

Evaluating the Governance of Sustainability Reporting:
Assessing Mandatory and Voluntary Sustainability Reporting Policies and
Practices Around the World

by

Melissa Menzies

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Author's Declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

Abstract

Sustainability reporting (SR) is the practice of communicating environmental, social, and economic information and initiatives of a company (largely non-financial) to their stakeholders. This practice has been inspired by a variety of factors, including the recent threat of climate change, the financial crisis, and evolving governance models. There are many different policies being used around the world to implement SR. Some of these policies are voluntary, allowing the company to choose whether they report and what content to include. Others are more mandatory and government-regulated with specific requirements and various compliance mechanisms.

Minimal research has been done on the governance of SR and the extent to which reports are achieving their policy goals. Through the creation of a sustainability scorecard, and a policy analysis of case countries, this study assesses if mandatory or voluntary standards are more effective for sustainability disclosures. Reports governed by mandatory legislation and reports under a voluntary standard are evaluated according to sustainability reporting criteria developed from semi-structured interview and literature themes. The countries studied are illuminated through a mapping analysis of SR policies, where the most mandatory-driven policy countries and the most voluntary-driven policy countries are used for the final assessment of effectiveness. This study provides structure to the complex policy mix, not only on the degree to which a policy is legally binding and mandatory, but also to its relative effectiveness to the developed criteria. The results of this study suggest that although the implementation method of mandatory or voluntary may not significantly impact reporting effectiveness at this time, mandatory countries score higher on most qualities on the sustainability reporting scorecard.

Keywords: Sustainability reporting · mandatory regulation · voluntary standards · sustainable development · policy

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Chapter 1: Introduction

1.1 Problem Statement

In sustainability reporting (SR), there is a mix of both mandatory and voluntary standards for reports (GRI et al., 2013). The reasons why some jurisdictions have SR policies mandated by the government while others are using voluntary ones does not appear to be studied in great detail (Perrini, 2005). There is an international debate on what the best policy structure is for SR, if any at all. Mandatory policies, often called hard law, aim at overcoming societal critiques of the private sector, and enhancing the comparability of corporate performance (Sulkowski & Waddock, 2014). Voluntary standards create incentives for companies to report, as a way to establish competitive advantage (Buhr, 2010). Moreover, despite reporting rates of 93% among the G250, the rate of SR increase is beginning to slow (KPMG, 2013; Morrow and Yow, 2014). This plateau suggests that voluntary reporting may have reached its peak, and other policy alternatives need to be explored. An assessment of achieving reporting objectives suggests if one model should be preferred over others, adding clarity to the unclear nature of SR policies at the present moment.

This study has a professional significance and contribution. It can fill a current gap in policy whereby the plethora of standards available makes comparability and usefulness of reports difficult to achieve. Current sustainability reports provide a wide scope of information, at varying levels of quality (Hess and Dunfee, 2007). Few studies have reviewed the quality of disclosures in sustainability reports (Hess and Dunfee, 2007). Investors have voiced these concerns, as reporting standards vary across different regions and countries, making comparability difficult (CDSB, 2012). The lack of an audit standard adds more complexity to the debate, as it becomes quite easy for companies to be selective on what they disclose. This selectiveness exists even within mandatory regulation, with exemption clauses (Hohnen, 2012; GRI, 2013c). Mandatory regulation of sustainability reporting does not initially present itself to be a strong alternative to voluntary practices, as companies may be ignoring compliance requirements. The extent to which this neglect is occurring has not been studied in great detail (CDSB, 2012).

The current environmental challenge of climate change, the overconsumption of natural resources, and social concerns around income inequality and worker health and safety are some sustainability concerns faced by businesses globally (Brockett and Rezaee, 2012a; KPMG, 2013). The effectiveness of SR governance structures is crucial, given the past financial crisis and its resultant call for corporate accountability to alleviate the erosion of public trust and repeated government bailouts (Brockett and Rezaee, 2012a; 2012b). Addressing the aforementioned issues cannot occur with a mere “coping strategy”, as Mitchell (2011) argues on voluntary standards generally, that “both the large-scale ‘neoliberal privileging of market-based solutions’ and the more direct influence of those who will be required to disclose may lead to a particular form of disclosure that ‘largely exempts corporate actors from stringent disclosure’ ” (p.1883).

Although this research may not resolve the debate, it contributes to the larger debate around which governance structures firms should aspire to in private sector exchanges.

1.1.1 Significance of the Problem

The effectiveness of sustainability reporting policy is important, due the impact that sustainability disclosures have on companies and society. SR is therefore important for a number of reasons. First, it helps management gain a better internal understanding of their corporate operations and impacts (Brockett and Rezaee, 2012a). Second, it provides enhanced external information to other stakeholders, which can have a financial impact and broader social impacts with respect to maintaining social license from the public through fulfilling stakeholder's "right to know" (Fung et al., 2007). This can be referred to as "the principle of legitimacy" which holds that a company must gain societal acceptance, as they owe a responsibility to the society that gives them their higher power in the first place (Hahn & Lulfs, 2013). Third, SR needs to fulfill the objectives it was meant to serve. It can offer many benefits, such as creating shared value for society, management, and employees (Eccles and Krzus, 2010; Brockett and Rezaee, 2012a). However, these benefits can become difficult to articulate when the definition of sustainability is still widely debated, and when the formats of reports are heterogeneous (Moneva et al., 2006; Hahn & Lulfs, 2013; Herzig & Schaltegger, 2011). Should SR maintain its notoriety for being a public relations scheme, the deeper goals of mitigating climate change, protecting employee rights, and operating ethical supply chains will not be achieved (Gray & Milne, 2007; Hahn & Lulfs, 2013). SR has great potential, due to its internal and external benefit for the organization. However, if driven down an inefficient policy path, such as through unproductive regulation or diluted private requirements, the practice should be re-assessed and modified.

1.2 Contribution

Recent reports on SR touch upon different global policies, and the quality of reports (GRI et al. 2013; KPMG, 2013). However, there is no approach that evaluates the normativity of these policies; their degree of mandatory and voluntary regulation has not been addressed nor tested for effectiveness, and has been identified as a gap in the literature (Scholtz et al., 2014; Van der Esch & Steurer, 2014). The mandatory-voluntary debate exists in environmental governance more broadly, and the outcomes of these policies are still uncertain (Gupta, 2008). Meanwhile, other disciplines are just beginning to recognize the implications of governance structures on sustainability outcomes. Eccles and Krzus (2010) make a parallel to financial reporting stating, "...if no framework for nonfinancial reporting has risen to the level of International Financial Reporting Standards (IFRS) or U.S. Generally Accepted Accounting Standards (GAAP), an increasing number of companies have been experimenting..." (p.116). This "experimenting" has led to a lack of a succinct objective for SR, and has created a myriad of policies that need to be revealed and understood. This study can respond to this void.

This study offers three contributions. Each contribution is associated with a sub-study in the Methods chapters. In sub study 1, this study offers a new set of generalized criteria for assessing sustainability reports. The quality-based criteria outlines what is

important in SR through considering best practices in the literature and common themes from interviews with experts in sustainability reporting. Existing models that use qualities for evaluating reports, such as the UNEP/SustainAbility evaluation framework and the Reporting Criteria developed by KPMG (Figure 20 and 21 in the Appendix) will also be considered as guidance. The developed criteria can offer a preliminary integrative model of scattered conceptions of what SR should include.

Secondly, through sub study 2, this study analyzes and plots countries' sustainability reporting policies on a scale that measures policy prescription. Mapping the international policy mix of SR will offer a structure to this wide-ranging practice (GRI et al., 2013). Adams and Whelan (2009) identify this gap, calling for a "scanning of the environment" of corporate social disclosure (CSD), noting that for managers to change their corporate strategy, they must identify role models and evaluate governance models for organizational change:

"...Some actors will be inclined to see legislation or, alternatively, soft government regulation, as the answer to all ills that exist in regard to existing patterns of CSD [corporate social disclosure]; while other actors will be likely to see governments as being of no help as a result of them being slow to move and excessively constrained by political pressures. These differing viewpoints will have a major influence on the strategies employed by various actors as they try to achieve their desired ends" (Adams & Whelan, 2009, p.136).

Policy mapping, and the following review of reports in sub study 3, creates a basis for management and governments to benchmark sustainability performance.

Lastly, in sub study 3, this study uses the developed criteria, which will be in a scorecard format, to assess the effectiveness of the mandatory versus voluntary sustainability reporting, the goal of this study. This part of the study assesses if mandatory or voluntary standards make a difference in the adherence of the reports to sustainability criteria; this is the goal of the study.

1.3 Research Question and Objectives

In considering the recent trend in voluntary and mandatory SR, the research question is:

"How effective¹ are mandatory sustainability reporting standards in comparison to voluntary sustainability reporting standards?"

There may be a null hypothesis present, which would be:

NH: There is no ideal or optimal policy for SR, specifically between mandatory and voluntary policies.

There is an independent variable (IV) and dependent variable (DV):

IV: Adherence of SR to Effectiveness/Best Practices Criteria

DV: SR Implementation Method (voluntary v. mandatory)

¹ I explain what I mean by this word "effectiveness" below in the limitations section, as well as in the literature review. The concept of effectiveness used for this study relates to the IV and DV.

The difference between mandatory and voluntary sustainability policies may appear to be too contextual with no optimum policy. Yet, this null hypothesis reveals a gap that needs to be tested. In researching the effectiveness of policies, this thesis can address if there is a better policy to adopt, and assess if this intuition is true.

In order to answer this question on policy form (Sub Study 3 in Chapter 5), it is necessary to conduct two sub-studies:

- Sub study 1. Sustainability Reporting Criteria Development, in the form of a scorecard (Chapter 3)
- Sub study 2. Policy Mapping (Chapter 4)

The structure of the thesis identifies each sub-study's method and the findings, which are then incorporated into the main inquiry in sub study 3, to assess the effectiveness of mandatory versus voluntary reporting standards.

Objectives

- I. Discover the key features of both mandatory and voluntary SR policies, and the ways information is used in these reports
- II. Define criteria that emerge from the discourse on sustainability reporting best practices
- III. Assess the influence governance structures of SR have on the form and content of the report
- IV. Inquire if one of these reporting types creates higher quality reports

1.4 Hypothesis of the Researcher

Current literature consistently discusses the European Union as a collection of states that place more attention on regulating environmental and social disclosures in comparison to other areas, such as North America (Perrini, 2005; GRI et al., 2013; Gray, Owen & Adams, 1996; KPMG, 2013). Moreover, companies from countries with a stakeholder approach (i.e. Scandinavia) tend to have higher quality reporting than those countries with a shareholder approach (i.e. North America) (Kolk and Perego, 2010). Recent research on stock exchange requirements – particularly around sustainability disclosures (i.e. South Africa) – finds that policies that are mandatory, prescriptive, and broad, have the strongest correlation to sustainability disclosure excellence (Morrow et al., 2013, p.4). This initial data suggests that the mandated reporting may lead to higher quality reporting.

North America is often characterized as a more apprehensive regulatory environment, as they tend to focus on voluntary disclosure of community initiatives, as opposed to sustainability (Kolk, 2008; Gray, Owen & Adams, 1996). European countries appear to be the most consistent sustainability reporters, with the highest quality sustainability reports on average (Kolk, 2010; KPMG, 2013). A historical review of sustainability reporting further suggests that social reporting and employee reporting have been common practices in European countries, such as the UK, Denmark, Germany, and Finland, for quite some time (Brockett and Rezaee, 2012a; Gray et al., 1988). In considering these trends, it is predicted that mandatory reporting countries will have more

effective reports than those in voluntary reporting countries, due to their legislative history and predicted higher quality.

1.5 Methods Summary

Despite existing research on voluntary versus mandatory standards, and a current divergence in how sustainability reporting is governed, these two debates have not yet aligned. However, the practice of sustainability reporting suggests that companies are in a period of experimentation where research on reporting governance and quality could be useful. The absence of an approach that evaluates these policies and their respective outcomes, coupled with the imminent sustainability issues facing the companies and society, suggest that this gap in research is relevant for recommending future policy strategies for reporting. Moreover, corporate communications have the power to influence investors, communities, governments, and civilians in a way that has great potential for societal change and positive contributions to sustainable development (R. Gray, pers.comm., Jan. 14, 2015).

The methods will exist in three parts. The first part will be the creation of SR criteria, through the literature, and through six interviews conducted with sustainability professionals from professional service firms, academia, and NGOs. Through open-ended questions, professionals provided their perspective on what best practices in sustainability reporting are, enhancing the credibility of the established criteria. The criteria aim to balance the level of prescription, so as to be generic enough for international application, but with enough specificity to avoid being interpreted. By using a range of sources to inform the criteria, the prediction is that there will be recurring qualities of reports. The data will be analyzed inductively, being built from particular attributes of reports (discovered through existing policies, models, and theories) to general themes (Creswell, 2014).

The second part will be mapping the policy mix on a spectrum that assesses the extent to which the policy is mandatory compared to the extent to which the policy is voluntary.² This mapping exercise will reveal two countries primarily driven by mandatory policies, and two countries driven by voluntary ones. Only OECD countries will be included, with the exception of South Africa due to their advances in integrated reporting. Seven countries are mapped on the governance spectrum, being judged by their sustainability disclosure and reporting policies currently in existence. The coding protocol will be based on the degree of prescription of the policies in place (if applicable), and the range of topics disclosed. Two countries at the mandatory end of the spectrum and two countries at the voluntary end will be evaluated. The legal structures and strength of the institutions in a country may need to be considered (Ioannou & Serafeim, 2011; Adams & Whelan, 2009).

Thirdly, the reports from companies in the four countries will be measured for effectiveness. Because larger companies tend to be impacted by mandatory standards and voluntary ones, the largest publically traded companies in each case country will be reviewed (GRI et al., 2013; KPMG, 2013). 10 reports per country (40 reports total) are assessed according to the extent to which these companies are aware of compliance, and

² Similar qualitative mapping has been performed in the new governance literature, specifically based on the attributes of obligation, delegation, and precision, through a coding criteria on a three-part scale of strong, moderate, and low (Abbott & Snidal, 2000, p.424).

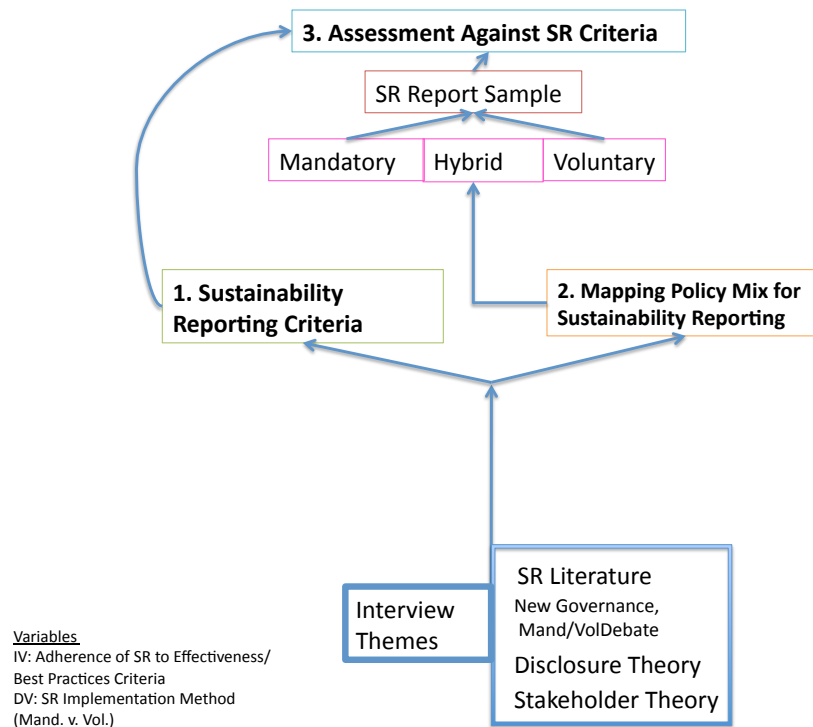
the extent to which their reports follow the sustainability reporting scorecard. Through the results of sub-study 1 and 2, the research question is addressed.

1.5.1 Paradigm

The paradigm of this thesis is the constructivist paradigm, whereby meanings are constructed through interactions with others and the world (Creswell, 2014). Because this study is highly contextual due to its global scope and variety of policies assessed, the constructivist paradigm allows one to recognize national differences and governance trends. Constructivist paradigms are generally inductive and require data collection from the field, which the mapping activity and report assessment require. Because each country has its own regulations, multiple participant meanings are inevitable, a feature of the constructivist paradigm. This thesis will touch upon empirical, analytical, and normative inquiry. It is empirical through its literature review and interviews. It is analytical in the creation of criteria, the mapping exercise, and the review of reports. It is normative in that the results can make claims on how SR should be governed, and what reports should include. The final assessment of four countries may have predictive value for countries with similar attributes and for the case countries (Gibbert et al., 2008).

1.6 Conceptual Framework

The conceptual framework of this study reveals the theoretical underpinnings of this research, explains the methodological path of the study, and shows the connection of each step to the research question. It is primarily useful for depicting the multi-method process of this study.



This conceptual framework will be primarily relied upon in the Methods chapters, chapters 3, 4, and 5.

1.7 Limitations of Study

There is the possibility that the policy mix may be difficult to fit into a mandatory-driven and voluntary-driven scheme. Choosing countries will create boundaries around the data. The study will also be limited based on the structure of the mapping process. Results will not be generalized, as only a small sample in the final assessment of reports. However, this appears reasonable given the three-part nature of the methods. Choosing to focus at the country-level may overlook regional differences in reporting, but can allow results with international implications, and is a common method of evaluation (Abbott & Snidal, 2000; KPMG, 2013).

The term “effectiveness” has been tentatively chosen to refer to the assessment of the reports to the sustainability reporting scorecard, and will be discussed further section 2.3. Issues such as low targets or exemptions may meet compliance requirements, but do not address the broader issues of a policy objective, such as long-term sustainability goals. This study will not be analyzing the actual performance of companies, but will focus on the form and content of the reports. Hess (2007) notes that companies can conduct sustainability reporting, appear accountable, without changing firm behaviour. The appearance of disclosures may hide the reality of a company’s true performance; this study will not consider the above in detail, but there is an awareness of it.

Chapter 2: Literature Review

2.1 Background and Context

2.1.1 Sustainability and Corporate Behaviour

Financial crises in North America, Europe, and Asia, the increasing threat of climate change, and the heightened activity of civil society movements are motivating companies to become more transparent about their financial and nonfinancial impacts and performance (Kolk, 2003, 2008; Brockett and Rezaee, 2012a; 2012b; KPMG, 2013). Stakeholders and the media expose corporate violations of environmental regulations, labour laws, and human rights, threatening the continued existence of companies. Public companies, in particular, have wide reaching impacts due to their connectivity not only to their employees and surrounding communities, but also to their shareholders who have a direct financial relationship with the company. The shifting relations between a company and its stakeholders, as well as an increasing awareness of a company's interaction with the natural environment, have called into question the sufficiency and accuracy of the annual report in providing a snapshot of a firm's performance and impacts.

The outcome document of the Rio+20 Conference of 2012 specifically mentioned sustainability reporting under Principle 47, and this principle is currently being implemented into the working draft of the UN Sustainable Development Goals, specifically as Goal 12.6 (UN, 2012; 2014). This goal aims to “encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle” (UN, 2014). The recent international partnership between Brazil, Denmark, France and South Africa at the Rio+20 demonstrates the pervasiveness of sustainability reporting governance. This partnership, the Group of Friends of Paragraph 47, was inspired during the Rio+20 Conference in 2012 (GoF47, 2012; Eccles and Krzus, 2014).

The recognition of the limits of the planet and its resources through international reports, such as the Brundtland Report of 1987, creates a need for companies to internalize sustainability into current reporting mechanisms, and move from externalizing sustainability issues to simple community initiatives (Gladwin et. al, 1995). Internally, companies see the potential for value creation that creates long-term relationships with employees, suppliers, the planet and its resources. Companies are now being encouraged to take on transparent initiatives with the potential of gaining competitive advantage in the future (Moon, 2007; Desjardins and Willis, 2009). Externally, there is a demand not only for information, but also for continual performance improvements in economic, social, and environmental dimensions. It is also useful to stakeholders, who may change their patterns of behaviour, such as purchasing patterns or investment decisions, depending on their interpretation of the information provided (Mitchell, 2011). Sustainability reporting can serve as a tool to bridge this gap.

2.1.2 What is Sustainability Reporting?

Sustainability reporting can be broadly defined as “the process of identifying, classifying, measuring, recognizing, and reporting performance in all areas of EGSEE (economic, governance, social, ethics, and environmental)” (Brockett and Rezaee, 2012b). This definition is quite all encompassing, as it mentions the range of steps

involved in creating a sustainability report. Sustainability reporting is defined in many ways in the literature, but generally addresses the triple bottom line, whereby economic growth, environmental protection and social welfare are weighted equally (Elkington, 1997). The Global Reporting Initiative (GRI) presents a triple bottom line inspired definition, presenting sustainability reporting as a practice “about the economic, environmental and social impacts caused by its everyday activities...[and] also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy” (GRI, 2014).

Sustainability reporting is often synonymous with other titles, including, but not limited to: corporate social responsibility reporting, corporate reporting, responsibility reporting, corporate environmental reporting, citizenship reporting, triple bottom line reporting, environmental, health and safety reporting, and environmental, societal and governance (ESG) reporting.³ These terms are used interchangeably, and will collectively be referred to as sustainability reporting (Eccles and Krzus, 2010; Brockett and Rezaee, 2012a; KPMG, 2013). The term “sustainability reporting” is seen as the predominant label for disclosing nonfinancial information, and includes reporting on all three aspects of the triple bottom line – economic, social, and environmental (Gray & Herremans, 2011, p.406).

Sustainability reporting can be regarded as encompassing material typically not included in the annual report. Lozano (2013) defines it as, “a voluntary activity with two general purposes: (1) to assess the current state of an organisation’s economic, environmental and social dimensions, and (2) to communicate a company’s efforts and sustainability progress to their stakeholders” (p.58). Because sustainability reporting is a relatively new practice, some reports place emphasis on one aspect of the triple bottom line (i.e. environmental reporting), while others will include all three dimensions of the triple bottom line. Sustainability reports typically include nonfinancial information, or “all information reported to shareholders and other stakeholders that is not defined by an accounting standard or a calculation of a measure based on an accounting standard” (Eccles and Krzus, 2010, p.83). Ioannou & Serafeim (2011), in their discussion of mandatory sustainability reporting, find that sustainability reporting aims for a wide audience, defining it as:

A firm-issued general purpose non-financial report that provides information to investors, stakeholders (e.g., employees, customers and NGOs), and the general public about the firm’s practices involving environmental, social, and governance (ESG) issues, either as a stand-alone report or as part of an integrated report (p.2).

Thus, the form of a report may vary, but it is meant for a wider audience than financial reporting. In defining sustainability reporting as the reporting of nonfinancial information, a polarization is created between the sustainability report and the financial report. Sustainability reporting typically discloses information not included in financial reporting, which is usually governed by its own separate accounting standard and/or legislative requirement.

³ See Sulkowski & Waddock, 2014; Gray & Herremans, 2011; Lydenberg et al., 2010; Hahn and Lulfs, 2013

Sustainability reporting at the national level, however, may not be refining the content and form of reports. Rather, national reporting laws have made the sustainability reporting landscape increasingly complicated, with a variety of standards, report formats, and compliance mechanisms being utilized. Despite the increase in standardized sustainability reporting, the definition of sustainability is still very fluid among companies (Langer, 2006; Jensen & Berg, 2012).

Because sustainability reporting on nonfinancial performance is mainly a voluntary practice, companies are able to use a variety of terms to refer to nonfinancial information, and the information reported varies from firm to firm (Kolk, 2008; Sulkowski & Waddock, 2014). Some countries now include sustainability disclosure requirements within legislation, and financial and securities regulation (GRI, 2013; Van der Esch & Steurer, 2014; Ioannou and Serafeim, 2011, 2014). Some countries call for sustainability disclosures in the annual report, while others demand particular sectors to report (GRI et al., 2013). Sustainability reporting is thus being redefined and shaped through respective national governments.

2.1.3 The History of Sustainability Reporting and Current Trends

The term “sustainability report” became popularized in the 1990’s, after terms like “social responsibility” were predominantly used (Gray & Herremans, 2011). The term sustainability report is now the most popular coined term for nonfinancial reporting, followed by Corporate Social Responsibility Report, and Environmental Report (Lozano, 2008).

2.1.3.1 History

Early CSR reports of the 1970’s were heavily focused on social issues, particularly labour (Gray et al., 1987; Buhr, 2010). Prior to the 1970’s, there was some employee reporting in the UK and the US (Buhr, 2010). The idea of a corporate role beyond profit maximization became recognized in Europe in the 1960’s and the 1970’s, followed by similar beliefs in the USA. The social accounting movement and high profile public issues drove these reports. The social accounting movement was initially led by ethical businesses, and spread to become a common practice in large companies (Gray & Bebbington, 2002). Consumer associations and social audit companies, particularly in the United States and the United Kingdom would publish data on how companies interacted with employees, customers, the community, and the environment in order to discharge accountability and provide a balanced representation of a company’s social performance (Gray & Bebbington, 2002). Environmental reporting experienced a wave of activity in the 1980’s, after the surge of social reporting in the 1970’s had subsided due to the lack of legislation to keep the practice going (Gray & Bebbington, 2002). Informational regulation, also known as regulation by disclosure, was created around this time, too, with countries like the United States passing the Emergency Planning and Community Right-to-Know Act in 1986, creating the Toxics Release Inventory (Sulkowski & Waddock, 2014).

In the 1990’s, separate reports, known as stand alone reports, became increasingly popular among large companies, and reporting saw a resurgence of social issues (Gray and Milne, 2013). Since then, reporting has moved beyond the social realm, with some companies publishing integrated reports, whereby the social and environmental indicators are explicitly connected to financial ones (Eccles and Krzus, 2010; Crowther, 2012).

Sustainability reporting has become an increasing practice among the world's largest companies. In 2013, approximately 93% of the G250 companies issued a sustainability report in some form (KPMG, 2013). In 2001, 45% of the G250 companies had sustainability reports (Kolk, 2003). It is important to note that the G250 companies are the largest in the world by revenue, and tend to be early reporters. These reports are typically voluntary and have two main purposes: to provide an assessment of the current state of a firm's triple bottom line performance, and to communicate efforts and progress to a firm's stakeholders (Lozano & Huisingh, 2011).

2.1.3.2 Rise of Voluntary Reporting

Voluntary sustainability reports gained prominence in the late 1980's to early 1990's, due to increasing demands from socially responsible investors, and management focus on building brand and reputation (Gray and Milne, 2007; Brockett and Rezaee, 2012a). Moreover, the rise of neoliberalism and recent industrial disasters of the 1980's contributed to changing societal expectations (Gray and Herremans, 2011). Voluntary reports were environmentally focused in the beginning, and by the mid 1990's, took on a triple bottom line/sustainability title. These reports were developed as a way to show corporations' accountability to stakeholders, by engaging with environmental and social issues (Gray and Herremans, 2011). Voluntary reporting was seen as an advantageous way to be transparent about social, environmental, and economic performance, while doing it in a flexible way that worked for the collective interest of the industry (Scholtz et al., 2014). Many voluntary standards exist that promote sustainability reporting. These include the Sustainability Accounting Standards Board (SASB) sector standards, the Climate Disclosure Standards Board Climate Change Reporting Framework, the Carbon Disclosure Project (CDP), and the Global Reporting Initiative (GRI) guidelines. Aside from the GRI, these particular voluntary standards are quite centered on meeting the demands of financial regulators and investor demands, and have no legal power (Jensen and Berg, 2012). There is also debate as to whether the existence of a separate report increases corporate accountability or not (Gray and Herremans, 2011).

2.1.3.3 Rise of Mandatory Reporting and a Legislative Mix

In considering the current mix of voluntary and mandatory reporting, legislated sustainability reporting is a predicted trend for the future (IRSE, 2012). The first legal requirements for sustainability reporting occurred with the 1997 Finnish Accounting Act (Brockett and Rezaee, 2012). Between 1995 and 1997, Denmark, the Netherlands, Norway and Sweden drafted legislation for annual disclosure of environmental performance (Hess, 2007). A joint study by international organizations concluded that of 180 national sustainability reporting policies reviewed from 45 countries, 72% of these were mandatory to some degree (GRI et al., 2013). There has also been a "smart regulations approach" to sustainability reporting, whereby there is a mix of voluntary and mandatory reporting, existing on a spectrum of different types of regulation and standards (Herzig and Schaltegger, 2011).⁴

⁴ It is recognized through the work of GRI et al. (2013), Herzig and Schaltegger (2011), and Buhr (2010), among others, that sustainability reporting exists on a spectrum of governance systems, not as a simple binary of mandatory with strict enforcement and purely voluntary systems. The standards around sustainability reporting are much more complicated than a black and white relationship. However, for the purposes of explaining the divergence of national sustainability reporting approaches towards both the

Sustainability reporting is increasingly being implemented into national and international regulations (Kolk, 2003; GRI et al., 2013; Ioannou & Serafeim, 2011). These requirements take a variety of formats, and can be legislated disclosures, stock exchange requirements, or financial reporting requirements. As seen in Figure 1, the EU focuses more heavily on government initiatives, while the Americas have government and market recommendations over sustainability reporting in some form. Other countries focus on stock exchange disclosures, such as the Johannesburg Stock Exchange, and Shanghai Stock Exchange (IoDSA, 2009a; GRI et al., 2013). Despite these regulations, sustainability reporting is still largely voluntary in most jurisdictions (Hahn & Lulfs, 2013).

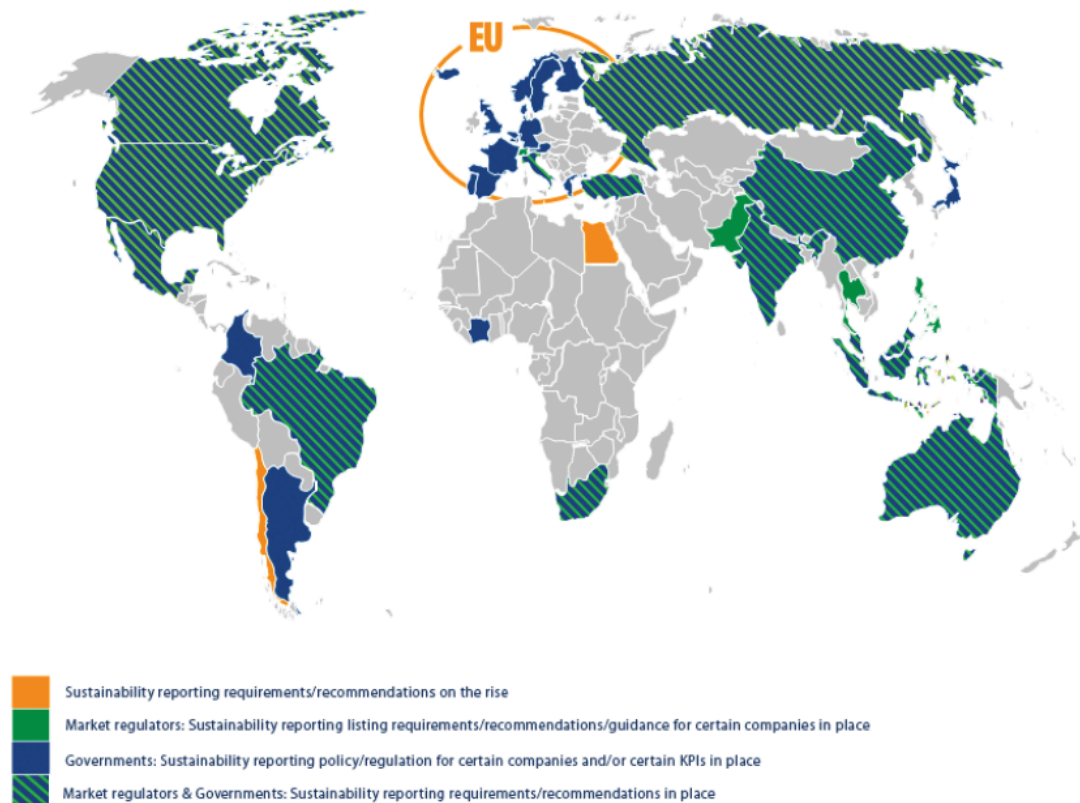


Figure 1: The International Sustainability Reporting Policy Mix (GRI et al., 2013, p.8).

Many countries have a combination of both market and government regulation (GRI et al., 2013). It has been suggested that future sustainability reporting policy should consider that mandatory and voluntary reporting can be mutually reinforcing (Hess, 2007; O’Rourke, 2004). Current reporting practices seem to support this trend.

2.1.3.4 Different Forms of Reporting

“How information is presented can have as much influence on people’s behaviour as the factual content of the data” – Fung et al., 2007, p. 44.

inclusion of government legislation, and the absence of it; and for the purposes of reviewing existing governance literature and debates, these terms will be used. It is the understanding of the researcher that the policy mix in sustainability reporting is not simply a regulated versus non-regulated relationship.

The nonfinancial information of the sustainability report can be presented in different formats. The sustainability report typically takes the form of a “stand alone report”, or an appended report to an annual report. A new format, integrated reporting, includes financial and non-financial information. Kolk (2010) describes the diverse practices of sustainability reporting as including “considerable diversity in types (environmental, social and sustainability reports), formats (stand-alone of part of the financial report)...means (electronic or paper)...and external involvement (from stakeholders, verification of data, and if so, by which party/parties).” (p.373). For the purposes of this study, a sustainability report will be a publically accessible corporate report that includes sustainability disclosures and matches one of the following three forms: a stand alone report, annual report disclosures, and an integrated report. Excluding reports that do not come in the stand-alone report format would be excluding valuable forms of reporting, and thus a holistic definition has been pursued (Daub, 2007).

1. The Stand Alone Report

Stand alone reporting is the most common form of sustainability reporting, and comprises a document published as its own independent report, apart from a company’s annual report. Stand alone reports were initially driven by the conception that sustainability issues were different than financial ones and therefore needed their own medium of communication (Brockett and Rezaee, 2012a). Stand alone sustainability reports are usually voluntary. The first stand alone reports were social reports in the 1970’s, followed by environmental reports in the 1980’s, and sustainability reports in the mid-1990’s (Herzig & Schaltegger, 2011). There became a need to “increas[e] the positive impacts and reduc[e] negative effects of operations on sustainable economic, social and environmental performance”, and the stand alone report responded to this concern (Brockett and Rezaee, 2012a, xiii).

2. Annual Report Disclosures

An annual report typically includes the financial statements for a company, the notes to the financial statement, and a management discussion and analysis (MD&A) of the company’s finances; this is a mandatory requirement under accounting standards (Kieso et al., 2010). Annual reports are primarily made for publicly traded companies. Currently, Canada and most of the world follows the International Financial Reporting Standards (IFRS) for their annual report, whereas the generally accepted accounting principles (GAAP) are used in the US⁵ (Eccles and Krzus, 2010). Professional associations are the main drivers of accounting standards, as opposed to actual legislation (Hohnen, 2012). These reports are audited and assured by a recognized accounting firm, and are written for investors and financial analysts primarily (Eccles and Krzus, 2010).

Sustainability disclosures are often found in sections of the annual report (Jensen and Berg, 2012). Approximately 51% of global companies include corporate responsibility information of some form in their annual reports (KPMG, 2013). Typically, these disclosures focus more on the financial performance of the company, as opposed to

⁵ The International Accounting Standards Board (IASB) governs financial reporting under the International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Board (FASB) governs reporting under the Generally Accepted Accounting Principles (GAAP). IFRS is used in most countries globally, while GAAP is still used in the United States.

the social and environmental aspects (Langer, 2006). Different strategies are suggested for including sustainability topics in annual reports, from incorporating certain key performance indicators (KPIs) into the MD&A, to focus on material issues and recommended metrics in securities filings (Dir. 2013/34/EU; Eccles and Krzus, 2014).

Critics argue that annual report disclosures do not embed sustainability data into the corporation, nor does it focus on historical or future business insights that can improve long-term strategy (Eccles and Krzus, 2010; Jensen and Berg, 2012). It continues the disconnection between the economic aspects of a firm, and ESG challenges that stand alone reports perpetuate. In this way, separate reporting struggles to meet the requirements of the triple bottom line (Azapagic, 2004; Gray and Milne, 2013). Mere disclosure without any consideration of what the data means for a business and its stakeholders does not integrate environmental and social considerations (Eccles and Krzus, 2014). This concern, of both stand alone and annual report disclosures, has motivated a new form of reporting.

3. The Integrated Report

An integrated report is “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term” (IIRC, 2013). The intent of the integrated report is to proactively identify both financial and non-financial risks and rewards in operations, as well as differentiate companies from competitors in the creation of sustained value (Lydenberg et al., 2010; Eccles and Krzus, 2010; EY, 2014). The form of the integrated report is not necessarily a document, but can also be an online portal of financial and non-financial information (M. Krzus, pers. comm., Jan. 16, 2015). The International Integrated Reporting Council (IIRC) released their principle-led framework for developing an integrated report in December 2013 (IIRC, 2013). South Africa currently has adopted mandatory integrated reporting for all listed companies on the JSE. Approximately half of all self-declared integrated reports in the world are coming from the EU, while only 3% are currently coming from North America, showing a divergent uptake of the practice across the globe (Eccles and Krzus, 2014).

The most common notion of integrated reporting is its blending of material sustainability topics with material financial topics, focusing on multi-dimensional value creation of a company through strategy, governance, and performance disclosures (Sulkowski & Waddock, 2014; Eccles & Krzus, 2010). Jensen and Berg (2012) highlight that the integrated report was supposed to serve as a rejection of pure shareholder theory, and overcome some of the shortcomings of the stand alone report. According to some, the integrated report does not necessarily replace the stand-alone report, but provides complimentary information, as each is directed to different audiences (Eccles and Krzus, 2014). The integrated report is primarily for providers of financial capital, by combining financial and narrative information on environmental, social and governance issues (Eccles and Krzus, 2010; 2014; IIRC, 2013). However, the South African body on integrated reporting identified all stakeholders as the primary audience of the integrated report (IoDSA, 2009a). The IIRC framework stresses the multi-dimensions of value creation through the six types of capital. Financial, manufactured, intellectual, human, social/relationship, and natural capital all contribute to an internal business model, and create outcomes that positively benefit both the firm and stakeholders for long term value

creation (IIRC, 2013). See Figure 2 below, which visually depicts the input and output cycle of the six capitals.

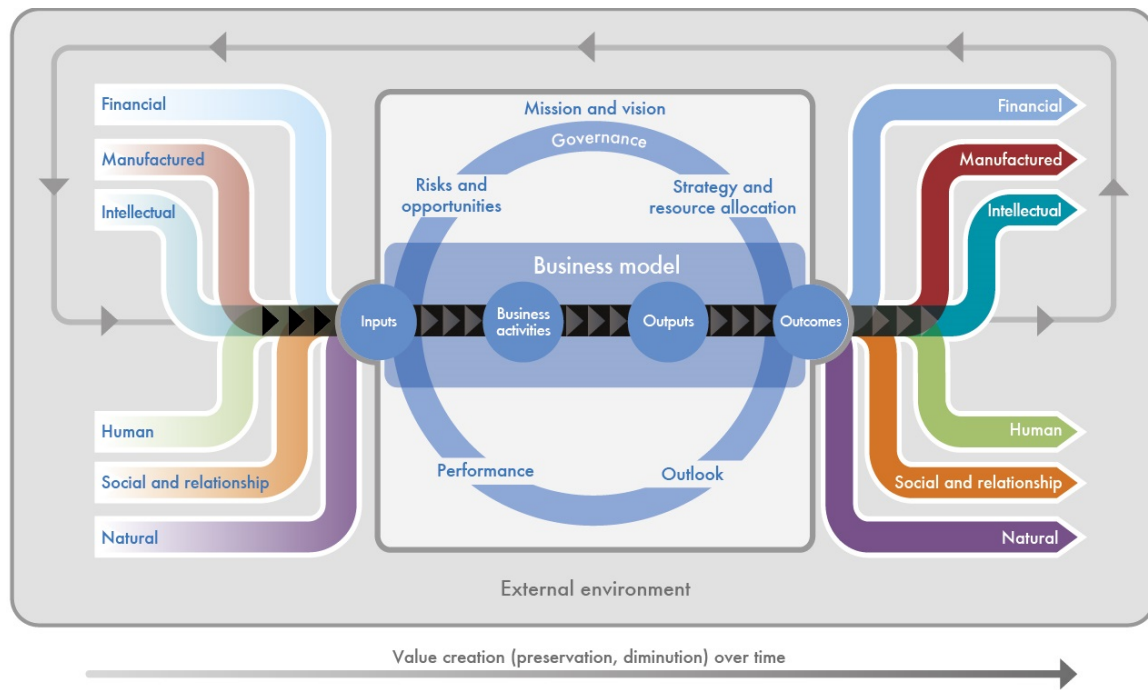


Figure 2: Value Creation with the Six Capitals of Integrated Reporting (IIRC, 2013, p.13)

2.1.4 Sustainability Reporting and Financial Reporting

Through accounting standards, a social reality is constructed by which companies and organizations can be judged to be successful and efficient (Gray & Bebbington, 2002). This environment is based on inputs of information, funds, and physical resources, which then must be captured and presented in a financial report released by a company (Gray & Bebbington, 2002). Financial reporting serves as a tool of corporate governance, by reducing information asymmetries between management and company shareholders, and creating accountability through systems of discipline and enforceability around corporate contracts (Weil et al., 2006). According to the International Financial Reporting Standards (2014):

Financial reports provide information about the reporting entity's economic resources, claims against the reporting entity and the effects of transactions and other events and conditions ... Some financial reports also include explanatory material about management's expectations and strategies... and other types of forward-looking information (Section QC2)

Forward-looking information, key to Brundtland's definition of sustainable development, is becoming increasingly relevant. However, forward looking information is difficult for companies to assess and audit (Van der Esch & Steurer, 2014).

Early corporate reporting was focused on the income statement, and primarily written for managers and shareholders (Crowther, 2012). It was not until the mid 1970's that firms began to recognize external stakeholders in their corporate reporting, as future prospects for a company became more prominent than past performance. However, this led to reports fulfilling a function of self-promotion, as opposed to a communicative one. Despite the accusation by authors such as Gray (2010) that financial reporting is, in its present form, not well suited for sustainability disclosures, others argue that accounting is the means of running a business, and the benefits that occur to the organization should translate to a benefit to society as well (Crowther, 2012). Whether financial or sustainability reporting, the act of reporting makes organizational life more transparent and enhances a democracy through discharging accountability (Gray, Owen & Adams 1996). The proliferation of voluntary sustainability reporting standards outside of current accounting standards perhaps suggests that current accounting frameworks do not successfully incorporate sufficient sustainability information (Gray, 2006).

2.1.4.1 Pressures for Integrating Sustainability Criteria into Financial Reporting

There is opposition to the view that accounting, as it currently stands, is sufficient to include environmental and social concerns. Crowther (2012) argues that the field of accounting has focused more attention on the application of standards, as opposed to looking at what standards have been excluding. Crowther (2012) explains that, "accounting, when used traditionally, considers solely the organisation itself and the effects of that organisation's actions only upon itself, rather than recognising any interaction between the organization and its environment" (p.35). Similarly, Willis (2007) argues that the standard financial reporting, which was detailed as a regulated practice in 1933 by the SEC, does not cover content related to meeting societal expectations. Questions around serving the public interest as well as private ones, earning fair returns for shareholders without infringing others, aiming for equal wealth distribution, and focusing on the needs of future generations have become concerns at the corporate level (Willis, 2007). Financial and environmental risks can be integrated as environmental, social, and economic disclosures into official financial standards, but this requires modification to current financial reporting (Hellenier and Thistlethwaite, 2009). Financial reporting does not provide the current medium for communication of non-financial data; these issues further motivate sustainability reporting.

The underlying economic model of accountancy has been accused of omitting interactions with the biosphere, which can lead to long-term risks to the company and deplete stocks of resources necessary for the material well being of the company (Gray & Bebbington, 2002). A systems view of accounting articulates a distinction between an accountant's model, and an environmental model more broadly. Sustainability reporting aims to fill the gaps between two different worldviews – the accountancy worldview, and the environmental worldview. This gap can be seen between the accountant model (Figure 3) and the extended environmental model (Figure 4). The extent to which sustainability reporting has successfully filled this gap is still debated (Gray and Milne, 2013).

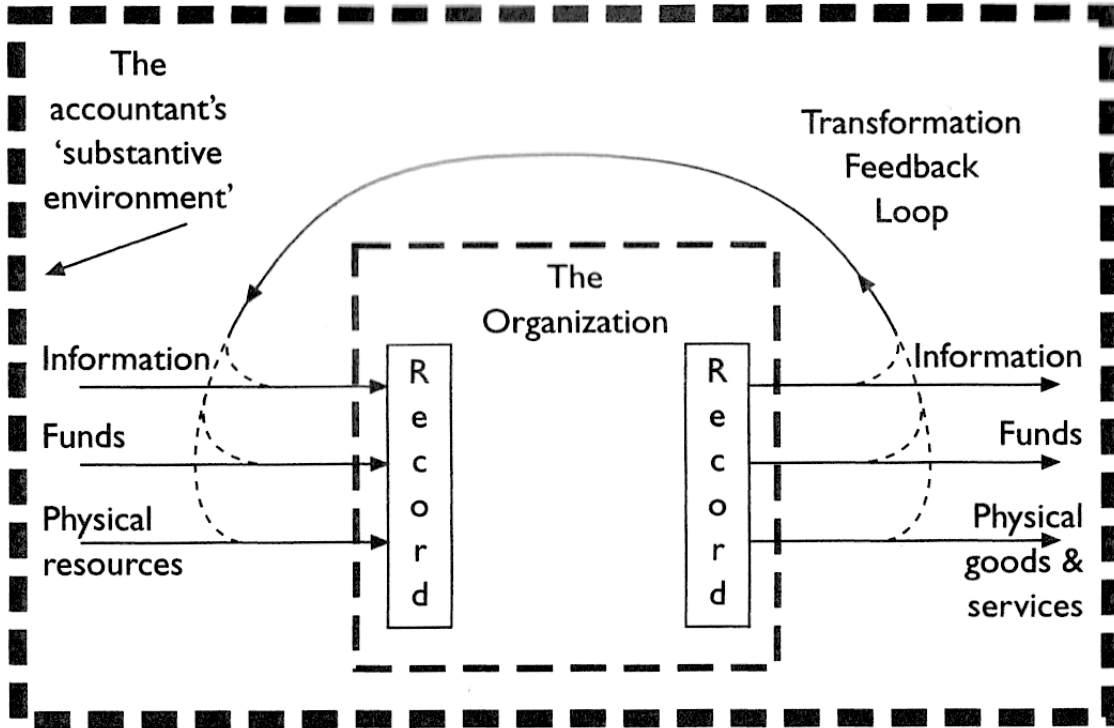


Figure 3: The Accountant's Model: A systems view of conventional accounting (Gray and Bebbington, 2002, p.23).

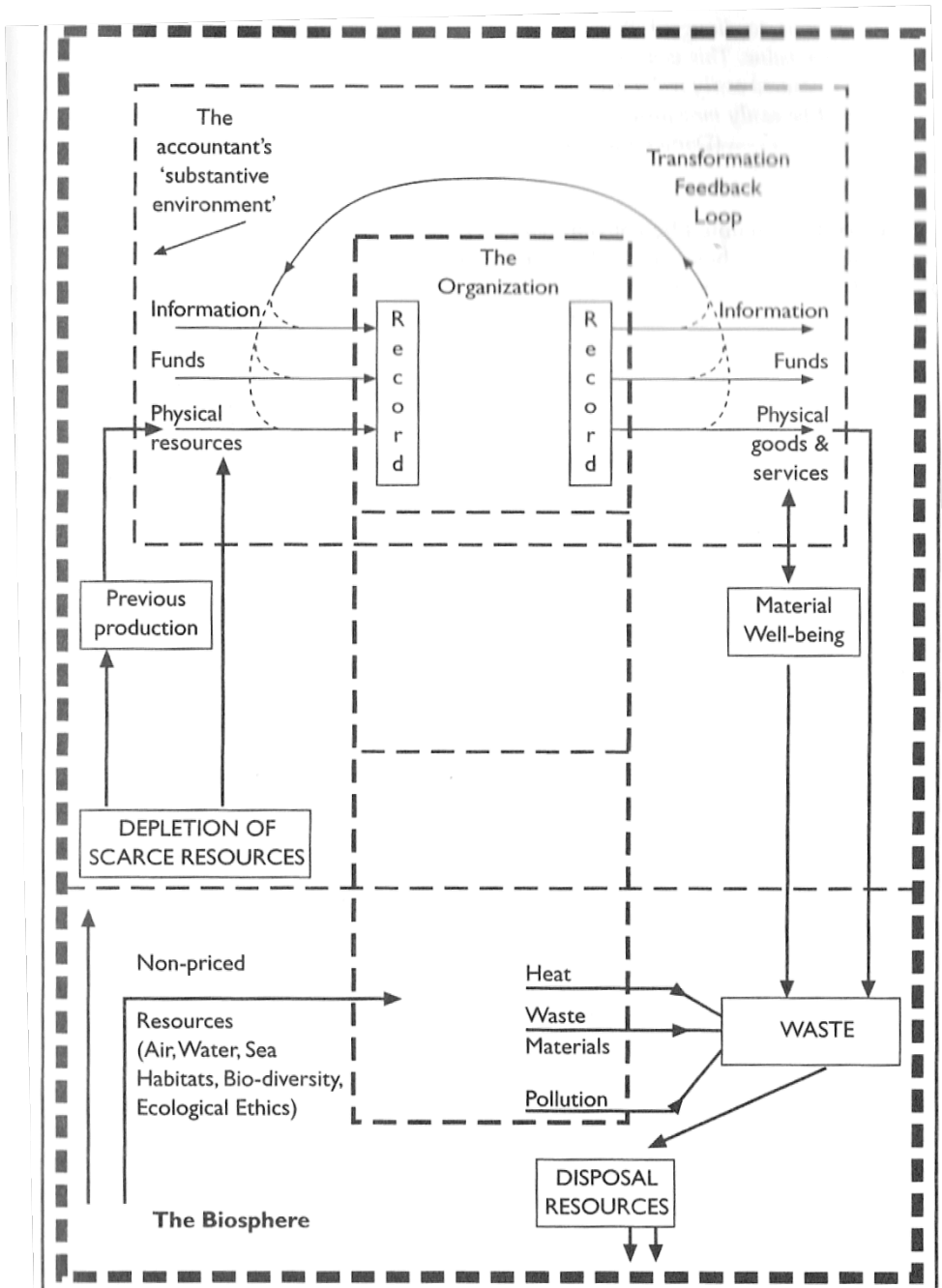


Figure 4: The Environmental Model: a systems view of accounting, organizations, and the environment (Gray and Bebbington, 2002, p.25). Note: the accountant's model is encapsulated in the upper section of this model.

Kieso et al. (2010) argue that the changing circumstances of the “new economy” cannot be sufficiently captured in the balance sheet under GAAP or IFRS (p.24). There becomes a challenge in deciding how to place value on nature with existing accounting standards not developed for such a task (Gray & Bebbington, 2002; R. Gray, pers. comm., Jan. 14, 2015). Current balance sheets do not capture many of these intangible assets, even though they have the potential to create future value for a company. Accountants recognize that “a more all-inclusive model of business reporting...that includes not only financial information but other key indicators and measurements that help predict value creation” is a present need of many institutional investors (Kieso et al., 2010). Although financial reporting does include a definition for intangible assets, there are other intangible assets that are “not defined by an accounting standard or a calculation of a measure based on an accounting standard” (Eccles and Krzus, 2010, p.83).

2.1.4.2 Problems with Financial Reporting Approaches: Materiality Assessments

Materiality is a term used in financial reporting to refer to the impact an item has on a firm’s overall financial performance and operations (Kieso et al., 2010). Materiality is used in sustainability reporting in a similar way, to determine what sustainability risks a particular company reasonably faces and what issues should be reported on. The International Accounting Standards Board (IASB) defines material information as “if including it or leaving it out would influence or change the judgment of a reasonable person” (Kieso et al., 2010, p.44). The securities regulator in the United States, the SEC, defines an item as material “if there is a substantial likelihood that a reasonable person would consider it important” (SEC, 1999).

Lydenberg (2012) aptly notes that these conceptions of materiality are relatively consistent with the preceding judicial concept of materiality, established in *TSC Industries v. Northway, Inc.* (1976). Marshall, J. used a reasonable shareholder standard for the court’s conception of materiality:

... If there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote... there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.

In all of these definitions, the parties pertinent to materiality are those that have a connection to the firm’s financial performance. However, Eccles & Krzus (2010) argue, “no clear consensus definition exists for what is ‘material’ financial information” (p.13).

Tensions in Materiality

Assessing material issues in sustainability reporting often involves environmental and social impacts, and is inclusive of all stakeholders, not merely those with a financial interest in the firm (Lydenberg et al., 2010; GRI, 2013a). This creates tension between definitions of materiality facing standard setters (Van der Esch & Steurer, 2014; D.Park, pers.comm., Jan.20, 2015). Companies may not successfully be able to determine what their investors and/or stakeholders want, as materiality is an assumption of what a company *believes* are its material issues (Eccles & Krzus, 2014). Similar to companies

creating their own internal definitions of sustainability, defining materiality and identifying material issues is adapted at the company level.

Sustainability reporting faces the same dilemma of determining what issues to include in a report, and which stakeholder groups to prioritize. There needs to be sufficient sustainability information provided for stakeholders to make informed judgments and actions; however, what is material for one company's stakeholders may not be material for another (Lydenberg et al. 2010). Kolk (2008) posits that dilemmas of determining material sustainability issues is not resolved through mere inclusion of external stakeholders, but rather "learning how to balance different interests, making choices and implementing and explaining them in a transparent manner" (p.12). Trying to accommodate for different conceptions of materiality is challenging, given that annual reports are written for investors, stand alone reports are written for a larger group of stakeholders, and integrated reports are trying to create a balance between the two.

2.2 Theoretical Drivers

2.2.1 Governance Context – New Governance Theory

"As both regulators and managers believe sustainable development reporting will be a major part of future business operations; the real question is by what means."
- CGA Canada, 2011

There are various guidelines for sustainability reporting, the most popular of which is the Global Reporting Initiative (GRI) guidelines, which prescribes key performance indicators (KPIs) for organizations to disclose (Lozano, 2008; Morhardt et al., 2002; Van der Esch & Steurer, 2014). Voluntary sustainability reporting is thus the most common type of sustainability reporting. Some countries have mandated sustainability reporting through financial reporting standards, stock exchange listing requirements, or other policy measures. The national governments of Sweden, France, South Africa, Denmark, and Brazil, as well as numerous stock exchanges, now require or recommend some form of sustainability reporting (Vissier and Tolhurst, 2010; IRI et al., 2014). These sustainability reporting guidelines are a more mandatory approach towards reporting, and exemplify not only the trend of mandating sustainability disclosures discussed in Chapter 1, but also reveal a spectrum of policy approaches in sustainability reporting that range in their degree of prescription (Buhr, 2010; Herzig and Schaltegger, 2011). New governance theory provides context behind these emerging mandatory policies.

2.2.1.1. Theoretical Background: New Governance Theory

"Governance as self-organizing networks is a challenge to governability because the networks become autonomous and resist central guidance. They are set fair to become the prime example of governing without Government."
- Rhodes, 1996, p.667

New governance is a contemporary area of study used to classify emerging third-party governance structures; these structures are prevalent in sustainability reporting (Salamon, 2000). This model challenges top-down hierarchal models of state control, and

argues for governance through networks (Tollefson et al., 2012). Tollefson et al. (2012) explains that, “Tightly controlled, state-centric hierarchies are being superseded by more informal, flexible, ‘plurilateral’ arrangements”, leading to a reduced role of the state and a heightened domination of business interests (Tollefson et al., 2012). Public-private partnerships, privatized governance, and corporate governance are examples of new governance in modern society.

There have been criticisms that the public sector offers vague guidance, insufficient authority, and more collaborative, horizontal governance networks need to be created that are stronger than voluntary channels, and still somewhat binding (Salamon, 2000). These new legal systems are also known as “soft law” systems (Abbott and Snidal, 2000). This emerging theory on new governance underlies current sustainability reporting practices, and the debate of voluntary and mandatory standards in two ways. For one, new governance suggests that standards do not exist in a binary of mandatory and voluntary, but rather exist on a spectrum; this approach is integrated into the policy mapping in sub study 2 (Chapter 4). Secondly, this theory suggests that hard law standards (i.e. command and control) are in decline in sustainability reporting, and soft law systems are more characteristic to existing mandatory sustainability reporting.

2.2.1.2 Hard Law and Soft Law

New governance aligns with “soft law”. Soft law regulation is not rigid, formal regulation typical of hard law systems, but focuses on “setting the boundaries that allow experimentation to occur” (Hess, 2007). Hard law systems are command and control systems of law within a formalized legal system (Case, 2005; Eberlein and Kerwer, 2004). Hard law involves legally binding obligations, and requires three central criteria of precision, delegation and obligation (Abbott and Snidal, 2000). This regulatory form requires “direct government investigation and enforcement” of a standard (Case, 2005, p.427).

Soft law systems allow for policy experimentation, which often includes “rolling best-practices rulemaking” (Hess, 2007, p.455). Sustainability reporting embodies this diffusion of information central to new governance regulation. As Hess (2007) explains, “Supporters of [corporate] social reporting consider it a necessary mechanism in enabling stakeholder democracy in corporate governance which is consistent with the collaborative, participatory, and decentralized approach of New Governance regulation” (p.454). Sustainability reporting, even when regulated, is a soft law system, as the particular outcomes of the reports are not regulated; only the actual disclosure of information is. Mandatory sustainability reporting, as soft law, occupies a middle path between hard law and voluntary systems, not supporting command and control governance, or self-regulation in entirety (Hess, 2007; Buhr, 2010; Herzig and Schaltegger, 2011). Classifying sustainability reporting standards is not as simple as a binary relationship, but rather “voluntary and mandatory are a spectrum, not an on-off switch” (Buhr, 2010, p.63). Within mandatory systems more broadly, there is also a spectrum between hard law and soft law. This spectrum approach will be applied when mapping sustainability reporting policies based on their mandatory strength in Chapter 4. This spectrum discussed in the literature suggests that sustainability reporting policies are more complex than they may initially appear, warranting further inquiry.

2.2.1.3 A New Governance Policy Tool: The Report or Explain Principle

The “report or explain” principle, common in sustainability reporting policies like those in Malaysia and Denmark, exemplifies the spectrum approach of sustainability reporting policy, and soft law and new governance theory (GRI, 2013c; KPMG, 2013; Lydenberg et al., 2010). The report or explain principle holds that companies “need to report on their sustainability performance, or explain why if they do not” (GRI et al., 2013, p.14). This principle can be modified when implemented in different countries (i.e. South Africa’s apply or explain principle). The principle assumes that by giving companies space to decide their scope and disclosures for their sustainability reporting, they can develop competency, and quality reports over time. Projected benefits include creating a common minimum level of reporting for companies, promoting transparency and public trust, focusing on materiality assessments, improving good governance, and giving flexibility to companies, which takes away regulatory burdens like monitoring and enforcement costs (GRI et al., 2013).

The principle reveals one of the misconceptions of mandatory sustainability reporting – it is not necessarily binding with state-enforced consequences. Rather, enforcement comes from societal forces. The market will be able to monitor non-compliance (i.e. by impacting financial performance) or will allow a company to justify its non-compliance (MacNeil and Li, 2006). Proponents of the ‘comply or explain’ approach argue that companies who do not disclose are at risk, and must report or they will be at a greater loss than complying (Ministère des Affaires Etrangères, 2012). The ‘comply or explain’ approach thus adds flexibility to implementation, given that companies differ in size, structure and organization (MacNeil and Li, 2006). Regardless of whether companies choose to demonstrate compliance or provide an explanation of its absence, disclosure is the key component to this new governance inspired reporting.

2.2.1.4 Transparency and Disclosure

“Sunlight is said to be the best of disinfectants” – Louis D. Brandeis, 1932

Sustainability reporting policies, whether voluntary or mandated, are driven by the benefits of disclosure. Soft law systems, outlined above, operate under the presumption of transparency, whereby laws and standards are the platform used to “influence organizational behaviour by promoting internalization of societal norms (Case, 2005, p. 429). New governance, and the soft law systems it inspires, do not mandate particular outcomes but rather require disclosure as a means of discharging accountability to a larger group of stakeholders. Fung et al. (2007) define one such government-based disclosure strategy as “targeted transparency” whereby “government-mandated disclosure by corporations or other private or public organizations of standardized, comparable, disaggregated information regarding specific products or practices to a broad audience in order to further a defined public purpose” (p.129). Although new governance may not directly require a government, transparency policies common to soft law systems use information disclosure as a way to change corporate behaviour. By providing information to actors outside of an organization, disclosers are empowered to change their behaviour and adapt to the actors demands. Williams (1999) explains that the purpose of corporate disclosure was to change the attitude of corporate management, by causing them to

“exercise their power with a greater sense of fiduciary obligation, both towards shareholders and toward the public” (Williams, 1999, pp.1211-1212).

Targeted transparency does run on particular assumptions, however. It assumes the target actors respond to the information provided (Weiss, 2002). If they do not, the normative goals of the policy will not be met. The success of transparency initiatives is also very dependent on the norms of the population, the agreement of the population on the issue at hand, the accessibility of the information, and the trust a population holds for the disclosers. Environmental and social concerns about investments, for example, were not considered rational until they became accepted through the environmental movements of the 1960’s.

Even without regulatory involvement, voluntary sustainability reporting also is driven by the benefits of disclosure. Voluntary reporting acts as a means for positive performers to establish competitive advantage over poor performers who cannot display this performance. The provision of information through sustainability reports can avoid issues of information asymmetry as companies with positive performance can disclose objective measures that poor performing companies cannot mimic (Clarkson et al., 2008; Hahn & Lulfs, 2013). Voluntary disclosures can also avoid future liabilities, and detect public attitude shifts before regulation (Fung et al., 2007). Therefore, whether reporting is mandatory through a soft law system or through a voluntary system, disclosure of environmental, social, governance, and economic information is the goal.

2.2.2 Rationales for Sustainability Reporting

“...what lies at the heart of all of their requests is a desire to understand how the organization’s activities, business model and strategies affect (positive or negatively) or are impacted by (positively or negatively) climate change such that investors, consumers, the environment, the planet and the next generation may also be positively or negatively affected” (CDSB, 2012, p.17).

Sustainability reporting relies on disclosure-based approaches primarily because there are particular benefits for both the company, and external stakeholders, that come from disclosing environmental, social, economic, and governance information. In order to comment on existing sustainability reporting policies and standards, the rationales for sustainability reporting, as well as the risks of reporting, must be understood.

2.2.2.1 The Benefits of Sustainability Reporting

One of the primary rationales for issuing a sustainability report is that it serves as a tool for corporate risk mitigation (Hess, 2007; O’Rourke, 2004). In following the logic of targeted transparency, companies can learn what information is important to stakeholders through disclosure; meanwhile, they can also learn about how to improve internal operations to minimize environmental and social impacts (Fung et al., 2007). When companies begin to disclose ESG data beyond their current financial information, companies could gain awareness of their behaviour and their impacts, which can lead to positive behaviour change (Mitchell, 2011; Van der Esch & Steurer, 2014). The act of reporting discharges accountability, and has the potential to improve sustainability performance by empowering others with information about the company (Gray, Owen & Adams, 1996; Lozano, 2008; Amran et al., 2014).

Secondly, there is current investor pressure to disclose sustainability information (Serafeim, 2014; Morrow and Yow, 2014). Investors increasingly look for measurements of management practices that measure both current and future risks and liabilities (O'Rourke, 2004). There is also growing request by socially responsible investment funds to disclose environmental, social, and economic information on a company's performance and impacts, in order to make decisions on where to allocate capital, (EY & BC, 2014; IIRC, 2013; Serafeim, 2014). Hellenier and Thistlethwaite (2009) elaborate, stating that, "...there is growing recognition within the investor community that material risks should also include environmental risks such as physical damage from the changing environment, regulatory risks from implementing costly environmental regulations or fines, or legal liability issues related to a firm's environmental performance" (p.10). Without the sustainability report, investors and the broader public would have to contact the companies directly, or search out alternative databases for information. By disclosing sustainability information through a report, a company can reduce financial risks, increase investment opportunities, dispel distrust in capital markets, reduce excessive speculation and short-termism, and potentially avert national emergencies caused by the financial crisis or corporate misdeeds (Lydenberg, 2012, p.7). They can also prepare for pending regulatory changes (Brockett and Rezaee, 2012b; Van der Esch & Steurer, 2014). Sustainability reporting operates as the communicative tool for disclosing risks and the strategies used to mitigate risk.

Thirdly, the ability to establish benchmarks is possible through sustainability reporting; this can allow companies to achieve a competitive advantage. Mitchell (2011) argues that even if a behavioural precedent is not set through disclosure, the mere existence of disclosure-based policies, like the voluntary and mandatory standards of sustainability reporting, can lead to the creation of a range of bad to good behaviour. This allows companies to benchmark each other based on this data. By publically releasing reports, companies can see what other companies are including, creating competition and an overall positive impact on the quantity and quality of information.

2.2.2.2 The Drawbacks of Sustainability Reporting

Reporting standards struggle to ensure the integrity of report data, and face challenges in determining the future path of the practice (Brockett and Rezaee, 2012a). Despite praise for its international recognition, the GRI still has only 2,000 of approximately 60,000 global multinational corporations releasing stand alone voluntary reports (Gray and Herremans, 2011). With annual report disclosures, there are potential problems to sustainability information being constrained to the functions and audiences of financial reporting. For both stand alone and annual report disclosures, auditors may not be qualified to audit ESG disclosures, weakening the credibility of reports (N.Morris, pers.comm., Dec.9. 2014; Eccles and Krzus, 2014).

Despite indicator-intensive guidelines like the GRI being widely utilized, the large number of indicators makes reporting concise and material information difficult (Fonseca et al., 2012). This makes integration of sustainability data into daily operations challenging as there may be too much data to interpret (Lozano, 2008). Often, data management systems and internal controls of ESG data are not well established (Eccles and Krzus, 2011, 2014). Further, voluntary standards like the GRI may allow companies to "cherry pick" indicators, which fulfills an image/brand requirement, but not one of reliability (Fonseca et al., 2012; Moneva et al., 2006). Lozano & Huisingh (2011) argue

that firms need to take a “holistic perspective of sustainability” whereby the triple bottom line dimension of sustainability, and the time dimension of sustainability (which includes the past, present, and future) are referred to (p.100).

The absence of a standardized format for nonfinancial reports makes comparability and benchmarking between firms and industry partners difficult. Deciding what is material is difficult to conclusively state, especially with a large number of indicators to report on and changing stakeholder and shareholder demands (Brown and Fraser, 2006). The practice of writing a full sustainability report “demands a large pool of resources” (Lozano, 2008, p.60). In addition, stakeholder demands may increase as reports are continually released; stakeholders may expect positive performance change to be evident once reporting becomes regular (Lozano, 2008). Constant improvement should be one of the benefits of the practice, but improvement faces its challenges.

2.2.3 Governance Structures in Sustainability Reporting

“Although much of such reporting is voluntary there are some mandatory social disclosure requirements and any study measuring the extent of disclosure should distinguish between these two types.” –Adams, Coutts and Harte, 1995, p.93.

2.2.3.1 Existing Voluntary Guidelines

Many voluntary guidelines exist for sustainability reporting, of which the GRI is the most popular (Scholtz et al., 2014). Other standards include the AccountAbility AA1000 standard in the UK, SASB in the US, and the International Organization for Standardization (ISO) ISO26000. To avoid public shame and reputational harm, companies have a strong motivation to responsibly self-regulate financial and nonfinancial information, and provide credible information to concerned stakeholders. These guidelines, although fulfilling similar purposes, are structured to collect and present information in different ways.

There are both process, principle, and criteria based standards in voluntary sustainability reporting. Guidelines like the AccountAbility 1000 standard in the UK and the CDSB Framework are principles-based standards (Adams & Narayanan, 2007; Eccles and Krzus, 2010). These guidelines typically offer no commentary on what performance criteria should be met more specifically, and often apply to a variety of industries, lack specificity and provide loopholes to opt out of certain disclosures (Adams & Narayanan, 2007; Eccles and Krzus, 2010). Organization process guidelines, alternatively, focus on environmental management systems, like EMAS. They often lack the precision required to develop a sustainability report and instead focus on putting procedures in place. They avoid making normative claims on sustainability practices. Lastly, report content standards outline criteria that must be met to reach designated levels of performance. These are often indicator-intensive standards, focusing on the measurement and comparison of KPIs over time; these indicators may not necessarily integrate with each other (Fonseca et al., 2012).

2.2.3.2 Current Mandatory Sustainability Reporting Guidelines

Countries like Denmark, France, Sweden, and South Africa have begun to mandate reporting; these mandatory reporting guidelines are thus often issued at a national level (GRI et al., 2013; IRI et al., 2014). Recent sustainability factors faced by

the global community such as climate change and socially responsible investors have inspired the surge in mandatory reporting. These are not entirely hard law systems, as previously discussed (Lydenberg et al., 2010). The EU has recently released directives explicitly advising member states to implement environmental and social disclosures in their annual reports as well. Sustainability reporting legislation often takes the form of principle-based legislation, leaving implementation methods to the discretion of the company, and classifying current mandatory standards as soft law. The extent to which these reporting policies have strict compliance requirements will be investigated in Chapter 4.

2.2.4 Perspectives on the Mandatory Versus Voluntary Debate

The current debate between mandatory and voluntary standards exists in debates outside of sustainability reporting, but has also existed within sustainability reporting since the 1990's (Llena et al., 2007). Because legislated sustainability reporting requirements are relatively new, broader perspectives in governance and the sustainability literature are important, in order to provide context to the current debate. This debate has been acknowledged in the literature, but has not been tested for how it impacts reporting quality; this is the current research gap this study fills. This study contributes to this debate in Chapter 5 through evaluating reports from both mandatory and voluntary standards. Understanding different sides of the mandatory and voluntary debate is required in order to claim if one is better than the other in sustainability reporting.

2.2.4.1. In Support of Mandatory Sustainability Reporting

Comparability

Regulated reporting can guarantee comparability between companies and avoid the proliferation of standards that currently exist in the voluntary realm (Scholtz et al., 2014). By outlining a particular guideline for companies to follow, there could be an “apples to apples” comparison companies in a country (Lydenberg et al., 2010; Jeucken, 2001). In addition, outlying companies would be forced to communicate their disclosures. Sulkowski and Waddock (2014) argue that, “mandating certain ESG disclosures is needed to make outliers play by the same rules that the vast majority of mainstream companies already see as pragmatic” (p. 1082). Government mandated sustainability reporting would put companies on an equal playing field with respect to communicating sustainability performance.

Benchmarking

There are benchmarking capabilities that become easier to implement when companies are reporting on the same required disclosures. It could have positive market effects as well, through the creation of competition over quality information. According to Lydenberg et al. (2010), “the ability to benchmark sustainability performance that could arise from mandatory minimum reporting requirements could prove to be an essential element in facilitating the movement toward competition on sustainability, in addition to financials” (Lydenberg et al., 2010). The uniformity of reports would be predicted to increase as the enforcement does (Brockett and Rezaee, 2012a).

Credibility

Mandatory reporting can enhance the credibility of reports, as well as their reliability (Patten, 2002). Abbott and Snidal (2000) state that contracts between parties gain credibility through the very fact that they can be enforced. There is a societal distrust of self-regulated reporting, and mandatory regulations promote socially responsible managerial practices in employee welfare, prioritizing environmental and social issues, and lessening the frequency of corporate governance corruption by providing a degree of legal certainty (CGA, 2011; Scholtz et al., 2014). Enforced audit standards can add credibility to reports by ensuring comparable and consistent information (Kolk, 2008; Brockett and Rezaee, 2012b).

Barbu et al. (2014) found that firms in countries with “constraining environmental disclosure regulations” report more on environmental issues than those firms that do not. Countries in the EU, for example, are seen as less likely to defect from commitments, as the EU has more mandatory sustainability reporting; this creates positive reputational benefits (Abbott and Snidal, 2000). Scholtz et al. (2014) found a similar result in South Africa, whereby sustainability reports of listed companies covered under King III were more advanced in content than reports of non-listed companies who voluntarily reported. Although these evaluations measure the amount of disclosure, it suggests that national regulation can increase the amount of disclosures than would be voluntarily provided.

Market Interests and Investor Protection

Sulkowski & Waddock (2014) explain that mandatory reporting prevents investors from being misled by failure to report and over-reporting, common issues to voluntary sustainability reporting. It also helps investors and regulators foresee circumstances that could lead to future crises the company may face (Lydenberg et al., 2010). Despite Williams (1999) suggesting that the American SEC does not use its powers to enforce existing environmental and social disclosure, Case (2005) outlines that, “the function of a mandatory securities disclosure regime is to correct market failures associated with a voluntary approach that led to most securities issuers significantly underdisclosing critical information” (pp. 440-441). The Danish government uses this rationale, arguing regulating non-financial information is like regulating financial information: it prevents sub-optimal levels of disclosure and enhance the competitiveness of companies by forcing sustainable strategy development (DBA, 2012). Ioannou and Serafeim (2011; 2014) found that the social responsibility, employee training, board of director supervision, implementation of ethical practices, and managerial credibility all increased after the adoption of mandatory sustainability reporting. Strong enforcement mechanisms and assurance, two characteristics of mandatory reporting, have positive effects on companies, and the audiences who read reports. Mandatory reporting can also lead to higher rates of voluntary environmental and social disclosures as well (Llena et al., 2007).

Potential for Citizen Inclusion and More Rapid Change

Although critics argue that mandatory reporting will interfere with the free market, mandatory disclosures can support consumers’ abilities to express their intelligent preferences (Williams, 1999). Mandatory reporting can create public databases of standardized information, a current shortcoming of voluntary reporting (M.Krzus, pers.comm., Jan.16, 2015). Through regulated disclosures, debates on environmental,

social, and economic performance can be based on one set of legitimate and robust facts. From a stakeholder accountability perspective, some may claim that it is a citizen's right to know information about a company's sustainability performance (Dye, 1990; Fung et al., 2007). Unless reporting is mandatory, companies will continue to hide information about their negative performance, as it can reflect negatively on their reputation (Dye, 1990).

Beyond meeting a regulatory requirement, sustainability data can be used for informing government policy (Brockett and Rezaee, 2012a; Kjaer, 2012). Moreover, legal rules carry the power to change the material incentives, understandings, and standards of behaviour of companies. Mandatory sustainability reporting can enhance the quality of reporting, "by establishing mandatory reporting on sustainability... competition on important dimensions of sustainability can be encouraged and entire industry sectors channeled towards the creation of a more just and sustainable society (Lydenberg et al., 2010, p.37). In the UK, sustainability risks that had been regulated for a long period of time had strong reporting tendencies over new sustainability issues (GT UK, 2012). Legislation can motivate inclusion of more complete sustainability disclosures for both external stakeholders and regulators.

2.2.4.2 Criticisms of Mandatory Sustainability Reporting

Despite benefits of establishing an equal playing field, providing credible information, and protecting investors, there are setbacks to regulated sustainability reporting. For one, mandatory sustainability reporting often aims at minimal compliance, which can have negative impacts on companies and stakeholders (Case, 2005; Williams, 1999; Larrinaga et al., 2002). Legislated requirements may be seen as a checklist activity to merely meet compliance, which may prevent innovative, performance improvements companies could invent on their own (ICC, 2005; Llena et al., 2007; Scholtz et al., 2014; Larrinaga et al., 2002). Mandatory may not structure and provide information conducive to positive public behaviour change either, as information may be difficult to access and understand (Case, 2005; Fung et al., 2007). Regulation for sustainability reporting in France, the UK, and Spain has faced such criticism (Hess, 2007; Sulkowski & Waddock, 2014; Larrinaga et al., 2002). Regulating informational disclosure may have less influence on substantive performance outcomes, and can raise critiques around the need for more radical strategies (Hess, 2008).

Secondly, enforcement bodies may fail to stringently implement the reporting policy. This can create a "compliant boilerplate approach" rather than an engaging process between the government and regulated companies (CDSB, 2012, p.17; CGA, 2011). Enforcement is often weak due to uncertain monitoring costs and logistics around mandatory reporting (Lydenberg et al., 2010; CGA, 2011). Ioannou and Serafeim (2011) found that strong enforcement for mandatory disclosures is central for an overall positive impact on sustainability. Clear, enforced penalties could strengthen existing regulatory systems, as mandatory reporting faces issues of misleading information, fraud, and ignoring societal norms (Sulkowski & Waddock, 2014). Larrinaga et al. (2002) concluded that Spanish reporting legislation did not offer sufficient guidance to companies, and transparency was seen as something harmful. Companies may see mandated disclosure as harmful to company privacy and the maintaining of competitive advantage.

Lastly, legislated reporting can have temporal inefficiencies in their historical focus on data and long period of implementation. Government regulated reporting is often retrospective, with attention on historical data and performance (Jeucken, 2001; Case, 2005). There can also be overlap with other standards, creating duplication of data (CDSB, 2012). The impacts of mandatory reporting take time to become apparent, as “laws and regulations that mandate sustainability reporting are likely to generate effects that take a number of years to materialize, making it more difficult for researchers to detect these effects” (Ioannou and Serafeim, 2011, p.28). This could make it challenging for governments to argue the benefits of reporting to companies and citizens who want to see short-term benefits of enhanced regulation (Ioannou and Serafeim, 2011).

2.2.4.3. In Support of Voluntary Sustainability Reporting

Establishing a Competitive Edge

Voluntary reporting is often argued as an ideal reporting system as it allows superior reporting performers to display their positive performance over other companies (Romano, 1998; Sulkowski & Waddock, 2014). In the act of choosing what to report on, companies create a race to the top, on the quality of the sustainability performance in the report. Companies differentiate themselves from laggards through controlling what and how much they disclose. There is an incentive to then follow the leader in voluntary reporting, which can improve collective performance of competing companies (Case, 2005). There may also be a connection between voluntary sustainability reporting and improved financial performance (CGA, 2011). Romano (1998) explains “studies have found that the quantity and quality of publicly traded firms’ voluntary disclosures...are positively correlated with the issuance of securities and with information asymmetry in the market for the firm’s stock” (p.2374). Voluntary sustainability reporting can avoid issues of minimal compliance, and basic informational disclosure that mandatory reporting involves (Case, 2005). Companies can target operational, strategic and performance goals specific to their company, should they wish to be industry leaders.

Mitigating the Unknowns of Mandatory Reporting

Because sustainability reporting is primarily a voluntary practice, the impacts of switching to mandatory reporting are unknown. Different companies have material issues that are different and changing, making one standard difficult to extend to all companies (Langer, 2006). In order to widely implement a regulated reporting requirement, a certain level of interpretation would be required. There is also uncertainty around the weak compliance rates and slow adoption that mandatory disclosures obtain. Prior government led sustainability reporting systems have had slow adoption rates (Gray and Bebbington, 2002; Freimann and Schwedes, 2011). Voluntary disclosures often include higher quality disclosures than the mandatory filings (Coburn et al., 2011; Coburn & Cook, 2014).

Voluntary disclosures can also display a desire to tell the truth, as opposed to making soft claims through weak regulation. Scholtz et al. (2014) found that companies who voluntarily reported would integrate environmental information with their business strategy and data application systems more often than companies who were mandated to report. It can also save costs associated with negotiating government agreements (Lyon and Maxwell, 2004). Voluntary reporting can avoid the risk of litigation that comes with mandatory reporting, which may lead companies to willingly disclose more information to mitigate negative impacts (Esty, 2004).

Economic Efficiency

Voluntary self-regulation can pre-empt government regulation on sustainability topics, and leave firms and consumers facing lower costs (Abbott and Snidal, 2000; Abbott, 2012). As consumers develop their ability to organize, self-regulation will become more stringent in order to prevent legislation. In addition, voluntary reporting can be in an industry's best interest, as they can decipher the material issues for their particular industry, and create a voluntary standard in the collective interest of all industry members (Scholtz et al., 2014). Governments may not understand these issues, and struggle to create industry-specific standards.

2.2.4.4 Criticisms of Voluntary Sustainability Reporting

Despite the competitive advantages of voluntary reporting, the popular practice is not without its faults. Voluntary reporting can compromise the comparability of reports, due to the proliferation of standards (Case, 2005; WBCSD, 2013). Because there are multiple ways to measure performance, using a variety of indicators and metrics makes it difficult to compare performance (Lydenberg et al., 2010). This proliferation of standards and rankings creates a state of ambiguity which can cause under-reporting – which negatively impacts investors' decision making – or over-reporting – which negatively impacts broader stakeholders navigating through excessive data (Sulkowski & Waddock, 2014). Voluntary sustainability reporting may challenge the business case approach and the stakeholder-accountability approach due to information disclosure that prevents comparison.

Upholding a set of objective characteristics for sustainability reporting becomes challenging, as many organizations are trying to define what should be in a sustainability report (Langer, 2006; Hahn and Lulfs, 2013). The qualitative criteria that are imperative to the accounting standards, including comparability, consistency, credibility and relevance, are not met with any enforcement mechanism in voluntary sustainability reporting (Case, 2005). Despite higher adoption of sustainability reporting among companies worldwide, there is less of a compromise of what sustainable development means within reports (KPMG, 2013; Moneva et al., 2006). This can create not only contradictory definitions of sustainability, but can also create opportunity to re-define other terms like materiality; this can open up liability risks to companies and investors (D.Park, pers. comm., Jan. 20, 2015).

Moreover, there is a lack of incentive to provide extensive sustainability disclosures. By disclosing too much information, a company may provide a competitive advantage to rival firms, creating risk that outweighs the perceived benefit (Case, 2005). This can create a “free rider” problem for weaker reporters (Jeucken, 2001; Case, 2005). Industries and companies may continue to support voluntary sustainability reporting as a mechanism to forestall legislation (Adams & Narayanan, 2007).

Finally, voluntary reporting is criticized for its subjection to the trends and changes of existing political environments, which diminishes the quality of disclosures. Voluntary initiatives have been accused of being short-lived, transitory in nature, and dependent on current business trends and changes (Gray, Owens & Adams, 1996). Accountability in voluntary reporting is not systematic or continuous, and companies can opt out at their leisure (Gray, Owen & Adams, 1996, p.123; Hess, 2008; Brockett and Rezaee, 2012a). Companies can use voluntary reporting as a means of sustaining current political and economic arrangements to serve the corporate interest (Guthrie and Parker,

1990). By avoiding systemic inclusion of sustainability information in voluntary initiatives, ESG issues are often addressed one at a time, avoiding holistic progress of sustainability and allowing corporate management to dictate sustainability agendas (Hess, 2008). Voluntary standards may allow companies to “cherry pick” indicators to report on, which fulfills an image/brand requirement, but not one of reliability and comparable data (Fonseca et al., 2012; Moneva et al., 2006).

2.2.4.5 Other Concerns

At a more systemic level, some argue that neither voluntary reporting nor mandatory reporting will change the underlying “corporate concern to maximize shareholder wealth so long as the institutional pressures and remunerative mechanisms...previously remain intact and/or, legislated reporting requirements are not enforced” (Adams and Whelan, 2009, p.130). Criticisms against the entire capitalist system may render mandatory and voluntary sustainability reporting as both ineffective and useless, and suggest that institutional reform to the free market is required (Brown et al., 2009). This debate is beyond the main scope of this thesis. Mandatory and voluntary sustainability reporting can both be seen as insufficient, should more radical corporate social responsibility and stakeholder democracy initiatives be advocated for (Hess, 2008). Thus, some stakeholders may see no substantive value in either type of reporting.

Secondly, the reaction to sustainability reports may not in fact create positive change towards sustainable development. Governments may not see sustainability in their interest to regulate, especially given the short nature of electoral cycles (Abbott, 2012). Investors and other stakeholders may not respond to sustainability reports as their respective voluntary or mandatory policies intend (Weil et al., 2006). Countries with strong sustainability reporting regulations may see a trend of capital flight, whereby companies will relocate to countries that have minimal or no regulations on sustainability reporting, commonly referred to as the “race to the bottom” (Adams and Whelan, 2009). These two objections – the corporate corruption in reporting, and the complicated objectives of involved parties – create objections to the practice of sustainability reporting more broadly.

2.2.5 Underlying Theories

Introduction

There are two broad theoretical approaches that underlie sustainability reporting. These two approaches are the stakeholder approach and the shareholder approach; each impact the form a sustainability report takes. These approaches are relevant to consider for a number of reasons. For one, a stakeholder or shareholder approach impacts the form a sustainability report takes, as reports for shareholders are likely to take a different form than a report for stakeholders without financial capital invested. Second, each approach may impact the type of disclosures provided in a report (and impact the effectiveness assessment score in Sub study 1). Lastly, mandatory reporting and voluntary reporting may lean more towards one approach than the other. The first of these approaches to be considered will be the shareholder approach.

2.2.5.1 The Shareholder Approach

The shareholder approach primarily grounds itself in shareholder theory, agency theory, and legitimacy theory. These three theories are founded on the principle that companies, ultimately, have a fiduciary duty to their shareholders, given the principal-agent relationship (Friedman, 1970; Goodpaster, 1991). Agency theory recognizes the principal (shareholder) and the agent (company directors) in a contract (Gray et al., 1988). According to agency theory, it is the role of the board of directors and senior management to act on behalf of the principals, and weigh competing stakeholder interests (Donaldson and Preston, 1995). Gray et al. (1988) describes the principal-agent relationship in a way that reflects shareholder theory:

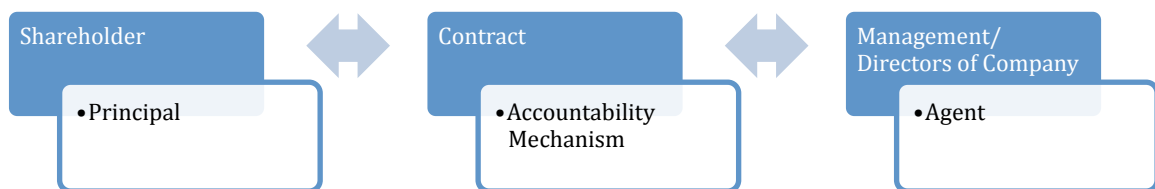


Figure 5: The Principal Agent Relationship, adapted from (Gray et al., 1988).

Managing external stakeholders is still important, according to the shareholder approach, as understanding stakeholder demand makes good business sense (Goodpaster, 1991; Freeman, 1984). There is instrumental value in including stakeholders, as this can help mitigate risk and lead to positive financial performance (Donaldson and Preston, 1995). Stakeholders arguably should be considered as they can influence providers of financial capital if they have sufficient resources that are necessary for the daily operation of the firm (Deegan, 2007). Maintaining control of the sustainability agenda is believed to maximize shareholder returns (O'Dwyer, 2003). This objective is for the business to continue to exist, and thus turn a profit.

2.2.5.2 The Stakeholder Approach

"Neither the claims of ownership nor those of control can stand against the paramount interests of the community... It remains only for the claims of the community to be put forward with clarity and force."
-Williams, 1999, p.1220

Sustainability reports are typically written to address groups that extend beyond the financial relationship of a company and its shareholder. Stakeholders have a direct effect on management decisions on a firm's activities and disclosures, and because of this, they have material concerns that should be included within management decision making (Freeman, 1984; O'Donovan 2002). A stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objective", and can influence the direction of a firm, and/or the implementation of a management strategy (Freeman, 2010, p.46). The GRI defines stakeholders as "entities or individuals that can reasonably be expected to be significantly affected by the organization's activities,

products, and services; and whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives” (GRI, 2013a, p.9). Engaging stakeholders in corporate practices is one of the main goals of sustainability reporting (Hess, 2007). Reporting regulation may also demand that certain parties are addressed, such as South Africa’s Broad-Based Black Economic Empowerment Act.

The stakeholder approach challenges the principal-agent relationship of the shareholder approach as “virtually all organisations have stakeholders who although not active participants have a direct or indirect equitable interest in the organization” (Abeysekara, 2013, p.228). This modified relationship is depicted in Figure 6.

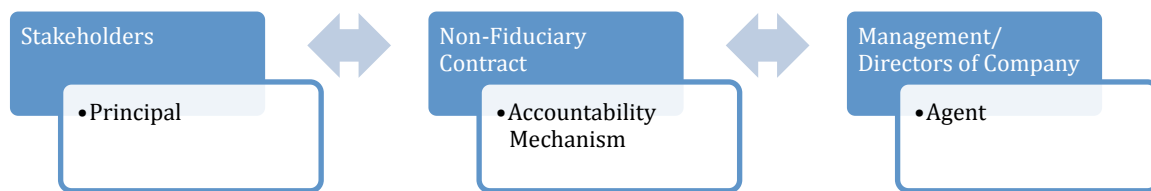


Figure 6: The Principal Agent Relationship and Stakeholder Theory

In Figure 6, societal expectations of how a company should act can be said to comprise a social contract between the corporation and society (Donaldson and Preston, 1995; Deegan, 2007; O’Dwyer, 2003). This expands agency theory’s definition of the principal, whereby community ethics and a duty of care apply beyond the shareholder relationship (Goodpaster, 1991). Society and the natural environment become the principals, while the agent remains the corporation. The accountability mechanisms in the middle of this model (Figure 6) include corporate communications like a sustainability report. Providing disclosures through sustainability reporting establishes a new contract with stakeholders, and can change corporate behaviour through stakeholder engagement (O’Dwyer, 2003; Weil et al., 2006). This model, therefore, now includes societal interests and the environment beyond the traditional understanding of agency theory (Kolk, 2008).

There is a moral obligation for companies to both perform in a way that is good for society, while having the responsibility to report this back to the society to show they have fulfilled this contract (Jensen and Berg, 2012). In order to maintain the relationship between shareholders and management, Kenneth Goodpaster (1991) suggests there are “morally significant *nonfiduciary* obligations” to stakeholders (p.67). Through the practice of adding environmental, social, and governance data to corporate reports, companies will begin to recognize the impacts of their actions on stakeholders that may not be directly connected to the company’s return on investment. Stakeholder theory and its implications for agency theory underlie sustainability reporting, as financial reporting is currently struggling to understand how issues around degrading the planet can become integrated into reports primarily written within the principal-agent relationship (Eccles and Krzus, 2010).

2.2.5.3 Blending Approaches

“Companies often seem to try to use overly positive, whitewashed sustainability reports merely for PR purposes as tool for gaining and improving a company’s reputation and legitimacy...”
- Hahn & Lulfs, 2013, p.2.

The last theoretical approach to sustainability reporting uses both a stakeholder and shareholder approach. Legitimacy theory “is based on the idea that in order to continue operating successfully, corporations must act within the bounds of what society identifies as socially acceptable behaviour” (O’Donovan, 2002, p.344). Thus, a firm wants there to be congruence between their own value system and the values of society, to maintain their right to exist (Guthrie and Parker, 1990; Deegan, 2007). The rationale is to portray positive performance in order to maintain a license to operate from the public (Gray, Owen & Maunders, 1987; Guthrie and Parker, 1990; O’Dwyer, 2003; Duff, 2014). Unlike the stakeholder approach, the motivations are in the company’s interest, as opposed to the stakeholders. Yet, according to legitimacy theory, companies use their sustainability report to showcase performance to audiences not typically drawn to the annual report, to maintain societal acceptance (Hess and Dunfee, 2008). Disclosures are necessary as they communicate messages required to keep the audience aware of what the firm is doing to maintain acceptance (O’Donovan, 2002).

This congruence of a firm’s values to society’s values does not necessarily need to be one of substance, but rather one of perception. Deegan (2007) and Bebbington (2007) argue that companies can display legitimacy through “symbolic management techniques”, where there is the appearance of a consistency with social values; however, in reality, the company may not be creating sustainable changes in their organization. This obligation, however, is established informally, and can possibly forestall formal responsibilities that could be established through the law (Gray, 1988). Companies may disclose that they adhere to societal expectations with minimal evidence of actual community involvement (Toms, 2002).

The use of mandated disclosures could address this by creating a standard level of disclosure. The stakeholder approach and legitimacy theory both assume there is a contractual relationship between the firm and society, although it may not be a legal one. Legitimacy theory, however, may not include all stakeholders as relevant, if the company can maintain public support without inclusivity. Legitimacy theory is limited in its contribution to improving the sustainability performance of companies. Irrelevant of which way a firm chooses to manage its societal perception, Under this theoretical lens, sustainability reporting may not reflect underlying organizational change but may ensure that change does not happen (Bebbington, 2007).

2.2.6 Identifying Report Purposes and their Audience

The effectiveness of a sustainability report is dependent on the audience in which it is intended for, and the purpose of the report. Understanding these different report approaches is relevant for this study, as different approaches to sustainability reporting can create different report outcomes. Because sustainability reporting is being interpreted for different audiences and purposes, each of these views will be considered within the scorecard creation in sub study 1. Moreover, since many national governments and

standard setters are trying to create sustainability reporting standards, both voluntary and mandatory, it is important to understand the variety of approaches these groups may come from. Defining report effectiveness is context-specific; these views are important to understand before reviewing policies.

This study will define effectiveness based on the section 2.3.2. Sustainability reports may aim for particular purposes, and thus, aim for a different readership (Kolk, 2008). According to Schaltegger and Wagner (2006), and Burritt and Schaltegger (2006), there are two approaches to sustainability reporting: the critical theorist approach, which categorizes sustainability reporting as a source of corporate sustainability problems, and the management oriented approach, which sees sustainability reporting as a tool to help managers deal with difficult decisions. Brown and Fraser (2006) outline similar purposes for sustainability disclosures, but propose a business case approach, and a stakeholder accountability approach. Particular formats of reporting can also aim at particular stakeholder groups, such as integrated and annual reports typically aiming for a business case purpose.

2.2.6.1 The Business Case Approach

The business case approach to sustainability reporting emphasizes the economic and financial value that can be created through providing the public with environmental and social disclosures. This tends to focus on long-term value, risk mitigation and awareness, reputational benefits, and maintaining the social license to operate (O'Donovan, 2002; Brown and Fraser, 2006). Sustainability reporting is a tool that helps management in challenging situations on corporate practices (Lozano, 2013). The business case position, as defined by Brown and Fraser (2006) is similar to the “inside-out” approach of Schaltegger et al. (2006), whereby sustainability reporting is driven by the decisions made internally within an organization, threatening the competitive position of the company (Lozano, 2013). According to this approach, “based on the strategic analysis of which environmental, social and societal issues are of core relevance to the economic success of the company, information needs and key performance indicators will be deduced” (Schaltegger et al., 2006, p.16). Report data is thus instrumentally valuable to investors, management, and audit firms who rely on the report (Brown et al., 2009). Proponents of this business case approach focus on discussing issues that are perceived by society as threatening the legitimacy of the organization in the public sphere (Brown and Fraser, 2006). Effective reports from this perspective would include how environmental and social issues and impacts were handled to maintain long-term value, aligning with the defined purpose of integrated reporting.

2.2.6.2 The Stakeholder-Accountability Approach

Accountability theory, more normatively, argues that stakeholders, as principals, have a right to information on a firm's activities (O'Donovan, 2002). This is commonly referred to as the “right to know” or “regulation by disclosure” (Swift, 2001; Fung et al., 2007; Gupta, 2008). Those who hold the stakeholder-accountability approach hold there is both a financial and non-financial responsibility placed on the agent, the company (Gray et al., 1988). Accountability mechanisms, like corporate reports, aim to monitor compliance with legal, regulatory, and contractual agreements the firm has made (Brown and Fraser, 2006). According to this view, stakeholders are the key audience of reporting. Schaltegger et al. (2006) refer to this as the “outside-in” approach, whereby “the starting

point is external expectations of stakeholders, guidelines and requirements about what should be reported and how” (p.16). Therefore, existing sustainability reporting guidelines should serve as a representation of stakeholder needs.

2.2.6.3 The Critical Theorist Approach

“Management must shift from the prevailing metaphor of greening, which merely “reduces the bads” to that of sustaining or ‘realizing the goods.’” – Gladwin et al., 1995, p.900

According to Lozano (2008), critical theorists posit that sustainability reporting is a cause and source of corporate sustainability problems. Critical theorists argue that the current practice of sustainability reporting creates “non-sustainability sustainability reports” (Gray, 2006). Gray and Milne (2007) argue, “that reporting developments, and particularly the triple bottom line...are actually proving to be a hopeless distraction from substantive sustainability or, worse, the very means to frustrate moves towards the changes that sustainability requires” (p. 193). The law is not a way to fix market imperfections, to critics, as it is influenced by companies and capital over community and environmental needs (Gray, Owen & Adams, 1996). Critical theorists thus hold that non-financial reporting is used as a tool to legitimize the shortcomings of the inefficiencies of the market (Gray, Owen & Adams, 1996).

Critical theorists argue that the capitalist structure that underpins all sustainability reporting needs to be addressed first, as power imbalances prevent any stakeholder group from enacting substantive changes to the environmental and social circumstances currently held under corporate control and influence (Brown and Fraser, 2006). Sustainability report disclosures, especially within voluntary systems, are often accused of creating the appearance of accountability, but are mechanisms of greenwash (Deegan, 2007; Brown and Fraser, 2006). Marketing techniques deceive the public on a company’s actual performance, which typically is negative. Critical theorists argue that the concept of sustainable development has been convoluted and lost in the proliferation of human-centered definitions. Gladwin et al. (1995) suggest pushing for a more integrative sustainability paradigm:

Restricting the metaphor to only human elements of the environment and to only human-related exchanges across organization-environment boundaries has unduly restricted the conceptualization of organizations. Advocates of the sustainability paradigm demand *a complete notion of the external environment, an acknowledgement of the full range of material exchanges with the physiosphere, ecological ex-changes with the biosphere, and nonmarket exchanges with the broader sociosphere* [emphasis added] (p.897).

Sustainability reports, according to critical theorists, are thus “more likely to strengthen rather than weaken inequitable power distributions” (Brown and Fraser, 2006, p.112). Sustainability reports remain too focused on self-selected indicators, lack connection to ecological and social systems, and do not challenge fundamental assumptions of financial accounting (Gray and Milne, 2007; Gray, 2010; Gladwin et al.,

1995). Gray and Herremans (2011) suggest that sustainability reporting serves only managerial interests, contrasting the business case approach:

...The stand-alone report does not provide evidence which might enable a reader to assess an organization's environmental impacts let alone its contribution to (un)sustainability. The documents are self-evidently valuable from a managerial point of view; the evidence is fairly compelling that they may be misleading from society's (and the planet's) point of view (p.413).

Moreover, companies may try to defend illegal and/or harmful actions to critical stakeholders through reports, masking negative performance through rhetoric (Hess and Dunfee, 2007). Mandatory information rights are important to critical theorists, but focus tends to be centrally on the inherent un-sustainability of large companies in a free market system (Gray and Milne, 2013).

2.3 Assessing Sustainability Reports

In considering these report purposes and their criticism, defining an effective sustainability report is not objective. Defining a “quality disclosure”, or an “effective” sustainability report is difficult to define, due to difficulties in providing accurate non-financial information and the prominence of management bias in non-financial disclosures (Amran et al., 2014; Kolk, 2008; M.Krzus, pers.comm., Jan.16, 2015). This presents a challenge for testing the effectiveness of sustainability reporting in both mandatory and voluntary countries, and in the three different report formats. As previously discussed, there are a variety of underlying theories to sustainability reporting, and different audiences that reports are aiming to address. Conceptualizing an effective sustainability reporting is thus not objective.

2.3.1 The Need for One Scorecard

Assessing sustainability reports is not a new area of research. Brammer and Pavelin (2006), Langer (2006), Daub (2007), Clarkson et al. (2008), and Corporate Knights (2014) assessed environmental and/or social disclosure quality at national levels, while Barbu et al. (2014) and Amran et al (2014) used a multi-national/continental level. Morhardt et al. (2002) used three existing standards to assess sustainability report comprehensiveness. There appeared to be a common concern that existing standards struggled to measure sustainability performance, instead focusing heavy on one or two aspects of the triple bottom line (Morhardt et al., 2002; Langer, 2006; Daub, 2007; Gray, 2010). One standard for sustainability reporting could possibly alleviate this concern (Morhardt et al., 2002; Participant A, pers.comm., Dec.12, 2014). Central to the research question, it was also discovered that none of these studies created criteria that could be applied to different countries and their respective reporting formats. The model used by KPMG (2013) in their international survey appeared to be the closest international scorecard, as it used qualities that can be applied globally; however, this only applies to voluntary reports. The benefit of creating one set of criteria that include general qualities derived from previous studies, existing standards, and international expert opinions, is that this includes a wide spectrum of reporting themes that apply beyond one country's borders. Using one set of criteria is required in order to detect international best practices in both mandatory and voluntary reporting countries.

2.3.2 Defining Effectiveness

Effectiveness is defined as the adherence to the identified criteria developed in the first part of the methods, which is related to the way Daub (2007) presents effectiveness. Effectiveness cannot be limited to merely compliance, as: a) voluntary approaches have limited compliance measures, and b) compliance does not necessitate that policy objectives are achieved, or that reports meet sustainability objectives (Weil et al., 2006; Llena et al., 2007). Sustainable development, as a larger, long-term goal, could be neglected in approaching “effectiveness” from a compliance-only perspective. For the purposes of this study, effectiveness is defined as the adherence to the identified criteria for sustainability reporting developed in Sub study 1. Further articulation of this definition can be found in Chapter 11. This definition aligns with Morhardt et al. (2002) and Brammer and Pavelin (2008).

Morhardt et al. (2002) evaluated the “comprehensiveness” of reports, defined as “the range of items discussed and the intensity of discussion, rather than on the quality of environmental performance” (p.229). Comprehensiveness aligns with the definition of “effectiveness” used in this study, whereby the report must fulfill the created criteria, while also being compliant with existing legislation, should it apply. Low targets or exemptions may meet compliance requirements, but do not address the broader issues of meeting sustainability objectives through policy. Similarly, Brammer and Pavelin (2008) interpret quality environmental disclosures as those that have “both the extent and precision of quantification, and the degree of commitment to future actions and/or environmental performance” (p.126). Scope, precision, and quantification are thus important attributes of quality sustainability disclosures and have been integrated into the sustainability scorecard.

Sustainability report quality does not necessitate positive performance. Environmentally sensitive industries, such as chemicals, utilities, oil and gas, and mining, tend to be the first industries to release reports, and tend to have higher quality sustainability reports (Lydenberg et al., 2010; Brammer and Pavelin, 2008; Clarkson et al., 2008). Firm’s size and sector positively correlated to high quality disclosures (Brammer and Pavelin, 2008). The presence of legitimacy theory in sustainability reporting are apparent through this trend (O’Dwyer, 2003; O’Donovan, 2002; Participant A, pers.comm., Dec.12, 2015). Like these previous studies on environmentally sensitive industries, this study will not be looking at sustainability performance, but rather, the quality of reports.

2.4 Summary

There appear to be three major debates emerging in the literature. Primarily, there remains a debate around which governance system is best for sustainability reports, as both mandatory and voluntary practices currently exist without an assessment of their results. At a secondary level, there appears to be a second debate around the optimal reporting format. Currently, there appear to be three different forms of sustainability disclosures, aiming at different audiences and with different purposes. This exposes a third debate around the intended audience of reporting, of which the shareholder and stakeholder approach appear to be contending perspectives. This study can contribute to these debates through assessing if mandatory or voluntary is better for reporting

effectiveness, and can provide commentary on both reporting format and report audiences, as annual reports, stand alone reports, and integrated reports will be reviewed. In order to address the research question, this thesis is primarily interested in contributing to the first debate. In order to contribute to this debate, this study has a tripartite methods structure. Sub study 1 creates a set of general evidence-based qualities central for sustainability reporting, through the literature and expert interviews; these qualities will apply to both mandatory and voluntary countries, At a secondary level, these criteria respond to the general concern around a proliferation of sustainability standards by offering one standard that applies in both mandatory and voluntary countries. Through the policy analysis and spectrum mapping in Sub study 2, the case countries will be chosen. Reports from these countries will then be assessed in the report review of Sub study 3. The results of Sub study 3 will respond to the mandatory and voluntary debate. The following three chapters will discuss the methods of this thesis. These methods are visually depicted in section 1.6.

Chapter 3: Sub study 1 - Establishing Sustainability Reporting Scorecard

“Only when most major organizations are required to produce complete, competent, and complex statements about their social, environmental, and sustainability performance, will society be in a position to judge the extent to which (if at all) organizations are performing to the highest standards or social and environmental stewardship and are being truthful with their claims to probity and propriety.”

-Gray and Herremans, 2011, p.420.

Introduction

Although criteria have been previously created for sustainability reporting, the criteria for this study will be developed using a new theoretical lens. The GRI guidelines, commonly cited as the strongest sustainability standard, have recently faced criticism and operate with a high number of indicators, which may not apply to the studied countries, and could create issues of comparability when assessing the quality of the reports in Sub study 3 (Fonseca et al., 2012, Lozano and Huisinigh, 2011). Despite the popularity of the GRI guidelines, many reports do not meet their requirements at the present time (Lozano, 2013). For this study, the literature review and interviews drive the criteria, through the discovery and implementation of “best practices” in a sustainability report format and its content. The goal of the criteria is not to evaluate the performance of the company, but rather to assess the comprehensiveness of the report content, as discussed in 2.3.1.

There may be opposition to scoring reports based on content, as opposed to performance metrics, as scoring based on report content can allow companies to comply to the standard simply by adding topics and discussing them, as opposed to integrating eco-efficiency or socio-efficiency measures into their actual performance (Morhardt et al., 2002; Fonseca et al., 2012). Yet, the mere provision of information in reports still creates a degree of transparency that readers of reports are looking for, which leads to a positive stakeholder response and thus reputational benefits (Morhardt et al., 2002; Cho & Patten, 2007).

3.1 Methods

3.1.1 Interview Rationale

The ontological foundation of this thesis operates in the constructivist paradigm. This paradigm assumes meaning can be constructed through engagement and interaction with external sources, which contain multiple participant meanings. These were the researcher’s goals in the interview process – to interact with experts in the field and to then find emerging themes on the quality of sustainability reporting and current governance trends. The constructivist paradigm assumes that the world is highly contextual, as meaning is based on socially and historically derived interpretations. There

is recognition that most of the content of the interviews was based on participants' empirical insights.

After interviews were conducted, there was an assessment of existing literature themes, alongside participant transcripts, to triangulate the data on what the literature and experts in the field consider to be central themes of quality sustainability reporting (Creswell, 2014). The main qualities for sustainability reporting came from the interviews, and relevant articles were then associated with these themes. As seen below, the sources of each listed quality in the scorecard will be provided in section 3.2.3.

Current literature suggested this would be a complicated process, as sustainability reporting quality is not defined or objective (Amran et al., 2014; Kolk, 2008). This process requires coding the data through the steps of data coding as found in Tesch (1990), and can gain a more objective perspective on reporting criteria for Sub study 3. Once the scorecard was created, reports were scored to judge the extent to which each company complies with the qualities (Larrinaga et al., 2002). These scores were then compared to test if the governance structure impacts its effectiveness (or the degree to which the reports can meet the generated qualities of strong sustainability reports).

This study positively contributes to the improvement of sustainability reporting by offering insight into expert opinions and best practices in both the field and in literature, and by offering a set of developed criteria for sustainability reports. Instead of following one existing standard, there is a diversified approach to reviewing reports through the use of semi-structured interviews and literature review. Despite the dependence on the criteria created by the researcher, and thus a potential bias, it aims to avoid criticism currently prevalent in the field of sustainability reporting by recognizing various stakeholder voices in the development of criteria (R.Gray, pers. comm., Jan. 14, 2014).

3.1.2 Interview Procedure

Semi-structured interviews were conducted with 6 sustainability professionals between December 2014 and April 2015. These professionals were identified through their geographic diversity and their expertise in different areas of reporting. The researcher was looking for participants who came from different places, understood international sustainability reporting, and worked in different professions (i.e. academia, non-profit, advisory services). By diversifying both the geographic origin and area of expertise, the scorecard became more objective in its recurring themes. Participants were located in Canada, the United States, South Africa and the United Kingdom. Three participants worked in advisory services/research, 2 participants worked in professional services firms, and 1 participant worked for a sustainability standard setting group. Through open-ended questions, professionals provided their perspective on what best practices in sustainability reporting are. The semi-structured questions were developed with consideration of not only the research question on reporting governance, but also to gain an understanding of expert's insights on the purpose of sustainability reporting, the audience of reporting, and the predicted future for sustainability reporting. Given the constructivist paradigm for this thesis, as well as the different professional experiences and geographical locations of the participants, semi-structured questions were chosen.

The interviews took between 30 to 90 minutes in length, and gave the opportunity for participants to expand on their experiences in sustainability reporting, with the use of open-ended questions. A list of 12 questions was generated, with the opportunity for the

researcher to add follow-up questions. For one participant, interview questions were modified to address only integrated reporting, due to the expertise of the participant. Interviews were recorded and transcribed. Participant names, job titles and company names were kept anonymous if the participant requested. As a way to increase the qualitative validity, transcripts went through member checking, where each participant could review and/or modify their transcript (Creswell, 2014). Transcripts were drafted shortly after the conversation, and sent to the participant for data verification. The researcher then reviewed transcripts for key themes, noting these for each and then consolidating all key themes in a chart. The final criteria aim to balance the level of prescriptiveness, to be generic enough for international application, and include a quality that assesses compliance awareness; these two attributes make these criteria different than existing standards, and hopefully more applicable globally. Please see Appendix 1 for the sample questions, asked, and Appendix 2 for the coding of key themes that informed the criteria.

3.2 Findings

3.2.1 Data Coding Procedure

The data coding procedure used for this project was adapted from the Eight Steps to Coding of Tesch (1990), typically used when coding interview data (Creswell, 2014).

1. Read all transcriptions carefully, noting some ideas that come to mind. This step was completed in the initial transcription process.
2. Pick one transcript and ask “What is this about?”, focusing on the underlying meaning was opposed to the information presented.
3. When Step 2 has been completed for all transcripts, cluster similar topics. These topics can be arranged as major, unique, and leftover. Topics can alternatively be divided into expected data, surprising data, and unusual data (Creswell, 2014).
4. Take this list of topics and go back to the transcripts, abbreviating each topic as a code and writing this code beside its respective sections.
5. Turn topics into categories by adding descriptive words. Try to reduce number of categories.
6. Abbreviate each category with a new code.
7. Assemble data that belongs in each category (i.e. take the data from the topics that went in to each category).
8. If necessary, recode existing data.

Please see Appendix 2 for the data coding by theme.

3.2.2 Drafting the Qualities for Sustainability Reporting Criteria

A list of qualities is created through review of interview and literature themes. From existing studies and interviews, one scorecard was created; the rationale for creating a new scorecard is explained in section 2.3.1. Recent studies that evaluated sustainability reporting quality were reviewed, in order to consider relevant indicators and scoring scales. The relevant studies for each quality are listed below, beside the respective quality they inform. Qualities that were cited from interviews will include

interview citations beside them. It was the intention of the researcher to use both the literature and empirical findings to account for the many understandings of sustainability reporting within one set of criteria, such as the inclusion of both the shareholder and stakeholder approach (as both of these approaches are common internationally).

In order to make judgments on the current practice of sustainability reporting in different countries, particular themes need to be identified with strong sustainability reports; the interviews were central in this determination. There was a degree of flexibility to the qualities, in order to enhance the applicability of the criteria to different countries; this is a current challenge with existing reporting standards in which this study hopes to avoid (Moneva et al., 2006; Adams and Frost, 2008).

3.2.2.1 Scoring

Reports will be mainly scored based on a 0-3 scale adapted from Daub (2007) and his assessment of Swiss companies, and Sutantoputra (2009) use of a 0-3 scale for measurement of social indicators in sustainability reports. Upon revisions to the scorecard, some qualities were changed to binaries (0-1 scale) or shortened scales (0-2). Daub (2007) and Lozano (2013) – who adapted Daub’s scale – explain the 0-3 scale as follows:

0 = No meaningful information is provided on the specific criterion. Total lack of information on the quality, whereby no information can be found.

1 = Patchy information is provided. There is some information provided, but it is too general, or has little detail or depth.

2 = The reporting provides good information on the criterion. However, one relevant area/indicator is not addressed. The information is of regular or fair performance, data covers about half of the issues, or there may be good detail but only in some areas (i.e. just meeting the requirements)

3 = The reporting includes full information to the criterion, and is indicative of good performance. Complete and detailed information for the quality is provided.

Determining the difference between a 1 and 2 for a particular quality was a predicted challenge. Any clarification required for scoring each quality is included in Appendix 4. Below is an initial drafting of what each whole number value would include, with the sources and interviews that motivated each quality. These sources were included because they explicitly referred to characteristics of a sustainability report that should be present. The specific attributes of each whole number value may vary upon the initial application of the qualities to reports in sub study 3.

3.2.3 Scorecard Qualities

Concept of Sustainability

Theme: Understanding of Sustainable Development

1. Definition of sustainability, with consideration of sustainable development as defined by Brundtland (1987) (Gray, Owen and Adams, 1996; Langer, 2006; Gray and Herremans, 2011; R.Gray., pers.comm., 2015; Gray and Bebbington, 2002; Lozano, 2013; Gray and Milne, 2013; D.Park., pers.comm., 2015; Participant A, pers.comm., 2014; M.Krzus, pers.comm., 2015).

- 0 = no mention of sustainable development
- 1 = Sustainability important from a brand management perspective; no detailed definition or connection to sustainable development
- 2 = Provides clear definition of sustainability but not directly connected to time dimension of sustainable development. Sustainability important for long-term financial returns
- 3 = Sustainability defined in connection to company operations and sustainable development recognized as important for long term value (i.e. carrying capacity, future generations mentioned/time dimension included, scale of development discussed)

Management Systems and Governance

Theme: Management Involvement and Engagement

2. Message from leadership with evidence of management involvement (Adams and Frost, 2008; Desjardin and Willis, 2009; Brockett and Rezaee, 2012a; Participant A, pers.comm., 2014; Amran et al., 2014)

Note: This message can be chairman message, CEO message, CSO message, narrative governance report, compliance report, communication report with stakeholders, etc. (Brockett and Rezaee, 2012a).

- 0 = No evidence of management involvement in the report
- 1 = Message from management without supporting information from within the company on their involvement and responsibilities
- 2 = Message from management with some supporting information of their involvement (i.e. responsibilities explained). National Corporate Governance code may be mentioned, but compliance not clear.
- 3 = Message from management with evidence of board of directors involvement (board expectations, code of conduct, how they help in the strategic management). Compliance with national Corporate Governance Code mentioned.

Theme: Corporate Governance Transparency

3. Overview of organization's activities and governance structure ((Gray and Bebbington, 2002; Milne and Gray, 2007; Kolk, 2008; Eccles and Krzus, 2014; KPMG, 2013; Novo Nordisk, 2014; EY, 2014)

- 0 = No explanation of company operations/activities or governance structure
- 1 = Explanation of company activities and governance structure without explaining where sustainability fits
- 2 = Explanation of company activities and governance structure, with some connection made between corporate governance and sustainability
- 3 = Company activities, corporate governance structure explained with clear delineation of sustainability responsibilities and structures throughout the organization

Sustainability Strategy and Performance

Theme: Strategic Outlook

4. Company accountable to a corporate sustainability strategy (All interviews 2014-2015; Gray and Bebbington, 2002; O'Dwyer, 2003; Brammer and Pavelin, 2008; Daub, 2007; Moneva et al, 2006; Moneva et al., 2007; Clarkson et al., 2008; Sutanoputra, 2009; Lozano and Huisinigh, 2011; Lozano, 2013; KPMG, 2013; WBCSD, 2014; Serafeim, 2014; EY, 2014).

- 0 = No sustainability strategy present or discussed, may discuss initiatives
- 1 = Sustainability vision in place, largely qualitatively described. Some degree of strategic focus (may have sustainability policy in place).
- 2 = Sustainability vision with targeted quantitative goals, with timelines and assessment of performance
- 3 = Sustainability vision with targeted quantitative goals, timelines, assessment of performance, and connection to stakeholders. Report sees time as intergenerational, as opposed to a 5-10 year period.

Note: ¹ “*Sustainable Strategy*”: “ESG is as much a part of corporate decision making as financial decision making...helps a company balance the need to be viable for the long-term, and support the viability of society, because a business relies on society to create value” (M.Krzus, pers.comm, 2015).

Theme: Balance of qualitative and quantitative

5a. Qualitative and quantitative content on identified components of sustainability performance (i.e. those identified as material) (Buchheim & Beiersdorf, 2005; Daub, 2007; Lydenberg et al., 2010; Brockett and Rezaee, 2012a; EY, 2014).

0 = No use of KPIs (financial or non-financial), heavy reliance on story telling.

1 = Heavy use of narrative in describing sustainability performance, minor use of KPIs and measurement (cannot see trends or goal setting)

2 = Does not measure each component of sustainability performance, but use of both narrative and KPIs (may not be able to see trends over time yet)

3 = Each component of sustainability performance has own KPI (non-financial or financial) supported with a narrative, measured quantitatively, consistently implemented

5b. Discussion of both negative and positive performance [Data point only] (Gray and Milne, 2007; Hahn and Lulfs, 2013; Scholz et al., 2014, WBCSD, 2014; D.Park, pers.comm., 2015; R.Gray, pers.comm., 2015).

0 = No discussion on performance being positive or negative

1 = Positive performance and negative performance discussed

Note: Quality 5b was denoted as a data point because the researcher was unsure of the impacts of negative performance disclosure. Moreover, reports typically avoid negative disclosures for reputational purposes. However, it would still be interesting to assess if any negative issues or challenges were included in the report, for purposes of transparency and honesty with stakeholders.

Theme: Measured sustainability performance

6. Economic, social, and environmental dimensions of performance¹ are discussed and integrated (Gray, Owen and Adams, 1996; Azapagic, 2004; Langer, 2006; Daub, 2007; Lozano and Huisinigh, 2008; Eccles and Krzus, 2010, 2014; EY, 2014; M.Krzus, pers.comm., 2015, Participant B, pers.comm, 2015)

0 = No discussion of environmental, social, or economic performance

1 = 1-2 dimensions (environmental, social, economic) of performance discussed qualitatively

2 = At least 2 dimensions (environmental, social, economic) of performance are discussed both qualitatively and quantitatively.

3 = All dimensions (environmental, social, economic) of performance are discussed both qualitatively and quantitatively, with the use of integrated indicators.

Note: May not be balanced coverage of each dimension due to sector specific impacts and the materiality assessments done by the company.

Reliability and Credibility

Theme: Assurance of Data

7. Assurance provided on sustainability disclosures (Milne and Gray, 2007; Moneva et al., 2007; Kolk, 2008; Ioannou and Serafeim, 2011; Gray and Herremans, 2011; Brockett and Rezaee, 2012b; N.Morris, pers.comm., 2014; Novo Nordisk, 2014; M.Krzus, pers.comm., 2015).

0 = No form of assurance used

- 1 = Self-Assurance: Some or all data or KPIs are assured through a self-regulatory/internal standard (i.e. board review). No independent, external party is involved.
- 2 = Limited Assurance: Data or KPIs of some material sustainability issues are assured by an independent and external assurance provider.
- 3 = Full Assurance: Data or KPIs of majority of material sustainability issues are assured by an independent and external assurance provider.

Note: The terms “limited” and “reasonable” are similarly used to measure the depth of assurance a third party provides. Limited assurance and reasonable assurance on a majority of sustainability issues would still be considered a 3/3.

External Credibility and Compliance

Theme: Awareness of Compliance

Note: Quality 8 is not an independent assessment of compliance to existing regulation or to a voluntary standard. This quality aims to assess the degree to which companies are aware of their compliance. Quality 8aa and 8bb are data points for the purposes of discussion, and will not be included in the evaluation of quality. Quality 8 addresses the research question directly, and allows for some differentiation between the regulated sustainability disclosures in France and South Africa, versus voluntary disclosures in Canada and the United States.

8a . Compliance with Standard (if law/policy in place) – France and South Africa (Gray and Milne, 2007; Coburn et al., 2011, Brockett and Rezaee, 2012b)

- 0 = No mention of existing reporting regulation
- 1 = Mention of regulation but no attempt to discuss or apply it
- 2 = Some explanation of regulation, but unclear if company applies it
- 3 = Understanding of regulation and its impacts, with evidence of company awareness of requirements and applying them

8aa. Is a voluntary standard applied/mentioned? [Data point only]

- 0 = No
- 1 = Yes

8b. Compliance with Standard (if voluntary Standard in place) – USA, Canada

- 0 = No voluntary standard used for report
- 1 = Internally derived standard or management system used, no external standard referred to
- 2 = Use of external standard, but either with no assurance and/or not completely applied
- 3 = Use of external standard with either complete application and/or assurance

8bb. Is more than one voluntary standard applied/mentioned? [Data point only]

- 0 = No
- 1 = Yes

Materiality

Theme: Transparency on Materiality

9. Transparency of materiality concept and assessment of material issues (GRI, 2014; N.Morris, pers.comm., 2014; Participant B, pers.comm., 2015; D.Park., pers.comm., 2015; SASB, 2015).

- 0 = No discussion of materiality
- 1 = Material issues identified without disclosure of materiality assessment and key stakeholders
- 2 = Material issues identified with materiality assessment and identification of key stakeholders

3 = Material issues identified and assessed through direct engagement with stakeholders and are connected to the company's sustainability strategy (i.e. through KPIs)

10. Climate change explained as decision useful information (D.Park, pers.comm., 2015; Coburn et al., 2011; Desjardins and Willis, 2009).

0 = No mention

1 = Some mention

2 = Discussion of climate change (i.e. identified as a risk or material issue)

Note: This was originally supposed to be a 0-1 scale to measure if climate change was a material issue or not. An initial reading of reports suggested that materiality was not often used or assessed in reports, and the impacts of climate change did change by industry. Judging the usefulness of the climate change information provided would be possible to measure. The scale was expanded to a 0-2 scale to become more inclusive to the variety of disclosures around climate change.

Stakeholder Engagement

Theme: Stakeholder Involvement

11. Stakeholder identification and involvement in strategy (Azapagic, 2004; Moneva et al., 2006; Moneva et al., 2007; GRI, 2013a, 2013b)

0 = No identification of stakeholders

1 = Identification of key stakeholders

2 = Identification of key stakeholders and stakeholder engagement processes discussed with concerns listed

3 = Identification of key stakeholders, stakeholder engagement process discussed, and evidence of key stakeholder concerns are integrated into strategic planning

12. Accessibility and comprehensibility of content (Fung et al., 2007; Eccles and Krzus, 2014; M.Krzus, pers.comm, 2015).

0 = Report is difficult to access (i.e. may be compartmentalized), is audience specific, and lacks engagement (i.e. all textual).

1 = Report is highly textual, generally appeals to one stakeholder group

2 = Report uses a balance of text and visuals, user-friendly to more than one stakeholder group

3 = Report is interactive for the user, and tries to connect to other mediums of corporate reporting the company offers. Report shows attempt to operate as a portal of sustainability information, as opposed to a PDF format.

Total Maximum Score = 35 points.

3.2.4 Limitations

The major limitation of Sub study 1 is the use of one scorecard to measure the quality of a sustainability report. This leaves the results heavily dependent on the scoring system used (which was primarily a 0-3 scale) and on the included qualities. Moreover, because this study was assessing the impact of mandatory and voluntary standards on the quality of reports, Quality 8 was very much driven towards a specific research objective. However, given the nature of using international case countries, one scorecard that can be applied to multiple jurisdictions also has its advantages in applicability and comparability. Despite the fact that the sustainability reporting criteria will be informed through professionals' empirical ideas and academic literature recommendations, some criteria will be excluded. The purpose of this stage is to determine what the general

consensus is on reporting and what should be included; these criteria will not aim to be overly prescriptive, as this will limit its applicability.

Another possible limitation is that this scorecard was generated by the one primary researcher of this study, and is based on this researcher's literature review and interviews with sustainability professionals. Interviewing a sustainability professional from France was not achieved, which would have added more diverse perspectives to the creation of the scorecard. However, the diverse resources reviewed to inform the scorecard might counter this concern to some degree.

Chapter 4: Sub study 2 - Policy Analysis and Mapping

4.1 Methods

Sub study 2 will include a policy analysis of countries with mandatory and voluntary reporting. This will be followed by a mapping exercise whereby the policies of each country (or lack thereof) will be organized on a spectrum based on the extent to which they are enforced or not. This analysis and mapping contributes to the new governance literature by assessing the prevalence of soft law, mandatory mechanisms in sustainability reporting. The two countries at each end of the spectrum are then included in Chapter 5, which encompasses Sub study 3, the report review.

4.1.1 Procedure for Policy Analysis

The policy analysis investigates the sustainability reporting policies in 7 countries. Countries are mapped on a spectrum based on the degree to which their sustainability reporting is driven by mandatory legislation, versus voluntary standards. The coding protocol for placing countries on the spectrum is based on the attributes of each policy, and their compliance mechanisms. Because countries can have more than one reporting requirement, a holistic approach was taken when finding and investigating policies. By inductively establishing a list of attributes for the policies in each country studied through review of primary documents (i.e. the policies) and secondary studies, the researcher will review the mandatory strength of the policy. A secondary topic considered during Sub study 2 was to understand the extent to which mandatory policies include enforcement mechanisms, as discussed in the new governance literature. The legal structures and the strength of the institutions in countries were considered for discussion purposes (Ioannou & Serafeim, 2011; Adams & Whelan, 2009; M.Krzus, pers.comm., Jan. 16, 2014). To avoid any large discrepancy in institutional strength, the majority of countries will be OECD countries, with the exception of South Africa.

In order to determine which countries to analyze, review of the report, *Carrots and Sticks: Sustainability reporting policies worldwide – today's best practice, tomorrow's trends* of 2013 was used as a primary guide, alongside other secondary analyses of countries commonly referred to in the literature as mandatory and voluntary (KPMG, 2013, Vissier and Tolhurst, 2010; Barbu et al., 2014; Ioannou and Serafeim, 2011, 2014; Eccles and Krzus, 2010; IRI, 2014; IRSE, 2012; Hess, 2007; IRI, 2014). Not all countries could be reasonably reviewed for this study, which made the literature central to determining case countries. The scope was also restricted, generally, to OECD countries. Because mandatory sustainability reporting is less common than voluntary reporting, the literature was central in highlighting which countries were beginning the trend towards mandatory sustainability reporting. France, Denmark, and South Africa were often cited as countries with mandatory reporting (Larrinaga et al., 2002; Lydenberg et al., 2010; Eccles and Krzus, 2010; Barbu et al., 2014;). In addition, these countries had high corporate responsibility reporting rates of 98% or higher (KPMG, 2013).

4.1.2 Procedure for Mapping Exercise

Since this study assesses if mandatory reporting is more effective than voluntary reporting, countries and their respective policies in sub study 2 need to be organized by

the degree to which they are mandatory or voluntary. This exercise will provide a visual map, along a spectrum, to represent the extent to which policies are mandatory and voluntary, as illustrated in Figure 7 (Buhr, 2010). It is predicted that countries will be dispersed across the spectrum. The use of a spectrum avoids polarization of sustainability reporting governance to merely mandatory or voluntary, as it leaves room in between these policy extremes, which are predicted in sustainability reporting. Two countries at the mandatory end of the spectrum and two countries at the voluntary end will be evaluated.

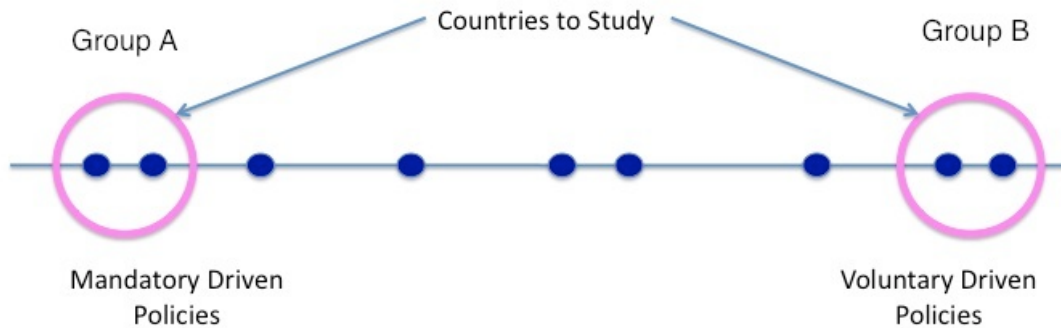


Figure 7: Sample Policy Mapping Format

The use of a spectrum is beneficial, as it allows for a more holistic interpretation of each country's policy perspective, as opposed to imposing categories onto the different national policy perspectives that may not fit on the international scale. The spectrum also conforms to the understanding established in the sustainability reporting and new governance literature. Much like how regulation can exist on a soft to hard law spectrum, sustainability reporting policy includes different degrees of enforcement. The mandatory policies mapped in section 4.3, for example, essentially occupy a range of soft law policy. It is recognized through the work of Abbott and Snidal (2000), GRI et al. (2013), Herzig and Schaltegger (2011), Buhr (2010) and Lydenberg et al. (2010) among others, that sustainability reporting exists on a spectrum of governance systems, not as a simple binary of mandatory with strict enforcement and purely voluntary systems. Because policy mapping is an iterative process, each national sustainability reporting approach is broken down into its key attributes and characteristics, allowing for an inductive interpretation of policies.

4.2 Findings: Policy Analysis

4.2.1 South Africa

Note: This is a non-OECD country.

South Africa's unique political, social, and economic history differentiates itself from the other OECD countries (King et al., 2010). Due to the significant progress in integrated reporting, and its consistent mention throughout the interviews, South Africa is an example of strong sustainability reporting (Scholtz et al., 2014; Eccles and Krzus, 2014). In addition, it adds the perspective of integrated reporting (Eccles and Krzus, 2014; IIRC, 2014). Despite South Africa leading the sustainability reporting landscape, there are implementation and enforcement challenges with legislation in the country (King et al., 2010; N.Morris, pers.comm., Dec.9, 2014).

4.2.1.1 Sustainability Reporting Governance

South Africa presents a unique example of strong sustainability reporting through the Johannesburg Stock Exchange (JSE) adoption of integrated reporting through the King III Code on Corporate Governance. The King III Code⁶ recommends that companies develop an integrated report, “a holistic and integrated representation of the company's performance in terms of both its finance and sustainability” (IoDSA, 2009b). As Scholtz et al. (2014) explains, “Even though the King Report is non-legislative, it gets enforced through the JSE listing requirement and establishes the mandatory character for JSE-listed companies” (p.3). Moreover, under inspiration from the previous King I and II guidelines, the Companies Act of 2008 mandated that directors be held personally liable for poor performance and poor disclosure of information (IoDSA, 2009b; IRI et al., 2014).

South Africa was one of the first countries in the world to adopt an integrated reporting framework on a national scale (GRI et al., 2013). One of the main drivers was through the amended rules required for listing on the JSE on March 1, 2010. The King III defines sustainability as “having regard to the impact that the business operations have on the economic life of the community in which it operates. Sustainability includes environmental, social and governance issues” (IoDSA, 2009b, p.128). This definition stresses the economic aspect of sustainability. The Integrated Reporting Framework, issued by the IIRC in December 2013, has a similar economic agenda (IoDSA, 2014).

The unique history of South Africa should be noted. In the post-apartheid era after 1990, South African leaders wanted to promote international investment in the country, and strong corporate governance standards was one way to promote the South African market and develop a competitive advantage in the emerging economies market (Eccles

⁶ Aside from the King III Code document, there is a second, separate document called the King III Report on Corporate Governance (King III Report). This document outlines the best practices recommendations for South African companies and organizations (IoDSA, 2009b). These two documents overlap in content, but are complementary to each other. However, these two documents are often referred to collectively, in the academic and practitioner literature, as the King III Code, or King III. They will be collectively referred to as King III in this research.

and Krzus, 2014). This history may have an influence on the high rates of social disclosures around black economic empowerment and employment equity (Scholtz et al., 2014).

4.2.1.2 Policy Approach

The Companies Act 71 of 2008 created changes in the corporate governance structures of South African companies, and mandated more roles for the audit and social and ethics committees within public and state companies (IoDSA 2009a, 2009b; KPMG, 2011). These changes towards enhanced accountability and transparency on social and economic development, corporate citizenship, environment, public safety, consumer relations, and employment made King III central to meet new statutory requirements (KPMG, 2011).

King III classifies itself as a code of principles and practices, as opposed to a statutory requirement, but is mandated as a listing requirement for public companies on the JSE (IoDSA, 2009a). King III argues that “the ‘apply or explain’ regime shows an appreciation for the fact that it is often not a case of whether to comply or not, but rather to consider how the principles and recommendations can be applied” (IoDSA, 2009a, p.6). This avoids focusing on compliance over performance, common to the ‘comply or explain’ approach, and a hard law ‘comply or else’ approach (IoDSA, 2009a). Many companies in South Africa are still in the process of implementing the principles of King III (Solomon & Maroun, 2012; N.Morris, pers.comm., Dec.9, 2014).

The King III Guidelines attempt to include a shareholder and stakeholder approach. Despite King III mentioning an “enlightened shareholder” approach to integrated reporting, King III explains a “stakeholder-inclusive” rationale for using the apply or explain approach:

In following the ‘apply or explain’ approach, the board of directors, in its collective decision-making, could conclude that to follow a recommendation would not, in the particular circumstances, be in the best interests of the company... *Explaining how the principles and recommendations were applied, or if not applied, the reasons, results in compliance.* In reality, the ultimate compliance officer is not the company’s compliance officer or a bureaucrat ensuring compliance with statutory provisions, *but the stakeholders* [emphasis added] (IoDSA, 2009a, p.6).

The responsibility of the board of directors is to act in the best interests of the company, or “the best interests of the body of shareholders” (IoDSA, 2009b, s2.14.14). Yet, the stakeholders hold the company and board accountable by accepting or rejecting their rationale for exemption (IoDSA, 2009a). This stakeholder-driven accountability model relies on a targeted transparency approach to sustainability reporting, whereby the information provided by the company empowers stakeholders to act on their knowledge, and either accept or reject the disclosures (Fung et al., 2007).

The King III Code is not a hard law approach to corporate governance. According to Neil Morris, Director of Climate Change and Sustainability at KPMG South Africa, South Africa is “not in a governmental regulated sustainability reporting environment. Some people probably would think that South Africa has listing requirements that force sustainability reporting. It’s only partially true...it’s not a mandatory requirement, you

can explain your way out of it” (Pers.comm., 2014). The “apply or explain” approach allows flexibility in application, while ideally achieving the same objective among different types of businesses. Public companies that do not apply King III need to report to the JSE on why they did not do this, which is then reviewed by the stock exchange (N. Morris, pers. comm., Dec. 9, 2014).

4.2.1.3 Key Features:

Name: King III (King III Report/Code on Corporate Governance)

Format: Integrated report (in transition). Annual or integrated report with separate sustainability report is still common practice.

Applies to: Publically traded and state owned companies on the JSE.

Does not apply to: Companies not listed on the JSE. However, the King III can be applied to all types of companies and organizations (IoDSA, 2009a).

What is being reported: Corporate governance information, including key components of the sustainability report (outlined in Principle 9.2)

Policy Approach: Stock exchange requirement with the apply or explain approach; more flexible than the ‘comply or explain’ approach

Audit/Verification: Accountant audit, JSE review of the integrated report. Auditors will review financial statements of the integrated report, and sometimes will review selected KPIs or, more rarely, the entire integrated report (JSE, 2013; N.Morris, pers.comm., 2014; EY, 2014). Internal and external audits are recommended in King III (IoDSA, 2009b). Recommendation to review forward-looking statements despite difficulty (IoDSA, 2009b; N.Morris, pers.comm. Dec.9, 2014).

Other:

- Integrated reporting still in the early stages, compliance mechanisms weak (N.Morris, pers.comm., 2014; M.Krzus, pers.comm., 2015).
- High quality reports in South Africa, likely due to early mover advantage
- Social and political underpinnings (i.e. Black Economic Empowerment Act).
- Stakeholders as agents of the companies

4.2.2 France

French corporate responsibility reporting occurred quite early in comparison to other countries. The French government recommended annual social balance sheets - *bilan social* - as early as 1977 for companies with over 250 employees (Gray et al., 1988). In 2001, the NRE Act asked French companies to disclose their social and environmental impacts (Doucin & Besse, 2013). The flexibility of this policy contributed to the more stringent requirements in 2010. France was one of the first countries to mandate sustainability disclosures in corporate reports through the Grenelle Laws of 2010, which modified the French Commercial Code. Now, France boasts a 99% sustainability reporting rate among its largest companies, and has been cited as having some of the highest quality reports in the world (KPMG, 2013).

4.2.2.1 Sustainability Reporting Governance

Despite the high adoption rates of the NRE Act requirements in 2001, compliance remained weak, due to the minimal penalties and a lack of clarity on the Act (Dhooge, 2004). A majority of the social and environmental indicators were not reported on, and few reports were verified (Hess, 2007; IRI et al., 2014). However, France showed evidence of a quick learning curve after the adoption of NRE, which are positive signs for the adoption of Grenelle II (KPMG, 2013; Ministère des Affaires Etrangères, 2012).

Currently, Article 225 of the Grenelle II Act is the governing article for sustainability reporting in France. As such, “the [Grenelle] Acts make it mandatory for all large companies with activities in France to prepare annual CSR reports” (GRI et al., 2013, p.31). The relevant text of the legislation states:

Article 225 of Grenelle II requires listed companies on the French stock exchanges, including subsidiaries of foreign companies listed in France, and unlisted companies, including subsidiaries of foreign corporations located in France, to incorporate into their annual reports information on “the social and environmental consequences” of their activities, as well as their “societal commitments for sustainable development” (as translated in EY, 2012, p.1).

The Grenelle II Act, amended from the Grenelle I Act of 2008, now includes 42 general dimensions to report on, and attempts a stakeholder approach to corporate reporting (Cormier and Magnan, 2003; Malecki, 2011). These indicators were inspired by current international reporting standards, specifically ISO 26000, UN Global Compact, and the OECD (Ministère des Affaires Etrangères, 2012). Grenelle II calls for any pollution activity in a company of over 500 employees and total assets or net annual sales of €100 million to be disclosed in the annual report, as well as the environmental impact, commitment to environmental protection, restoration, and limitation of adverse consequences, and on environmental and social performance (Barbu et al., 2014; GRI et al., 2013; IRSE, 2012). The environmental and social disclosures of Grenelle II must be included in the annual management report, approved by the board of directors, and given third party verification (IRSE, 2012). The auditors must have the same independence as auditors used for financial reporting, and present a certificate of compliance and/or

explain any omissions (IRSE, 2012). All companies should be meeting these requirements by 2014. A summary of Grenelle II indicators is below in Figure 8.

Figure 8: ESG Indicators of Grenelle II, 2012 (Morris and Badache, 2012).

GRENELLE II ARTICLE 225 INDICATOR TABLES

Environmental	
Indicators	Subindicators
General environmental policy	Company efforts to take into account environmental issues and, where appropriate, assessments or environmental certifications
	Employee training programs on environmental protection
	Resources devoted to prevention of environmental risks and pollution
	★The dollar amount of provisions and guarantees for environmental risks, provided that such information is not likely to cause serious harm to the company in ongoing litigation
Pollution and waste management	Measures to prevent, reduce, or compensate for air, water, and soil emissions severely affecting the environment
	Measures to prevent, recycle, and dispose of waste
	Taking into account noise and other forms of pollution
Sustainable use of resources	Water use and water supply based on local constraints
	The consumption of raw materials and steps taken to improve their efficient use
	Energy consumption, measures to improve energy efficiency, and percentage of renewable energy used
	★Land use
Climate change	Greenhouse gas emissions
	★Adaptation to climate change impacts
Protection of biodiversity	Measures taken to preserve or enhance biodiversity

Social	
Indicators	Subindicators
Company's territorial impact and economic and social activity	Employment and regional development
	Neighboring and local populations
External relations with individuals or organizations interested in the company's activities	Opportunities for dialogue with these individuals or organizations
	Partnership or corporate philanthropy
Subcontracting and suppliers	Taking into account social and environmental issues in purchasing policies
	★ Percentage of outsourced work and the inclusion of social and environmental responsibility in conversations with suppliers and subcontractors
★Loyalty practices	★ Actions taken to prevent corruption
	★ Measures taken to promote consumers' health and safety
★ Human rights	★ Actions taken to promote human rights

Governance	
Indicators	Subindicators
Employment	The total number and distribution of employees by sex, age, and geographical area
	Hiring and firing of employees
	Current salaries and salary progression
Work organization	Working hours
	★ Absenteeism
Social relations	Social dialogue efforts, including procedures for informing, consulting, and negotiating with staff
	Collective bargaining agreements
Health and safety	Health and safety conditions
	Agreements signed with trade unions or staff representatives on health and safety
	★ Occupational accidents (incl.frequency/severity) and occupational diseases
Training	Training policies
	Total training hours
Equal treatment	Policies and measures taken to promote equality between women and men
	Policies and measures taken to promote the employment and integration of disabled persons
	Policies and actions taken to prevent discrimination
★ Promotion and enforcement of the International Labor Organization's basic conventions	★ Respecting freedom of association and collective bargaining
	★ Elimination of discrimination in employment and occupation
	★ Elimination of forced or compulsory labor
	★ Effective abolition of child labor

4.2.2.2 Policy Approach

The NRE Act of 2001 is an example of the initial French policy approach of shareholder accountability and self-regulation (Doucin and Besse, 2013). Les Ministère des Affaires Etrangères (2012) note that the NRE Act had no provisions for sanctions, characteristic of French “orientation laws”. These types of laws “are regularly adopted in France with the aim of setting important objectives for the nation... The idea was to give shareholders... the power to order company management to comply with its reporting obligations if it had failed to do so” (Ministère des Affaires Etrangères, 2012, p.1). No audit is required under the Act (IRI, 2014). The Act has been criticized for its low compliance rates, limited penalties issued, and basic provisions of environmental and social disclosure (Hess, 2007). However, the number of companies reporting after 2002 increased significantly. Yet, the quantity of reports did not equate to quality, motivating the Grenelle Laws.

Grenelle II, specifically Article 225, has been called “the strongest stance yet taken by any country to require transparency from businesses on the environmental, social and governance front” (EY, 2012, p.1; IRSE, 2012). It replaces the former Article 116 of the NRE Act, and adopts a “comply or explain approach”, aligning with the orientation law framework. This orientation law framework is common also to the GRI and other voluntary standards, exemplifying a soft law approach to governance, aiming towards self-regulation (Abbott and Snidal, 2000; Malecki, 2011). Article 225 does not outline any sanctions for companies who do not comply; the enforcement mechanism is

the shareholder who can take legal action against the company if they wish (EY, 2012). This reverts to a model of agency theory (Gray et al., 1988; Toms, 2002). An auditor gives an opinion on the omitted information, but does not inflict any fines or consequences. Les Ministère des Affaires Etrangères (2012) argues, however, that “even though there is still no legal sanction to non-compliance, the verification mechanisms put in place by the Act ensure that companies who do not disclose the required information do so at their own risk, knowing that they will surely have more to lose if they don’t comply than if they do” (p.6).

4.2.2.3 Key Features:

- **Name:** Bill Loi no. 2010-788, portant engagement national pour l’environnement (adopted July 13, 2010), particularly Article 225
- Text: “on how they take into account the social and environmental consequences of [their] activity and [their] social commitments in favour of sustainable development” (Ministère des Affaires Etrangères, 2012).
- 248 articles, not all of which are related to reporting (GRI/UNEP, 2013; Doucin and Besse, 2013).
- **Format:** Annual report disclosure
- **Applies to:** All companies with over 500 employees including public companies, partnerships limited by shares, cooperative societies, agricultural cooperatives, mutual insurance companies, credit institutions, investment companies, financial companies (Doucin and Besse, 2013). Subsidiaries are also included.
- **Does not apply to:** limited liability companies, private limited companies, general partnerships, property investment companies, joint-interest organizations (IRSE, 2012)
- **What is being reported:** Social, environmental and governance information. Over 40 topics to report on, depending on the type of company. Companies free to choose exact indicators to report (Ministère des Affaires Etrangères, 2012).
- **Policy Approach:** Government policy with ‘comply or explain’ with auditor review of statement
- **Audit/Verification:** Third party organization audit, Accredited by French/European audit standard (Cofrac), appointed by executive director/chief executive, report with reasoned opinion given (IRSE, 2012; Ministère des Affaires Etrangères, 2012).
- **Other:** Criticized due to lack of specific requirements and penalties (Dhooge, 2004; Sulkowski and Waddock, 2014).
- No mention of fines or litigation

4.2.3 Denmark

Denmark has a long history with regulation of environmental and social disclosures (Gray and Bebbington, 2002; GRI et al., 2013). 99% of Denmark's largest companies issue a sustainability report in some form (KPMG, 2013). The Danish approach to sustainability reporting focuses heavily on incorporating social and environmental criteria into supply chain management, due to the large export market, and the relatively low social and economic impacts felt within the country itself (Ioannou and Serafeim, 2014). Denmark serves as an example of a country with mandatory reporting, as environmental disclosures were initially legislated in the Green Accounts Act of 1995 and more recently in the Amendment to the Danish Financial Statements Act, but with flexibility in how companies implement the policy.

4.2.3.1 Sustainability Reporting Governance

In 2008, the Danish government released an Act amending the Danish Financial Statements Act, “the Report on social responsibility for large businesses”. The main modifications of this Act in Section 99a call for companies to disclose their social responsibility policies. The Danish government amended the Act again in 2012, adding human rights and climate change policies as mandatory inclusions for 2014 (DBA, 2014). This amendment includes large companies in reporting Class C and Class D. Large companies in reporting Class C are companies that exceed 2 of the 3 criteria: i) balance sheet total of DKK 143 million, ii) net revenues of DKK 486 million, and iii) an average number of at least 250 employees (Proposal for Act, 2008). Class D companies are publically traded.

The sustainability report is a part of the management review submitted to the Danish Commerce and Companies Agency annually. The Danish government allows companies to comply with the Amendment in 3 formats: through the submission of their management review, a stand-alone sustainability report, or the submission of a Communication on Progress report under the UN Global Compact (DBA, 2014). However, if businesses do not have a CSR policy in place by the instatement of the Act in 2008, they may choose the ‘comply or explain’ approach, and explain why they do not have a policy, to exempt themselves from submitting a report (DBA, 2014). The Act itself is quite focused on social responsibility, with minimal reference given to environmental disclosures (GRI et al., 2013; Proposal for Act, 2008).

4.2.3.2 Policy Approach

The ‘report or explain’ approach, common to new governance systems, is central to the Danish Financial Statement Act Amendment. The Amendment of 2008 has been referred to as a soft law, and is an example of “business-driven social responsibility” as “individual businesses are responsible for choosing the areas and efforts relevant to their core business activities” to be disclosed (DanWatch, 2011; Proposal for Act, 2008, p.9). Christian Honoré, a KPMG partner, explains the policy approach in Denmark:

From 2014, this ‘report or explain’ approach will be extended with requirements for companies to report on human rights, climate change, and employee diversity. While the reporting rate in Denmark is very high, many companies struggle with

reporting on CR as they remain focused on disconnected environmental, health, human resources or philanthropic initiatives. The legislation has encouraged companies to develop a more structured approach to CR as it is increasingly difficult to report without an underlying CR strategy and clear management approach (KPMG, 2013, p.24).

The hope is that Danish companies will combine social responsibility into core business activities. It is not mandated that companies adopt or implement environmental or social policies, but if they do not, they would have to explain this (Ioannou and Serafeim, 2014). Companies can report on this information in any chosen format, which can make comparability difficult (Larrinaga et al., 2002). According to the Proposal for the Amendment (2008), “the proposed disclosure requirement will not change the obligation of individual business and investors to choose if and how work on social responsibility is to be done... businesses will continue to be responsible for deciding how to meet these challenges” (p.5). There are no fines or litigation if a company does not disclose their policy or release a statement explaining its absence. Despite the flexible option of abstaining from CSR disclosures, the Danish Business Authority (2012) reports that 97% of Danish companies covered by the Amendment of 2008 are compliant.

4.2.3.3 Key Features:

- **Name:** Act amending the Danish Financial Statements Act, also known as Report on social responsibility for large businesses, Section 99a.
- **Format:** Annual report disclosure, specifically in the management review section, an appended report on social responsibility or Communication of Progress (Proposal for Act, 2008).
- **Applies to:** Class C and D companies (see 4.2.3.1 for further description) Class C companies are medium and large size limited companies and private limited companies. Class D companies are companies with securities traded on a regulated market, and state-owned public limited companies (Proposal for Act, 2008).
- **Does not apply to:** Class A and Class B companies. Class A companies are sole trading businesses (do not release annual reports). Class B companies are small limited and private limited companies.
- **What is being reported:** Environmental and social policies, with emphasis on supply chain operations abroad. More specifically:
 - (1) Policies on social responsibility including any standards followed,
 - (2) How policies are implemented into action (i.e. systems and procedures), and
 - (3) An assessment of annual business achievements in social responsibility including future expectations (Proposal for Act, 2008).
- **Policy Approach:** Government regulation with ‘comply or explain’ with Auditor review. Auditor’s role is not expanded beyond traditional duties (Proposal for Act, 2008).
- **Audit/Verification:** Optional audit on sustainability information (Larrinaga et al., 2002). Must submit report to Danish Commerce and Companies Agency.
- **Other:**
 - Ioannou and Serafeim (2014) note that the levels of disclosure in Denmark before and after the Amendment have remained the same; increased membership

in UNGC, more focus on supply chain management.

- Proposal mentions positive structural financial implications and competitive advantages for businesses; some evidence of seeing the connectivity between non-financial and financial performance
- No mention of fines/litigation

4.2.4 The United Kingdom (UK)

The United Kingdom presents a unique social and political landscape for sustainability reporting. Strong trade union and labour movements in the 1980's drove companies to focus on social disclosures (Gray et al., 1988). The country also has an interesting history with individual investors given opportunities to invest directly in ethical and environmental companies (Gray and Bebbington, 2002; R.Gray, pers.comm., Jan.14, 2015). The UK had one of the first sustainability reporting awards, held by the national accounting association (ACCA), contributing to a reporting culture focused on meeting targets (Gray and Bebbington, 2002). According to KPMG (2013), the UK currently has some of the highest quality sustainability reports in the world. Despite slight reductions in reporting rates, 91% of the largest companies in the UK issue a sustainability report (KPMG, 2013). This suggests that even with minimal regulatory requirements, British companies issue stand-alone reports.

4.2.4.1 Sustainability Reporting Governance

The main regulatory contribution to sustainability reporting in the UK comes from the Companies Act (2006). This Act calls for listed companies and large non-listed companies to disclose key environmental performance indicators in the Strategic Report, a separate report from the financial statements (Grayson, 2010; IRI et al., 2014). Companies must report on sustainability matters “to the extent that they are important to understanding the company’s business” (IRI et al., 2014). Similar to Denmark, UK companies should disclose environmental, social, community and human rights policies in the Strategic Report. This policy disclosure is a step in the transition to high quality sustainability disclosures (Brammer and Pavelin, 2008). Similar to the materiality principle used in the United States and Canada, managers in these companies judge what information is disclosed (GRI et al., 2013; Barbu et al., 2014). The Strategic Report is audited for consistency to the financial accounts. According to the Companies Act (2006):

The review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include—

- (a) analysis using financial key performance indicators, and
- (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters (414c4).

4.2.4.2 Policy Approach

The policy approach of the UK is an “enabling environment”, with little legislation on corporate sustainability reporting specifically, but a strong foundation of labour, health and safety, and environmental legislation (Grayson, 2010; Fifka and Drabble, 2012). Prior mandatory reporting in the UK did not prove to have high reporting rates or compliance in the 1990's (Adams et al., 1995; Larrinaga et al., 2002). UK regulation on disclosures in annual reports is now primarily driven towards

environmental information, insofar as it related to the development, performance, or position of the company (Barbu et al., 2014). The primary audiences of these environmental disclosures are shareholders, investors, and lenders to public and large private companies (Barbu et al., 2014). This possibly compromises how other stakeholders can engage with the company. The scope of information provided in UK annual reports is specific to environmental topics, is driven by materiality, and is quite limited in scope and depth.

4.2.4.3 Key Features:

Name: Companies Act, 2006

Format: Annual report disclosures in the Strategic Report/Business Review Section

Applies to: Large public and private companies

Does not apply to: Medium and small private companies, and other organizations

What is being reported: Environmental, social and governance information, if deemed material by the reporting company

Policy Approach: “Comply or explain”; Materiality driven, investor focused, strong existing legal framework in place

Audit/Verification: Audit of annual report, sustainability report audits are not mandatory

Other: Wider scope, since it is inclusive of large private companies as well
- Apparently reliance on the materiality test (within financial reporting)

4.2.5 Germany

The German social market economy, established after World War II, presents a highly regulated economic landscape with strong attention to social issues, particularly those around labour (Tolhurst and Embaye, 2010). Germany saw the beginning of sustainability reporting in the 1970's, with the voluntary development of *sozialbilanz* – a social balance sheet on firm performance and impacts on the societal environment (Gray et al., 1988). Although Germany does not have the same reporting rates as other European countries (currently 67%) and has experienced historically static growth in reporting, the quality of their reports is relatively high on the international stage (Gray and Milne, 2007; KPMG, 2013).

4.2.5.1 Sustainability Reporting Governance

The sustainability reporting governance of Germany is quite similar to the UK. German companies primarily issue separate, stand alone sustainability reports, often following voluntary international standards such as the GRI, the UN Global Compact principles, ISO standards, or OECD guidelines (Tolhurst and Embaye, 2010). The voluntary German Sustainability Code, created by the German Council for Sustainable Development, issued criteria and KPIs in 2011, inspired by the GRI and the European Federation of Financial Analyst Societies (IRI, 2014). More generally, environmental, social and governance information is regulated, to some extent, through the German Accounting Standards and the German Governance Code, which follows a 'comply or explain' approach.

Companies must file annual reports according to the German Accounting Standards, under the German Commercial law, *Handelsgesetzbuch* (HGB). The Group Management Report, governed under the Germany Accounting Standard GAS 20, and the HGB, may include material sustainability disclosures (GRI et al., 2013). The Group Management Report is to be submitted with the financial accounts for all listed companies and large limited liability companies (Buchheim & Beiersdorf, 2005; DRSC, 2012). In the Group Management Report, "the disclosures must include the most significant financial key performance indicators and, to the extent that they are material for an understanding of the course of business and position of the group, non-financial key performance indicators" (DRSC, 2012). Topics of the Group Management report typically include explanations on the business model, internal risk management systems and risk reporting, the financial position of the company, and future expected developments (DRSC, 2015). If non-financial indicators are used, they must be quantitative (GRI et al., 2013). Auditors do review the Group Management Report, but there is no obligation to audit the stand alone sustainability reports.

4.2.5.2 Policy Approach

The policy approach in Germany is largely voluntary, despite the use of non-financial disclosures in recent accounting legislation. However, almost all of the N100 German companies use non-financial KPIs in their Group Management Report (GRI et al., 2013). Much like other EU countries, existing laws and regulations provide a strong foundation for labour, health and safety, and environmental issues, suggestive of an "implicit CSR" model (Matten and Moon, 2008). The use of the 'comply or explain'

approach in the German Governance Code “contributes to more flexibility and more self-regulation” (DCGK, 2014). Tolhurst and Embaye (2010) state that, "CSR is generally understood as a voluntary commitment in Germany" that goes beyond regulatory requirements (p.162). Disclosure of sustainability information is still largely the responsibility of the board, with shareholders having the option to sue if material sustainability information is not included; this relationship is based upon agency theory. The rise of stand-alone reports in Germany suggests that the voluntary governance of reporting may have positive results (KPMG, 2013).

4.2.5.3 Key Features:

Name: Combination of Reform Act on Accounting Regulations in 2004 (BilReg), German Commercial Law (HGB), and German Corporate Governance Code

Format: Financial reporting requirements with non-financial KPIs deemed material (at management’s discretion) (GRI et al., 2013)

Applies to: Public companies, and large limited liability companies

Does not apply to: Small to medium sized companies

What is being reported: Economic position of the company, future events (post-balance sheet), internal control system and risk management system as relevant to financial reporting, take-over related disclosures, corporate governance declaration, responsibility statement (DRSC, 2015)

Policy Approach: Materiality-driven; risk and governance disclosures in the annual report, ‘comply or explain’ on presence of corporate governance in Group Management Report (DCGK, 2014)

Audit/Verification: Audit of non-financial KPIs within the Group Management report, no audit of stand-alone sustainability report or the content of Corporate Governance statements

Other: Public companies follow IFRS, other companies can follow previous German accounting standards

4.2.6 United States of America (US)

Sustainability reporting in the US is largely voluntary, and is predicted to stay this way (Eccles and Krzus, 2014). However, the US has 1,376 large listed companies, the highest in the world, leaving great potential for sustainability reporting (Morrow & Yow, 2014). Corporate reporting, and in particular, annual reporting, is regulated by the Securities and Exchange Commission (the SEC), whose aim is to protect investors through relevant reporting (Coburn and Cook, 2014). The SEC requires public companies to submit regulated documents called the 10-K (annually). Under the SEC, the provision to include certain environmental information in the annual report has been around since 1971 (Sulkowski & Waddock, 2014). However, disclosing sustainability matters in regulatory filings is largely an issue of materiality.

Sustainability disclosures in current US annual reports is quite low, despite stand alone reporting rates of 86% among the largest companies (KPMG, 2013; Coburn and Cook, 2014). Initial American non-financial reporting focused on consumer and public interests, and issues around race and gender (Gray, Owen & Adams, 1996). More recently, the US had a constant level of reporting, perhaps signaling a delayed reaction to ESG demands in the global market (Gray and Bebbington, 2002; Kolk, 2003). The United States is a strong example of voluntary sustainability reporting.

4.2.6.1 Sustainability Reporting Governance

Sustainability disclosures within the US, much like Germany, the UK, and Canada, are driven by the materiality principle. Material information, according to the Supreme Court, is information presenting:

“a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the “total mix” of information made available” (TSC Indus. V. Northway, Inc., 426 U.S. 438 (1976)).

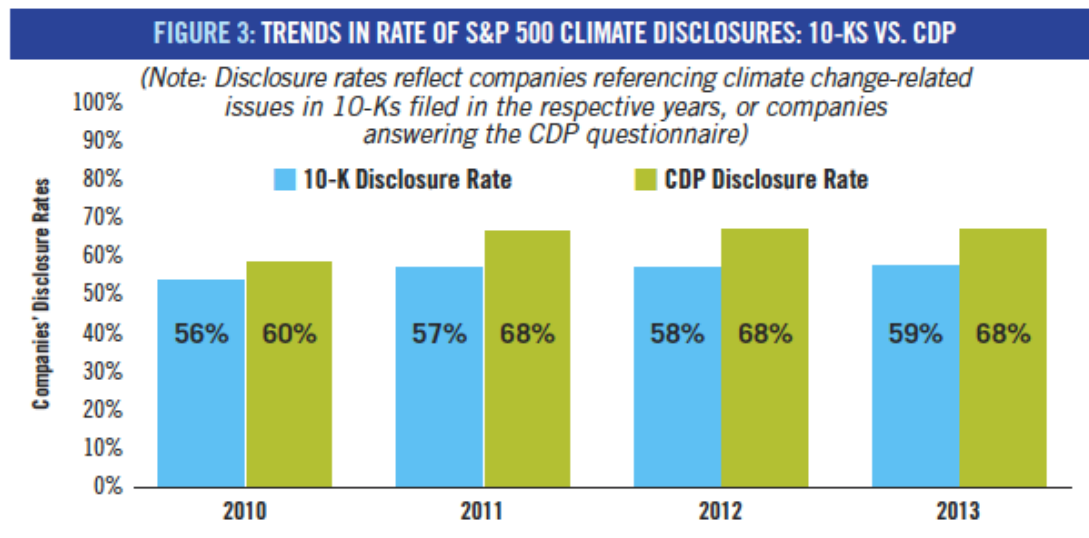
Although this definition continues to hold true, the information deemed material can change. A recent development towards climate change related disclosures became effective on February 8, 2010 when “Commission Guidance Regarding Disclosure Related to Climate Change”, was released by the SEC as an interpretive release. This document was not adding anything new to American securities regulation, but was clarifying existing requirements (SEC, 2010). It stated that SEC disclosures are “intended to remind companies of their obligations under existing federal securities laws and regulations to consider climate change and its consequences as they prepare disclosure documents to be filed with us and provided to investors” (SEC, 2010, p.27). The extent to which regulation on climate change will come from the SEC is debated (M.Krzus, pers.comm., Jan.16, 2015; D.Park, pers.comm., Jan.20, 2015.) There have been recent legislative requirements in the US around conflict mineral disclosures (s.1502), and funding to oil and gas lobbyists (s. 1504) since the adoption of the Dodd-Frank Act in 2010 (Sulkowski & Waddock, 2014). However, this legislation did not originate in the SEC, as the SEC is independent of the legislative and judicial systems.

4.2.6.2 Policy Approach

The policy approach for sustainability reporting in the US is largely voluntary, with some regulation over material ESG disclosures in the annual report. However, the extent to which sustainability disclosures are included in mandatory financial filings is driven by material issues, which vary from industry to industry, and from company to company (D.Park, pers. comm., Jan. 20, 2015). Often, material sustainability risks and opportunities are not discussed in the 10-K (Serafeim, 2014). The creation of SASB, the Sustainability Accounting Standards Board, and their sustainability accounting standards for various industries and sectors is a positive sign for increasing disclosures in 10-K filings. However, it also suggests a current gap in direct regulatory guidance for sustainability within corporate reporting, as SASB is a voluntary standard. If the SEC does not begin to comment on the application of SASB standards, the strength of mandated annual report disclosures in the US for sustainability reporting will continue to be questioned (Coburn and Cook, 2014; Sulkowski & Waddock, 2014).

Currently, American companies seem to prefer voluntary sustainability reporting, due to fears of over-disclosing, which can increase their risk of liability (Sulkowski & Waddock, 2014). Some argue the SEC has the institutional power to enforce environmental and social disclosures; however, this rests strongly on whether investors consider these disclosures material (Williams, 1999; D.Park, pers.comm., Jan.20, 2015). A recent report by Coburn and Cook (2014) argues that the SEC guidance has not been particularly successful. There is a higher increase in companies disclosing climate change-related issues in voluntary filings with the CDP, as opposed to in their 10-K reports governed by the SEC (See Figure 9).

Figure 9: Companies of Annual Report Disclosures in 10-K vs. CDP voluntary disclosures (Coburn and Cook, 2014).



The American case of mandated sustainability reporting appears to be an example of boilerplate disclosures, cited as a drawback of mandatory disclosures (CGA, 2011; Coburn and Cook, 2014). The global impact of the American market, and the high rates

of voluntary sustainability reporting make the US path of sustainability reporting relevant for future trends and practices.

4.2.6.3 Key Features

Name: Material disclosures in the 10-K

Format: Typically found as a comment in the notes or MD&A of a company's annual report; voluntary practice of stand alone reports (i.e. CDP, GRI reports)

Applies to: Publically traded companies

Does not apply to: Companies that do not issue securities

What is being reported: Financial and non-financial information that is deemed material to the reasonable investor

Policy Approach: Market-driven, investor focused, risk oriented

Audit/Verification: Auditor of the annual report

Other:

- High reporting rates among largest companies (approximately 85%) but with weak to moderate quality of reports (KPMG, 2013)
- Aligns to prediction of the US aiming for environmental disclosures as "sustainability". Not an integrated concept of sustainability; shadowed by economic/investor lens of materiality.

4.2.7 Canada

Canada shares similar corporate responsibility practices to the US, and vice versa (Gray, Owen & Adams, 1996; TMX and CPA, 2014). Early sustainability reporting in Canada focused on employee status and working environments in the late 1980's (CGA, 2005). In the 1990's, North American companies, including Canadian ones, began to issue environmental reports. The prominent natural resource sector in Canada issued some of the first environmental reports in the country; however, there was less legal regulation on sustainability issues in Canada at this time (Gray, Owen & Adams, 1996). One of the first guidelines on environmental reporting in Canada was the Canadian Chamber of Commerce Guideline on Corporate Environmental Reporting in 1992 (Gray, Owen & Adams, 1996). Canadian sustainability reporting is substantially driven by voluntary initiatives, with some regulation in place for primarily environmental disclosures related to assets, liabilities, costs, and litigation risk.

4.2.7.1 Sustainability Reporting Governance

Canada currently does not have mandatory sustainability reporting standards. Like their American neighbours, Canadian companies with listings on the Toronto Stock Exchange (TSX) or international exchange must disclose material environmental and social concerns in their annual report and/or an additional document, the Annual Information Form (CGA, 2005). Sustainability reporting remains quite high in the country, with 83% of Canada's largest companies reporting (KPMG, 2013). The rate of reporting, like the US and Germany, has not increased substantially in recent years.

Banks and financial institutions in Canada must also report on their contributions to the Canadian economy and society through Public Accountability statements (SOR/2002-133). These statements disclose information on community development goals, volunteered employee initiatives, and initiatives to finance small business and improve access to financial services, which are accessible to the public and customers on the bank website. This information is centered on community investment, and applies to the largest Canadian banks.

The disclosure of material environmental, social and governance factors are required under the National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102) (CGA, 2011). Corporate governance disclosures are required under National Instrument 58-101 Disclosure of Corporate Governance Practice (NI 58-101). However, the corporate governance disclosures are on a 'comply or explain' basis, and offer guiding principles for listed companies on the TSX that may or may not be applied (TSX, 2006; OECD, 2014). Materiality for Canadian companies follows the IFRS accounting standard, whereby information is material "if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity" (IFRS, 2014). Companies are to report on material environmental and social policies, as well as issues and liabilities that impact operations and performance. Because the judgment of material policies, issues and liabilities is at the discretion of the reporting company, this is an example of a weak sustainability reporting requirement.

Currently, there is no national securities regulator in Canada, only provincial/territorial ones. However, consultation with investors at the provincial level suggested that securities filings were missing environmental information that investors

were looking for (CSA 51-133). In 2008, the Ontario Securities Commission issued Staff Notice 51-716 – Environmental Reporting, which noted existing shortcomings in environmental disclosures. More recently, securities guidance was issued through the Canadian Securities Administrators (CSA), a council of provincial and territorial securities regulators. The CSA, in 2011, provided clarification on existing disclosure requirements for environmental matters under securities legislation:

Disclosure may be required concerning: risks, environmental trends and uncertainties, environmental liabilities, asset retirement obligations, and financial and operational effects of environmental protection requirements and risk oversight and management. The Staff Notice [CSA 51-333] also highlighted disclosure requirements related to forward-looking information. Reporting issuers need to follow these requirements to be eligible for a legal defense from civil liability for misrepresentation in forward-looking information (TMX and CPA, 2014, p.12).

The extent to which this document has been read and understood is debated (Participant A, pers.comm., Dec.12, 2014). It appears these documents are primary guidance documents, and are not often referred to.

4.2.7.2 Policy Approach

The policy approach is dependent on the materiality test of the reasonable investor, similar to the US. Banks have a regulated requirement; however, this is heavily focused on disclosing initiatives, which is a weak disclosure requirement (Brammer and Pavelin, 2006). Because the Public Accountability Statement is only applied to the financial services sector, it is a weak reporting requirement. For other companies, disclosure may be required concerning risk, environmental trends and uncertainties, environmental liabilities, asset retirement obligations, financial/operational impacts of environmental protection, and risk management (TMX and CPA, 2014). Despite this, “there is evidence that existing regulatory disclosures of sustainability development do not necessarily meet information needs of various stakeholders and a lack of consensus over direct standards and purpose of sustainability reporting persist” (CGA, 2011). Despite the prominence of voluntary reporting in Canada, about 80% of all companies on the TSX reported some type of sustainability practice in their annual reports or stand alone sustainability reports (CGA, 2011). The strength of voluntary reporting in Canada thus appears strong.

4.2.7.3 Key Features

Name: Materiality test of Canadian Securities Administrator Staff Notice 51-333, and IFRS accounting standard

Format: Material sustainability disclosures in the notes or MD&A of annual report; voluntary practice of stand alone reports (i.e. CDP, GRI reports)

Applies to: Publicly traded companies that issue securities

Does not apply to: Private companies and other organizations

What is being reported: Financial and non-financial information that is deemed material to the reasonable investor

Policy Approach: Market-driven, investor focused, risk oriented

Audit/Verification: Auditor of the annual report. No mandated audit required for sustainability reports.

Other: Canadian requirements for the NPRI (National Pollutant Release Inventory) and GHG emissions are heavily focused on the environmental pillar of sustainability.

- Public Accountability Statements required for large financial institutions

4.3 Findings: Mapping Exercise

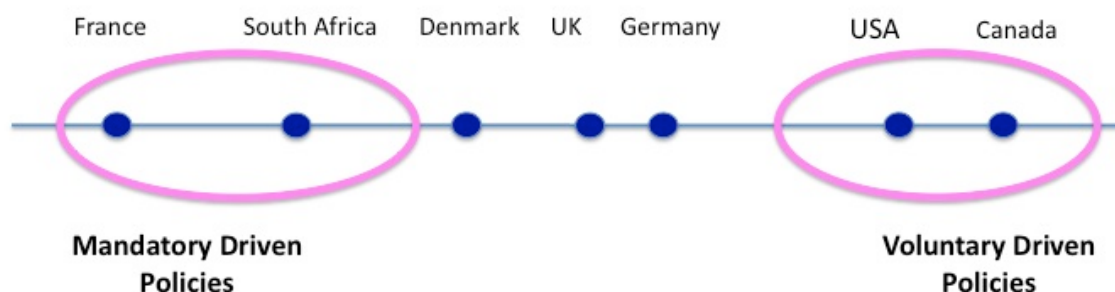


Figure 10: Sustainability Reporting Policy Analysis

As stated in 4.2, France, Denmark and South Africa have regulated sustainability reporting to some degree, beyond the traditional argument that sustainability should be included if material. These three countries hold the highest sustainability reporting rates in the world (KPMG, 2013). However, through analysis, France and South Africa have stronger sustainability reporting policies in comparison to Denmark. The French and South African requirements are more prescriptive than the Danish requirements, the latter of which focus primarily on policy disclosure, as opposed to actual performance and strategy disclosures related to environmental, social, and economic topics. The French and South African requirements are more precise than the Danish requirements, as both France and South Africa provide recommended indicators, and principles, respectively, for companies to report on. These countries appear to move beyond using a financial reporting materiality requirement, found in the other evaluated countries. The precision of France and South Africa's reporting requirements makes this more mandatory than Denmark, as precision is one requirement of hard law (Abbott and Snidal, 2000). This is a more comprehensive and precise form of regulation than asking companies to report on the existence of a policy and its contents (Brammer and Pavelin, 2008). In addition, both France and South Africa require some degree of assurance on the sustainability disclosures provided through their board of directors and assurance providers, while no other country mandates assurance on non-financial information (unless it is material). This delegation of responsibility to the company to verify the data through an auditor echoes another characteristic of hard law, supporting that France and South Africa have stronger mandatory requirements.

France has previously faced low compliance with the NRE Act, and has expressed a need to improve upon that leniency with Grenelle II. The French laws are more prescriptive, as they denote an obligation of companies to disclose environmental, social, and governance information with assurance. This range of information provides a more holistic conception of sustainability, while Denmark has a central focus on social responsibility only. The 'comply or explain' approach is applied, and the shareholders can hold companies legally accountable for omissions.

Denmark, despite their early practice of environmental disclosures through the green accounts of 1996, has a more limited scope of disclosure. Corporate social responsibility policies are to be disclosed under the 2008 Financial Act amendment, with the ‘comply or explain’ approach. The Danish regulation is focused on policy disclosure (particularly social), which is typically not denoted as a high quality sustainability disclosure (Brammer and Pavelin, 2008). Discussion of initiatives, performance improvements, audits, and targets are required for high quality disclosures (Brammer and Pavelin, 2008).

South Africa is often cited as a leader in reporting, not only due to their stock exchange requirement, but also the high quality of South African integrated reports in comparison to other countries (GRI et al., 2013; Eccles and Krzus, 2014). Despite the compliance weakness of the ‘apply or explain’ approach, implementing non-financial information within the typical financial report is a significant step forward. This is evident when compared to the materiality test found in countries like Canada and the United States, and is arguably a stronger sustainability initiative than disclosing only a policy, as Denmark requests.

4.3.2 Limitations

One difficulty of performing a policy analysis on this topic is the complicated landscape of sustainability reporting policies, which can make it challenging to compare different countries’ practices. Focusing on countries that were repeatedly mentioned as mandatory or voluntary in the literature was used for the initial policy mapping of 7 countries. The mapping exercise will be limited on the way a policy’s mandatory and voluntary strength is judged. However, mapping on a spectrum will avoid grouping policies in merely two groups (Abbott & Snidal, 2000). The necessity of boundaries means that aspects of policy assessment will be excluded in the judgment of the mandatory or voluntary strength of these boundaries, and present the opportunity for others to create their own reporting maps based on additional criteria.

The shortcoming of the spectrum approach is that the placement of countries will be largely determined through the inductive reasoning of the researcher. In addition, determining the mandatory strength of a policy can be challenging, given that often the policy on paper is not what may be implemented in practice, and there are a variety of disclosure formats for sustainability information (Daub, 2007). However, because the spectrum is being used to identify countries collected around the mandatory and voluntary ends, general location of each country is more important than its specific placement. Reviewing key attributes of each country’s reporting policies and using the support of the literature can inform the plotting of the case countries.

A final sample size of 4 countries is also a limitation of this study. Reviewing a larger sample of countries would enhance the credibility of the results, and allow a more convincing correlation to be made. However, due to time restraints and the multi-method approach used, reviewing 7 countries and choosing 2 at each end of the spectrum, for a total of 4, was deemed as appropriate.

4.4 Summary of Key Findings

The findings of this policy analysis agree with the literature; the information discovered in 4.3 is central to determining the case countries for Sub study 3, the report review. This policy analysis reveals that there is a divergence of mandatory and voluntary sustainability policies at the international level, it represents the perceived tension between the shareholder and stakeholder approach, and it suggests a soft law policy approach towards mandatory reporting.

The seven case countries evaluated are very different with respect to reported content, enforcement mechanisms, and report format. Despite these differences, a divide between mandatory and voluntary is apparent, as some countries have either governmental or markets prescribing disclosure, while others are recommending disclosure under particular conditions. Since this study will be evaluating the mandatory and voluntary nature of these policies, understanding how this divide impacts report quality will be investigated in Sub study 3.

There are different ways to determine report content, from France's suggested indicators, to corporate governance disclosures in Germany, to the materiality test used in the UK, Canada and the US. The way in which report content is determined aligns a policy with the shareholder or stakeholder approach. The materiality test is heavily grounded in the shareholder approach, while prescribed indicators or principles, such as those in France and South Africa, attempt to be more inclusive to non-financial stakeholders.

The escape clauses discovered in this analysis support a soft law policy approach. The 'comply or explain' approach/orientation law approach in France empowers corporate management to interpret Grenelle II, supporting a less restrictive role of the state discussed in new governance. Denmark, similarly, uses the same policy approach but for policy disclosure, as opposed to performance disclosure. The 'apply or explain' approach in South Africa adds further flexibility for interpretation. The involvement of corporate management, the board of directors, and investors in applying and enforcing reporting policies supports an economic view of sustainability, and hints that international sustainability reporting, even when regulated, follows the shareholder approach.

Chapter 5: Sub study 3 - Report Review

5.1 Methods

Sub study 3 brings this study together by applying the developed scorecard in sub study 1 to the mandatory and voluntary case countries in sub study 2, in order to answer the research question. Sub study 3 reviews publically listed companies sustainability disclosures in one of the three reports discussed – a stand alone report, annual report disclosures, or an integrated report. Some companies have more than one of these reports. Because of the nature of the research question, registration documents in France, integrated reports in South Africa, and stand alone reports in Canada and the US will be the primary sample reports. Through content analysis and an application of the criteria generated through Sub study 1, the effectiveness of mandatory standards in comparison to voluntary standards was assessed. The countries with higher scores have the stronger reports, as the measure of effective reporting is the sustainability scorecard.

Qualitative content analysis, used in sub study 3, is the most common approach used in corporate social disclosure research (Guthrie and Parker, 1990; Adams et al., 1995; Duff, 2014; Llana et al., 2014). This method measures comparative positions and reporting trends, including differences in reporting in different countries. Guthrie et al. (2004) articulate content analysis as:

...a technique for gathering data, it involves codifying qualitative and quantitative information into pre-defined categories in order to derive patterns in the presentation and reporting of information. Content analysis seeks to analyse published information systematically, objectively and reliably...(p.287).

Categories of classification, objectivity, quantification of data, and a reliable coder are necessary. There are limitations to using content analysis, specifically subjectivity in coding and focus on quantity of disclosure as opposed to quality (Guthrie et al., 2004).

5.1.1 Finding Companies

Reports were collected from companies on the Global 2000 Listing by Forbes, which ranks companies by their sales, profits, assets and market value as of April 1, 2014. The rankings in each of the four equally weighted categories are added, in order to develop a hierarchal list that considers sales, profits, assets and market value in USD.

Not all of the sample companies had designated, downloadable sustainability reports, most notable Berkshire Hathaway (US), General Electric (US) Manulife Financial (Canada), and Brookfield Asset Management (Canada). The 11th company on the Global 2000 list for US – AT&T – was included. The 11th and 12th companies on the Global 2000 for Canada – Bell Canada Enterprises and Husky Energy – were included. Despite being in the top 10 companies on the French Global 2000 listing, EADS

(formerly known as Airbus Group) is now a Dutch owned company and was excluded. L’Oreal Group, the 11th company on the Global 2000 from France, was then reviewed.

5.1.2 Finding Reports

Sample reports were from a company with headquarters within the country studied (Langer, 2006). Reports were downloaded from the global company websites. . This process was not straight forward, due to difficulties navigating websites, the variety of reports uploaded, and the existence of subsidiary companies. Initial insights from the report search were:

- Reports were usually available in PDF format, with online or interactive reports
- A variety of titles were given to sustainability reports
- Separate reports (not included in the primary report) related to compliance with standards were read (i.e. Public Accountability Statements for Canadian banks, King III Principle Reports in South Africa, Grenelle II indicator reports in France)
- Not all South African companies released sustainability reports. 5/10 reviewed companies had sustainability reports, suggesting that integrated reporting has not substituted the sustainability report (N.Morris, pers.comm, Dec.9, 2014).
- Extra voluntary reports were commonly posted (i.e. Equator Principle reports, CDP reports, and UN Global Compact documents). These reports would be reviewed if easily accessible, and would be relevant to Quality 8 on the scorecard.

5.1.3 Report Boundary

The mandatory case countries – South Africa and France – include sustainability disclosures in their regulated reports -- the integrated report and the registration document, respectively. King III and Grenelle II requirements were also sometimes published in separate reports. Because these documents would be directly incorporating sustainability indicators, and because they are connected to relevant legislation that is being assessed through the research question, they were reviewed. Only these primary reports were considered as sustainability reports. The exceptions to this rule will include reports that are clearly incorporating other relevant sustainability disclosures (i.e. an additional sustainability report that was directly referenced and discussed in a company’s primary report). With the case of the voluntary case countries, the researcher noted extra voluntary reports in Quality 8bb. These reports would be additional to the primary stand alone report. These separate voluntary reports would not be considered as part of the sample of sustainability reports.

5.1.4 Reviewed Companies and Reports

Legend of Report Titles

AIR = Annual Integrated Report
 AR = Annual Report
 CCR = Corporate Citizenship Report
 CDPR = Carbon Disclosure Project Report
 CMR = Community Report
 CRR = Corporate Responsibility Report
 CSRR = Corporate Social Responsibility Report

DR = Diversity Report
 ER = Environmental Responsibility Report
 GCR = Global Citizenship Report
 GRI = GRI Index/Supplemental Report
 GRR = Global Responsibility Report
 IAR = Integrated Annual Report
 IR = Integrated Report
 KIII = King III Principle Supplement

PAS = Public Accountability Statement
 RD = Registration Document, (s) = section
 SDI = Sustainable Development Indicator Supplement
 SR = Sustainability Report
 STR = Stewardship Report
 SU = Sustainability Update

France	South Africa	Canada	USA
<ul style="list-style-type: none"> • BNP Paribas <ul style="list-style-type: none"> • 2013 RD (s) • Total <ul style="list-style-type: none"> • 2013 RD (s) • AXA Group <ul style="list-style-type: none"> • 2014 RD/AR (s) • EDF <ul style="list-style-type: none"> • 2013 RD/AR • 2013 SDI • Sanofi <ul style="list-style-type: none"> • 2013 RD (s) • Crédit Agricole <ul style="list-style-type: none"> • 2014 RD (s) • Société Générale <ul style="list-style-type: none"> • 2014 RD (s) • Orange S.A. <ul style="list-style-type: none"> • 2014 RD (s) • VINCI <ul style="list-style-type: none"> • 2014 RD/AR (s) • L’Oreal Group <ul style="list-style-type: none"> • 2014 RD (s) 	<ul style="list-style-type: none"> • Standard Bank Group <ul style="list-style-type: none"> • 2013 AIR • Sasol <ul style="list-style-type: none"> • 2014 IR • 2013 KIII • MTN Group <ul style="list-style-type: none"> • 2014 IR • 2014 KIII • FirstRand <ul style="list-style-type: none"> • 2014 AIR • Steinhoff International Holdings <ul style="list-style-type: none"> • 2014 IR • 2014 KIII • Sanlam <ul style="list-style-type: none"> • 2014 AR • 2014 KIII • Naspers <ul style="list-style-type: none"> • 2013 IAR • Bidvest Group <ul style="list-style-type: none"> • 2014 IR • Shoprite Holdings <ul style="list-style-type: none"> • 2014 IR • KIII (website) • Remgro <ul style="list-style-type: none"> • 2014 AIR 	<ul style="list-style-type: none"> • Royal Bank of Canada <ul style="list-style-type: none"> • 2013 CR (review) • 2013 CR • Backgrounders • 2013 PAS • TD Bank Group <ul style="list-style-type: none"> • 2013 CRR • Linked documents • 2014 PAS • Scotiabank <ul style="list-style-type: none"> • 2014 CSRR • Bank of Montreal <ul style="list-style-type: none"> • 2013 CRR • 2014 PAS • Suncor Energy <ul style="list-style-type: none"> • 2014 Summary SR • 2014 Assurance Letter • 2014 Performance Data • Canadian Imperial Bank of Canada <ul style="list-style-type: none"> • 2014 CRR/PAS • Sun Life Financial <ul style="list-style-type: none"> • 2013 SR • 2013 PAS • Canadian Natural Resources <ul style="list-style-type: none"> • 2013 STR • Bell Canada Enterprises <ul style="list-style-type: none"> • 2013 SR • 2013 Assurance Letter • Husky Canada 	<ul style="list-style-type: none"> • JPMorgan Chase <ul style="list-style-type: none"> • 2013 CRR • 2013 GRI • Exxon Mobil <ul style="list-style-type: none"> • 2013 CRR • 2013 CDPR • Wells Fargo <ul style="list-style-type: none"> • 2013 CSRR • 2014 CSRR (interim) • Bank of America <ul style="list-style-type: none"> • 2013 CSRR • Apple <ul style="list-style-type: none"> • 2014 ERR • Citigroup <ul style="list-style-type: none"> • 2013 GCR • 2013 DR • Chevron <ul style="list-style-type: none"> • 2013 CRR • CRR Performance Data • Wal-Mart Stores <ul style="list-style-type: none"> • 2015 GRR • AT&T <ul style="list-style-type: none"> • 2013 SU • Linked documents • Verizon Communication <ul style="list-style-type: none"> •

		Energy <ul style="list-style-type: none"> • 2013 CMR 	
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5.1.5 Scoring Reports

Reports were read and scored according to the Sustainability Reporting Qualities Scorecard of Sub study 1 (see Appendix 3). Some qualities were not evaluated for each company. Quality 5b, on discussing negative and positive performance, was evaluated on a 0-1 scale, where 0 is no discussion, and 1 is discussion. This quality was revised to be a data point not included in the total score for each company, as evaluating positive and negative disclosures on a 0-3 scale appeared difficult. However, this quality was still captured as it has potential value for results and discussion.

Quality 8 was sub-divided into Quality 8a and 8aa, and Quality 8b and 8bb. Quality 8a and 8aa applied to France and South Africa, and not to the US or Canada. Quality 8a aimed to evaluate awareness of compliance to the regulated sustainability reporting standard. Quality 8aa aimed to evaluate the presence of any additional voluntary standards, and was evaluated on a 0-1 scale (No-Yes). Because there is still debate on whether mandatory or voluntary standards are better for sustainability reporting results, quality 8aa was kept as a data point and not included in the total score. Quality 8b and 8bb applied to the US and Canada, and not France and South Africa. Quality 8b aimed to evaluate compliance with a voluntary standard. Quality 8bb aimed to evaluate the presence of any additional voluntary standards, and was evaluated on a 0-1 scale (No-Yes). For similar reasons, quality 8bb was kept as a data point and not included in the total score.

Quality 10 aimed to evaluate the decision usefulness of climate change information in sustainability reports. This quality was evaluated on a 0-2 scale, with 0 representing no mention of climate change, 1 representing some mention of climate change, and 2 representing a discussion of climate change, and/or identification of climate change as material or as a risk. All other qualities were scored on a 0-3 scale. The criteria required for each score are explained below each quality on the scorecard

5.1.6 Additional Observations

5.1.6.1 Deliberating Scores for Qualities

One predicted challenge of scoring reports with an invented scorecard was determining scores between the 1/3 to 3/3 ranges, in particular deliberating a score of 2/3 or 3/3. The idea of the scorecard, however, was that a 3/3/ be a gold standard for sustainability disclosures. In predicting these judgment challenges, the scorecard tried to accommodate through the use of two features: a “Details” row under each quality, and a “Notes” column for researcher notes. Each possible numerical score for each quality would have a “Details” section, which acted as a guide for what attributes would be required to attain that particular score. Most of the attributes described in the “Details” section would need to be present in order to attain that score. For additional clarity in the scoring process, the far right column of the scorecard was used as a “Notes” section. Here, the researcher could document a) evidence-based comments that would support the numerical score allocated to that quality, b) general observations (i.e. novel findings), and c) page references or important quotations. Appendix 4 includes a more detailed commentary on the methodology for scoring qualities.

5.1.6.2 Weighting of Scores

Although quantitative scores would be used for the purposes of sub study 3, a qualitative analysis of the scores and the major themes for each country are the main sources of analysis. In order to capture the results for each country, the calculation of averages was primarily used when tallying the scorecard results. Qualities 5b and 8aa/bb were not included in this tally, and were calculated only for observation. By calculating averages at both the country level and at the international level, a cross-country comparison could be performed on not only total scores, but also on scores per quality. A short quantitative analysis was performed, in order to test the significance of the scores at the end.

No qualities were weighted as more or less important, as the 0-3 scale was used for almost all qualities. The only quality that did not get an equal weighting in the total tally was Quality 10, Climate change explained as decision useful information. This quality was one of the most difficult qualities to include, due to challenges measuring how companies consider climate change in their reports. A 0-2 scale was deemed the most applicable, as complexities around defining material issues in voluntary and regulated reports made it difficult to extend into a 0-3 scale. Moreover, certain industries did not have significant GHG emissions or environmental impacts, making extensive climate change disclosures not entirely relevant to them. For these reasons, a 0-2 scale was appropriate.

5.1.6.3 Cross Coding

A fellow Sustainability Management colleague [the cross coder] with experience in corporate reporting reviewed 5 companies' reports from the case country sample at random, and scored them. This cross coding was performed to test the applicability and user-friendliness of the scorecard. Initial guidance was provided on how to use the scorecard. The purpose of this exercise was to test the credibility and consistency of the scorecard, and illuminate any shortcomings of the scorecard to the researcher. Because the proceeding section on scoring each quality was developed through the process of reviewing reports, the cross coder was not aware of these intricacies. The results of this double coding process revealed that approximately 3/5 scores were close to the initial scores of the researcher (within 5 points). The remaining 2 scores had some degree of difference, but were reviewed in detail by the researcher and confirmed as being not significant. Please see Appendix 4 for additional notes on scoring each quality.

5.1.7 Quantitative Analysis

Upon completion of the tallying of total scores for each country, a quantitative analysis was performed, to detect if there are significant results from the total average scores of the mandatory and voluntary countries. T-tests were primarily performed. This detected if there is enough evidence against the null hypothesis, and evaluated if mandatory or voluntary makes a difference in the score of the report. The final results of this quantitative analysis are included in Chapter 6.

5.1.8 Limitations

Because the mandatory case countries chosen have relatively recent reporting requirements, it was not clear in the literature how the reports would be formatted. The

use of thematic qualities in the scorecard mitigated this concern to some degree, as they could be applied to a variety of report formats.

Almost half of the cross-coding scores were quite different from the researcher's scores. It appeared that these divergent scores occurred when certain individual qualities were scored differently. Divergent scores – those where the score had 2 points difference – occurred twice with Assurance (Quality 7). Understanding where to find assurance information and how to interpret the language of assurance was a key difference between the researcher's scores and the cross coder's scores.

Practitioner documents often use the G250 and N100 companies as their sample (Langer, 2006; Coburn et al., 2011; KPMG, 2013). In replicating this scope, private companies and SMEs will be excluded. This is reasonable given the trend that large, publically traded companies are more likely to report.⁷ Another limitation involves the assessment of reports from different sectors. Some sectors may be more attuned to prescriptive reporting, or using quantitative as opposed to qualitative indicators. The results still hold in a wide variety of settings, however, as there are many sectors in the top 10 companies of each case country.

A final limitation is establishing the connection of the policy to the physical report. Many factors influence the form and content of the report, other than the policies reviewed here. This limitation is articulated in the following warning:

... Scholars of corporate social disclosure are also confronted with complex social, political and economic contexts that differ from Nation-State to Nation-State. Failure to acknowledge these differing contexts can mask the complexity of drivers for both disclosure and corporate silence (Adams and Whelan, 2009, p.119).

Quality 8 helps to address this concern, by searching for awareness of compliance.

⁷ This rationale aligns with the resource-based perspective of the firm, whereby larger companies have more resources to use on these non-financial, stakeholder-related initiatives than SMEs (Hart, 1995).

Chapter 6: Results - Findings of Sub study 3

6.1 Introduction

The results of sub study 3 answer the research question, as well as the subsequent objectives outlined in Chapter 1. In order to address how effective mandatory sustainability reporting standards are to voluntary sustainability reporting standards, the scores of France and South Africa will be compared and contrasted to those of Canada and the US.

6.1.1 Research Question and Hypothesis Summary

To recall, the research question of this study is:

How effective are mandatory sustainability reporting standards in comparison to voluntary sustainability reporting standards?

The hypothesis of the researcher, as stated in Chapter 1, was that the mandated reporting countries would have more effective reports than those reports in voluntary reporting countries. The trend seen in European countries towards more enhanced non-financial disclosures has been solidified in French legislation quite early. The drive for a competitive advantage in the emerging economies market has lead South Africa to become a leader in corporate reporting. These two case countries are predicted to have higher quality sustainability reports over the reports from Canada and the United States where no such regulation exists. There may be a null hypothesis present, which would be that there is no ideal or optimal policy for sustainability reporting, specifically between mandatory and voluntary policies.

The independent variable of this study is “Adherence of Sustainability Report to Criteria”, which is also referred to as “effectiveness”, and the dependent variable is “the Sustainability Reporting Implementation Method”, which would be if the report was governed by a mandatory standard, or the absence thereof, which would be a voluntary report.

6.1.2 Results Summary

In order to respond to the research question, the scores from the sustainability reporting scorecard were used to assess the difference in mandatory and voluntary countries to determine if one region had higher scores than the other. Total and average scores at the quality and country level are compared. Because qualitative notes were also taken, emerging themes and patterns are discussed in the following Discussion Chapter.

The companies’ total scores, and the score for each quality on the sustainability reporting scorecard were then organized by country (Figures 11-14). This allowed for a quality-by-quality comparison for each country, as well as a calculation of the average for

each quality. The total scores for each country were tallied and ranked in Table 1. The average scores for each quality per country were then compiled into an international results chart (Figure 15). Scores were also compared between mandatory case countries, France and South Africa and between voluntary case countries, Canada and United States (Figure 16 and 17). Lastly, a quantitative analysis on the scores in Figures 11-14 was performed to test if the difference in scores was statistically significant.

6.2 Country Results

6.2.1 Canada

Company Name	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg/Pos	Sust Perf	Assurance	Vol Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	
	1	2	3	4	5a	5b	6	7	8b	8bb	9	10	11	12	
Royal Bank of Canada	1	2	1	1	1	1	1	0	2	1	1	1	1	2	15
TD Bank Group	1	2	1	2	2	1	2	2	3	1	2	2	2	3	25
Scotiabank	2	2	3	1	1	1	2	0	2	1	1	2	2	3	21
Bank of Montreal	1	1	2	1	2	0	2	2	3	1	2	1	2	2	21
Suncor	2	3	1	1	2	1	2	2	3	1	1	2	1	2	22
CIBC	0	1	2	1	1	0	2	0	2	1	1	1	3	2	16
Sun Life Financial	2	1	1	1	1	0	2	2	2	1	1	0	2	2	17
Canadian Natural Res.	0	1	0	1	2	1	2	0	2	1	0	0	2	2	12
Bell	2	1	2	2	2	1	2	2	2	1	2	2	3	2	24
Husky Canada	1	1	2	1	2	1	2	1	1	1	0	1	0	2	14
Average	1.2	1.5	1.5	1.2	1.6	0.7	1.9	1.1	2.2	1	1.1	1.2	1.8	2.2	18.7

Figure 11: Canadian Company Results

Canadian reports generally scored quite high, with some range between the highest scoring Canadian report at 25 points (TD Bank) and the lowest scoring report at 12 points (Canadian Natural Resources), with an overall range of 13 points between the highest and lowest scoring company. Over all case countries, Canada had the highest scores in its definition of sustainable development (Quality 1), disclosures on stakeholder relationships (Quality 11), and its readability (Quality 12). Canadian companies had lower scores in their provision of assurance (Quality 7) and their materiality discussion (Quality 9). The average score for Canada was 18.7/35.

6.2.2 South Africa

	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg/Pos	Sust Perf	Assurance	Reg Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	
Company Name	1	2	3	4	5a	5b	6	7	8a	8aa	9	10	11	12	
Standard Bank Group	1	2	2	1	2	1	2	2	2	2	2	1	2	2	21
Sasol	0	2	2	1	2	1	2	1	3	1	1	2	1	2	19
MTN Group	1	2	3	2	2	1	2	2	3	1	3	0	2	2	22
FirstRand	1	2	2	1	2	1	1	1	3	1	1	1	2	1	18
Steinhoff Int'l	1	2	1	1	1	1	1	1	3	2	2	1	2	1	17
Sanlam	2	1	2	1	1	1	2	2	3	2	2	1	2	1	20
Naspers	2	1	2	1	1	1	2	1	3	2	2	0	2	1	18
Bidvest Group	1	1	2	1	1	1	2	2	3	1	1	0	2	1	17
Shoprite Holdings	0	1	2	0	1	1	2	1	3	0	0	1	1	1	13
Remgro	2	2	3	1	1	1	2	1	3	0	0	1	2	1	19
Average	1.1	1.6	2.1	1	1.4	1	1.8	1.4	2.9	1	1.4	0.8	1.8	1.3	18.4

Figure 12: South African Company Results

South African companies did not score as high as initially anticipated, largely due to the financially-driven disclosures of integrated reports. The highest scoring report in South Africa scored a 25 (Sasol), while the lowest scoring report scored a 13 (Shoprite Holdings). This range of scores was closer in comparison to the other case countries, with 8 points between the highest score and the lowest. This close gap suggests that mandatory requirements may result in greater consistency of reports, which was predicted in the hypothesis of the study. However, this gap is still quite significant. South African companies scored the highest average scores among all case countries in corporate governance disclosures (Quality 3), the presence of negative and positive information (Quality 5b), materiality discussion (Quality 9), and stakeholder relationships (Quality 11). The presence of a sustainability strategy (Quality 4) and the provision of user-friendly climate change information (Quality 10) were weaker categories for South African companies. The average score for South Africa was 18.4.

6.2.3 United States

	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg/Pos	Sust Perf	Assurance	Vol Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	
Company Name	1	2	3	4	5a	5b	6	7	8b	8bb	9	10	11	12	
JP Morgan	0	2	2	0	1	0	1	1	2	1	0	1	1	2	13
Exxon Mobil	2	2	1	1	1	1	2	2	2	1	3	2	2	2	22
Wells Fargo	0	3	2	2	1	0	2	0	2	1	1	0	2	1	16
Bank of America	2	2	3	1	2	1	2	2	3	1	2	1	2	2	24
Apple	0	0	1	1	1	1	1	3	2	0	0	2	0	2	13
Citigroup	0	3	3	1	2	1	3	2	2	1	1	2	2	2	23
Chevron	0	1	0	1	1	1	2	2	3	1	0	1	1	2	14
Wal-Mart	0	1	1	2	2	1	2	0	2	1	0	0	2	2	14
AT&T	0	2	0	1	2	0	2	2	2	1	2	1	2	3	19
Verizon	0	3	2	2	2	1	2	2	0	0	0	0	2	3	18
Average	0.4	1.9	1.5	1.2	1.5	0.7	1.9	1.6	2	0.8	0.9	1	1.6	2.1	17.6

Figure 13: American Company Results

American companies scored quite close to Canadian and South African companies overall. The highest scoring company in the United States had 24 points (Bank of America), while the weakest score was 13 (JP Morgan). The difference between the highest and lowest scoring company was 11, similar to Canada. American companies scored highest overall in their management involvement in the report (Quality 2). Weaker scores tended to occur in transparency around sustainable development definitions (Quality 1), their materiality discussion (Quality 9), and the provision of user-friendly information on climate change (Quality 10). Including definitions of sustainability and sustainable development was a much lower score than any of the other case countries. The average score for American sustainability reports was 17.6.

6.2.4 France

	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg/Pos	Sust Perf	Assurance	Reg Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	
Company Name	1	2	3	4	5a	5b	6	7	8a	8a	9	10	11	12	
BNP Paribas	2	2	3	2	3	0	2	3	3		1	2	1	2	27
Total	1	1	2	2	2	1	2	3	3		0	2	2	1	17
AXA Group	1	1	2	0	3	1	2	3	3		1	2	0	1	19
EDF	1	1	2	2	3	1	3	3	3		0	2	1	1	22
Sanofi	1	1	2	1	2	1	2	3	3		1	2	1	1	20
Credit Agricole	1	1	2	1	2	1	2	3	3		1	1	1	1	19
Societe Generale	1	2	2	2	2	1	2	3	3		0	1	2	1	21
Orange S.A.	0	1	2	2	2	1	2	3	3		1	1	1	1	19
VINCI	2	1	2	1	2	1	3	3	3		1	2	2	1	23
L'Oreal Group	1	1	2	2	3	1	2	3	3		1	2	0	2	22
Average	1.1	1.2	2.1	1.5	2.4	0.9	2.2	3	3		0.7	1.7	1.1	1.2	20.9

Figure 14: French Company Results

French companies were the strongest with respect to total scores and quality scores for sustainability disclosures. The highest score for France was 27 (BNP Paribas) and the lowest score was 17 (Total). The difference between the highest and lowest score was 10. French companies scored highest overall in their corporate governance disclosures (Quality 3), their strategic outlook on sustainability (Quality 4), their inclusion of negative and positive information (Quality 5b), their measured performance (Quality 6), their provision of assurance (Quality 7), their awareness of compliance (Quality 8), and their provision of user-friendly information on climate change (Quality 10). Clear management involvement in their sustainability disclosures (Quality 3), and a discussion around materiality (Quality 9), and transparency on stakeholder involvement (Quality 11) were weaker qualities for French reports. The average score for a French report was 20.9.

6.3 Overall Results

Table 1: Overall Country Scores for Sustainability Reporting Quality

Country	Total Average Score	Rank
France	20.9	1
Canada	18.7	2
South Africa	18.4	3
USA	17.6	4

France had the highest report scores, with respect to overall average score at 20.9/35. The second highest report scores were with Canada, at 18.7/35, followed by South Africa at 18.4/35, and the US with 17.6/35. Because France also had the highest average scores in 7 of the 14 possible qualities, the French reports appeared to be the strongest sustainability disclosures, in defining effective reports as those that most align to the sustainability reporting scorecard.

6.3.1 Compiled Country Scores

Country	Quality	1	2	3	4	5a	5b	6	7	8a	8b	9	10	11	12
	SD														
USA		0.4	1.9	1.5	1.2	1.5	0.7	1.9	1.6	2	0.8	0.9	1	1.6	2.1
France		1.1	1.2	2.1	1.5	2.4	0.9	2.2	3	3	1	0.7	1.7	1.1	1.2
South Africa		1.1	1.6	2.1	1	1.4	1	1.8	1.4	2.9	1	1.4	0.8	1.8	1.3
Canada		1.2	1.5	1.5	1.2	1.6	0.7	1.9	1.1	2.2	1	1.1	1.2	1.8	2.2
Average		0.95	1.55	1.8	1.23	1.73	0.83	1.95	1.78	2.53	0.95	1.03	1.18	1.58	1.7

Figure 15: Scores for All Case Countries

Country scores were then consolidated into one spreadsheet, in order to compare how each country's average score for each quality compared to others, as depicted in Figure 15. France lead with the highest score in the most qualities (7), followed by South Africa (4), Canada (3) and the United States (1).

There is a low understanding of sustainable development and of sustainability more generally in the reports of all four case countries. Despite the prevalent use of the word “sustainability” in reports, companies seem to avoid explicitly defining sustainability in terms of their business. Despite annual reports often presenting and promoting corporate strategies, having a sustainability-driven strategy is still a relatively new practice for the case countries. Companies seemed to struggle linking environmental and social performance to their current corporate strategy, and often lacked a specific sustainability strategy with quantitative targets. Qualitative discussion seemed to be more prominent in all reports over quantitative data, as most case countries (with the exception of France) struggle to balance hard data with narrative and discussion on the indicators and values they provide. Sustainability performance appeared to be measured, however, across economic, social and environmental fields by all case countries. These scores were all relatively close to 2/3. The use of integrated indicators is thus still largely absent.

With respect to credibility, assurance standards are still quite divergent among different countries. The mandatory countries seemed to have not only more frequent adoption of assurance, but also more extensive assurance that covered some, if not the majority, of sustainability indicators. Assurance seems to be heavily tied to national requirements, as seen through the strong corporate governance scores of South Africa, where the King III Code for Corporate Governance targets this particular area. Most companies, regardless of country, adopt some type of voluntary standard, whether ISO 14000, the CDP, the GRI, or an industry specific standard. Thus, having some external party involvement with sustainability disclosures is apparent across the board.

Materiality assessments for sustainability issues were rare in the reviewed reports. South Africa had a higher score in this category, perhaps due to the integrated nature of their report, which could include materiality alongside sustainability discussions quite easily. Climate change was an issue that many companies would mention, but would not classify as a risk or material issue. For this reason, Quality 10 was modified to a 0-2 scale. Upon review of all case country scores, climate change is beginning to be mentioned in reports. However, it is often not discussed in detail, nor is it identified as a risk or material issue. Future research could consider how climate change is mentioned or discussed in regulatory filings in all countries (i.e. in the 10-K in the United States, and in Canadian annual reports). This dimension of sustainability reporting could be evaluated in and of itself in future studies.

The stakeholder inclusivity of reports was assessed through Qualities 11 and 12, and seems to suggest a trend of increasing stakeholder consideration, but without much transparency and without integration into strategic planning. It was often unclear how stakeholders were engaged, how frequently they were engaged, and how their concerns were included in company decision making around future goals. Despite this lack of complete transparency, reports are beginning to become more user-friendly, particularly the voluntary reports. Readability was quite high in the voluntary reports, due to their added use of colour, diagrams, and internet engagement mechanisms like hyperlinks.

6.4 Mandatory and Voluntary Combined Scores

Mandatory SR Average Score		Voluntary SR Average Score	
South Africa	21	Canada	15
	19		25
	22		21
	18		21
	17		22
	20		16
	18		17
	17		12
	13		24
	19		14
France	27	USA	13
	17		22
	19		16
	22		24
	20		13
	19		23
	21		14
	19		14
	23		19
	22		18
Average	19.65	Average	18.15

Figure 16: Total Average Scores for Mandatory and Voluntary Sustainability Reporting

Figure 16 includes the scores for France and South Africa, the two case countries representing mandatory sustainability reporting on the left, with the scores for Canada and the United States, the two case countries representing voluntary sustainability reporting, on the right. The total average scores for mandatory sustainability reporting countries was 19.65, while the same score for voluntary sustainability reporting countries was 18.15.

Mandatory Sustainability Reporting															
Country	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg Pos	Sust Perf	Assurance	Man Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	Total
Country	1	2	3	4	5a	5b	6	7	8a	8aa	9	10	11	12	
France	1.1	1.2	2.1	1.5	2.4	0.9	2.2	3	3	1	0.7	1.7	1.1	1.2	
South Africa	1.1	1.6	2.1	1	1.4	1	1.8	1.4	2.9	1	1.4	0.8	1.8	1.3	
Average	1.1	1.4	2.1	1.25	1.9	0.95	2	2.2	2.95	1	1.05	1.25	1.45	1.25	21.85

Voluntary Sustainability Reporting															
Country	Quality														
	SD	Mgmt	Corp Gov	Strategy	Balance	Neg Pos	Sust Perf	Assurance	Vol Stand	Vol Stand	Materiality	Cl. Change	Stakehdr.	Readability	Total
Country	1	2	3	4	5a	5b	6	7	8b	8bb	9	10	11	12	
Canada	1.2	1.5	1.5	1.2	1.6	0.7	1.9	1.1	2.2	1	1.1	1.2	1.8	2.2	
USA	0.4	1.9	1.5	1.2	1.5	0.7	1.9	1.6	2	0.8	0.9	1	1.6	2.1	
Average	0.8	1.7	1.5	1.2	1.55	0.7	1.9	1.35	2.1	0.9	1	1.1	1.7	2.15	19.65

Figure 17: Mandatory and Voluntary Countries Score by Quality

Figure 17 outlines that mandatory countries had higher scores in 11/14 qualities. However, two of these qualities are those not included in the total value on the sustainability reporting scorecard (Quality 5b and 8aa). Without these two qualities, mandatory countries would have the highest values in 9 of the 12 qualities. The qualities with the greatest advantage in score were Quality 1 (definition of sustainable development), Quality 3 (Corporate Sustainability Governance), Quality 4 (Strategic Outlook), Quality 5a (Balance of qualitative and quantitative), Quality 6 (Sustainability Performance), Quality 7 (Assurance), Quality 8a (Awareness of Compliance), Quality 9 (Materiality), and Quality 10 (Climate Change) in comparison to voluntary countries. It should be noted that Qualities 4, 6, 9, and 10 were very close to the scores of the voluntary countries (≤ 0.15 difference in scores).

Voluntary countries had the highest score in 3/14 qualities. When considering that the scorecard did not include Quality 5b and 8bb, voluntary countries have the highest scores in 3/12 qualities actually included in the scorecard total. Voluntary countries had higher scores in Quality 2 (Management Involvement), Quality 11 (Stakeholder Involvement) and Quality 12 (Readability) in comparison to mandatory countries. Qualities 3 and 11 were somewhat close in score to the mandatory scores (0.25-0.3 difference in scores).

6.5 Quantitative Analysis: The T-Test and Monte Carlo Method

Two T-Tests were performed on the data above. The first T-Test was performed on the total average score of each of the four individual countries. Four scores were thus included. These individual countries were then grouped based on if they had reporting regulation or not. This T-Test tested the mean difference in score between mandatory countries (France, South Africa) and voluntary countries (USA, Canada) to see if the difference that occurs is significant. The resultant p-value was 0.3866, which means there was not sufficient evidence against the null hypothesis. This t-test was thus inconclusive, and could neither support the hypothesis or the null hypothesis.

The second T-Test included all of the total scores of each company (40 scores). These scores were divided into the mandatory sustainability reporting and voluntary sustainability reporting groups. Here, every company score was included, resulting in 20 scores for mandatory, and 20 scores for voluntary. The average was thus taken for the entire group of 20 scores for mandatory companies, and another average was taken for the entire group of 20 scores for voluntary companies. The resultant p-value was 0.1823. This p-value, like the p-value of the first T-Test, means there was not sufficient evidence against the null hypothesis, and the t-test was thus inconclusive.

The third test performed was the Monte Carlo method. This statistical analysis includes the same sample of 40 scores, and divides them up into a mandatory and voluntary group. Then, each numerical score is detached from its true mandatory/voluntary grouping, and shuffled around approximately 10,000 times to test if the difference in the total average of mandatory and voluntary scores changed significantly. The observed difference in average score between mandatory countries and voluntary countries was 1.64. As seen in Figure 18, the distribution of the difference in the total averages of mandatory and voluntary scores most frequently occurred close to the 0 difference mark. This suggests that no matter if the score was denoted as belonging to the mandatory or voluntary group, the difference in average score did not change significantly. The observed difference in average score of 1.64 was plotted in Figure 18 on the graph, and lies in an area of high frequency, meaning that this mean difference in score is not a significant finding, as it lies within the middle of the curve. The observed difference of 1.64 occurred about 8000 times, even while detaching scores from their true mandatory and voluntary groups. Significant results would require this number to be located on the outskirts of the curve, which it is not. The resultant p-value of this test was 0.1581. The test does not show that there is any evidence of policy impacting the score of sustainability reporting. The results of the Monte Carlo method were, therefore, inconclusive.

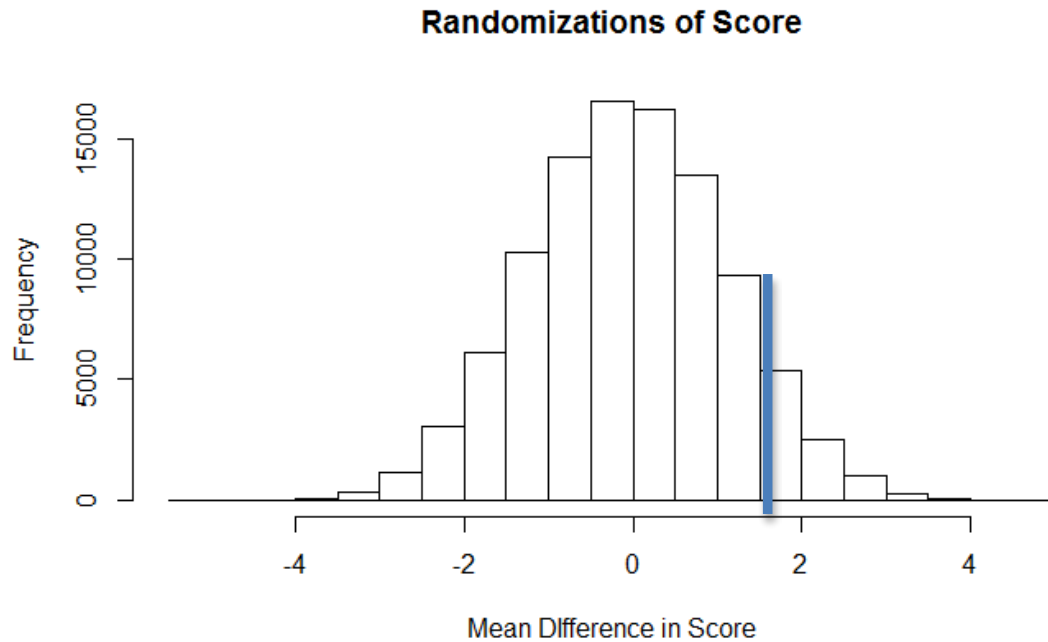


Figure 18: Randomizations of Score for Mandatory and Voluntary Scores Using the Monte Carlo Method

Please see the code and calculated data for the following quantitative analysis in Appendix 4.

6.5.1 Limitations

These statistical results neither prove nor disprove the hypothesis of this study. The use of the T-Test can only disprove the null hypothesis. The results are thus inconclusive for this reason. Some of the reasons why the results were inconclusive could be due to the small sample size. Because only 4 countries were used, and then divided into 2 groups of 2 countries each, there was minimal data to work with, which increases the likelihood of inconclusive results. A larger study could include more countries in the mandatory and voluntary grouping. There could also be additional confounding variables that contribute to the scores of each country, that do not include if the reporting was regulated or not. These potential confounding variables include socio-economic issues within countries and their governments, and differences in regulatory language, which may make some standards weaker than others. These can impact the scores companies receive on the scorecard, as well as the mandatory or voluntary nature of sustainability disclosures. These confounding variables are other factors that may impact the scores that companies receive, but cannot be quantified, and thus cannot be detected through a statistical analysis.

Chapter 7: Discussion

7.1 Preliminary Discussion

7.1.1 Analysis of Scores

The results of this study suggest that currently, the presence of policy on sustainability disclosures does not have a significant impact on the effectiveness of the resultant sustainability disclosures. This study did not have enough evidence to refute the null hypothesis, which was: there is no ideal or optimal policy for sustainability reporting, specifically between mandatory and voluntary policies. However, the results can also not conclusively state that there is no relationship with policy and reporting effectiveness. The use of both quantitative and qualitative analysis of the results allows for discussion of the close scores between the case countries, as well as various national and international trends on sustainability reporting.

7.1.1.1 FRANCE

France had the highest average score of 20.9 (refer to Table 1 in Results). The scores for French companies had a range of 17/35 to 26/35. French disclosures were found in the registration documents. Perhaps due to the intended audience of this report – “financial analysts, institutional investors and individual shareholders” – the language used is highly technical and there appears to be a minimal understanding of sustainable development present (AMF, 2013). Axa Group, EDF, Sanofi and Orange S.A. explicitly stated that their disclosures were written for an investor audience.

All French companies reported strong awareness of compliance to Grenelle II (see Figure 14), with all companies scoring a 3/3. Because Quality 8a measures awareness of compliance, it cannot be used to confirm if French companies are, in fact, fully compliant with the specific requirements of Grenelle II. Frequently cited Law 2010-799 of July 10, 2010 (implicated April 24, 2012) was mentioned as the law companies were abiding to, and/or they would mention Article 225 and particular subsections in which they were compliant. Commonly referred to subsections were s.102 and s.105. All French companies had full assurance on the scorecard, and scored a 3/3. This follows from the practitioner literature, which states that there must be verification of the disclosures in Article 225 (IRSE, 2012).

There were other common themes prominent in the French reports. For one, most sustainability disclosures typically were located in one section of the report. Eight companies included the Grenelle II information within a chapter in the body of the registration document. Two companies included their Grenelle II information in an appendix. It was not uncommon to have both a chapter on ESG/CSR/sustainability disclosures, and an appended Table of Concordance to Article 225, which was present for 5 companies.

Disclosures were typically organized in environmental, societal and social categories, as requested under the legislation (EY, 2012). This, however, did lead to significant compartmentalization of indicators under these three categories. Moreover, there appeared to be a weak understanding of sustainable development within the registration documents, despite Article 225 calling for “societal commitments undertaken

in favour of sustainable development” within the registration document (Malecki, 2011). This weak understanding of sustainable development, as assessed in Quality 1, likely contributes to the lack of explanation about sustainability strategies within the case companies, as assessed in Quality 4. Axa Group, Sanofi and Vinci all mentioned sustainability strategies without any context or description of what this means. This lack of transparency around a corporate understanding of sustainability and sustainable development may also impact the persistent scoring of 2/3 in Quality 3, corporate sustainability governance. French companies were good at mentioning a CSR and/or Sustainable Development department, but struggled to explain how responsibility and accountability was distributed through such departments. This is an area for further consideration by French public companies.

Environmental information was often not outlined as material to a company in France, but would nonetheless be disclosed because of Grenelle II. The difficulty in completing a materiality analysis for sustainability issues is potentially not as problematic with regulation like Grenelle II, as regulation, being prescriptive, can include environmental disclosures regardless of materiality. The provision of indicator guidance within the legislation could also contribute to the higher scores of French companies. Implementing a new sustainability reporting system can be potentially eased through a clear methodology of implementation, like a key performance indicator table.

Despite the strength of Grenelle in including environmental disclosures, the law is fairly weak in its request for economic information. Perhaps because companies were including these disclosures within their registration documents, economic information was easily overlooked due to the heavy presence of financial data in other areas of the report. However, Lozano and Huisingh (2011) note that economic disclosures are not financial disclosures in entirety. Rather, economic disclosures should include data on customers, value creation, market presence, raw materials, supply chain, liabilities, anti-corruption measures, earnings, acquisitions and mergers, market presence, local economic development initiatives, and wages, salaries and benefits for employees. Materiality was not discussed in most registration documents. When listing relevant indicators in appended tables, 5 companies used the phrase “information deemed the most important” as opposed to the term “material”. This is somewhat surprising, given that materiality is common to financial reporting, and the registration document is largely a financial report.

7.1.1.2 CANADA

Canada had the second highest score and had the strongest sustainability reporting effectiveness of the two voluntary countries, with a total average score of 18.7. Canadian companies’ scores were distributed with quite a range, from 12/35 to 25/35 (see Figure 11 in Results). This may be a trend for voluntary countries, as France and South Africa did not have the same difference in scores. Canadian public companies voluntarily report on their sustainability performance through voluntary reports, most often in the stand-alone report format. Many of the largest listed companies in Canada were banks, which means they would also include a Public Accountability Statement either appended to or separate from their sustainability report. Some Canadian companies had many separate documents to look at, such as RBC, who divided their sustainability report by theme. BMO and Suncor similarly had parts of their reports in separate documents. Although the

intention was to create report sections that speak to particular stakeholder groups, too much compartmentalization of sustainability disclosures can become confusing for the reader, and can isolate issues within a company that may in fact be integrated across operational lines. This dimension – readability – was assessed in Quality 12. The use of hyperlinked documents (as used in the TD, Canadian Natural Resources, and Bell) is much easier to navigate, and gives the reader the option to investigate further, as opposed to being forced to with a divided sustainability report.

Like France, Canadian companies struggled with scoring high in their materiality disclosures (Quality 9) and with their weaker use of economic indicators. Canadian companies were more inclined to report on social issues. They also tended to define sustainability from an environmental perspective, explicitly stated by 4 companies. For companies that did use the term materiality, the assessment was either separate from the report (Suncor) or it was defined from a stakeholder perspective, similar to how the IoDSA defines materiality in South Africa (Bell, CIBC).

Unlike France, Canadian companies included a heavy discussion of initiatives within their sustainability reports, emphasizing positive narratives and stories about employees and nearby communities. Canadian companies tended to either have no assurance (0/3) or some degree of assurance (2/3). This varied practice is possibly characteristic to voluntary reporting countries, where no verification mechanism is emphasized in regulation. Four Canadian companies mentioned a voluntary standard/standards, such as the GRI, but it was unclear to the reader how it was applied. Mandatory countries countered this concern with the use of compliance tables, or tables of concordance which demonstrated awareness of compliance (and generally improved scores for Quality 8). This study, however, was assessing awareness of compliance, as opposed to the extent of compliance.

Despite the push for companies to report on real-time data, Canadian companies used old data (> 1 year old) in some instances, most notably TD and Canadian Natural Resources. This may contribute to the lack of long-term target setting observed by most Canadian companies.

7.1.1.3 SOUTH AFRICA

South African companies scored an average of 18.4/35 with respect to their sustainability reporting effectiveness. This score trails just slightly behind Canada. The range in scores for South Africa were similar to that of France with a difference of 9; however, South Africa struggled to have one very high scoring report, with their highest score at only 22 (see Figure 12 in Results). South African sustainability disclosures were found in the integrated report, as these are the disclosures that are regulated under the King III Code. Half of the South African companies also released a stand alone sustainability report; these sustainability reports were not always reported annually, often only included some divisions of a business, or were quite short excerpts from the integrated report. However, in the words of South African energy company Sasol, “the annual integrated report is our primary report to stakeholders” (p.3). About half of the case companies did cross referencing between their integrated report and their sustainability report, to different degrees.

South African companies, as predicted, revealed confusion around understanding the audience of the integrated report due to their current experimentation period

(N.Morris, pers.comm., Dec.9, 2015). However, this is anticipated within the King III Code, as adopted by the JSE. Principle 9.1 of the Code states that integrated reporting should focus on “substance over form”, recognizing the various ways this new type of reporting may be interpreted. South African companies, like MTN Group, Sanlam, First Rand, and Bidvest Group, explicitly stated that their report was for providers of financial capital/shareholders. Some companies, like Remgro and Naspers, identified both shareholders and stakeholders as central audiences. Despite integrated reports being supposedly written for providers of financial capital, there appears to be confusion among South African companies on the intended audience (Eccles and Krzus, 2010; 2014; M.Krzus, pers.comm., Jan. 16, 2015). The King III Code states that: “...the board should take account of the legitimate interests and expectations of the company’s stakeholders in making decisions in the best interests of the company” (IoDSA, 2009a, p.9). Principle 9.2 in the King III Code, which requests sustainability reporting to be included within the integrated report, may be one influence that is leading the integrated report towards a more stakeholder-inclusive approach.

Defining materiality in integrated reports appeared to be towards material issues to stakeholders/society. First Rand, Steinhoff International, Standard Bank, and MTN Group explicitly stated their materiality measurement included stakeholders (i.e. beyond investors). Sasol referred readers to the sustainability report for their materiality matrix on sustainability issues. South Africa is a prime example of the difficulty between the legal definition of materiality, and proprietary definitions from external standard setters. The use of different materiality definitions by the IIRC (investor centric) and IoDSA (stakeholder-centric) creates conflicting understandings of materiality.

Like France, South Africa had a high awareness of their reporting obligation under King III, with most companies scoring 3/3. Most companies displayed this awareness through tables that stated their compliance to the Code. For example, 3 companies did this through an embedded table in the report, while 3 companies included compliance tables in referenced documents. However, assurance scores for South Africa were varied, with companies scoring between a 1 and a 2. This may be due to the “combined assurance model” suggested in the King III Code. This assurance model is defined as “integrating and aligning assurance processes in a company to maximize risk and governance oversight and control efficiencies, and optimise over all assurance to the audit and risk committee...” (IoDSA, 2009a, p.50). This focus on internal assurance may contribute to the lack of full assurance with an external assurance body, as assessed in Quality 7.

Another similar comparison to France is through the limited transparency around understanding sustainable development. Sustainability was largely defined with financial parameters in integrated reports. Commonly used terms included “commercial sustainability”, “sustainable profitability”, “sustainable shareholder value”, “sustainable economic value”, “sustainable growth”, and “sustain[able] organic growth of the business”. One reason for this could be the economic focus of sustainability in the King III Code, where sustainability is defined as, “having regard to the impact that the business operations have on the economic life of the community in which it operates” (IoDSA, 2009a, p.59).

7.1.1.4 UNITED STATES

American companies scored the lowest of the case countries, with a sustainability effectiveness score of 17.6. The difference in report scores was 11, with the lowest American score at 13/35, and the highest score at 24/35. American sustainability reports were all stand alone reports, with 4 companies including their sustainability disclosures in more than one report. Most reports were issued on an annual basis; however, American companies had some slower reporting cycles with Wells Fargo and AT&T issuing full sustainability reports on a biennial basis. This is potentially troubling given the current investor demand for real-time data (Participant B, pers. comm., Apr. 8., 2015).

Similar to Canadian companies, American companies had a range of scores in assurance (Quality 7). Most companies either scored 0/3 or 2/3, with 5 companies scoring 0/3. The demand for assurance thus does not seem as significant in voluntary reporting countries, likely due to the fact that there is no pressure to assure reports from governmental bodies. Despite low assurance rates, 9 American companies, with the exception of Verizon, followed an external reporting standard for either some or all of their sustainability KPIs.

American companies also had high readability scores, like Canada, with an average of 2.1/3. These similarities in voluntary country qualities can also be detected through Figure 17 in Results. Because the stand alone report is separate from financial disclosures, these documents were more stakeholder-oriented in their presentation, in comparison to registration documents and integrated reports aimed at shareholders. Because there is no regulatory body overseeing the report, and the report is not primarily written for providers of financial capital, reports from American and Canadian companies were typically easier to understand, included images and graphics, and were written with non-technical language. Despite high readability scores among case countries, American companies had low scoring disclosures on user-friendly information related to climate change. This was predicted, given the commentary of two sustainability professionals in sub study 1 (M.Krzus, pers.comm and D.Park pers.comm, 2015). American companies did not like to classify climate change as a risk, and often would not mention other legislative or negative performance topics in their sustainability report. American companies can be held liable for materiality claims in voluntary reports, which may motivate this lack of disclosure (SASB, 2015).

American companies seemed to score a range of scores on Quality 9, Transparency on Materiality. This may be because of the mixed understanding of materiality within American financial and sustainability reporting (D.Park, pers.comm., Jan.20, 2015; SASB, 2015). Material issues in financial reporting can be different than those in sustainability reporting; however, having a degree of transparency around these issues is important for understanding the sustainability risks and challenges a company faces. Half of American companies did not discuss materiality to any extent, while the other five companies showed some attempt to (scoring close to a 2/3). Including identified material information in a sustainability report holds a company liable to that information, and can be used as a material misstatement/omission, increasing the risk of liability (Sulkowski and Waddock, 2014; SASB, 2015).

7.1.2 Addressing the Hypothesis

The hypothesis of this study, as outlined in Chapter 1, predicted that countries with regulated sustainability disclosures, France and South Africa, would have higher overall scores than the voluntary countries. No predictions were made on the scores within each quality as sub study 1 occurred after the initial hypothesis. However, as discussed in the literature review and in the policy analysis of sub study 2, mandatory countries typically have more extensive assurance practices, and typically discuss a wide variety of topics, albeit not in elaborate detail. Voluntary reports typically engage with a broader audience of stakeholders, and are criticized for being public relations pieces (Gray, Owens & Adams, 1996; Fonseca et al., 2013). Recognizing that this study defined sustainability reporting effectiveness in relation to the created scorecard, mandatory sustainability disclosures in previous studies had stronger correlation to sustainability reporting excellence and quality than voluntary disclosures (Kolk and Perego, 2010; Morrow et al., 2013).

The null hypothesis of this study, that there is no ideal or optimal policy for sustainability reporting between mandatory and voluntary policies, cannot be proven given the inconclusive results of the statistical analysis performed at the end of sub study 3. Yet, there was also insufficient evidence to support that mandatory or voluntary makes a difference, likely due to the close scores (20.9, 18.7, 18.4 and 17.6) and the small country sample size. Despite a perceived trend by Kolk (2008) that assurance for sustainability elements within an annual report is a new trend, this information is often reviewed in alignment with the registration documents and integrated reports included in this study, making them more likely to be reviewed.

There is evidence that the quality of sustainability information in France and South Africa was more credible due to the collective assurance scores, corporate governance scores, and the consistent use of an external voluntary standard (see Figure 15 in Results). The management involvement in France and South Africa, however, was lower than the scores of Canada and the US. This suggests that management is more hesitant to disclose their direct relationship to sustainability disclosures when they are included in regulated documents.

7.2 Analytical Discussion

7.2.1 Commentary on Case Countries and their Governance Structure

As discussed in the new governance literature, traditional top-down government systems were not prevalent for the mandatory countries of this study (Tollefson et al., 2012). Rather, stock exchange regulation and government requirements were the sources of regulation, central in determining the content of disclosures, and the extent of

regulation (GRI et al., 2013). The AMF in France (the government's financial regulator) and the JSE in South Africa (the national stock exchange), are market-based parties central to mandating ESG disclosures for listed companies. This use of quasi-governmental rule through market regulators supports the new governance literature, and the spectrum approach to reporting.

Despite the use of two groups of countries in this study – the most mandatory reporting countries and the most voluntary – the historical and current governance structures in these countries are different. As noted by Barbu et al. (2014), the legal, social, financial, cultural and political contexts of a country impact the resultant environmental disclosures. France may be the most effective reporter in this study, due to the relatively long legislative history sustainability disclosures have, in comparison to South Africa. France exists within a supranational and national governance system, both of which have a legislative history of non-financial disclosures. This includes following EU guidance as early as 2001, as well as their own national NRE Act of 2001 (EC, 2001).

Meanwhile, South Africa has a unique social, political, and economic history, especially when considering its previous apartheid regime (King et al., 2010). As an emerging economy, they also have experienced growing economic competition from Brazil and China (M.Krzus., pers.comm., Jan. 16, 2015). Yet, their integrated reports are ranked the strongest in the world, and give South Africa a competitive advantage over other developing nations (Eccles and Krzus, 2014). The “learning curve” for South Africa is thus just starting, whereas the French practice started almost 15 years ago.

The governance structures in the voluntary case countries are also going through unique periods. The SEC is in the process of reclaiming institutional independence. In 2010, the SEC clarified existing disclosures on climate change (Boecher, 2010). Yet, there remains debate within the US about regulating sustainability disclosures. The current American SEC chair, Mary Jo White, has recently emphasized the SEC's independence from the legislative and judicial systems of government. She suggests that legislated requirements over securities dealings is not warranted, as: “...other mandates, which invoke the Commission's mandatory disclosure powers, seem more directed at exerting societal pressure on companies to change behaviour, rather than to disclose financial information that primarily informs investment decisions” (White, 2013). This calls into question the future of US securities regulation as a source of sustainability disclosures. Coburn and Cook (2014) support this anti-regulatory stance by suggesting that voluntary disclosures are becoming more popular over 10-K disclosures. American companies will likely follow a voluntary, market-driven trajectory whereby competitor pressure will drive companies to report as opposed to regulation (M.Krzus, pers.comm., Jan. 16, 2015).

In Canada, the lack of a national securities regulator challenges a market-driven, collective sustainability disclosure requirement. Similar to the US, there has been no substantial response to the 2010 CSA Staff Notice 51-333, similar to the interpretive release in the US in the same year. However, there is awareness that climate change presents physical, regulatory, reputational, and litigation risk to all Canadian companies. Institutional investors are increasingly looking for climate change disclosures in corporate reports (Desjardins and Willis, 2009). The use of the Public Accountability Statement by banks, coupled with the intensive resource sector in Canada may contribute to the relatively high quality voluntary reporting observed in this study. Although sectors

were not considered in the sample of this study, Canada appears to align with the predicted high quality reporting observed in environmentally sensitive sectors (Cho and Patten, 2007; Brammer and Pavelin, 2008).

Despite similar governance systems (see section 4.3), there are distinct features prevalent in each of the mandatory and voluntary countries. One such feature, the reporting format, largely aligned with the three discussed formats in the literature (Gray and Herremans, 2011; Eccles and Krzus, 2010; KPMG, 2013). As assessed in sub study 2, stand alone sustainability reports are not regulated in any jurisdiction at this time. The complex reporting formats of regulated disclosures, and the stand alone format common to voluntary reporting, may impact the effectiveness of sustainability disclosures, particularly from a stakeholder approach.

7.2.2 Complicated Report Formats

Sustainability information is displayed in a variety of complicated report formats; this was not anticipated due to the numerous studies that clearly delineate mandatory and voluntary sustainability disclosures (GRI et al., 2013; IRI, 2014; Barbu et al., 2014; Scholtz et al., 2014). Because the implementation method of reporting (mandatory or voluntary) was the dependent variable, only those disclosures relating to the respective regulation were reviewed. Yet, most French companies and half of the South African companies issued both regulated and voluntary sustainability reports. Canadian and American companies may have also disclosed information in their regulated filings; however, this was beyond the scope of the study. There is an era of experimentation within sustainability reporting which is both problematic for future sustainability reporting, and promising for those who wish to see sustainability integrated into financial reporting.

Reviewing French and South African reports took a substantially longer time than Canadian and American reports. One reason for this imbalance is the cross referencing, and the need to search for sustainability information within financial disclosures (Brockett and Rezaee, 2012). Cross referencing can be done in a user-friendly way, evident in Crédit Agricole's voluntary sustainability report, where a correlation table matched pages of the report to both voluntary and mandatory requirements. Cross-referencing raises the question. Please see a sample of the table below in Figure 19.

CORRELATION TABLE

Indicators	Pages	Article 225, Grenelle 2 law	Global Reporting initiative (G4)	ISO 26000	Principles of the Global Compact
ABOUT THE GROUP	Inside cover				
MESSAGE FROM THE CHAIRMAN AND THE CEO	3		1	6.2	1, 8, 9
PEOPLE AND ACTIONS	4-5				
SUPPORTING REGIONS ON SUSTAINABLE DEVELOPMENT					
Listening to stakeholders	7-9				
Joint decision-making	7	3.a, 3.b	4	5.3.3, 6.2	
The tools of solidarity	8-9	3.a, 3.b	SO1, FS14	5.2, 6.2, 6.7.8, 6.8.5, 6.8.7, 6.8.9	1
The region: a growth incubator	9	3.a, 3.b	SO1	5.2, 6.2, 6.8.5, 6.8.7, 6.8.9	
Offering innovative products and services	10-12				
Bank card: turning an every day action into a good deed	10-11	2.b.2	EN26	6.5.4	8, 9
Responsible finance	12	2.a.3, 2.d.2	EC2, EC9, FSS, FS16	6.5.5, 6.7.5, 6.7.9	8
Responding to societal challenges	13-15				
Support in the face of dependency	13	3.b	SO1	6.8.3, 6.8.8, 6.8.9	

Figure 19: Sample Correlation Table, Credit Agricole CSRR 2014-2014, p.40.

These correlations to different reporting standards can also be depicted with visual cues (i.e. Standard Bank's integrated report). In most instances, finding information relating to King III and Grenelle II required more searching due to the long length of regulated documents, and the heavy use of both qualitative and quantitative information. These results suggest that legislative requirements may not present the most stakeholder-friendly approach to disclosure, and run on the assumption that investors are the primary audience for these reports (Brown and Fraser, 2006; O'Donovan, 2002).

Through the findings of sub study 3, it appears that the reports in the case countries aim at different audiences. This result was not anticipated, given the heavy emphasis on stakeholder inclusivity in the literature (Azapagic, 2004; Moneva et al., 2007; Lydenberg et al., 2010; GRI 2013a; 2013b). Moreover, the recent movement towards targeted transparency requires the public to be able to interpret and understand information, in order to change their behaviour (Fung et al., 2007). Regulated disclosures may not be the most conducive to this, as information is not structured in such a way that stakeholders can understand; this agrees with previous criticism of mandatory environmental and social disclosures (Larrinaga et al., 2002, Case, 2005; Hess, 2007). Despite this perceived trend, the current likelihood of finding sustainability disclosures in regulatory filings is quite low (Coburn and Cook, 2014). The stand alone report has

become the primary location for environmental, social, governance, and economic disclosures in most jurisdictions (Gray and Herremans, 2011). A potential or current investor may struggle to find whether sustainability information would be in the annual report or the sustainability report. It appears that regulated sustainability disclosures serve the business case approach, as these regulated reports are primarily intended for providers of capital in the first place (Brown and Fraser, 2006; Lozano, 2013). Voluntary disclosures are more likely to be useful for a broader group of stakeholders, or for investors who wish to find additional information beyond materiality requirements. Thus, embedded sustainability reporting (i.e. in annual and integrated reports) and stand alone reporting becomes challenging to navigate when sustainability disclosures are being written in either one or both of these different reports, and for two different audiences.

7.2.2.1 An Issue with Integrated Reporting

At the beginning of this study, it seemed that integrated reporting would be one format that could mitigate the concerns of a dual report system. However, there is a remaining problem with integrated reporting, in that it struggles to address and balance of different stakeholder needs, which aligns with initial concerns (Eccles and Krzus, 2010). This struggle also exists with other reporting formats; however, integrated reporting was predicted to alleviate some of these concerns. The struggle to coordinate a balance between financial and non-financial information is not clear in the literature, and will be evaluated.

The purpose of the integrated report is to have all material financial and non-financial information in one place (Eccles and Krzus, 2010; 2014). Within South Africa, some companies now release only an integrated report, while others continue to also release separate sustainability reports. These reports are, according to the IIRC, written for different stakeholder groups. The integrated report is for investors, as it is a JSE listing requirement, and outlines the material issues of a company, and state broader sustainability challenges facing the organization (IIRC, 2013). Yet, the Institute of Directors of Southern Africa, the authors of King III, suggest that it is written for stakeholders. There appears to be a contradiction of the intended audience of the integrated report within the country that started it. The detected absence of some sustainability reports in South African companies may neglect to address those interested in sustainability disclosures. The reviewed South African companies struggled to define materiality in one concise way, using both investor and stakeholder-centered definitions. This places these companies at risk of litigation (SASB, 2015). Moreover, approximately half of South African companies had difficulty connecting their strategy to sustainability, perceiving strategy as primarily financially driven, despite the six capitals model (IIRC, 2013). Even with regulatory guidance, issues of implementation prevent one uniform report format. The integrated reporting movement must be aware that it does not become part of the “trend of increasing sophistication amongst people who understand these issues [and aim] to prevent these debates” (R.Gray, pers.comm., Jan.14, 2015).

7.2.3 The Shareholder and the Stakeholder: Addressing Different Audiences

This study supports the tension between the shareholder and stakeholder approach common to the corporate reporting, agency theory, and legitimacy theory literature. The

shareholder and stakeholder debate is prominent in this study. An important question remains after this study: who are sustainability disclosures for? Stakeholder theory suggests that reports should be aimed at the most important stakeholders to the company. Agency theory suggests that reports should be aimed at investors, given their contractual relationship to the company. Legitimacy theory suggests management should use reports as a way to support the company's agenda, and thus reports should be used as positive branding to the public. This study, contrary to the literature, seems to discover a binary relationship emerging whereby regulated disclosures aim more at the investor, while voluntary reports address general stakeholder concerns.

Aiming regulated disclosures to investors makes economic sense to a public company, as they are the primary way a public company will grow and continue to exist. Because annual reports and registration documents are primarily intended for investors, including sustainability information in these documents naturally directs this information to these audiences. The IFRS states that information in financial reporting is material “if omitting it or misstating it could influence decisions that *users* make on the basis of financial information about a specific reporting entity” [emphasis added] (IFRS, 2014). These users are explicitly defined, referencing sections of the conceptual framework of the International Financial Reporting Standards (IFRS, 2014):

The objective of financial reporting...refers to existing and potential investors, lenders and other creditors... 'regulators and members of the public other than investors, lenders and other creditors' may find information in general purpose financial reports useful but clearly states that those are not the parties to whom general purpose financial reports are primarily directed.

Therefore, once sustainability information is included in an annual report, the primary audiences of this information are the users listed above – investors and creditors – in other words, those that have a financial interest in the respective company. Placing the future of sustainability outcomes on investors is both promising and risky. It is promising due to the perceived change in investors, and the recent push for more information on sustainability performance (Participant B., pers.comm., April 2015; Brockett and Rezaee, 2012b). The socially responsible investment community, and their demand for sustainability information as a measure of risk, has increased the demand for sustainability disclosures (Morrow et al., 2013; Morrow and Yow, 2014). Investors carry with them great potential, as “once investors can understand the sustainability performance of companies and the sustainability impacts, they can make decisions that drive capital to the most sustainable outcomes” (D.Park, pers.comm., Jan. 20, 2015). Investors also have a legal relationship to companies (through the principal-agent contract), which gives them significant leverage in the demands for disclosure (Adam and Whelan, 2009).

Investors are a risky audience for sustainability disclosures in that “the primary challenge is having companies view environmental and social issues as being material to them...these issues are not material because they don't have any real financial impact...” (Doug Park, pers.comm., Jan. 20, 2015). Because investors determine materiality primarily based on financial impact, sustainability disclosures must be connected to this. The soft law approach of mandatory sustainability reporting leaves the investor as a

primary accountability and enforcement mechanism. Grenelle II's primary enforcement mechanism is the shareholder, who can bring legal action against the company for omitted disclosures (Ministère des Affaires Étrangères, 2012). Apart from socially responsible investors, many investors' interests revolve around generating financial gain from their respective financial interests. This also makes investors a risky audience for sustainability disclosures as sustainability is often not associated with financial gain. In other words, profit drivers generally come before sustainability on the hierarchy of importance to investors that lack a socially responsible motive. Therefore, if investors have personal financial gain as a main driver of their decisions, this could result in poor quality sustainability disclosures if investors are the target audience.

Will investors know what the "sustainable outcomes" are? Will they consider environmental and social risks material? Will they hold companies accountable to environmental and social impacts? If mandatory sustainability reporting continues to place environmental, social, governance and economic information within documents intended for investors, the future of positive sustainability impacts by companies is left with one select group of stakeholders, to which financial return is the highest priority. There is no way for those without a financial share in the company to hold the company accountable, especially if shareholders are the only enforcement mechanism, and companies can use escape clauses to avoid compliance. According to targeted transparency, the public needs to have enough relevant information to force a company to change its behaviour (Fung et al., 2007; Mitchell, 2011). If sustainability disclosures in regulated documents cannot provide user-friendly information to members of the public (who are not investors), these stakeholders may not be able to place pressure on companies, and may lack information that would change behavioural decisions. In a society where there are many other affected parties from corporate decisions, transactions, and developments, this is a risky path for future sustainability reporting to take, and should be re-evaluated in greater detail (R.Gray, pers.comm., Jan 20, 2015).

7.2.4 Operating within the Accountant's Paradigm

"Experiences shows that, organizations will not want an account that threatens the credibility of their whole raison d'être." – Gray, 2010, p.52

Critics of current sustainability reporting (see the critical theorist perspective in 2.2.6.3) argue that institutional changes are required to advance sustainability reporting. For one, there is some degree of distrust with accountants assessing sustainability performance due to previous errors with the financial accounting industry. Gray and Herremans (2011) argue: "If the financial markets were unable to assess the financial performance of a corporation from its financial statements, this would be entirely unacceptable. Why might it be acceptable with sustainability reports?" (p.420). From a more ontological perspective, the worldview of accountants is much smaller than the worldview of sustainability. Crowther (2012) posits that:

...The various uses of accounting as a basis for the measurement of past performance bind the whole organization throughout time into a unified whole...this binding of the organization into a unified whole is however only

possible at the expense of simultaneously separating the organization from its external environment. Thus accounting, when used traditionally, considers solely the organisation itself and the effects of that organisation's actions only upon itself, rather than recognising any interaction between the organization and its environment (p.35).

Accountants currently operate under the assumptions of agency theory, which fails to consider other interactions that occur between a company and the biosphere (Gray and Bebbington, 2002). Critical theorists argue that, "sustainability reporting requires a detailed and complex analysis of the organisation's interactions with ecological systems, resources, habitats, and societies, and interpret this in the light of all organisation's past and present impacts on those same systems" (Gray and Milne, 2007, p.195).

Accordingly, company performance and impacts cannot be reduced to financial and cash flow decisions; rather, companies need to be seen as part of a larger system on which they are dependent on (Gray, Owen and Adams, 1996). Larrinaga et al. (2002) note in their research that accounting standards do not include a long-term view, external costs and benefits, or impacts on ecological entities. The lack of expertise of accountants on environmental and social disclosures, and on forward-looking information, offers an additional argument against sustainability information being included in annual reports. South African accounting firms, for example, must now audit sustainability disclosures in the integrated reports of public companies. Neil Morris, a chartered accountant at KPMG in South Africa expressed his concern around his profession's responsibility with this practice. "The auditors", he stated, "get really, really nervous around forward-looking statements and whether they can provide assurance on it" (Pers.comm., Dec. 9, 2014). Yet, corporate reporting is becoming more and more centered on a forward and outward looking perspective (Crowther, 2012). As the results of this study suggest, the inclusion of sustainable strategies with measurable targets and goal setting within sustainability disclosures are still in the very early stages.

7.2.5 The Mandatory and Voluntary Debate: Is New Governance the way to go?

New governance, a central theory in the mandatory and voluntary debate...is based primarily on voluntary performance standards. Law does play a role, but more as a procedural framework than as a 'policy instrument' (Eberlein & Kerwer, 2004, p.131). The results of this study, specifically sub study 3, suggest that voluntary reports are not as poorly written as the literature suggests. Yet, when considering the scorecard tallies, both mandatory and voluntary countries scored quite low, with averages between 50% (US) and 60% (France) of the total possible points. Even with the existing soft law mandatory standards, sustainability disclosures are still relatively weak. This could be due to the emphasis on sub-topics of sustainability (i.e. corporate governance, environment) as opposed to including environmental, social, economic, and governance disclosures altogether. France tended to focus on environmental and social topics, while South Africa had significant focus of corporate governance and social topics, but lacked discussion on environmental issues. Weak total disclosure could also be due to relaxed standards and/or

poor implementation of existing standards. Evaluating the value of existing standards is beyond the scope of the study, but is an area of future research.

The use of escape clauses in mandatory reporting is potentially a barrier to future reporting quality improving. Because companies can escape particular requirements through explanation, there is little push to improve not only reporting quality, but also the enforcement of reporting standards. Case companies would write that certain indicators were “not applicable”, sometimes without explanation. Since standards are loosely enforced, there is no regulatory “teeth” to push companies to be more transparent. This is potentially why France and South Africa, despite having enforcement bodies, have similar reporting scores to Canada and the US. Although stronger on most qualities, mandatory countries do not show a significant improvement. Even if the standards included were considering sustainability more holistically, if the standard is not held to account and enforced, the reporting quality will not improve. Escape clauses can also eliminate the competition to have the strongest mandatory disclosures, countering the prediction of Lydenberg et al. (2010). Elimination of competition through weak standards prevents policy innovation and best practices development, which are notably two strong suits of voluntary reporting. The only way societal actors will become knowledgeable and effective in a soft law system that depends on transparency, is if companies are more transparent and forthcoming on holistic sustainability performance.

Mandatory reports supported previous criticism of enforcement bodies failing to stringently implement policies (Ioannou and Serafeim, 2011; CDSB, 2012; Sulkowski and Waddock, 2014). However, as Ioannou and Serafeim (2011) note, laws and regulations around sustainability reporting take a number of years to materialize. This study did not entirely support the criticism that mandatory policies aim at minimal compliance, as Quality 8 had high scores for awareness of compliance (see Figure 17). Voluntary reporting largely aligned with criticisms identified in the literature. American and Canadian reports defined sustainability in various ways, evident in the variety of titles given to these reports (Langer, 2006). Different indicators were discussed, supporting the claim that comparability is difficult in voluntary reporting (WBCSD, 2013; Fonseca et al., 2013). The avoidance of materiality and climate change risk agrees with Jeucken’s (2001) and Case’s (2005) assessment that voluntary reporters do not wish to disclose risky or confidential information that could put the company in a litigious situation, or at a competitive disadvantage.

Like the spectrum approach of sub study 2, so, too, is sustainability reporting governance on a spectrum between soft and hard law. Existing sustainability reporting regulation lies far on the end of the soft law approach. This allows for a flexible policy approach, as companies, market regulators, and governments can innovate through collaboration. Yet, there is also a risk of new governance-inspired policy, due to the absence of a government’s regulatory power. In this era of “governing without government”, the implementation of new governance may require modification to improve the quality of sustainability reporting in mandatory countries. Despite being a multi-actor model of governance, there was not extensive stakeholder involvement in the requirements of France and South Africa. Focus was instead centered on the board of directors’ approval. Moreover, as revealed through sub study 1 interviews and sub study 2, it is difficult to find how Grenelle II and King III are enforced (largely because they are still being interpreted). Soft law systems need to improve their stakeholder

involvement throughout the application of a standard, but they also need to be more binding on compliance obligations. This approach may initially be repelled by market regulators and securities exchanges; however, the power differentials that remain in soft law, and the lack of accountability mechanisms in new governance policy are problematic areas that are present in sustainability reporting legislation (Leman, 2002; Rhodes, 1996). Thus, although new governance may empower additional actors, the lack of an inclusive stakeholder approach and absent enforcement mechanisms suggests that an improved version of new governance is required for substantive results in sustainability reporting.

7.2.6 Addressing Some Broader Concerns In Sustainability Reporting

“We’re in the world of the ‘should’ right now... like what companies should be doing. It’s not necessarily what they are doing.” – Participant B

The worries of the critical theorists are supported by the observed trends in this study, of repeated economic conceptions of sustainability, and the lack of integrated indicators in sustainability disclosures. Critics posit that determining the purpose of sustainability reporting, and its contents, is an ontological question that precedes the mandatory and voluntary debate (R.Gray, pers.comm., Jan.20, 2015). In moving beyond the mandatory and voluntary debate, more radical perspectives should be considered that question the current corporate understanding of sustainability, and call for institutional changes. As seen in Quality 1, the definition of sustainability is often manipulated to serve a financial purpose, such as “sustainable shareholder value”, or “sustainable returns”. Sustainability reporting, whether mandatory or voluntary, is criticized for its misunderstanding of sustainability, its discounting of other value systems, and for the institutional inertia it supports.

Sustainability reporting is accused of focusing on short-term temporal scales, and on primarily economic interests over social and environmental ones; this can negatively impact sustainability reporting quality. Voluntary sustainability reports have been accused of perpetuating existing problems by avoiding true sustainability, as they are written to legitimate practices that continually exploit people and the environment, through features such as self-selected indicators and weak assurance requirements (Gray and Milne, 2007). The technical economic and financial language prevalent in mandatory reports supports criticism that companies distort definitions of sustainability to serve their own interests, echoing legitimacy theory once again. If companies convince the public they are portraying sustainability through reports, and a particular threshold is set as being the “best practices” for reporting, this threshold of sustainability is seen as legitimate, and becomes accepted. In this way, transparency through reporting can be used to manipulate the public, convince them of some managerial conception of sustainability, and in fact reduce concerns on quality performance improvements (Deegan, 2007; Duff, 2014). Reports could serve as barriers preventing change (Bebbington, 2007; Moneva et al., 2006; Gray, 2010). From a more optimistic perspective, reports could serve as a mechanism to begin transitions to new value systems. Sustainability reports can “serve to change management strategies and

information systems and in turn lead to changes in management philosophies and practices” (Buhr, 2010, p.67).

New value systems for measuring environmental, social and economic performance could be included in sustainability reporting, and create more substantial change than existing standards. A more integrative sustainability paradigm would not only recognize the exchanges that currently occur, which are material exchanges, but would also consider ecological exchanges with the biosphere, and nonmarket exchanges with the sociosphere (Gladwin et al., 1995). Although these other systems of exchange seem foreign, they suggest that there are other ways to measuring value that exist beyond the current industrial paradigm that created environmental, social and economic problems. This is similar to the tension between prioritizing shareholders (a financial argument) and stakeholders with the environment (a moral argument). As Rob Gray points out, there are different value systems that companies currently do not consider in their operations. “The pursuit of shareholder value,” he argues, “is a political and religious belief. It isn’t a fact...it’s a political belief based on neoliberalism” (Pers.comm., Jan.14, 2015).

Institutional inertia is a factor that may also contribute to the current and future quality of sustainability reporting. According to Moneva et al. (2006): “the understanding of the meaning of sustainable development, the three dimensions/pillars of sustainability (TBL) and their interactions has been changing as the concepts have been analysed, reinvented and operationalized for institutional purposes” (p.134). The idea of institutional change, especially those that deal with the market of industrial society, is a painful and discomfoting thought to companies, organizations, governments, and individuals. However, this may be required in order to accommodate new value systems that aim to eliminate negative impacts to the climate, reduced material consumption, and more extensive social equity. Should new economic systems outside of capitalism be seriously considered, existing reporting mechanisms – both mandatory and voluntary – would be deemed insufficient, especially given the very low scores on the existing scorecard in sub study 3. Currently, mandatory reporting, “will not necessarily diminish the corporate concern to maximize shareholder wealth so long as the institutional pressures and remunerative mechanisms...remain intact” (Adams and Whelan, 2009, p.130).

Chapter 8: Conclusion

8.1 Contributions of this Study

In a discussion about improving sustainability reporting, Rob Gray raised an important point about the practice that comes “pre-legislation”. He said:

“...it’s the idea that we actually want to know the extent to which companies are unsustainable and the extent to which we have to change our way of life”

- personal communication, Jan. 14, 2015.

This study, through the creation of a scorecard, the policy analysis, and an evaluation of both mandatory and voluntary reports, contributes in some small way to this larger debate of improving sustainability measurements, and ultimately performance. The usability of the scorecard, coupled with the insights of sub study 2 and 3, offer an understanding of the intricacies of sustainability reporting policy, and suggest there is opportunity for both mandatory and voluntary reports to improve in the future.

This study provided methodological, academic, and practical contributions. The scorecard of this study developed in sub study 1 (see Appendix 3) is the main methodological contribution, as it offers qualities to measure the effectiveness of a sustainability report, a concept that is not discussed in the literature in great detail. It takes the key themes from expert interviews, and combines them with previously used scoring methods to assess the strength of a sustainability report. The fact that this scorecard can be used in both mandatory and voluntary jurisdictions with Quality 8 is also a new and useful contribution of this study, especially given the increasing trend of mandatory disclosures. This scorecard has been used on stand alone reports, registration documents, and integrated reports, which makes it dynamic and useful in different corporate environments and countries.

The academic contribution of this study primarily impacts the governance literature on the mandatory/voluntary debate, and also contributes to the sustainability reporting literature more broadly. This study contributes to the mandatory/voluntary debate by evaluating the degree of regulation, and making an assessment on their effectiveness, which has not been done before (Scholtz et al., 2014). It also contributes by suggesting there is no significant difference between mandatory and voluntary standards at this time, through statistical verification. However, the breakdown of the scores for each quality reveal that there is the potential for mandatory disclosures to create more high quality reports if they can be more user-friendly. This study also reveals that mandatory disclosures, despite their perceived strength in credibility, are investor-centric and often relax compliance through policy mechanisms like the ‘apply or explain’ principle. This observation supports the new governance literature, which suggests that less government involvement is an increasing trend in regulation. This study also contributes to emerging research on integrated reporting, through its discovery that this practice follows a business case approach, and must resolve the tension on its intended

audience. This study adds support to existing research that suggests the format of the report is linked to the purpose and audience of report, and thus changes its content.

This study also has practical contributions for non-academic readers, such as current companies and policy makers. The extensive policy analysis in sub study 2 provides a collective summary of sustainability reporting policies in 7 countries for interested parties. The scorecard is also a positive contribution to any company or organization wishing to measure their sustainability reporting quality, or used as an outline to help first-time reporters. At a national level, this study provides an initial assessment of sustainability reporting for each of the four case countries, and could help these countries improve their current reporting practices through review of the data. For international policy makers, this study provides an in-depth look at the advantages and disadvantages of regulation. It explores two different approaches to regulation -- the indicator intensive policy of Grenelle II, which can create text-intensive, technical reports, compared to the principle based guidelines of King III, which can create a diversity of reports, and neglect environmental issues. This study's analysis of the reporting policies, and the resultant assessment of their effectiveness, can provide some initial understanding to the policy community, given that recent reporting practices are relatively new and experimental.

8.2 Summary of Findings

A summary of the study results can be found in the Preliminary Discussion section of the Discussion chapter. Three major findings come from this study, with 2 secondary findings. Each finding is associated with a sub study of the Methods.

- There are 12 areas of sustainability disclosures that are perceived as being the most important to effective sustainability reporting. The sustainability reporting scorecard demonstrates these themes (Appendix 3).
- In the study's sample, France and South Africa currently have the strongest sustainability reporting requirements, due to their government and stock exchange mandates. Canada and the United States have the weakest reporting requirements, as neither the stock exchange nor the government has offered regulation over sustainability disclosures at this time. These countries are international examples of voluntary reporting.
- There is, at this time, no significant difference between the scores of companies from mandatory reporting countries and companies from voluntary reporting countries. France has the most effective sustainability disclosures currently, followed by Canada, South Africa and the United States.
 - The existing format of reports is varied depending on the country evaluated. This is confusing for investors searching for disclosures, and for stakeholders who wish to inform themselves on corporate activity.
 - Sustainability reporting, especially when regulated, is centered on meeting the needs of investors and providers of capital. This is problematic, given the increasing attention given to broader stakeholder groups and the environment, and the existing

environmental and social problems perpetuated by the capitalist economy.

8.3 Further Areas of Research

There are two main areas of research that stem from this study. The selected qualities evaluated on the scorecard, and the use of a scorecard for measuring report effectiveness, are possible areas of future study. Further research on the benefits of using one scorecard, as chosen in this study, and multiple scorecards (i.e. Morhardt et al., 2002), does not appear to be evaluated in the literature, and is a future research gap that could be analyzed.

Secondly, further research could be done to enhance the credibility of this study, by scaling up the study to include more countries, and by interviewing more international experts. Because only 4 countries were reviewed, it is difficult to state international patterns around sustainability reporting, and to provide statistically significant results due to the small sample size. Six professionals were interviewed, in order to create the scorecard in sub study 1. Interviewing additional experts from current case countries and others would further support existing qualities, and/or address other sustainability topics that should be included measures of reporting effectiveness.

Further research could also be done on the format of corporate reporting, and how effective various forms of reporting are in communicating sustainability information. Specifically, it would be insightful to research the possibility of writing integrated reports not for providers of capital, but for all stakeholders, as the Institute of Directors of Southern Africa initially suggested. Lessons learned from emerging economies may serve to be useful for developed economies as well, as this study suggests that they consider and integrate corporate governance and social considerations more extensively than their European and North American counterparts. Investigating if it is even possible for this type of integrated report to exist, on an ideological level, would be useful for academics and policy makers interested in the future of corporate reporting. The current landscape of reporting is messy – determining the most conducive report structure that embodies a stakeholder-accountability approach and the environment, as outlined by Brown and Fraser (2006) and Kolk (2008), would potentially simplify the currently complex reporting space.

8.4 Concluding Remarks

This study suggests that the mandatory/voluntary nature of sustainability reporting does not have a significant impact on the effectiveness of the report. However, it also suggests that the recent trend of mandatory sustainability reporting aims primarily at investor needs. Governments need to start requiring companies to report on environmental, social, economic, and governance performance and impacts. It can give investors and other stakeholders credible, comparable, and quantitative information, which they can rely upon for financial and non-financial decision-making. This information, if in regulated documents, should be written in a less technical manner. It is suggested that governments attempt to regulate sustainability disclosures in another format, such as through stand-alone sustainability reports (as opposed to disclosures within annual reports), to see if this improves the reporting effectiveness to both

interested investors and stakeholders. Additional research should also be undertaken in other countries for a broader, international perspective. This can improve the size of the data sample and alleviate the inconclusive conclusion of the results.

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Appendix

FIGURE 1

UNEP/SustainAbility "Engaging Stakeholders" survey instrument 1996 revised version

1 MANAGEMENT POLICIES AND SYSTEMS

1	Top Management Statement	2	Environmental Policy
3	Environmental Management System	4	Responsibility & Accountability
5	Environmental Auditing	6	Goals & Targets
7	Legal Compliance	8	Research & Development
9	Awards*	10	Verification
11	Reporting Policy	12	Corporate Context

2 INPUT/OUTPUT INVENTORY

Inputs

13	Material Use	14	Energy Consumption
15	Water Consumption	16	Clean Technology
17	Health & Safety	18	Accidents & Emergency Response
19	Risk Management & EIAs	20	Land Contamination & Remediation
21	Stewardship of Ecosystems		

Outputs

22	Waste Minimisation	23	Air Emissions
24	Water Effluents	25	Noise & Odours
26	Transportation		

Products

27	Life-Cycle Design & Assessment	28	Environmental Impacts
29	Product Stewardship	30	Packaging

3 FINANCE

31	Environmental Spending	32	Environmental Liabilities
33	Market Solutions & Instruments	34	Environmental Cost Accounting
35	Charitable Contributions*		

4 STAKEHOLDER RELATIONS AND PARTNERSHIPS

36	Employees	37	Legislators & Regulators
38	Local Communities	39	Investors
40	Suppliers & Contractors	41	Customers & Consumers
42	Industry Associations	43	Environment Groups
44	Science & Education	45	Media
46	Mana Whenua†		

5 SUSTAINABLE DEVELOPMENT

47	Technology Co-operation	48	Global Environment
49	Global Operating Standards	50	Visions, Scenarios, Future Trends

All items are scored from 0-4, except those marked with *, which are scored 0 or 1. To acknowledge Maori culture within New Zealand's context, we added an extra item, labelled "Mana Whenua†", to the section "Stakeholder relations and partnerships". This item carried a maximum score of 4, equivalent to the other stakeholder groups. To balance this addition and keep the total possible score at 194, the item "Global Development Issues" was omitted from the fifth section, "Sustainable Development", as this was considered covered by the item "Global Operating Standards".

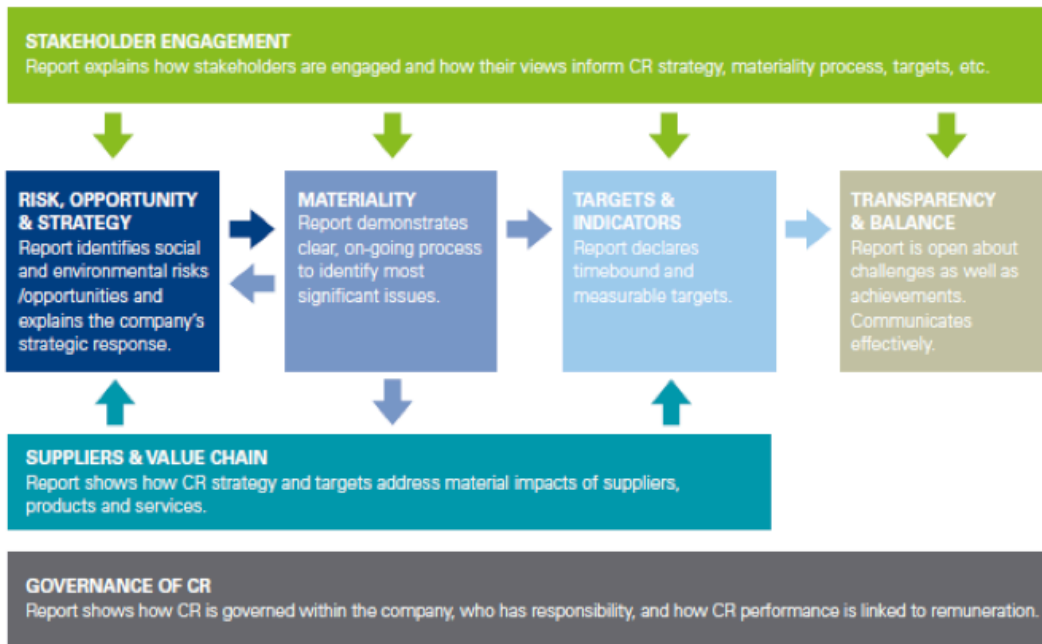
TABLE 1 UNEP/SustainAbility report scoring criteria

0	1	2	3	4
No coverage	Minimum coverage, little detail	Detailed and honest, including company shortcomings and commitments	Commitment to and progress toward sustainable development in core business	Commitment to and progress toward "triple bottom line" of sustainable development in core business plus benchmarking against competition and/or best practice in other sectors

SOURCE: UNEP/SUSTAINABILITY (1996) ENGAGING STAKEHOLDERS

Figure 20: UNEP/SustainAbility Criteria from Milne, Tegida and Walkton (2003)

Figure 20:
KPMG's CR reporting quality assessment, 7 key criteria



Source: KPMG International, *The KPMG Survey of Corporate Responsibility Reporting 2013*, December 2013

Figure 21: KPMG Criteria for Corporate Responsibility Reporting Quality (KPMG, 2013)

Appendix 1: Semi-Structured Interview Questions

Sub study 1: Sample Questions for Interview

In defining a sustainability report as a stand-alone report, annual report disclosures, and integrated reporting:

1. What do you believe should be the overall goal of the sustainability report?
 - a) How would you define an “effective sustainability report”, according to the investment community? (i.e. what should the report be able to do?)
2. What do investors want to find in a sustainability report? In an annual report?
 - a) Do you believe this changes in different countries?
3. Are there examples of sustainability reports from OECD countries that you believe exemplify strong sustainability reports?
4. Are there key features in government regulated sustainability reporting, and key features in voluntary, company-led sustainability reporting that you have detected?
 - a) Do you believe one type of reporting (mandatory or voluntary) discloses more environmental, social, and economic information for investors?
 - b) Do you believe one type of reporting (mandatory or voluntary) includes more credible information for investors?
5. Do you detect any current evolutions or major shifts occurring within sustainability reporting, or in the future?
6. Based on your experience, which indicators or dimensions of a sustainability report are investors most attentive to?
7. Do you believe sustainability reporting can be improved to serve as an important tool towards sustainable development?
8. In considering currently sustainability challenges facing companies and society, do you see voluntary standards, mandatory standards, or varying degrees of both, as important to the future of effective sustainability reporting?
 - a) Are there additional attributes of reporting that you believe investors are looking for, but are not yet highly prevalent in sustainability reporting?
9. How would you describe the current state of regulated annual reporting from the perspective of sustainability?
 - a) Do investors typically assess the annual report before the stand alone sustainability report, or are both weighted equally?

Appendix 2: Interview Data Coding

Data Coding Chart

Stage	Coding Procedure	Topics and Categories
1 st Read: Steps 1-2 of Tesch (1990)	Initial read of each transcript, find underlying meaning and main themes	<ul style="list-style-type: none"> • Sustainable strategy central to a strong report and its content • Need for business relevance • Forward looking aspect of sustainability and definition of sustainability is confusing • Reporting changes for different types of industries, sectors, countries • Each type of corporate report has a different function and goal • The integrated reporting movement in South Africa is not as all encompassing as portrayed • Comparability lacking in sustainability reporting beyond the governance debate • Sustainable development is not the current intention of sustainability reporting • Brand management • Message from leadership • Targeted reporting with tracking of indicators • Materiality impacts the content of a sustainability report • Role for international standard setters in helping comparability • Economic viewpoint does not align with environmental viewpoint or social viewpoints • Shareholder value is a political idea • Transferability of financial accounting principles but limited • North American perspective versus EU perspective; US voluntary vs. EU mandatory • Ontology of sustainability reporting comes pre-legislation • Current sustainability reporting does not understand sustainability nor include it • Sophistication of issues by parties who understand sustainability has prevented the debate towards • Poor success of GRI • Environmental and social values are different • Un-sustainability of public companies • Deep ecology • Integrated reporting focus on financial risk, not environmental or social risk • Need for environmental and social accounting principles • Integrated reporting has an implicit focus on sustainability • Non-financial and financial reporting do not need to be physical – role of technology and portal format • Mixed mediums of reporting can improve report quality • SEC reluctance at disclosure regulation • Balancing long term viability of company with short term profit demands

- Information systems and quality controls are lagging in sustainability reporting
- Integrated reporting and sustainability reporting are for different groups and different purposes but there are commonalities
- South Africa has higher quality integrated reports than others
- **Mandatory reporting as competitive advantage for emerging economies**
- Culture and country impact mandatory/voluntary debate
- Sustainable strategy, not initiatives, need to be in an integrated report
- Stakeholder engagement
- Readability
- Material issues are measured with a KPI
- Materiality is incorrectly used in sustainability reporting (i.e. the GRI)
- Quality of information beyond the mandatory voluntary debate
- Climate change disclosure is becoming increasingly relevant to many industries
- Positive change towards sustainable development will be dependent on allocation of capital, which is influenced by reports
- Companies are still getting to the stage of thinking about disclosing versus actually disclosing
- Investor recognition of sustainability topics as material is determining factor
- Form and content change by country/political region, stock regulation
- **Mandatory filings more credible than voluntary**
- **Mandatory can be boilerplate, generic**
- **Voluntary disclosures need higher quality information**
- Sustainability reporting and annual report disclosures have different audiences and purposes
- **Regulated annual reporting and sustainability is still in the early stages**
- **Not many good mandatory reporting examples**
- Multiple goals of the sustainability report
- Public relations/community relations
- Financial benefit of sustainability
- Meeting regulatory requirements
- Investment decision criteria
- **Weak enforcement of the SEC**
- The need for employee buy in and involvement
- Understanding extent of unsustainability and lifestyle changes
- Ecological footprint, ecobalances, equity issues

Cluster:
Step 3

Topic Groups:

Bold: Mandatory Voluntary Debate

Teal: Purpose of Sustainability Reporting
 Green: Audiences and Stakeholders
 Gray: Investor Centricism
 Light Blue: Geographical Trends
 Magenta: Materiality
 Light Green: Challenges and Critiques
 Red: Report Attributes
 Yellow: Strategy

Creswell (2014) Coding Themes:

Expected Themes:

Investor and shareholder centric view of integrated reporting and somewhat to sustainability reporting · Sustainability strategies are more important than check box initiatives · Poor ESG information systems impact quality of reporting · Identification of material issues · Different reports (IR, SR, AR) have different goals and audiences · Difficulty understanding sustainability · Integrated reports are for providers of financial capital · Mandatory and voluntary standards will collectively improve reporting performance · Mandatory reporting difficult for small companies · Progressive goals of reporting · American versus European views · Private governance · Assurance for credibility

Surprising Themes:

Low adoption rates of GRI in MNCs · Materiality definition is legal and misconstrued in voluntary reporting · Brand management/public relations/community relations still central aim of reports · Weak enforcement in the SEC · US is predicted to stay market-driven and voluntary in sustainability disclosures · Overlap between the IIRC Framework and Regulation S-K · Lawsuit potential to materiality claims in AR · Definition of sustainability · Sustainability as empirical category not socially constructed one · True sustainability reporting is not in company interests · Mandatory successful for particular socio-political conditions · South Africa not strongly regulated

Unusual Themes:

No true sustainability reporting exists yet · Forgotten methods of environmental and social accounting · Difficulty understanding sustainability · Competitive advantage of integrated reporting for emerging economies · Government recognition of voluntary standards required for successful implementation (SASB) · Poor quality sustainability reporting across the world · Prevention of the debate by those who understand it (WBCSD) · Substantial sustainability reporting would profoundly change the world · Shareholder value is political belief · Auditors nervous with forward looking information ·

Assigned Codes:
Step 4

Integration of Interview Themes with Literature Themes:
 Concept of sustainability · Sustainability strategy · Integrated performance · Internal controls · Balance of negative and positive · Materiality discussion · Stakeholder engagement · Governance · Business relevance/Investor relevance · Supply chain · Compliance with standards (legislated and/or voluntary)

Appendix 3: Sustainability Reporting Qualities Scorecard – Mandatory Template

Note: The N/A beside Quality 8b and 8bb would not be present for the voluntary case countries. The N/A for Canada and the US would be beside Quality 8a and 8aa.

Sustainability Reporting Qualities Scorecard

Company Name:

Reports:

						Notes
Understanding of Sustainable Development	Definition of sustainability, with consideration of SD as defined by Brundtland	0	1	2	3	
	Details	No mention of sustainable development	Sustainability important from a brand management perspective; no detailed definition or connection to SD	Provides clear definition of sustainability but not directly connected to time dimension of SD. Sustainability important for long-term financial returns	Sustainability defined in connection to company operations and SD recognized as important for long term value (i.e. carrying capacity, future generations mentioned/time dimension included, scale of development discussed)	
Management Involvement & Engagement	Message from leadership with evidence of management involvement	0	1	2	3	
	Details	No evidence of management involvement in the report	Message from mgmt without supporting information from within the company on their involvement and responsibilities	Message from mgmt with some supporting information of their involvement (i.e. responsibilities explained). National Corporate Governance code may be mentioned, but compliance not clear.	Message from mgmt with evidence of CEO/CSO/VP involvement (board expectations, code of conduct, how they help in the strategic management). Compliance with national Corporate Governance Code mentioned.	
Corporate Sustainability Governance Transparency	Overview of organization's activities and governance structure	0	1	2	3	
	Details	No explanation of company operations/activities or governance structure	Explanation of company activities and governance structure without explaining where sustainability fits	Explanation of company activities and governance structure, with some connection made between corporate governance and sustainability	Company activities, corporate governance structure explained with clear delineation of sustainability responsibilities and structures throughout the organization	
Strategic Outlook	Company accountable to a corporate sustainability strategy	0	1	2	3	
	Details	No sustainability strategy present or discussed, may discuss initiatives	Sustainability vision in place, largely qualitatively described. Some degree of strategic focus (may have sustainability policy in place).	Sustainability vision with targeted quantitative goals, with timelines and assessment of performance	Sustainability vision with targeted quantitative goals, timelines, assessment of performance (indexing), and connection to stakeholders. Report sees time as intergenerational.	

Sustainability Reporting Qualities Scorecard

Company Name:

Reports:

Item	Qualitative and quantitative content on identified components of sustainability performance (i.e. those identified as material)	0	1	2	3
5a Balance of qualitative and quantitative					
	Details	No use of KPIs (financial or non-financial), heavy reliance on story telling.	Heavy use of narrative in describing sustainability performance, minor use of KPIs and measurement (cannot see trends or goal setting)	Does not measure each component of sustainability performance, but use of both narrative and KPIs (may not be able to see trends over time yet)	Each component of sustainability performance has own KPI (non-financial or financial) supported with a narrative, measured quantitatively, consistently implemented
5b Balance of negative and positive					
	Details	No discussion on performance being positive or negative	Positive performance and negative performance discussed		
6 Measured sustainability performance					
	Details	No discussion of environmental, social, or economic performance	1-2 dimensions (environmental, social, economic) of performance discussed qualitatively	At least 2 dimensions (environmental, social, economic) of performance are discussed both qualitatively and quantitatively.	All dimensions (environmental, social, economic) of performance are discussed both qualitatively and quantitatively, with the use of integrated indicators.
7 Assurance of Data					
	Details	No form of assurance used	Self-Assurance: Some or all data or KPIs are assured through a self-regulatory/internal standard (i.e. board review). No independent, external party is involved.	Limited Assurance: Data or KPIs of some material sustainability issues are assured by an independent and external assurance provider.	Full Assurance: Data or KPIs of majority of material sustainability issues are assured by an independent and external assurance provider.
<u>See Below: 8a, 8aa OR 8b, 8bb are to be filled out, depending on the country - not both.</u>					
8a	Awareness of Compliance Awareness of compliance with existing standard (if law/policy in place) – Applies to France and South Africa	0	1	2	3

Data Point.

Sustainability Reporting Qualities Scorecard

Company Name:

Reports:

	Details	No mention of existing reporting regulation	Mention of regulation but no attempt to discuss or apply it	Some explanation of regulation, but unclear if company applies it	Understanding of regulation and its impacts, with evidence of company awareness of requirements and applying them	
8aa	Is a voluntary standard applied/mentioned? Details	No	Yes			Data Point.
8b	Awareness of Compliance Compliance with Standard (if voluntary Standard in place) – USA, Canada Details	No voluntary standard used for report	Internally derived standard or management system used, no external standard referred to	Use of external standard, but either with no assurance and/or not completely applied	Use of external standard with either complete application and/or assurance	N/A
8bb	Is more than one voluntary standard applied/mentioned? Details	No	Yes			N/A
9	Transparency on Materiality Transparency of materiality concept and assessment of material issues					N/A
10	Climate Change Climate change explained as decision useful information Details	No discussion of materiality	Material issues identified without disclosure of materiality assessment and key stakeholders	Material issues identified with materiality assessment and identification of key stakeholders	Material issues identified and assessed through direct engagement with stakeholders and are connected to the company's sustainability strategy (i.e. through KPIs)	
11	Stakeholder Involvement Stakeholder identification and involvement in company strategy Details	No mention	Some mention	Discussion of climate change (i.e. identified as risk or material issue)		
		No identification of stakeholders	Identification of key stakeholders	Identification of key stakeholders and stakeholder engagement processes discussed with concerns listed	Identification of key stakeholders, stakeholder engagement process discussed, and evidence of key stakeholder concerns are integrated into strategic planning	

Sustainability Reporting Qualities Scorecard

Company Name:

Reports:

12 Stakeholder Involvement

Accessibility and comprehensibility of content

Details

0

Report is difficult to access (i.e. may be compartmentalized), is audience specific, and lacks engagement (i.e. all textual).

1

Report is highly textual, generally appeals to one stakeholder group

2

Report uses a balance of text and visuals, user-friendly to more than one stakeholder group

3

Report is interactive for the user, and tries to connect to other mediums of corporate reporting the company offers. Report shows attempt to operate as a portal of sustainability information, as opposed to a PDF format.

TOTAL SCORE

MAXIMUM

35

Comment

Appendix 4: Notes on Scoring Each Quality

In considering the guidance of the Details section of the scorecard and the reviewed researcher comments in the Notes column, additional observations were made with respect to the scoring methodology for each quality. Despite some of the clarifications and commentary below, one researcher evaluated each quality for the duration of the study, and the application of each quality was consistently implemented for each country.

Quality 1: Some companies would mention future generations, or the precautionary approach, but would not include a definition of sustainability that clearly depicted environmental, social and economic impacts. These companies would receive a 2/3, as they are beginning to understand the time dimension of sustainability and sustainable development, but have not fully made readers aware of the definition they are relating to.

Quality 2: CEO messages/letters were typically always present in some shape or form. In regulated disclosures, specifically the French registration documents, these messages would be more difficult to find. In order to attain a 2/3 or a 3/3, the message would have to move beyond discussing positive sustainability initiatives within the company, and mention how management is accountable for sustainability performance, with evidence of sustainability leadership (CSO, VP, Director) in the report.

Quality 3: Determining scores for this quality were fairly straightforward. This quality initially appears similar to Quality 2, but focuses more on the transparency around sustainability governance within the organization, as opposed to having management sign and approve the report (Quality 2). A 2/3 required some sustainability roles and responsibilities to be allocated within the company, while a 3/3 often included a visual map and clearly explained the responsible party for sustainability performance and impacts within a company.

Quality 4: Scoring strategic outlook was challenging at first, but the Details section was central in determining the exact scores. A company would need to have a majority of the features in the details section in order to get that score. The corporate strategy discussed/mentioned in the report needed to have some dimension of sustainability (i.e. not just the general corporate strategy on building value or establishing returns). A qualitative strategy with no way to measure progress was a 1/3. Some goal setting with a qualitative strategy was a 2/3. Targeted goals with quantitative values, and a medium-long term time frame was required for a 3/3 score. It became clear to the researcher that many companies did not include stakeholders as a pillar or dimension of their corporate sustainability strategy. Although this was recommended for a 3/3 in the strategy quality, it was not required for this score.

Quality 5: Quality 5a was not only attempting to measure the balance of qualitative and quantitative information, but could also offer insight into the potential utility of the report to many stakeholder groups. Most companies scored a 2/3 in this category, as a 3/3 required that each identified dimension of sustainability (i.e. in each category/pillar of the

sustainability report/chapter) had a KPI and a narrative. Some companies would have selected KPIs, or one short section with indicators and no context or discussion on the relevance of this data. This would be a 1/3. Companies who measure some degree of both hard data (quantitative KPIs) and have a narrative would score 2/3 if they did not discuss trends or patterns emerging.

Because of the differences between mandatory and voluntary sustainability disclosures, Quality 5b was a data point and not included in the total score. A 1/1 was allocated if something negative and/or challenging was identified clearly in the report (i.e. could be detected in the first reading). Most companies scored 1/1 on this.

Quality 6: This quality assessed if companies were measuring performance in each of the three pillars of sustainability, according to the triple bottom line. It is understood that each pillar may not have the same number or quality of disclosures, as each industry addresses different impacts and risks, depending on the nature of their business. Companies would often use different terminology to discuss these dimensions of sustainability, particularly around the social pillar. Common terms would include “society”, “people”, “community development” and “employees”. French companies would often have a “society” and a “social” category. Financial information would often not necessarily fit in the economic dimension of sustainability. Economic disclosures would include information on market presence, customer satisfaction, value creation and earnings, patents and intellectual property, supply chain information, anticorruption disclosures, and data on raw materials (Lozano and Huisinigh, 2011). Financial disclosures around revenues, assets, profits, return on equity, and share price would not be sufficient as economic disclosures on their own, but would still be reviewed alongside other economic disclosures.

Even if all three dimensions were discussed in some way (economic, social, environmental), a 3/3 required some integrated indicators that cross more than one dimension of sustainability. This includes indicators such as wealth created per employee, human capital investment as a percentage of profit, or the average CO₂ emissions emitted per employee (Azapagic, 2004; Lozano and Huisinigh, 2011). These indicators would typically have to include economic, environmental, and social considerations.

Quality 7: Assurance was relatively straightforward in its assessment. Self-imposed assurance systems would often be explicitly referred to in a corporate governance section. These systems were often present in South Africa (part of their combined assurance model), and to some extent in Canada and the US, if there was some board of directors or senior leadership approval process and review of the sustainability disclosures. Because assurance on sustainability disclosures is relatively new and still developing, a 2/3 would apply to a company that assured some of their material sustainability impacts (less than 50%). This assurance could be limited or reasonable in the degree to which it was assured. A 3/3 would include a majority of data that was assured, either at the limited or reasonable level of assurance. Signed letters from external advisory firms were often a strong indication of a 2/3 or a 3/3.

Quality 8: Quality 8 is testing the dependent variable, the sustainability reporting implementation method. This can be either through regulated disclosures (Quality 8a/aa) or through voluntary disclosures (Quality 8b/bb). Quality 8aa and 8bb are not included in the total score, as the presence of a voluntary reporting standard does not necessarily equate to higher quality reporting.

Scoring Quality 8a was very clear. Companies would often mention the regulation to either Grenelle II as stated in Article 225 of the French Commercial Code (France) or the King III Code of Corporate Governance (South Africa). Most companies would mention the regulation, and then state how they applied it. Sometimes they would refer to sections of the report. For example, French companies often referred to a Table of Concordance to Grenelle II, and South African companies sometimes included a King III compliance table, which would state how each principle was applied, and explain exceptions. French and South African companies, generally, had a strong understanding of existing regulation.

Scoring Quality 8b was also easy to judge. American and Canadian companies would make it quite clear what standards were considered in the creation of their sustainability report, as readers would interpret this as a positive contribution to the company's credibility. A score of 2/3 would mean the company mentioned a standard, and maybe included some disclosures from the standard (i.e. select GRI indicators) but did not get any assurance on this. A score of 3/3 would include complete application of a standard and/or evidence of assurance. If a company explained that they fully applied a standard (i.e. they had a CDP report, a GRI table/appendix, a UN Global Compact section), they would score a 3/3.

Quality 9: The details section was heavily relied on for this quality. There seemed to be a general avoidance of the term "materiality" in all case country reports. The progression from a 0/3 to a 3/3 was driven by how transparent the materiality process was in the report, while considering that the term "materiality" may not be used. French companies, for example, often used the term "issues/information consider to be the most important", which would be a 1/3, as this is just disclosure of the issues. A 2/3 would be allocated if a company identified the issues and the materiality assessment process, without identifying stakeholders. This is a slight change from the Details section of Quality 9.

Quality 10: As mentioned above, this quality was assessed on 0-2 scale and was straightforward to apply. In order to score a 2/2, climate change could not be merely mentioned once or twice in a report, but required a narrative and discussion on how it impacted the company. Identifying climate change as a risk or material issue was a 3/3, so long as there was some narrative about climate change as well.

Quality 11: Choosing between a 2/3 and a 3/3 was more challenging for this quality. A 1/3 was easy to allocate, as a company would only identify stakeholders without further commentary. This usually occurred in a designated section of the report on stakeholders. Some reports required further in-text searches to find identified stakeholders for the company. It became apparent that many companies were not very clear on the stakeholder engagement mechanisms they used, and how frequently they interacted with various stakeholders, such as employees and local communities. For these purposes, a

company could score a 2/3 without a very transparent discussion on their engagement processes. A score of 3/3 generally required some integration of stakeholder concerns into strategy, which shows a company taking information from their stakeholders, and using it for positive changes within the organization.

Quality 12: Michael Krzus identified the portal report as the gold standard of corporate reporting (Pers.comm., Jan, 16, 2015). Quality 12 was aiming to abide by this discovery. However, it was discovered that some reports that tried to do this were very compartmentalized and difficult to comprehend, and thus would receive a 2/3. Too many links and external references within a report would make it confusing, and leave the information very dispersed, negatively impacting readability. RBC notably stands out as one such example. Reports that scored a 1/3 were usually written very technically and aimed towards one audience, usually investors. Integrated reports in South Africa often scored a 1/3 because of their investor-centric nature. A PDF report written for a broader audience than investors would typically score a 2/3. A score of 3/3 would try to connect to other reports, but without confusing the reader or losing focus. TD and AT&T were good examples of balanced reporting, with easy connection to other corporate documents or websites within the one report.

Appendix 5: Quantitative Analysis Results

TEST #1: T-TEST

```
> #Testing each country with a t-test
>
> yR <- c(20.9,18.4)
> yN <- c(18.7,17.6)
> t.test (yR,yN,var.equal=T)
```

Two Sample t-test

```
data: yR and yN
t = 1.0984, df = 2, p-value = 0.3866
alternative hypothesis: true difference in means is not equal to 0
95 percent confidence interval:
 -4.375918  7.375918
sample estimates:
mean of x mean of y
 19.65    18.15
```

yR = regulated countries

yN = non regulated countries

p-value is GREATER than 0.05, thus there is no evidence against the null hypothesis

TEST #2: T-TEST

```
> yR <- c(27,17,19,22,20,19,21,19,23,22,21.19,22,18,17,20,18,17,13,19)
> yN <- c(13,22,16,24,13,23,14,14,19,18,15,25,21,21,22,16,17,12,24,12)
> t.test (yR,yN,var.equal=T)
```

Two Sample t-test

```
data: yR and yN
t = 1.3592, df = 37, p-value = 0.1823
alternative hypothesis: true difference in means is not equal to 0
95 percent confidence interval:
 -0.806931  4.095352
sample estimates:
mean of x mean of y
 19.69421  18.05000
```

yR = regulated countries

yN = non regulated countries

p-value is GREATER than 0.05, thus there is no evidence against the null hypothesis

TEST #3: MONTE CARLO METHOD

```
>
> #Monte Carlo
> #Read in file
```



```

> Companies <- read.csv("mel.csv")
>
> #Get each company as a variable
> companiesx <- subset(Companies, select=Score, drop=T)
>
> observed <- abs(19.69421 - 18.05000) #store observed mean differences
>
> #set.seed(0)
>
> B <- 10^5-1 #set number of times to repeat this process
> result <- numeric(B) # space to save the random differences
> for(i in 1:B)
+ {
+   index <- sample(40, size=20, replace = FALSE) # sample of numbers
from 1:40
+   result[i] <- mean(companiesx[index]) - mean(companiesx[-index])
+ }
>
>
>
> ##Plot
>
> hist(result,xlab="Mean Difference in Score", main="Randomizations of
Score")
>
>
> #Compute P-value
> pleft <- (sum(result < observed)+1)/(B+1)
> pright <- (sum(result >= observed)+1)/(B+1)
> 2*min(pleft,pright) # two-sided P-value
[1] 0.1581

```

Glossary

Effectiveness: Effectiveness is defined in this thesis as a two-part term. Effectiveness primarily refers to meeting generally accepted sustainability reporting criteria developed in sub study 1. The criteria was based on the literature and interviews. Effectiveness also relates to meeting the requirements and/or guidelines issued for sustainability reporting; this is pertinent when reviewing mandatory sustainability reporting policies. The rationale for this definition is that it includes not only an assessment of awareness of the policies that govern sustainability reporting, but also evaluates the extent to which a report can abide by evidence-based sustainability criteria. Section 2.3.2 provides additional clarification around this term, with grounding in the literature.

Mandatory: Mandatory sustainability reporting will be used to refer to those standards that *attempt* to follow a hard law approach, where legislation is written to govern the sustainability disclosures of a particular group of companies. It is understood, however, that many mandatory policies could be more often characterized as soft law, and they often lack sanctions and compliance mechanisms at present, which are characteristic of mandatory systems (IRSE, 2012). This may or may not include penalties or fines as consequences for non-compliance. A joint study by UNEP, GRI and KPMG surveying sustainability reporting policies around the world required one of four criteria to be met for a policy to be considered “mandatory”. These criteria were: 1) Governmental/market regulatory requirements of sustainability information, 2) CSR initiatives requiring/providing guidance for sustainability reporting or other forms of public disclosure, 3) Requirements or recommendations covering single topic or sector (i.e. GHG; mining), 4) Standards on sustainability assurance (GRI et al., 2013, p.8).

Sustainability Report: a sustainability report will be a publically accessible corporate report that includes sustainability disclosures and matches one of the three forms of sustainability reporting – the stand alone report, annual report disclosures, or the integrated report. The formats are fairly inclusive, in order to account for national differences in reporting format. These formats are defined further in the literature review.

Sustainability Reporting: There are a variety of definitions of sustainability reporting. Since the GRI is seen as the leading organization on sustainability reporting guidelines, their conception of sustainability reporting will be used. GRI (2014) defines sustainability reporting as, “a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.”

Sustainability Reporting Standards: Any guideline or policy that dictates particular principles and/or indicators to be included in a sustainability report. These standards do not need to be “standardized”, in the sense that they can be mandatory and governed by a particular law, or they may exist as a standard companies can choose to adopt. Standards typically have a physical boundary (i.e. one document) and a boundary in their application (i.e. publically traded companies).

Voluntary: Voluntary sustainability reporting will be used to refer to non-binding rules and/or standards that companies can choose to apply, and can choose the extent to which they comply with the standards. There may also be no guideline present – the report is still considered voluntary. The non-binding nature is a defining feature, in comparison to mandatory reporting. Individual companies, industries, and their associations often motivate voluntary sustainability reporting, as opposed to governments. The standards may be created by standard setting initiatives.
