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**INTEGRATED REPORTING IN THE SOUTH AFRICAN MINING SECTOR AND THE
KING REPORT IV ON CORPORATE GOVERNANCE, 2016**

By

NOMBUSO N. ZULU

12113515

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Prepared under the supervision of

Adv. Leonardus J. Gerber

Department of Public Law

Faculty of Law

University of Pretoria

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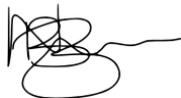
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"Just keep swimming" – Dory (Finding Nemo, 2003)

ABSTRACT

The King Report III on Corporate Governance, 2009 was incorporated into the Johannesburg Stock Exchange (JSE) listing requirements, which meant all JSE listed companies must comply with specific corporate governance practices and disclosures and meet compliance standards in their annual reports. The implementation of mandatory compliance requirements means that South Africa is leading the way by being one of the first country's to fully implement mandatory integrated reporting.

The global recession of 2009 saw the need for a new form of corporate reporting that moved away from the traditional accounting and reporting methods, as their failures contributed to the financial crisis. The International Integrated Reporting Council (IIRC) was formed in 2010 to assist the framework of corporate reporting. The IIRC emphasised the need for reporting that would cultivate a corporate reporting environment that will focus on short, medium and long – term value creation. Integrated reporting seeks to achieve concise communication about how the organisation's strategy, governance and performance issues, in the context of its external environment that leads to the creation of value the short, medium, and long term.

The South African mining industry contributes significantly to the local economy and remains one of the world's biggest mineral producer. Mining, is seen as integral part of local society as it impacts various sectors and industries, whilst managing investors and stakeholder expectations simultaneously. The need for greater transparency and reporting methods on social, financial issues is important especially where an industry, like mining, impacts all three issues. Since the mandatory implementation of integrated reporting, JSE listed companies have not seen immediate success with integrated reporting, it has been understood that it shall take time to comply and integrated the requirements and to remedy shortcomings. The mining industry is not only complaint with local reporting standards but also international best practice standards, the question that is raised is, whether the disclosure principles are being correctly applied to reporting in the South African mining sector?

The need for cohesive, concise reporting is important, and as to whether the South African mining industry utilises all aspects of the integrated reporting principles, to its full potential, still remains to be seen. There are shortcomings and gaps that still need to be addressed, but there remains room for improvement and change.

This paper will discuss the current state of integrated reporting in the mining industry and whether the implementation of integrated reporting is effective, and a further investigation on the failures, gaps and shortcomings that are faced within integrated reporting related to South African mining industry. This analysis of the following areas will provide information to whether integrated reporting is being utilised to its full potential by analysing the King Report IV on Corporate Governance, 2016 and the IIRC framework respectively.

LIST OF ACRONYMS

A4S	Accounting for Sustainability Project
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IoDSA	Institute of Directors in Southern Africa
IRCSA	Integrated Reporting Committee of South Africa
IIRC	International Integrated Reporting Council
JSE	Johannesburg Stock Exchange
OECD	Organisation for Economic Co-Operation and Development

KEYWORDS

Integrated Reporting

King Report IV on Corporate Governance, 2016

King IV

International Integrated Reporting Council

IIRC

Integrated Reporting Committee of South Africa

IRCSA

South Africa

Mining Industry

Corporate Governance

Mandatory Compliance

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CHAPTER 1: INTRODUCTION, BACKGROUND AND RESEARCH METHODOLOGY

1.1. Background to the Research

His Royal Highness Charles, Prince of Wales at the Accounting for Sustainability Projects (A4S) in 2004 said “we are at present battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems.”¹ The period after the address, made by the Prince of Wales, the King Report III on Corporate Governance, 2009 (King III) was incorporated into the Johannesburg Stock Exchange (JSE) listing requirements, which meant all JSE listed companies must comply with specific corporate governance practices and must disclose compliance measure in their annual reports.² The mandatory compliance requirements means that South Africa is leading the way by being one of the first country’s to fully implement mandatory integrated reporting.³

Integrated reporting by companies has increased due to the greater response by the public to scrutinise companies with being more socially responsible.⁴ Despite this growth, there remains confusion and fragmentation in the landscape of integrated reporting.⁵ Mining companies find themselves in an era where, news is instantaneous, reputation management is important and public scrutiny is higher than before.⁶ While trying to be financially viable and communicating to stakeholder and investor expectations through the objectives of reporting.⁷

1.1.1. Global Influences on Integrated Reporting

The concept of integrated reporting has existed in various forms. The earliest interpretation of an integrated report was in the form of social reports in the 1970s.⁸ The 1990s brought the re-emergence of a form of integrated reporting and coupled with the significant corporate collapses which lead to substantial financial lose, saw the birth of the Cadbury Report.⁹ The Cadbury Report was a voluntary code of best practice which had high standards of corporate behaviour and levels of disclosure.¹⁰ However, the formulation of the Cadbury report was not to add non-financial aspects of

¹ Press Release *Formation of the International Integrated Reporting Committee (IIRC)* strictly embargoed by 10am BST on 2 August 2010, 1 (Accessed 25 July 2018).

² JSE Limited Listing Requirements ‘Corporate Governance’ at 3.84 Website (Accessed 25 July 2018).

³ Ernst & Young (2012) “Ernst & Young’s Excellence in Integrated Reporting Awards” Online (Accessed 24 July 2017).

⁴ Frost, Jones et al ‘A Survey on Sustainability Reporting Practices in Australian Reporting Entities’ *Australian Accounting Review* Vol 15 (35) 2005 89.

⁵ Du Toit ‘Integrated Reporting by South African Companies: A Case Study’ *Meditari Accounting Research* Vol 25 (4) 2017 654 (Accessed 26 July 2017).

⁶ Abeysekera “A Template for Integrated Reporting’ *Journal of Intellectual Capital* Vol 14 (2) 2013 232.

⁷ Dube & Maroun ‘Corporate Social Responsibility Reporting by South African Mining Companies: Evidence of Legitimacy Theory’ *South African Journal for Business Management* Vol 48 (1) 2017 23.

⁸ Stubbs & Higgins ‘Integrated Reporting and Internal Mechanisms of Change’ *Accounting, Auditing and Accountability Journal* Vol 27 (7) 2014 1070.

⁹ Du Plessis & Low ‘Corporate Governance Under the Spotlight’ 2017 4

¹⁰ *Ibid.*

reporting but rather issues arising from financial issues. The 'comply or explain' approach was central to the application of the report this however, was to foster a habit of transparency through compliance rather than having to justify non-compliance.¹¹

The Global Reporting Initiative (GRI) was founded in 1997 at the peak of corporate social responsibility wave and quickly became a leader for voluntary reporting, in terms of environmental and sustainability performance reporting.¹² The year after its founding the GRI established the multi-stakeholder committee and developed a framework that included social, economic and governance issues. This saw the GRI focus become sustainability reporting at its core.¹³

The Cadbury Report's 'comply and explain' approach was the stepping stone for the Principles of Corporate Governance by the Organisation for Economic Co-Operation and Development (OECD) to be published in 1999.¹⁴ This provided a consolidated template as a guide on corporate governance code for various jurisdictions. The OECD Principles have been updated in 2004 and 2014 respectively due to the response to the global economy and the development of financial markets.¹⁵

The global recession of 2009 saw increased attention on traditional accounting and reporting methods, as their failures were involved in the crisis.¹⁶ In 2010 the GRI and A4S formed the International Integrated Reporting Council (IIRC) to assist the framework of corporate reporting.¹⁷ The IIRC defined integrated reporting as "a concise communication about how the organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long – term."¹⁸ The IIRC claims, that their primary purpose of an integrated report is "to explain to providers of financial capital how an organisation creates value time."¹⁹ The IIRC intends to achieve its primary purpose by combining financial and non-financial information in a single report.²⁰

1.1.2. South African Influences on Integrated Reporting

The earliest influences of integrated reporting in South Africa and the most unlikely are the principles that arouse from the negotiations of the country's first democratic election in 1994.²¹ The values such as, stakeholder inclusivity where the interests and expectations of non-stakeholders

¹¹ *Ibid.*

¹² Brown, de Jong & Lassidrenska 'The Rise of the Global Reporting Initiative (GRI) as a Case of Institutional Entrepreneurship' Working Paper No. 36 2007 4 Online (Accessed 27 July 2018).

¹³ GRI's History 'Sustainability Reporting *Global Reporting Initiative Website* (Accessed 27 July 2018).

¹⁴ *Supra* 9 .

¹⁵ *Ibid.*

¹⁶ De Villiers, Venter & Hsia 'Integrated Reporting: Background, measurements issues, approaches and an agenda for future research' *Accounting Finance* Vol 57 (4) 2017 1 Online (Accessed 29 July 2018).

¹⁷ *Ibid* 3.

¹⁸ The International <IR> Framework 2013 7 *International Integrated Reporting Council Website* (Accessed 29 July 2018.)

¹⁹ *Ibid* 4.

²⁰ *Supra* 16.

²¹ Eccles & Krzus 'South Africa' *The Integrated Reporting Movement: Meaning, Momentum, Motives and Materiality* 2014 Online (accessed 29 July 2018).

should be considered in the decision-making process. Those principles that were born from those negotiations were to create structural and corporate transparency and were a testament to the growth of democracy to create structural and corporate transparency.²²

The sanctions of the 1980s and 1990s had taken a toll on South African Foreign Direct Investment (FDI) and the goal moving forward into a new democratic country was to foster FDI through the significant challenges South Africa faced from a corporate perspective.²³ The first King Code on Corporate Governance (King I) was published in 1994 to advocate for total transparency and advocated for disclosures of executive and non-executive remuneration disclosures however, the King I did not call for sustainable disclosures.²⁴ The King II was where the concept of integrated reporting came into fruition. The concept of corporate sustainability where companies looked at “non-financial aspect” to “ensure future value-creation.”²⁵ Corporate Social Responsibility (CSR) looked at achieving the “triple bottom line” which was looking at a balanced and integrated economic, environmental and social performance.²⁶ The King III saw the mandatory requirement for all JSE listed companies to prepare an integrated report as a response to social, political, economic and environmental challenges faced in the years after King II.²⁷

The article by Stubbs and Higgins *Financial Capital Providers’ Perceptions of Integrated Reporting Working Paper* mentions that separate financial and sustainable reporting are not informing investors in a helpful way therefore this siloed-thinking approach to conveying information to stakeholders to make better informed decisions was completing failing.²⁸

The King IV came into effect on the 1st of April 2017 and noted three shifts that occurred in the corporate world and it specifically mentioned a shift from siloed reporting to integrated reporting.²⁹ The King IV examines integrated thinking as an extensions of integrated reporting which looks at the organisations as being an integral part of society, utilising the stakeholder inclusive approach, sustainable development and providing an integrated report to communicate all these concepts to their stakeholders.³⁰

Since the mandatory adoption of integrated reporting by JSE listed companies has not been an immediate success through reports by IRCSA and the IIRC as they understand that organisations will need to take time to apply the requirements and how to address their shortcomings.³¹ The mining industry not only has to comply with international reporting standards, but also the Mining Charter

²² *Supra* 21 2.

²³ *Supra* 21 3- 5.

²⁴ *Supra* 21 6.

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ Atkins & Maroun ‘Integrated Reporting in South Africa in 2012: Perspectives from South African Institutional Investors’ *Meditari Accounting Research* Vol 23 (2) 2015.

²⁸ Stubbs & Higgins ‘Financial Capital Providers’ Perceptions of Integrated Reporting Paper 2014 5 Online (Accessed 30 July 2018.)

²⁹ King IV on Corporate Governance, 2016 5 *Institute of Directors of Southern Africa* Website (Accessed 30 July 2018.)

³⁰ *Ibid* 24.

³¹ *Supra* 27

and King IV. It remains whether the mining sector is applying the disclosure practices correctly or has it become a manner of legitimacy management to comply with the standards required?³²

1.2. Research Questions

1.2.1. Primary Question

Is the integrated reporting model in South Africa, in the form of King IV, utilised to its full potential in the mining sector.

1.2.2. Secondary Questions

The secondary questions will be as follows:

- Does the King IV principles on disclosures and reporting impact on integrated reporting in a negative or positive manner?
- Is the integrated reporting model in the South African mining industry being utilised to its full potential with consideration to the eight content elements of the IIRC?
- Has integrated reporting model become a platform for legitimacy management rather than a mechanism to communicate with stakeholders?
- Can application of the six capitals of the IIRC change the internal structure of the a company?

1.3. Aims and Objectives

The question that keeps arising from integrated reporting since the mandatory requirements of the King III and discussion papers published by the IIRC and IRCSA with the lack of guidance provided by King III and King IV provides a setting for companies to apply the principles in a manner which suits them best.³³ Accordingly, the research aims to explore whether the integrated model in the South African mining industry is being utilised to its full potential. It will consider the King IV and the IIRC framework respectively.

In order to achieve this aim, the research objectives are:

- The analysis of the success and failures of integrated reports based on the principles of disclosures and reporting.
- The analysis of the eight content elements of the IIRC Framework and if it's being considered accordingly.
- The manner in which integrated reports are reported are they communicated effectively in terms of the stakeholder-inclusive approach.

³² Carels, Maroun & Padia 'Integrated Reporting in the South African Mining Sector' *Corporate Ownership & Control* Vol 11 (1) 2013 951.

³³ Setia et al 'Integrated Reporting in South Africa: Some initial evidence' *Sustainability Accounting Management and Policy Journal* Vol 6 (3) 2015 399.

- Has the application of the six capital through integrated reporting resulted in internal structural change and can it be applied to the mining industry.

1.4. Methodology and Limitations

1.4.1. Methodology

The methodology that will be used is the grounded theory approach. The initial research started by reviewing various comprehensive academic literature to understand the nature and background of the integrated reporting. I further looked at the King IV, the IIRC, the GRI and IRCSA Frameworks to substantiate the research questions.

Further research looked at the current state of integrated reporting in the mining industry and is the implementation effective and a further investigation on the failures, gaps and shortcomings that are faced within integrated reporting in South African mining industry. The consideration of all these research investigations will provide whether integrated reporting is being utilised to its full potential.

1.4.2. Limitations

The limitations to this study are that due to integrated reporting being a new concept to corporate reporting there is still gaps in the area of integrated reporting due to the amount of research available as its spread out over a few years the information is clustered together and certain issues may be overlooked like current trends, the amount of similarities and differences in reporting. The mining industry is still slow to come to the table with clear integrated reporting therefore it makes it difficult to track trends within the mining industry.

1.5. Relevance of Study

South Africa is one of the leading country's when it comes to mining globally and contributes significantly to our gross domestic product (GDP).³⁴ The mining sector has struggled with effective communication with various stakeholders and made things inaccessible.

Mining impacts social and environmental, mining companies need to effectively communicate information to their stakeholders in an effective manner. Integrated reporting can close the gap between mining companies and relevant stakeholders by consolidating a single report with all relevant information concisely. Since the adoption of mandatory sustainability reporting mining companies have not effectively applied integrated reporting principles.

This study will hopefully help provide recommendations on clearer mechanisms to implement into mining integrated reports.

1.6. Conclusion

³⁴ *Supra* 7 23.

Chapter 1 will focus on the introduction to integrated reporting and the various global and local influences with background to the research problem. Chapter 2 will look at the King IV Report and the disclosure and reporting principles and whether they impact negatively or positively on integrated reports of companies. Chapter 3 will focus on the IIRC eight content elements and look at whether they are being applied sufficiently to integrated reports. Chapter 4 will focus on whether integrated reporting has become a means of legitimacy and rather than a tool for value creation. Chapter 5 will discuss whether the application of the IIRC six capitals to the internal structure can result in organisational change. Chapter 6 will offer a summary and evaluations drawn from the evaluation from the previous chapter. Chapter 7 concludes the research and provides a conclusion and recommendations.

CHAPTER 2: THE KING REPORT IV, DISCLOSURES AND REPORTING PRINCIPLES

2.1. Corporate Governance in South Africa

Corporate governance in South Africa was not driven by any significant crisis within the corporate sphere. It was however, to assist South Africa's private sector to be more competitive with the readmission of South Africa into global market after the fall of Apartheid.³⁵ The King Committee was established and the publication of the King Report I which looked at good governance with regards to financial, social, ethical and environmental practices were prominent to help serve a new democratic country with a wide range of stakeholders.³⁶

The inception of the King Reports on Corporate Governance has advocated for total transparency in terms of executive and non-executive disclosures in King Report I.³⁷ The requirement for reporting and disclosures only became a mandatory requirement was with the publication of the King Report III which held that all JSE Listed Companies were to prepare an integrated report as a response to the social, political, economic and environmental changes that happened after King II.³⁸

2.2. The King Report IV on Corporate Governance, 2016

The objective of the King Report IV is to be efficient compared to previous King Reports The number of principles went from seventy-six, in the King Report III, to seventeen principles. This has allowed for it to be applicable to apply for companies and business.³⁹ The King Report IV is built on the reporting and disclosure initiatives of previous of corporate governance is seen as to provide a 'holistic and integrated representation of the company's performance' and is aimed to provide stakeholders with informed information.⁴⁰ The King IV further takes note of three important shifts within the corporate world where one is directly related to reporting.⁴¹

The disclosure and reporting principles are in Part 3 and Part 5.2 of the King IV Report respectively.

2.3 Disclosure Principles of the King Report IV

Part 3 of the King Report IV discusses the requirements of disclosure to which companies should apply when compiling an integrated report. The shift from siloed to integrated reporting is

³⁵ *Supra* 21 18.

³⁶ Armstrong 'Corporate Governance: South Africa, a pioneer in Africa' The South African Institute of International Affairs (SAIIA) Global Best Practice 2005 9.

³⁷ Eccles & Krzus 'South Africa' The Integrated Reporting Movement: Meaning, Momentum, Motives and Materiality 2014 1 Online (Accessed 23 August 2018)

³⁸ Atkins & Maroun 'Integrated Reporting in South Africa in 2012: Perspectives from South African Institutional Investors' *Meditari Accounting Research* Vol 23 (2) 2015 198.

³⁹ Retrieved from the Michalson's Website. 'King Report and King Code on Corporate Governance' (Accessed 23 August 2018).

⁴⁰ Haji & Anifowose 'Initial trends in corporate disclosures following the introduction of integrated reporting practice in South Africa.' *Journal of Intellectual Capital* Vol 18 (1) 2017 374.

⁴¹ *Supra* 29.

consistent with the two remaining shifts that are, from financial to inclusive capitalism and from short-term capital markets to long-term sustainable capital markets within the corporate sphere since the publication of King Report III. The change in the disclosure principles from the previous King Report has shifted from 'apply or explain' to 'apply and explain' where the additional element allows stakeholders to make an informed decision as to whether the company is reaching the four governance outcomes the King IV.⁴² The additional requirement for a company to explain is a further incentive for companies to see this as a valid integration within their manner of reporting and just not a tick-boxing exercise.⁴³

The King Report does not expand the discussion for the requirements of disclosure but does however, state that specific disclosure recommendations are expanded within each principle. The recommendations are intended as guidance for the principles and the importance of materiality is what the King Report IV suggests to use to measure how much one company should be able to disclose.⁴⁴ Where the King IV Report fails to provide guidance in the manner in how disclosures should be made, the Integrated Reporting Committee of South Africa (IRCSA) has provided a discussion paper on ways which to compile an integrated report. It may be further supplemented by the International Integrated Reporting Council (IIRC) Discussion Paper of 2011⁴⁵ which can be of assistance as a guideline, however, the IIRC paper is not specifically related to the South African context.⁴⁶

JSE listed companies are required to comply with the mandatory reporting requirements that are enforced by the King Report IV, however, with voluntary codes as the GRI including the sector supplements creates a conflict in the manner of reporting.⁴⁷ This limited guidance by the King Report IV, coupled together with the non-binding nature of the discussion papers to assist, as well as a plethora of other voluntary frameworks⁴⁸ results in regulated companies to exercise their discretion within how they should best comply with the King Report IV with regards to disclosures.⁴⁹

2.3.1. The Integrated Reporting Committee of South Africa Discussion Paper

The IRCSA has provided a discussion paper which specifically relates to companies in South Africa as a manner to assist them in preparing an integrated report. This intends to provide suggestions which may assist companies or supplement the King Report IV, where the latter is silent, to create a holistic report.⁵⁰ The King Report IV lacks a clear discussion related to the manner in which material

⁴²Supra 29 7.

⁴³ Ibid.

⁴⁴ Supra 29 37.

⁴⁵ Towards Integrated Reporting – Communicating Value in the 21st Century 2011. Retrieved from the International Integrated Reporting Council website (accessed 30 October 2018).

⁴⁶Supra 33.

⁴⁷ Hindley 'Integrated Reporting compliance with the Global Reporting Initiative framework: An analysis of the South African mining industry' 2012 8.

⁴⁸ A list of some of the voluntary reporting frameworks: The Global Reporting Initiative, the G20/Organisation for Economic Co-Operation and Development reporting principles, the World Economic Forum's Voluntary Responsible Mining Initiatives.

⁴⁹ Supra 44.

⁵⁰ Integrated Reporting Committee of South Africa 'Preparing an Integrated Report: A Starters Guide' 2014 1.

information should be disclosed in compiling an integrated report, but rather relies on a particular principle to provide the manner in which information should be disclosed.⁵¹

When considering to prepare an integrated report and the information that needs to be disclosed, the persons that are responsible for compiling the report should create timelines of important dates related to the governance of the company. Reporting teams should take account of other reporting processes, used by the company, and should be aware what to avoid to prevent duplication of information in order to obtain a concise and accurate information.⁵² Haji and Anifowose discuss that many companies fail to provide meaningful disclosures on the relationship and trade-offs between the capitals of integrated reporting.⁵³ Disclosures are expected to support the decisions made at the governing body level and the manner of reporting approaches adopted by the company. These variations can be diverse which may result in an outcome of the financial and non-financial reports not being sufficiently integrated.⁵⁴

The manner in which the disclosures are made should be tailored to a specific audience and presented in a manner that aligns with that particular audience. The study conducted by Solomon and Maroun⁵⁵ provides an example of alignment of materiality and the audience in which the information that was disclosed related to mining companies. The extractive industry is known to be environmentally intensive and the disclosures made related to climate change and its impact.⁵⁶

The materiality of information and the importance to the composition of the report should be considered as soon as possible to allow for a focused report.⁵⁷ Integrated reports are thought to be lengthy and lack the nature of being concise, with mere with soft immaterial disclosures made. The IRCSA discussion papers provides that an integrated report should avoid disclosing irrelevant information and the cliché-like disclosure, it should not be reduced to a tick-boxing exercise as it detracts from importance of the report.⁵⁸

2.3.2. *International Integrated Reporting Committee Discussion Papers*

The IIRC Discussion Paper was published in 2011 where it seeks to firstly place rationale towards integrated reporting. Secondly, it offers initial suggestions for the development of the IIRC Framework and, thirdly, outlines the steps towards the creation and adoption of its own publication in 2012 with a stake in improved reporting.⁵⁹ The discussion paper takes cognisance that the world is changing and the manner in which information needs to be disclosed is not keeping up with the changes of a modern world. The amount of information available from reporting methods can be

⁵¹ *Supra* 29

⁵² *Supra* 50 18.

⁵³ *Supra* 40.

⁵⁴ Velte & Stawinoga 'Integrated Reporting: The current state of empirical research, limitation and future research implications' *Journal of Management Control* Vol 28 (3) 2016 278.

⁵⁵ Solomon & Maroun 'Integrated Reporting: The influence of King III on social, ethical and environmental reporting'.

⁵⁶ *Ibid* 31.

⁵⁷ Integrated Reporting Committee of South Africa 'Preparing an Integrated Report: A Starters Guide' 2014 23.

⁵⁸ *Ibid* 43.

⁵⁹ International Integrated Reporting Council 'Towards Integrated Reporting - Communicating Value in the 21st Century' 2011 1 Online (Accessed 30 September 2018).

dense and excessive, the issue for companies remains that reporting is seen as a form of legal compliance than informative disclosures. Disclosure requirements are becoming increasingly complex, that overlap with different reporting methods which result in disconnected disclosures.⁶⁰

The 'Framework Development: Consultation Draft' supplements the discussion paper of 2011, as it has analysed responses to the submissions made following the discussion paper. This engagement process occurred between the period of April to July 2013 and intended to shape the integrated framework. Submissions came from various sectors and a diverse representation of group organisations.⁶¹

The IIRC encourages that trust be built through the avenue of disclosures. It proposes the change from narrow disclosures to greater transparency. The conclusion that is drawn is that financial reporting focuses on a small portion of matters, which are generally mandated within a company, without allowing for sustainability reporting.⁶² The 'Framework Development: Consultation Draft' provides the thought process to decide whether a material disclosure should be made in an integrated report. Different perspectives of internal and external factors must be considered with any other reports by the company. Whether this disclosure effects the organization's strategy, business model, the organisation's view on the disclosure or the organisation's actions to manage the disclosure and how effective the management has been on the material disclosure.⁶³

Disclosures are determined by materiality and rests with senior management whether the matter is of such importance and relevance that it warrants assessment for a primary report. The matters for disclosure rest upon being identified on their importance in relation to their effect, or potential effect, to value creation of a particular company.⁶⁴ The opportunity for an organisation to create value for itself is intertwined with the value the organisation creates for its stakeholder, and such disclosures must only be made when material to the organisation's for value creation.⁶⁵

2.4. Reporting Principles of the King Report IV

The principles related to issues of reporting is contained in Part 5.2 of the King Report IV, with principle 5 specifically addressing reporting disclosures, states the following:

*"The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisations performance, and its short, medium and long – term prospects."*⁶⁶

McNally, Carbone and Maroun call this a push down approach whereby, the decision of preparing an integrated report is usually taken at a director-level. Senior staff are guided by IIRC, IRCSA and Global

⁶⁰Supra 59.

⁶¹ Framework Development: Consultation Draft, Integrated Reporting <IR> Online (Accessed 31 October 2018).

⁶² Supra 59 9.

⁶³ Supra 61 31.

⁶⁴ Supra 61 21.

⁶⁵ Supra 33 402.

⁶⁶ Supra 29 48.

Reporting Initiative (GRI) standards, however, integrated reports were imposed by management at director-level on the current firm structures with no foresight as how to environmental, social and governance and accounting systems need to be adapted.⁶⁷ The limited amount of time spent by a company as to whether prepare an integrated report means that there was little thought to what information is needed to meet the stakeholders' requirements, such as what data is needed to compile the integrated report, and if there should be any control systems regarding the scope and breath of the data as to provide a standard of quality for the report.⁶⁸

The recommended practices the King Report IV are set to provide a manner to achieve the principles of the King Report IV and to realise intended governance outcomes. The recommended practices should be implemented in a particular manner that provides sufficient support and effect to the related principle. It should not be applied without thought by a particular company, as if the recommended practices were rigid rules which would only result in a compliance activity.⁶⁹ The recommended practices related to reporting are managed by the governing body and each practice is delegated to management as how the report should be complied to publishing. The recommended practice 11 of King IV states the following:

“The governing body should oversee that reports such as annual financial reports, sustainability reports, social, ethics and committee reports, or other online or printed information or reports issue, as in necessary, to comply with legal requirements, and/or to meet the legitimate and reasonable information needs of material stakeholders.”⁷⁰

Companies usually take the precedence of financial reporting compared to the non-financial reports. This, is because companies are subject to reasonable annual financial returns by investors, who expect a return on their investment generated in the financial year. Mining companies generally view financial staff as the primary reporting team, which places emphasis on important financial information for investors and creditors.⁷¹ The IRCSA Discussion paper considers the integrated report, with additional reports intended to supplement and expand on the remaining issues that are not discussed within the integrated report.⁷² The analysis drawn by McNally in *Exploring the Challenges of Preparing an Integrated Report* is that matters related to sustainability reporting are not considered of sufficient strategic value to have an impact on financial returns for the long-term. The disconnect between financial and non -financial reporting teams, are related to the difficulties between management and understanding accounting systems.⁷³ The King Report IV advises that governing body has discretion to approve management's control on the reporting frameworks and reporting standards, this is what is inferred by the previous statement by McNally, there is acceptance more of financial reports compared to non-financial reports, because it is at the

⁶⁷ McNally, Carbone & Maroun 'Exploring the Challenges of preparing an Integrated Report' *Meditari Accountancy Research* Vol 25 (4) 488.

⁶⁸ *Supra* 67 489.

⁶⁹ *Supra* 29 36.

⁷⁰ *Supra* 29 48.

⁷¹ *Supra* 67 490.

⁷² *Supra* 50 6.

⁷³ *Supra* 67 491.

discretion of the governing body as to what resources for reporting will be used, and how will it be divided amongst financial and non-financial reporting teams.⁷⁴

2.5. Conclusion

The King Report IV addresses disclosure and reporting principles that are accompanied by recommended practices to give effect to the principles set forth within the report itself. Disclosures within the King Report IV have limited discussion on the manner in how disclosures need to be presented within an integrated report and rely solely on the related principles to provide guidance. In most instances there is not enough information to substantiate a reporting practice in the manner which it should be disclosed. Therefore, the King Report IV's principles appear to impact negatively as it may lead to uncertainty as to how much to disclose or not to disclose at all if no clear guidance isn't provided.

The IRCSA Discussion Paper of 2011 and the IIRC and Consultation Draft papers are provided as guidance if to elaborate on particular aspects of integrated reporting. It has been mentioned that companies fail to make meaningful disclosures therefore disclosures must reflect the organization's strategy, business model and how it affects the companies short, medium- and long-term value creation. The disclosure process consists of creating timelines starting from the present moving backwards on important information that relates to the organisation and determining what is material to the integrated report.

However, it still rests upon the organization as to what is material or not resulting into a compliance exercise. The IIRC and IRCSA are voluntary and non-binding are a suggestive to other forms material disclosures that need to be made. It remains uncertain as to how far one may need to disclose in terms of sustainability reporting other than a compliance exercise.

Reporting principles within the King Report IV are substantiated more, compared to disclosures. The decision to compile a report starts with the board, this is referred to as a push down approach. Therefore senior management directs what report should contain, what resources should be used. The sustainability reporting teams are considered secondary teams to the financial teams, as organisations are driven by financial returns, less effort by management is made to non-financial reporting. It is considered a means to compliance. This is where the disconnect between reporting occurs resulting in poor report ultimately.

There is still room for improvement with how reporting should be conducted through better collaboration between financial and non-financial teams, clearer decisions as to reporting objectives by the board, if there were better guidelines as to what is needed, there would be less reliance of deciphering principles, that results in vague disclosures.

The next chapter will discuss whether the IIRC eight content elements are being utilised within integrated reports in the South Africa mining industry.

⁷⁴ *Supra* 29.

CHAPTER 3: THE IIRC'S EIGHT CONTENT ELEMENTS EFFECT IN SOUTH AFRICAN MINING INTERGRATED REPORTS

3.1. Establishing the International Integrated Reporting Council

The global recession of 2009 saw the collapse of the financial system coupled with socio-economic inequality, fears around water and food security and dwindling resources stretching the planet to its limits.⁷⁵ This, resulted in closer attention to the traditional accounting and reporting methods as their failures were embroiled in the crisis and were often blamed.⁷⁶ In 2010 the Global Reporting Initiative (GRI) and Accounting for Sustainability Project (A4S) formed the International Integrated Reporting Council (IIRC) to help with the framework of corporate reporting.⁷⁷ The IIRC defined integrated reporting as “a concise communication about how the organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term.”⁷⁸ The IIRC’s mission intends that integrated reporting will give rise to a long-term focus among managers and investors, replacing the short-term mechanism that are blamed “for the ills of capitalism and of accounting.”⁷⁹

3.2. Aims and Objectives of the Eight Content Elements of the IIRC

The eight content elements are organizational overview and external environment, governance, business model, risk and opportunities, strategy and resource allocation, performance, outlook and basis of preparation and presentation.⁸⁰ The IIRC suggests that these eight content elements should be included in an integrated report. These content elements are fundamentally linked to each other and aren’t mutually exclusive.⁸¹ Cheng refers to the suggestion by the IIRC that these principles will help lead to the specific benefits to the company which will allow for a cohesive and efficient approach to corporate reporting, ensuring that all factors that materially affect the organization ability to create value over time should be included in the report.⁸² The framework provided by the IIRC phrases the content elements as questions which will allow for flexible room to enable the organization to tell their story.⁸³ The integrated report seeks to link all content across the information areas it can build the story of the business from the basic description of the business model through the external factors that affect the business and management strategy that relates to the manner in which they are dealt with and developing the business.⁸⁴ The essence of the content

⁷⁵ Van Zyl ‘Sustainability and Integrated Reporting in the South African Corporate Sector’ *Journal of Sustainability Management* Vol 1 (1) 2013 19.

⁷⁶ *Supra* 16 2.

⁷⁷ *Supra* 16 3.

⁷⁸ The International <IR> Framework 2013 7 Online (Accessed 25 September 2018).

⁷⁹ *Supra* 16 1.

⁸⁰ *Supra* 18 24.

⁸¹ *Ibid.*

⁸² Cheng, Green *et al* ‘International Integrated Reporting Framework: Key Issues and Future’ *Journal of International Financial Management & Accounting* Vol 25 (1) 2014 96.

⁸³ *Supra* 50 15.

⁸⁴ Busco, *et al* ‘Redefining Corporate Accountability through Integrated Reporting: What happens when values and value creation meet?’ *Strategic Finance* 2013.

elements is not be seen as a structure to apply as a standard integrated report but, is a form of guided questions that should be considered and included within an integrated report.⁸⁵

These elements are intended to provide an extensive, consistent framework with the “comply or explain” structure that is common within major capitals markets and stock exchanges.⁸⁶ It should be noted with the introduction of the King Report IV, 2016 the “apply or explain” structure is no longer applicable but has been replaced with the “apply and explain” structure that has been effective from 1st April 2017.⁸⁷

3.3. Application of the Eight Content Elements

It has identified, in the previous chapters and, in the case study by Du Toit that the main issues for JSE – listed companies were that they neglect to report in terms of the eight content elements that are set out in the integrated reporting framework.⁸⁸ The limited perspective that is provided by integrated is where a company ignores reporting on their current opportunities, and risks to the future of the organization. The companies need to provide more information on market trends, position and implications to their management plans.⁸⁹

3.3.1. Content Element of Organisational Overview and External Environment

The first content element is organisational overview and external environment. The question that is asked by the Consultation Draft and what the company should answer to itself, is “What does the organization do and what are the circumstances under which it operates?”⁹⁰ The question that is being asked, for the organisation to elaborate on the culture, ethics and values or the principle activities or markets of the organisation. The external environment refers to factors that can affect the organization directly or indirectly for example, the legal, commercial, or the environmental and political contexts, that may hinder the short, medium- or long-term value creation.⁹¹ The external environment can be affected by “external environmental jolts” that can be divided into two factors of organisational change. The first category of change is called the ‘first-order change’ which results in change in the design structure of the organization, this doesn’t change the central core of the organisation but places the organization in transition. The second category is called the second-order change that affects all areas of the organization, this change is transformative changes the DNA of the organisation.⁹² An example given by the Consultation Draft of a second-order change would be legislative and regulatory changes, such as the new reiteration of the Mining Charter would essential effect change to DNA of a mining company.⁹³

3.3.2. Content Element of Governance

⁸⁵ *Supra* 50 15.

⁸⁶ Soyka ‘The International Integrated Reporting Council (IIRC) Integrated Reporting Framework: Toward Better Sustainability Reporting and (Way) Beyond’ *Environmental Quality Management* Vol 23 (2) 2014 2.

⁸⁷ *Supra* 29 7.

⁸⁸ *Supra* 5 26.

⁸⁹ *Supra* 5 9.

⁹⁰ *Supra* 61 24.

⁹¹ *Ibid.*

⁹² *Supra* 8 1072

⁹³ *Supra* 61 24.

The element of governance asks the question “how does the organization’s governance structure support, its ability to create value in the short, medium and long term?” The question seeks to provide answers as to whether the internal mechanisms of the organization, such as the structure and diversity of those in positions of leadership, how the organization’s ethics, culture and values are comprised and how would those components affect the organization and stakeholders.⁹⁴ Internal factors influence the reporting process these varying in levels and nature of stakeholder engagement and the linkages to governance structures.⁹⁵

There is often correlation that considers that internal governance structures can influence the level of disclosures of an organization.⁹⁶ The higher education institutions within the United Kingdom are acknowledged to have good sector policy with good internal governance accountability. This analysis of governance arrangements of these higher education institutions may assist with elaborating on governance disclosures within an integrated report.⁹⁷ These mechanisms can be used to elaborate the reasoning as to why a governance related disclosure are made, the mechanisms can be segmented in different theories of thought. The first theory is that managers are in a position of creating profit for an organization, and will take the decision to disclose governance related issues in a discretionary manner. This approach chosen by managers relates to the view that voluntary disclosures of information are foremost used to assist users in making specific evaluations and decisions.⁹⁸ The observation made may be supported by the PricewaterhouseCoopers report that governance has improved, however still lacks quality with regard to reporting.⁹⁹ If the scope of disclosures are made in a discretionary manner the report holistically lacks depth.

The stakeholder management concept places considerable emphasis on the identification of management and key interest groups. The relationship between a company with sophisticated governance and sustainability systems is more likely to pay attention to stakeholder engagement, governance control and long-term performance.¹⁰⁰ However, on the contrary it suggests that some stakeholders may not be targeted within an integrated report as they may not be seen as important or other forms of communication is used that does not address the neglected stakeholders sufficiently.¹⁰¹ The organization view on the importance of a stakeholder is solely based on its importance and legitimacy to the organization. It ignores, or may ignore some stakeholders in the integrated report as they don’t consider those stakeholder related disclosures important. The concerns have a larger effect on the organization as it becomes difficult to explain the disclosures, or it does not address stakeholder concerns.¹⁰²

3.3.3. Content Element of Opportunities and Risk

⁹⁴ *Supra* 61 25.

⁹⁵ *Supra* 8 1073.

⁹⁶ Ntim, Soobaroyen & Broad ‘Governance structures, voluntary disclosures and public accountability: The case of the UK higher education institutions’ *Accounting, Auditing & Accountability Journal* Vol 30 (1) 2017 66.

⁹⁷ *Ibid* 68.

⁹⁸ *Supra* 96 72.

⁹⁹ *Supra* 5 3.

¹⁰⁰ *Supra* 67 486.

¹⁰¹ *Supra* 96 74.

¹⁰² *Supra* 96 74.

The content element on opportunities and risk question asks for the integrated report to help identify the key opportunities and risks that may affect the organization's abilities to create value overtime. The opportunity and risk disclosures are industry specific and the disclosures that have an effect on the organization.¹⁰³ Risk is important to identify, as it can impact on the organization's achievements and hinder its value creation over an extended period.¹⁰⁴ The King Report IV lists 'risk and opportunity as one of its fundamental concepts. It acknowledges that sometimes risk can be both positive and negative, as risks may become opportunities for the organization.¹⁰⁵ It further understands with the rise of the complexity of risk it suggests that a risk committee be formed to provide oversight, by non-executive members for the organization.¹⁰⁶ The South African mining industry is facing challenges ranging from production and job losses to fluctuating commodity prices. Beyond the challenges facing the mining industry it still remains an important sector for the South African economy.¹⁰⁷ Therefore in order to gauge and manage risk within an organization there should be risk assessments on a continual basis. These assessments should be systematic, formal and should be prioritized to allow for sufficient management of the risk.¹⁰⁸

3.3.4. Content Element on Strategy and Resource Allocation

The content element on strategy and resource allocation looks at how the organization creates value for itself and the steps required to get to their short, medium- and long-term goals.¹⁰⁹ Future outlook and performance can be grouped together with strategy and resource allocation. Future outlook seeks to provide foresight as to how the organization should plan to achieve the steps they have decided to undertake.¹¹⁰ Whilst performance addresses to what extent the organization has achieved its strategic goals and what are the outcome to those goals.¹¹¹

The business model is considered a fundamental concept to integrated reporting.¹¹² However, the IIRC does not elaborate on the concept of business model, it only mentions it a total of three times within the framework.¹¹³ The IIRC Framework considers it to be at the core of the business activity as it takes capitals as inputs and converts them into outputs for the organization.¹¹⁴ The scope of a business model may either be broad or narrow which may, assist in the analysis a set of stakeholders or key considerations. The general thought of the business model refers to a narrow scope as the internal workings of the organisation, from its production to mechanism related to delivery. A broader scope encompasses the organisation's business relationships, customers, suppliers and

¹⁰³ *Supra* 61 24.

¹⁰⁴ Moloi 'Disclosures of risk management practices in the top South Africa's mining companies: An annual/integrated report disclosures analysis' *African Journal of Business Management* Vol 18 (7) 2014 681.

¹⁰⁵ *Supra* 29 30.

¹⁰⁶ *Ibid.*

¹⁰⁷ *Supra* 104 687.

¹⁰⁸ *Ibid* 684.

¹⁰⁹*Supra* 103.

¹¹⁰ *Ibid.*

¹¹¹ *Supra* 61 28.

¹¹² *Supra* 82 96.

¹¹³ Tweedie, Nielsen & Maritnov-Bennie 'The Business Model in Integrated Reporting: Evaluating Concept and Application' *Australian Accounting Review* Vol 28 (3) 2018 405.

¹¹⁴ *Supra* 18 25.

strategic partners.¹¹⁵ The atypical nature of the business model is categorized as the ecosystem scope that encompasses a larger set of values and relationship compared to the previous scopes mentioned. An atypical scope is fitting to the IIRC fundamental concepts are interdependent of time and capitals, creating value over time that may be material to the organization.¹¹⁶

Principle 4 of the King Report IV makes specific mention of business model. Recommended practices contained in the King Report IV task the governing body to realize the organization's core purpose and value, that it seeks to achieve through its business model.¹¹⁷ Du Toit's report shows that companies effectively discuss business model and strategy and resource allocation disclosures in some instances.¹¹⁸ Regardless of positive isolated reporting feedbacks on business model disclosures, there remains a disconnect between the IIRC's aim and what it seeks as its reporting agenda. The primary aim of a business model is focus and create value however, the IIRC, for example, may seek disclosures on financial performance.¹¹⁹ This results in weak connections coupled with particular outcomes by the IIRC and lack of guidance risks reports being unfocused.¹²⁰

3.4. Reporting in the South African Mining Industry

The South African mining industry contributes significantly to the local economy.¹²¹ The Gross Domestic Product (GDP) for first quarter of 2018 saw the South African mining industry contribute 7% to the GDP.¹²² National Treasury in 2010 reported that the metals sector was responsible for the highest CO₂ emissions in South Africa at 22% of total emissions.¹²³ Mining companies are under scrutiny internationally and within South Africa to be a part of a broader call to corporate sustainability and corporate governance.¹²⁴ Therefore, sustainability reporting formats assist to refine the quality of economic, environmental and social objectives and to concentrate the cooperation between relevant research areas that also involve relevant communities and stakeholders.¹²⁵

The IIRC and the eight content elements provide a set of guided questions that an integrated report can be structured in accordance with the specific organisation.¹²⁶ These guided questions can be useful to an industry such as the mining because the industry regulations play a key role in defining the nature and extent of corporate reporting. The mining industry in South Africa is regulated by a combination of domestic laws, international best practices and health and safety strategies the

¹¹⁵ *Supra* 113 410.

¹¹⁶ *Ibid.*

¹¹⁷ *Supra* 29 47.

¹¹⁸ *Supra* 5 3.

¹¹⁹ *Supra* 113 415.

¹²⁰ *Supra* 119.

¹²¹ *Supra* 7 23

¹²² Retrieved from Statics South Africa. Gross Domestic Product: First Quarter 2018 Statistics South Africa 12 (Accessed 4 October 2018).

¹²³ Hindley & Buys 'Integrated reporting compliance with the Global Reporting Initiative framework: An analysis of the South African mining industry' *Diss.* North West University Potchefstroom Campus, 2012 5.

¹²⁴ Hanmann 'Corporate social responsibility, partnership and institutional change: The case of mining companies in South Africa' *National Resource Forum* Vol 28 2004 278.

¹²⁵ Patel 'Integrated Reporting Challenges and Opportunities' *International Journal of Trend in Research and Development* Vol 2 (2) 2014 1.

¹²⁶ *Supra* 50 15.

information needs to be presented concisely and comprehensively in an integrated report. This need, for effective and clear stakeholder engagement is relevant.¹²⁷ A demand for public reporting has become pivotal coupled with increased stakeholder expectations as well as peer pressures from international laws and business relationships. It can therefore, be understood as a key tool for company's sustainability efforts and a mechanism for public demands of transparency.¹²⁸ The content elements and the guiding principles provide information of a material nature, that breaks the reporting norm and produces value over time.¹²⁹

3.5. Conclusion

This chapter provides a brief overview of the IIRC and how it was established and how the content elements assist the compilation of an integrated report. The eight content elements seek to provide guided questions to help answers a company focus matters within their integrated reports. The elements should not be confused as a ridged structure that needs to be followed, each company is unique and each set of questions will apply differently to each company when a question is posed.

The application of each content element to an integrated report was discussed and further elaborated as JSE – listed companies failed to appropriately apply the content elements to their own integrated reports. A substantiated manner to the elements needs to be cultivated, to bring a level of depth and understanding as to what is required by each element. It should be remembered, that the eight content elements do not act independently but rather interact with each other, the capitals and certain factors to produce outcomes.

Therefore, the eight content elements are at the disposal for mining companies to use however, due to the voluntary nature of the principles it rests upon management to be apply the principles to the integrated report, because the IIRC principles are voluntary. This is another missed opportunity for an informative, cohesive application to an integrated report.

The reporting landscape of the South African mining sector has a large impact on the South African economy, an impact that addresses various audiences. Therefore, there is a need to consider disclosures that will foster a culture of better communication to stakeholders and the public. The application of the eight content elements would be beneficial, however they aren't being applied to integrated reports.

The next chapter will discuss has the integrated reporting model become a platform for legitimacy management rather than a mechanism to communicate with stakeholders.

¹²⁷ *Supra* 27

¹²⁸ *Supra* 124 244.

¹²⁹ *Supra* 8 1070.

CHAPTER 4: THE INTEGRATED REPORT A MEANS OF LEGITIMACY RATHER OR A TOOL FOR VALUE CREATION

4.1. The Hypocrisy of the International Integrated Report Council

The integrated reporting movement, since the establishment of the International Integrated Reporting Council, has seen a growing interest among organizations. Its aim is to create long term value to investors and other stakeholders. However, it does not remain without its weaknesses.¹³⁰ Regardless of understanding the aim of the IIRC, the objective of reporting financial and non-financial information to a large range of stakeholders but ultimately the communication of the information is aimed at investors. Arguments by Flower in *The International Integrated Reporting Council: A story of failure* suggests that due to the composition of the International Integrated Reporting Council (IIRC) members, the majority of the Council members are from the accountancy profession, compared to those from sustainability and environmental organisations. This disparity of IIRC can lead to ambiguity as the IIRC goal is for one report that goes beyond the traditional reporting methods however, the majority of the Council is composed of accountancy related members.¹³¹ Organisations are in a position to critically look at how they need to communicate financially and a manner that's transparent to their stakeholders. This outcome is pushed by the growing demands by stakeholders juxtaposed with resources becoming more limited.¹³²

4.2. The Concept of Legitimacy within an Organization

The concept of legitimacy firstly extends to the organization itself. An organization is considered legitimate to a point where it conforms with the social norms, expectations and values of society. However, legitimacy remains to be problematic. Where an organisation is thought to be socially acceptable and efficient it may not always be aligned with social norms as the shifting social values and expectations of society change and may be ultimately contradictory.¹³³ Legitimacy can be understood as a form of social construct, this social construct is between the organization and its stakeholders, a huge emphasis is placed on subjective and collective assessments of powerful stakeholders.¹³⁴ The manner of reporting is driven by management to legitimize different aspects of that organisation's reputation that can be detrimental, as it only focuses on narrow issues. These public disclosures on environmental, social and governance related issues are a manner to legitimize the operations of the organization. However, reporting in a manner as to manage an organization's reputation is not what integrated reporting is intended to do.¹³⁵ Therefore critics often question the voluntary nature of sustainability reports because in some instances, it may be limited in the scope

¹³⁰ *Supra* 5 3.

¹³¹ Flower 'The International Integrated Reporting Council: A story of failure' *Critical Perspectives on Accounting* Vol 27 2015.

¹³² Rensburg & Botha 'Is Integrated Reporting the silver bullet of financial communication? A stakeholder perspective from South Africa' *Public Relations Review* Vol 40 (2) 2015 145.

¹³³ Ashforth & Gibbs 'The Double – Edge of Organizational Legitimation' *Organization Science* Vol 1 (2) 1990 177.

¹³⁴ *Supra* 7 24.

¹³⁵ Deegan 'The legitimizing effect of social and environmental disclosures – a theoretical foundation' *Accounting, Auditing & Accountability Journal* Vol 15 (3) 2002 283.

of disclosures and result in being a legitimacy tool. The managerial decisions that often made to prioritize organizational legitimacy rather than effective reporting, result in the organization solely interested in securing their own interests and private interests.¹³⁶

4.2.1. *The Different Theories of Legitimacy*

The theories of legitimacy can be classified into three categories, that may be related to the South African mining sector. The theories often involve the general assumptions of the organization that rest upon the desirable, proper, or suitable socially constructed system of norms, expectations and values. However, each theory differs from the other as it has its own behavioural dynamic.¹³⁷

Pragmatic legitimacy involves the self-interested assessment of an organization's immediate audience.¹³⁸ The interdependency of the organization and the audience is not limited but extends to a broader political, economic and social relationship, where the organization's interactions noticeably affect the audience. The specific audiences pay particular attention to the behaviour of the organization and the consequences of such behaviour.¹³⁹ When pragmatic legitimacy is applied to the mining sector, it can be utilized, in instances where the mining industry has been able to generate sufficient financial return. This may permit the introduction of projects that deal with environmental and social issues or issues related to occupational health and safety.¹⁴⁰ The concept of pragmatic legitimacy in its simplest form, can be understood as a type of "exchange legitimacy" this is when the support of the policy of the organization's is tied to the specific value to a particular audience.¹⁴¹

Moral legitimacy rests upon the notion of "the right thing to do."¹⁴² It may be understood as whether a particular action by organization is considered to be acceptable by an organization's stakeholders.¹⁴³ What moral legitimacy represents at its core is positive behavioural thinking, that is different from the narrow, self-interested essence of pragmatic legitimacy.¹⁴⁴ Moral legitimacy contains four sub-categories of thinking which are consequential, procedural, structural and personal legitimacy. Consequential legitimacy aim is to achieve what is socially needed and results that contain social value.¹⁴⁵ The result – orientated nature of this aspect is determined by visible achievements, such as increased employment within a mining company or being able to reduce their emissions in terms of the value chain of the ore body.¹⁴⁶

¹³⁶ Cho *et al* 'Organized hypocrisy, organizational façades and sustainability reporting' *Accounting, Organization Society* Vol 40 2015 79.

¹³⁷ Suchman 'Managing Legitimacy: Strategic and Institutional Approaches' *Academy of Management Review* Vol 23 (3) 1995 577.

¹³⁸ *Supra* 137 578.

¹³⁹ *Ibid.*

¹⁴⁰ *Supra* 7 24.

¹⁴¹ O'Dwyer, Owen & Unerman 'Seeking legitimacy for new assurance forms: The case of assurance of sustainability reporting' *Accounting, Organizations and Society* Vol 36 (1) 2011 36.

¹⁴² *Supra* 137 579.

¹⁴³ *Supra* 140.

¹⁴⁴ *Supra* 137 579.

¹⁴⁵ *Supra* 141.

¹⁴⁶ *Supra* 134.

This means the emphasis is placed on the morals surrounding the means to achieve a particular outcome, or it can be referred to as form of procedural legitimacy. Procedural legitimacy may contribute significantly in circumstances where there is a lack of a clear outcome measures when clear, pre-existing procedures underpinning practices can serve to show that these practices contribute to valued ends.¹⁴⁷ If we look at practically implementing procedural legitimacy, it would see a mining company trying to implementing the latest technology or compliances codes, that will adhere to the most appropriate methods of health and safety.¹⁴⁸

Cognitive legitimacy occurs when practices are produced in order to achieve objectives that stakeholders take for granted as being socially accepted and desirable. An example would be sustainability reporting is an important part of mining company however, financial reporting still takes precedence and sustainability is taken for granted, even though it remains a necessary area of reporting.¹⁴⁹ Cognitive legitimacy can be broken down into two variants that are comprehensibility and being taken for granted. Comprehensibility can be understood as the company attempting to make society understand the company through logical explanations of what it does and plans.¹⁵⁰ The importance of comprehensibility allows for an organization's activity to be predictable, meaningful and inviting, without comprehensibility it might lead to repeated misused information, oversights and distractions that can be avoided.¹⁵¹ Legitimacy can be taken for granted is simple, in its ideology by being an important part of society, it's the most subtle and the most difficult to attain.¹⁵² The mining industry and its claim to cognitive legitimacy, is that is contributes significantly to South Africa's Gross Domestic Product and it further provides essential materials that are used in a consumer – based society for technology, that most people don't consider. The mining industry plays a significant role in the fabric of the economy with its continued existence accepted.¹⁵³

4.2.2. *The Management between Legitimacy and Reporting*

The concept of legitimacy is considered as a resource where the organization relies upon for survival but it is a resource that can be manipulated. When management considers the supply of a particular resource paramount to the organization's survival, strategies are then pursued to preserve the resource. These strategies are well thought and planned disclosures or partnering with other legitimate parties.¹⁵⁴ The concept that corporations are social constructs and its existence is dependent on society's willingness for its continued operation.¹⁵⁵ Therefore, when a crisis occurs that could affect the legitimacy of the company management is pushed to either repair or respond to the damaged legitimacy.¹⁵⁶

¹⁴⁷ *Supra* 141 36.

¹⁴⁸ *Supra* 7 24.

¹⁴⁹ *Supra* 67 490.

¹⁵⁰ *Supra* 148 25.

¹⁵¹ *Supra* 137 583.

¹⁵² *Supra* 141 36.

¹⁵³ *Supra* 148 25.

¹⁵⁴ *Supra* 135 293.

¹⁵⁵ O'Donovan 'Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory' *Accounting Auditing and Accountability Journal* Vol 15 (3) 2002 344.

¹⁵⁶ *Supra* 134 25.

The basis of a corporation rest on a social construct and strategies need to be made by management to balance stakeholder expectations through managing legitimacy and stakeholder interests. This position places management in a difficult position, as each stakeholder group needs to provide approval for an organization to retain its legitimacy, therefore this results in adoption of stakeholder strategies that results in a lack of consistency when compiling a report.¹⁵⁷ This relationship between upholding voluntary disclosures, whilst managing legitimacy of various stakeholders results in conflicting conclusions with a limited scope in an integrated report.¹⁵⁸ It is held that voluntary disclosures where the environmental performance is poor the disclosures become less, this theory remains the same for high performing areas of the organisation.¹⁵⁹ The question that some scholars ask is if an organization manages their legitimacy whilst trying to provide disclosures from policies that they adopt, whether it be voluntary or mandatory, would the presence of conflict not politicize an organization, as it has competing interests. The only solution is for management at a senior level to coordinate their decisions in such a way appeases conflicting stakeholder pressures without disclosing damaging inconsistencies.¹⁶⁰ Legitimacy becomes a double- edged sword against organizations as management tries to balances the legitimacy of the organization, the appropriate disclosures against stakeholder expectations.¹⁶¹

4.3. Conclusion

Legitimacy is a concept that extends to the organization itself where it sees itself as being socially acceptable by conforming to social norms, expectations and values of society. Legitimacy forms a social construct between the organization and its stakeholders, an enormous effort is placed on assessment of powerful stakeholders. The emphasis of this relationship drives management in a particular manner of reporting that seeks to legitimise different aspects that may be detrimental to the organization's reputation. This conundrum that the organization faces is not what integrated reporting was intended to do, as the nature of disclosures whether mandatory or voluntary become limited in scope as it is being used as a tool for legitimacy instead of effective reporting.

There are various forms of legitimacy an organisation can rely on to legitimise its operations if faced with a crisis. Legitimacy is therefore, considered a resource when it is relied upon for its survival. This resource can be manipulated and strategies executed by management are to preserve the legitimacy of the organization.

Legitimacy is a double – edged sword as integrated reporting has become a means of managing stakeholder expectations, to not lose legitimacy, rather than providing a holistic report of the organization looking at the social beliefs and values of the stakeholders. The South African mining integrated reports after the Marikana Massacre, saw increased disclosures related to miner wages and conditions of living. The other disclosures were secondary to the events of the strike, it didn't consider other stakeholder views or values.

¹⁵⁷ Cho et al 'Organized hypocrisy, organizational façades and sustainability reporting' *Accounting, Organization and Society* Vol 40 2015 81.

¹⁵⁸ *Ibid* 79.

¹⁵⁹ Hummel, Schlick 'The relationship between sustainability performance and sustainability disclosures – Reconciling voluntary disclosures theory and legitimacy theory' *Journal of Accounting and Public Policy* Vol 35 2016 459.

¹⁶⁰ *Supra* 136 81.

¹⁶¹ *Supra* 133 191.

Therefore, legitimacy has become a tool to manage organisational crisis, rather than being an effective form of communication between the mining company and its stakeholders. The continued existence of the company, the relationship between investors and financial returns for shareholders is important that communicating effectively through the stakeholder-inclusive approach.

The next chapter will discuss how integrated reporting is being used as a catalyst for internal change within an organisation and how it can be applied to an industry such as mining.

CHAPTER 5: INTEGRATED REPORTING AND BEING A CATALYST OF INTERNAL CHANGE TO ORGANISATIONS

5.1. The Internalisation of Integrated Reporting Principles

Integrated reporting disclosures are driven by senior management with the aim to satisfy stakeholder demands. The report seeks to maximise stakeholder information, through disclosures related to the company to make better informed decisions.¹⁶² Sustainability reporting literature has often focused on external factors that often applied to an integrated report, where the outcome driven structure is based on external or internal factors.¹⁶³ However, there has been little attention paid to the influence an integrated report may have on the internal structure of an organisation. This may, allow for sustainability reporting to be a catalyst for change and further allow for reporting systems to be strategically aligned with “corporate performance achievements.” The inside-out approach, is an outcome of the report allows for the management of Key Performance Indicators and relevant issue that allow for the support of internal decision making.¹⁶⁴ It is therefore, with 95 percent of the world’s largest 250 companies in 2011 adopting a style of environmental, social and governance reporting there still remains questions to the internal effects of integrated reporting initiatives on an organisation.¹⁶⁵

5.2. Internal Mechanisms of Change and Integrated Reporting

The integrated reporting framework provides enough room for various understandings of reporting scopes and its contents, this provides the space for a variety of integrated reporting practices.¹⁶⁶ The focus is generally on the external dimensions of integrated reporting however, internal performance measurement and reporting systems have been affected by the emphasis of integrated reporting on external factors.¹⁶⁷ Integrated reporting is also about how a company’s intricacies can be managed by depending on integrated thinking. Integrated thinking is a conscious decision by an organisation of the relationships between various operating and functional units and capitals the organisation uses and effects. Therefore, integrated thinking breeds the room for integrated decision-making and it takes account of the interdependent connections that affects the organisation’s ability to create value.¹⁶⁸ Therefore, integrated reporting principles can be successfully superimposed to management control systems.¹⁶⁹ The integrated reporting capitals are a crucial part to understand

¹⁶² Buitendag et al ‘Firm characteristics and excellence in integrated reporting’ *South African Journal of Economic and Management Sciences* Vol 20 (1) 2017 2.

¹⁶³ *Supra* 8 1070.

¹⁶⁴ *Ibid* 1074.

¹⁶⁵ Maniora ‘Is Integrated Reporting Really the Superior Mechanism for the Integration of Ethics into the Core Business Model? An Empirical Analysis’ *Journal of Business Ethics* Vol 140 (3) 2017 756.

¹⁶⁶ Perego, Kennedy & Whiteman ‘A lot of icing but little cake? Taking integrated reporting forward’ *Journal of Cleaner Production* Vol 136 2016 54.

¹⁶⁷ Mio, Marco & Pauluzzo ‘Internal application of integrated principles: Generali’s Internal Integrated Reporting’ *Journal of Cleaner Production* Vol 139 2016 204.

¹⁶⁸ *Supra* 18 2

¹⁶⁹ *Supra* 167 205.

how they affect organisational change into the company's business model.¹⁷⁰ Conceptually the International Integrated Reporting Committee's refers to capitals as a supply of values that an organisation can use to produce goods and services.¹⁷¹ It conceptually sees integrated thinking with the six capitals being fully immersed and shared by management for integrated reporting to be successful internally to result in organisational change.¹⁷²

5.2.1. *Forms of Organisational Change*

The generally accepted thinking is that companies are resistant to change and for organisational change to occur is usually due to environmental jolts, these triggers cause the organisation to change.¹⁷³ There are various forms of change can be categorised as a first-order change, which is also known as morphostatic. There are three levels of change that occur in the first order of change that range from "no change" this is where the organisation itself is resistant to change and remains the same. The second type of change is a rebuttal, this is when the organisation may change in the smallest way but will return to the similar position before the crisis or disturbance occurred. The third is reorientation is where the environmental jolt cannot be rebutted however, it is accepted and adapted into the organisation but realistically it remains unaffected by the jolt.¹⁷⁴

The second order change, or morphogenetic, contains two levels of change. The first being are colonisation this change is forced upon the organisation which result in a new type of "ethos being formed."¹⁷⁵ The final form of change is known as evolution, this where the organisation on its own realisation decides to change in response to an issue and is accepted by parties.¹⁷⁶

Notwithstanding the environmental jolts that may or may not result in organisational change there are internal pressures that may cause change within the structure of the organisation, such as the change of an individual in a managerial position or a reporting committee decided for more information to be disclosed.¹⁷⁷ Disclosures are made by sustainability committees coupled with stakeholder engagement techniques that are in place to develop performance indicators for the company. However, a study that was conducted showed that a company in Sweden used its internal stakeholders, staff from various departments, compiled the integrated report by telling its best story for value creation.¹⁷⁸

The presumption that is drawn to disclosures and change rationalises that, for the organisational culture to change information must be spread among the members of the organisation. This may, in turn, lead to changes in the organisation's ethics and philosophies. Reporting within an organisation is not a new concept, it can be metaphorically can be described as a vehicle and communication can

¹⁷⁰ *Ibid.*

¹⁷¹ *Supra* 168.

¹⁷² *Supra* 167 207.

¹⁷³ Laughlin 'Environmental Disturbances and Organisational Transitions and Transformations: Some Alternative Models' *Organization Studies* Vol 12 (2) 1991 210.

¹⁷⁴ Tilt 'Linking environmental activity and environmental disclosures in organizational change' *Journal of Accounting & Organizational Change* Vol 2 (1) 2006 11 Table I: Typology of organisational change.

¹⁷⁵ *Supra* 173 219.

¹⁷⁶ *Supra* 174.

¹⁷⁷ *Supra* 163 1073.

¹⁷⁸ *Ibid.*

be considered the driver steering the change.¹⁷⁹ There are three reasons where reporting contributes to change. The first reason is that it creates visibility within the organisation, making things visible when in other circumstances it wouldn't be.¹⁸⁰ Secondly, that reporting is implication in the 'objectification of phenomena' this is where the process of reporting makes issues real and specific otherwise would have remained an abstract concept.¹⁸¹ The final reason is one related an economic area, where economic knowledge understanding and operation filter and shape organisational plans, concerns and choices.¹⁸²

5.2.2. *Integrated Thinking and Organisational Change*

Integrated thinking defined by the IIRC is the active consideration by an organisation of the relationships between its various operating and functional units. It further takes consideration of the connection and interdependencies between the range of factors that affect the organisation's ability to create value.¹⁸³ The concept of integrated thinking coupled with the six capitals can be constructively applied management control systems, once a company internalises the integrated reporting principles may achieve notable rewards with management control systems.¹⁸⁴ Management control systems are considered to be formal, financial measured information that will assist management decision making.¹⁸⁵

Traditional management control systems may not align with the various business operations that work together to achieve particular goals. The concept by Scholtz known as 'strategic fit' this is where all internal and external components are aligned with each other and together the business operations and goals. This concept is often achieved when company strategy is achieved when supported by the appropriate structures and procedures.¹⁸⁶

The integrated reporting principles when applied internally play a significant role as its focus is on strategy through materiality. Materiality allows for companies to focus their issues by disclosing what is important, and how the related company disclosure shall affect them in the future. Therefore, when integrated principles are aligned with management control systems effectively allowing conscious if the company's values and strategy it leads to effective harmonisation and implementation of goals.¹⁸⁷

However, the general reality of organisation's engagement with integrated reporting is often one that is imbalanced where the main focus of its function is it being an external toolkit for communication, rather than a tool for internal managerial process.¹⁸⁸ Companies often position

¹⁷⁹ *Supra* 174 13.

¹⁸⁰ Hopwood 'Accounting and Organisation Change' *Accounting, Auditing & Accountability Journal* Vol 3 (1) 1990 8.

¹⁸¹ *Ibid.*

¹⁸² *Supra* 180 10.

¹⁸³ *Supra* 18 2.

¹⁸⁴ *Supra* 167 205.

¹⁸⁵ *Ibid.*

¹⁸⁶ *Supra* 167 206.

¹⁸⁷ *Ibid.*

¹⁸⁸ *Supra* 166 59.

external reporting as secondary to the primary benefits of integrated thinking for a company to progressively change its internal core activities, coupled with the conundrum of disproportionate annual reports and the needs of internal decision makers result in weak understanding of integrated thinking.¹⁸⁹

5.3. Implementation of Integrated Reporting Principles

The generally accepted idea that ethical accounting requires the contemplation of both financial and non-financial information to obtain a holistic and realistic account of the organisation. The transformational effects presented as internalisation and externalisation, with our focus being on the internalisation effect.¹⁹⁰

Internalisation can be understood as the incorporation of “values, beliefs, norms, standards or patterns of culture into one’s identity as conscious or sun-conscious guiding principles through learning or identification.” This process where individuals, or organisations, adopt external ideas, views or concepts as their own.¹⁹¹ Individuals that are for integrated reporting hold it as “a powerful practice with transformational effects not just on the way an organization reports, but on the way, it thinks and acts.”¹⁹²

Generali Group in one of the largest global insurance companies that was founded in Italy in 1831. It is at the forefront of applying integrated reporting principles internally to the organisation and then creating its own internal integrated report.¹⁹³ The choice for the Generali Group to implement integrated reporting principles to their internal structure of the organisation due to the limitation they were experiencing within its own organisation. The management control systems were not properly aligned to the goals and strategy of the company, so management decided that something was needed to bridge the activities for a clearer understanding of the company to its members.¹⁹⁴

The repeated concepts within the internal integrated reported where that of “awareness’ and “proactivity.” The internal integrated reported aims were to increase the awareness of the employee’s attention to the functions they are tasked with, whilst also making a proactive effort to the function itself.¹⁹⁵ It wanted employees to carefully look at the nature and function of their activities for the Generali Group to define its business strategy and function, which lead to an internal definition of value creation. Various schools of thought hypothesise that when companies encourage the involvement of its staff through interactive surveys and suggestions, those values are strengthened and improved.¹⁹⁶ However, when trying to create a holistic, single report between the internal and external aspect of reporting Generali still remains not integrated as management control systems often don’t share similar disclosure requirements, however with the adoption of implementing integrated reporting principles within a company this may allow for the opportunity to

¹⁸⁹ *Ibid.*

¹⁹⁰ *Supra* 165 763.

¹⁹¹ *Ibid.*

¹⁹² IIRC Pilot Programme Yearbook 2013 *Integratedreporting.Org* 2018 ii Online (Accessed 25 October 2018).

¹⁹³ *Supra* 167 209.

¹⁹⁴ *Ibid.*

¹⁹⁵ *Supra* 193 210.

¹⁹⁶ *Ibid.*

“bridge the gap” from internal and external reporting by aligning key performance indicators and strategies.¹⁹⁷

5.4. Conclusion

There has been little research as to whether the six capitals of integrated reporting, if applied internally, will result in change to company structures.

The integrated reporting framework has enough room for various understandings and scopes of reporting, that allows the room for a variety of integrated reporting practices and applications. Internal reporting has fallen into the background due to the large emphasis to the external factors that a company need to satisfy. Integrated thinking is a central concept of integrated reporting that interconnect various aspects of the organisation to the another through the six capitals. The integrated thinking concept coupled with the six capitals can be a force for organizational change.

The application of integrated thinking and capitals can be superimposed into a company business model because it provides a scope to align with company strategy and management control systems. However, internal reporting remains secondary to external reports. Generali group is an Italian insurance company that created their own internal integrated report due to the shortcomings of their own management systems and needed a solution to bridge the gap with the company’s own business model and strategy.

The results from the internal integrated report has seen an improved awareness or proactivity for their work as well. It has been hypothesised values are strengthened when involving staff members allowing to see value to the work they perform.

It has not been reported on by any South African mining company, that has attempted to apply the IIRC six capitals principles internally to affect organisational change. Integrated reporting is mandatory and often used to manage legitimacy. The protection of legitimacy weighs more than aligned management control systems and integrated thinking. However, it has proven to be a successful application with the Generali Group, and hopefully more mining companies can apply the approach to provide more academic research within that area on corporate reporting.

The next chapter will discuss evaluations of information obtained based on the research questions and objectives mentioned within the first chapter and will further provide a summary of the viewpoints of integrated reporting and the King Report IV, 2016 and whether each of these instruments are being utilised by the South African mining industry to its full potential.

¹⁹⁷ *Supra* 193 215.

CHAPTER 6: EVALUATION AND SUMMARY

6.1. Integrated Reporting and the South African Mining Industry

Integrated reporting has moved corporate governance to the forefront since it has been deemed a mandatory requirement for all JSE Listed Companies since the publication of the King Report III. It seeks to create a concise form of communication between the corporate strategy and external environment. This will hopefully improve effective communication and foster a habit of transparency through reporting in the South African mining industry.

Integrated reporting is not a single solution to corporate reporting to the South African mining sector. However, the South African mining industry being one of the largest contributors to mining globally and further contributes significantly to the local economy. Furthermore, various stakeholders need to make informed decisions about the mining industry, an integrated report can be the mechanism to close the gap of inaccessible information between the mining industry and stakeholders.

The need for effective reporting mechanisms within the South African mining sector ideally is to be transparent in a time of greater public scrutiny of the mining sector being more socially, environmentally conscious by using effective governance mechanism to manage issues. Integrated reporting outcomes seek to bring “value-to-society” whilst being able to bridge the gap between management’s goal of value creation and investors assessment of business value and management¹⁹⁸ and it may be an effective tool to do address those issues.

6.2. Improving Integrated Reporting through the IIRC’s Content Elements

The King Report IV provides guidance as to how an integrated report should be prepared and managed however, the King Report IV has its shortcomings and doesn’t provide sufficient guidance therefore the IIRC content elements provides additional suggestions to the composition of an integrated report. The eight content elements, when applied, are suggested to help lead to specific benefits that will allow for the environment for cohesive and efficient approaches to corporate reporting. The content elements should not be mistaken as a structure for compliance but rather should be a form of guided questions, that should be asked and then applied to an integrated report. When applying the content elements, the user should be aware that the IIRC framework still applies the “comply or explain” structure whilst, whilst the King Report IV, 2016 has adopted the “apply or explain” structure that has been effective since 1st April 2017.

JSE Listed companies have been identified to neglected to apply the eight content elements when reporting. The limited application of the content elements detracts from a company identifying their current opportunities and risk related to the future of the organization. Companies need to provide more information on market trends, positions and implications to their management plans. The

¹⁹⁸ *Supra* 33 398.

PricewaterhouseCoopers report on market trends South African mining companies suggests that mining companies don't report enough on natural disasters, even though South Africa is not prevalent to natural disaster mines have been shut down due to flooding and droughts, even with deep level mines can be subject to underground seismic risk. Technology and cyber risk and market competition, relating to access to resources and sale prices.¹⁹⁹ The content elements help refine reporting to be aware of information that is not predominately disclosed and for improved quality of integrated reporting.

6.3. Problematic Theme of Legitimacy in Integrated Reporting

It is unmistakable that for an organisation to be considered as a socially acceptable member of society, needs to conform to some concept of legitimacy, that adheres to socially accepted norms, expectations and values. However, legitimacy remains a problematic concept in integrated reporting as organisation's are driven to manage their reputations, resulting in limited disclosures within reports.

There are three types of legitimacy that involve the general assumption that rests upon suitable and socially constructed norms and values, each category has its own behavioural dynamic. The socially constructed dynamic between legitimacy and organisation, becomes a resource as it relies on it for survival and therefore it susceptible to manipulation. Therefore, when a crisis arises that has the potential to affect the legitimacy of the company, management as to whether to repair or respond to the damage. The period after the 2012 Marikana strike saw mining companies use their integrated reports to preserve credibility through their corporate social responsibility disclosures.²⁰⁰ The above example further shows even mining companies that we not directly affected by the strike saw an increase in disclosures to preserve their legitimacy, and their socially acceptability.

Legitimacy becomes a double-edged sword towards integrated reporting as it becomes means to manage stakeholder expectations through disclosures that vouch its legitimacy, rather than using an integrated report for communicating efficient corporate disclosures. This hinders the success of the integrated report and potential.

6.4. Integrated Reporting a Means for Change

Mining companies live within an era of instantaneous news, technological advancements and economic hardships, but mining companies have known to be resistant to change or slow to "coming to the plate" when moving forward with processes of change. Majority of the literature on the matter of sustainability reporting focuses on the external factors applied to integrated reporting, which shall result in outcomes of external or internal factors. However, minimal attention has been allocated to how integrated reporting if applied internally, by using the six capitals of the IIRC

¹⁹⁹ SA Mine 2018 10th Edition: Highlighting Trends in the South African Mining Industry. Retrieved from PricewaterhouseCoopers website (Accessed 27 October 2018).

²⁰⁰ *Supra* 7 23.

Framework can result in changes within an organisation that holistically benefits the organisation fully.

The integrated reporting framework provides the necessary scope for various understanding of reporting, providing the space for a variety of integrated reporting practices. Integrated reporting is an extension of integrated thinking, integrated thinking is a conscious decision that is made between the organisation and the relationships between various operation and functional units, that the organisation uses and effects. Therefore, it considers the interdependent connections that affect the organisation's ability to create value. The concept of the IIRC's integrated thinking with the six capital being applied by management within the organisation's structures can lead to successful organisational change internally.

Change usually comes about by environmental jolts that triggers an organisation to change. The Mining Charter, 2018 seeks that 50 percent of the Board representation be help by black persons, of those 20 percent be held by black women. This remains similar to what was required by the previous Mining Charter however, some mining companies don't disclose Board composition or still need to make change to align themselves with the Charter.²⁰¹ Notwithstanding external environmental jolts, internal changes may affect the organisation.

If a company internalises the six capitals of integrated reporting it may result in notable rewards in terms of the management control systems. Traditional management control systems may not necessarily align with various business operations that seek to produce particular goals, the application of the six capitals can play an important role for the organisation achieving its company strategy due to the implementation of materiality.

An Italian global insurance company called the Generali Group decided to apply the six IIRC capital within its organisational structure. This application of principles internally resulted that the company had its own internal integrated reporting, that was solely beneficial to the company. Generali decided to implement the integrated reporting principles due to the limitation within its own organisation. The results of the internal integrated report were the concepts of "awareness" and "proactivity." Generali wanted to increase the employee's attention to their functions, whilst taking control of the situation related to their tasks. It allowed staff to define its business strategy and function that allowed for its employees to define Generali's value creation.

Conceptually this use of IIRC capitals to align management control systems with business strategy to achieve particular goals can be successful, if the necessary structures fully implement and allow it to foster change within an organisation. However, the reality remains that organisation's engagement with integrated reporting is imbalanced with the majority of the focus being emphasised for external communication, then being a tool for managerial process. There hasn't been a single account of any South African mining companies implementing such mechanism to its own internal structures however, Generali Group is an organisation that deals with management of risk and so do mining companies. When including employees within the report and contribute to the internal integrated report it allows for members to be aware of the activates and functions related to their jobs, whilst

²⁰¹ *Supra* 199.

allowing for steps to be taken to control the situation. Mining companies have the opportunity to apply internal reporting to their structures, this will ensure better value creation, a proactive stance to functions and transparency and quality reports.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

The South African mining industry is one of the top global minerals producers with the mining industry contributing significantly to the country. Mining companies face scrutiny within South Africa and internationally, to be a part of a broader call to corporate governance and corporate sustainability. The call for socially responsible companies, that exhibit high standards of corporate governance and levels of disclosure, are needed to meet 21st century challenges. However, the global recession of 2009 saw traditional accounting and reporting methods failures at the centre of the crisis. Mining companies have experienced a number of social challenges since the 2009 recession, such as the 2012 Marikana massacre that had a profound social and economic implications.²⁰² It has been evident that since South Africa's shift to democracy there has been a need for structural and corporate transparency.

There is no coincidence that the King Report III implemented mandatory reporting in a time of a global financial recession, in a period where South African mining companies are facing challenges such as falling commodity prices, rising input costs that make it extremely difficult for companies to sustain their short-term operations.²⁰³ The need for conveying financial and non-financial information to investors where organisation is needed to be part of society, utilising stakeholder-inclusive approaches has increasingly become important, as government places large responsibility to fulfil social needs. This often resulting in compounded by local communities resulting in unclear roles that need to be effectively communicated.²⁰⁴

The South African corporate governance sphere has succeeded by being on the forefront of mandatory integrated reporting that represents a post-Apartheid South Africa. Through the establishment of the King Reports, that advocates for transparency by addressing the social, political and environmental issues. However, the South African mining industry is not only subjected to local legislation and reporting standards, such as the Mining Charter, but also international reporting standards. The range of reporting mechanisms available to the mining industry is firstly, the international standards were in place before the creation of local specific legislation and which were voluntary, leaving the decision to disclose solely resting on the mining company and its management. Secondly, with local reporting standards in place for mining companies to apply to their reports, it still fails to provide sufficient guidance that results in the need for supplementary information to the disclosure process that results in a limited scope of an integrated report.

It has been identified that one of the issues that is related to integrated reporting shows that the eight content elements from the International Integrated Reporting Council (IIRC) has being neglected or not being reported at all. It has been suggested that if eight content elements are applied to a company it shall help lead to specific benefits that will allow for a cohesive and efficient approach to integrated reporting. The IIRC framework of the content elements provides enough flexible room that will enable for a company to tell their own story. The eight content elements each contain various outcomes that specifically address an area of the organisation, the elements are

²⁰² *Supra* 723

²⁰³ Lance, Gunzek & Van Antwerpen 'Tough choices facing the South African mining industry' *Journal of the Southern African Institute of Mining and Metallurgy* Vol 115 (5) 2015.

²⁰⁴ *Ibid.*

fundamentally linked to each other and aren't mutually exclusive. The need for mining companies to balance their interests, by being profitable and satisfying investors whilst managing social and environmental issues. The application of the eight content elements play a role by defining the nature and extent of the integrated report by emphasising what is considered material, this allows for a focused report and disclosures.

Legitimacy is a concept that an organisation conforms to social norms, expectations and values but, also weakens the concept of integrated reporting. The need for is for an organisation to respond to investor and stakeholder expectations whilst producing sufficient financial returns, coupled with the need for the organisation continued existence in society. It is often criticised that the voluntary nature of the disclosures is often limited because the integrated report has become a means of legitimacy. There are various forms of legitimacy that an organisation may use to apply when in crisis, that can legitimise the operation of the company. The period after the Marikana Massacre mining companies had increased disclosures relating to the strike action, firstly relating to the need for issues of the strike and secondly, the need to manage their reputation against stakeholder expectations and approval. This trend was not only adopted by South African mining companies directly affected by the strike action of 2012, but other mining companies that were not affected to manage their own expectations and to further calm the nerves of investors and stakeholders. Therefore, legitimacy has become a double-edged sword within integrated reporting, it can limit the scope of transparency of reporting or, it can be seen as a way for discussions on issues to be raised that may resolved by the contention of the stakeholder expectation and disclosure relationship.

Integrated reporting can be seen as a mechanism of internal change when the six capitals are applied internally, to assist with the relationship between business strategy and the management control systems. It is often noted that for a maximisation of stakeholder information through disclosures the company internally needs to make better informed decisions. The six capitals of the IIRC provide enough room that allows for various applications to the integrated reporting practices, it's not only applicable to external disclosure related material but also internal dimensions to reporting. The organisational change can be cause by external environmental jolts or internal factors that may shift an organisation however, when the six capitals are applied internally to an organisation's management and employees it results in a changed way of thinking. It allows for a focused strategy through identifying material issues, aligns business operation and goals through supported structures and procedures. The internalisation may assist in expressing what the company understand of its own internal thinking with that of external outcomes and how those may be reached. Therefore, if South African mining companies has a better understanding of their own internal thoughts and issues, it may be of assistance when addressing external issues as they already have worked through the thought process internally, as it may allow for better disclosures and identification of material issues.

In the quest for a South African mining industry that is utilising integrated reporting to its full potential there still remains gaps within reports and lack of clarity to value creation. The need to combine all information into a single report is ridiculous and voluminous, rather the use of an integrated report be the central point of information and information relates to other areas of the organisation, it focuses the report on the material issues whilst keeping it concise and contained. The report shouldn't be a narrative as to how it shall achieve its value creation but rather definitive,

with facts and projections as how value shall be created for the short, medium and long term. There are mechanisms provided by the IIRC that are not being used or applied effectively that may assist in the composition of integrated reporting. These mechanisms allow for a thought process that makes it easier to identify key issues. Integrated reporting has increased however, there are themes that still need to be addressed for the South African mining industry to utilise integrated reporting at its full potential.

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