact the listed people it was discovered that some companies make use of external sustainability experts in the writing of their sustainability reports. The experts handle the sustainability reports of various clients. A suggestion for future research would be to explore the role of such experts in the sustainability processes and the extent to which companies delegate responsibility for the processes and the report to the external experts.

7.7 Conclusion

In conclusion, the study has navigated the complex process of stakeholder engagement and its role in determining the issues to be reported in the sustainability reports. Practitioners face numerous challenges in achieving an effective engagement process. That said, corporate philosophy, given its fundamental role in shaping sustainability thinking, must ensure it is aligned to a more inclusive stakeholder approach. The discussions have revealed a diversity in stakeholder approach with the only similarities coming from the exclusion of stakeholders in the conversations that determine the material matters for reporting. The processes may still be in their infancy, however practitioners must seek the answers to a sustainable future through open and honest conversations with those that hold their licence to operate – stakeholders.

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APPENDICIES

APPENDIX 1 - INTERVIEW GUIDE

1. Introduction

1.1 Personal Introduction: Tendai Mungoni, Finance Manager at a non-listed coal mining company. I am doing academic research as part of my GIBS MBA programme.

1.2 Purpose of Study: indicate the purpose of the study: mainly to understand the role that stakeholders play in the determination of material content published in sustainability reports. Emphasize the need to understand how the firm identifies its stakeholders and engages them.

1.3 Research Process: Outline the methodology used to collect the data and how it will be analysed. Give an indication of the profile of companies participating in the research and how the results will be used.

1.4 Interview Process: Provide an overview of the interview process. To foster rapport, indicate that the company's sustainability reports have been studied and only the interviewee's insights are sought.

1.5 Interview Consent: Obtain consent from the interview via a consent form. Provide a copy of the interview guideline to the interviewee.

2 General Discussion

2.1 Open the discussion by allowing the interviewee to introduce himself or herself and state their position at the company. They should briefly describe their job and how it relates to sustainability issues within the organisation.

3 Stakeholder Engagement – Research Question 1

a) Have stakeholders been defined by your organisation?

YES	YES	NO
ADEQUATELY	NOT ADEQUATELY	NOT AT ALL

b) If yes, what is the definition of ‘stakeholders’ that has been adopted by your organisation?

c) Does your organisation have a standard process of identifying stakeholders?

YES / NO

d) What is this process?

e) Are all stakeholders identified under d) above involved in the sustainability reporting process?

YES / NO

f) How does the company assess the impact it has had on stakeholders?

g) Does the company report on stakeholders' role in the identification of risk and opportunities?

h) If yes, are stakeholders involved?

i) Does the company understand the concept of value creation? For whom is the value created?

4 Materiality Processes – Research Question 2

a) How does your organisation define materiality?

b) How does the organisation identify information for inclusion in the SR report?

c) Is information obtained through processes identified in 3 (g) above used?

YES / NO

d) Are stakeholders involved in deciding the final content of the SR report? Please explain.

e) Does the company report on the process used to determine materiality?

YES / NO

f) Is materiality reported on from the Company's or from the Stakeholders' perspective?

g) What have been some of the challenges/pitfalls in stakeholder engagement in the determination of materiality? How are these resolved?

h) Does the company report on these challenges?

5. Stakeholders in the Assurance Process – Research Question 3

a) Does the organisation subject its SR report to an external assurance process?

YES / NO

b) If yes, are stakeholders involved in the assurance process? Please explain

c) How are the stakeholders that are included in the assurance process identified and by whom?

6. Interview Closure

a) Is there anything else you would like to add that you think will be of relevance to this research?

b) Are there any questions you would like to ask me regarding this research?

7. **Closing Comments**

Thank the interviewee for their time and input and enquire whether they can be contacted later to clarify any comments should the need arise.

j) APPENDIX 2 CONSISTENCY MATRIX

Research Questions/ Propositions? Hypotheses	Literature Review	Data Collection Tool	Analysis
Research Question 1: What are the current processes used to determine materiality for sustainability reporting?	(Eccles *et al*, 2012; Hsu et al, 2013; Zicari, 2014; Manetti & Becatti, 2009)	Key questions: For example, What are the processes used to engage with stakeholders; what medium is used & how often?	Constant Comparative analysis: compare findings from previous questions with the strategy that was finally employed.
Research Question 2: Is Stakeholder engagement a two-way interactive process that enables stakeholders to participate in sustainability reporting?	(Manetti, 2011; Harrison & Wicks, 2013; Sangle, 2010, Manetti & Toccafondi, 2012)	Combination of introductory questions, transition questions and key questions.	Content Analysis: to determine how and the context in which respondents use words such as: feedback, together, stakeholders etc.
Research Question 3: What is the role of stakeholders in the assurance of sustainability reports?	(Cheng *et al*, 2014; Gilbert & Rasche, 2008)	Key questions: For example, Do auditors have acess to stakeholders during the assurance process?	Content analysis.