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Trends in integrated reporting by JSE listed companies: an analysis of corporate governance disclosures concerning King IV

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2021
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Trends in Integrated Reporting by JSE Listed Companies: an analysis of corporate governance disclosures concerning King IV.

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in partial fulfilment of the requirements for the degree of
Master of Commerce
University of the Witwatersrand

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ABSTRACT

With the ever-changing regulations in the corporate space, companies need to keep up with the changes. This includes the compliance with King Report on Corporate Governance which would be a mandatory requirement for JSE listed companies. The compliance has been made mandatory to encourage companies to be responsible corporate citizens and to provide users with information on how organizations generate wealth to allow for efficient decision-making. While compliance is mandatory, questions may be raised on whether the early adoption of the IR Framework was an attempt to remain legitimate in the global market.

The purpose of this report is to analyse the trends in the extent of integrated reporting by top 100 JSE listed companies. The analysis will be performed concerning the recommended principles of King Report on Corporate Governance (King IV). The additional purpose is to determine whether there has been an improvement in the level of disclosures from 2016 to 2017 and from 2017 to 2018.

A descriptive research methodology was used in which integrated reports of eighty JSE listed companies were examined and analysed to determine the level of disclosure in each year and to evaluate whether there had been significant changes in specific disclosures provided by these companies.

The key findings show that there were overall level disclosures had improved over the three-year period. The results indicate a much-needed improvement in disclosures relating specifically to risk management processes, IT governance, diversity within the boards and the inclusion of duties and responsibilities carried out by both the board and its committees.

Keywords: corporate governance; disclosures; compliance; integrated reporting; non-financial information; wealth creation; decision-making.

DECLARATION

I, Papi Rapelang Pelo, declare that this research report is my work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

X _____

Papi R Pelo
Researcher

Signed at _____, on _ _ of August 2021

DEDICATION

This is dedicated to my late grandmother who, during her period where she was blind, showed me that everything is possible as long as you put your mind to it.

ACKNOWLEDGEMENTS

I would like to thank my supervisors, Yaeesh Yasseen and Fatima Omarjee for assisting me throughout the proposal period and the initial stages of the research report. Major appreciation to Naledi Nkhi for taking over as my supervisor and seeing this research report to the end. Thank you all for believing in me even when I couldn't see the light at the end of the tunnel.

Thank you to my sister and mother for always being there to support me during my academic journey both during the ups and downs.

A special thank you to my friends, Nkhensani, Lethabo and Michael for believing in me and always giving me a second opinion during my research process. I am blessed enough to call you my family.

i. Abbreviated Terms

The following abbreviations will be used in the study:

- King – The King Report and Code of Corporate Governance
- JSE – Johannesburg Stock Exchange
- IR – Integrated Reporting
- GRI – Global Reporting Initiatives
- IIRC – International Integrated Reporting Council
- IFRS – International Financial Reporting Standards
- IT – Information Technology
- IASB – International Accounting Standards Board
- HIV/AIDS – Human Immunodeficiency Virus, Acquired Immunodeficiency Syndrome

CHAPTER 1: INTRODUCTION

Integrated reporting is guided by the Integrated Reporting (IR) Framework issued by the International Integrated Reporting Council (IIRC). However, in South Africa, the King Report on Corporate Governance (King) provides recommended principles for both corporate governance disclosures and integrated reporting. It is important to note that King was drafted with great reliance being placed on the IR Framework (IODSA, 2016b). All companies that are primarily listed on the Johannesburg Stock Exchange (JSE) are required to comply with the recommended principles of King IV. For companies that have a secondary listing on the JSE and for non-listed entities, compliance with these principles is voluntary but encouraged.

The King Report on Corporate Governance has evolved from King I to King IV in over 26 years, with King IV being the latest version which was released in 2016 and came into effect for financial years starting on or after 1 April 2017. The expectation would be that organizations have built a good understanding of complying with King, but it is not the case as several studies have proved that JSE listed companies are still struggling with integrated reporting. This is indicated by studies conducted by Mashile (2015), IIASA (2018) and PWC (2016b). This may be attributed to the significant changes that come with new King guidelines. PwC (2017) gives that, although most of the King III principles have been retained in King IV, there have been some significant changes. The report further explains that the most significant change is the implications of the move from ‘apply or explain’ to ‘apply and explain’ which requires organizations to apply the principles and explain how the principle has been applied. King IV increases the need for integrated thinking which should result in integrated reporting. In addition to these significant changes, TeBrugge (2017) provides that King IV places more accountability on the governing body and eliminates the ‘tick-box’ approach. As explained previously, considering these significant changes presented by King IV, the compliance by JSE listed companies should be investigated. Therefore, this study seeks to analyse the corporate governance disclosures of JSE listed companies concerning King IV. This will be to confirm, to an extent, whether these companies comply with the recommended principles of King IV.

1.1. Problem Statement

Over the last 30 years, there has been a significant shift from relying solely on financial information to relying heavily on non-financial information that provides sustainability and corporate governance of an organization as indicated by Atkins and Maroun (2015), Villiers

and Maroun (2018), Bhimani and Langfield-Smith (2007) and Flo¨strand and Stro¨m (2006). This information has then been incorporated into the integrated report which is now paramount for decision making (Atkins & Maroun, 2015). This is confirmed by Flo¨strand and Stro¨m (2006) which provides that stakeholders such as market analysts rely more on forward-looking non-financial information than on historical non-financial information. Stakeholders rely on integrated reports which increases a need for compliance with King IV. In addition to this, many studies look into compliance with King IV but not as many as King III, which indicates a gap within the King IV literature. In previous studies conducted to investigate compliance with King IV, the results cite the need for improvements. In a quantitative study conducted by IIASA (2018) where respondents were given questionnaires regarding core dimensions of corporate governance, the quality of corporate governance in South Africa in 2017 was rated a 3.0 out of 4.0 under King III and in 2018 it was rated 2.8 out of 4.0 under King IV. This indicates that there may be significant non-compliance issues with the newly adopted King IV.

As a result of the abovementioned issues, this study analyses corporate governance disclosures contained in the integrated reports of JSE listed companies to determine whether there has been improvement in compliance with King from the year 2016 to 2017 and from 2017 to 2018. This study follows Makiwane and Padia (2012) which found that, even though there was an improvement, there was still a need for further improvement in the level of reporting by South African listed companies to achieve the objective of integrated reporting. These findings have encouraged this study to determine if there has been an improvement in integrated reporting since the introduction of King IV which became effective from 1 April 2017.

1.2. Purpose of the study

The purpose of this study is to analyse corporate governance disclosures in the integrated reports of JSE listed companies to determine whether there has been an improvement in compliance with King from the year 2016 to 2017 and from 2017 to 2018.

Several studies have examined the King Report on Corporate Governance in South Africa have been conducted. Makiwane and Padia (2012) evaluated how the transition from King II to King III had an impact on companies' integrated reporting. The study focused on differences in reporting governance issues under King II versus King III. Makiwane and Padia (2012) found that there was room for improvement in the integrated reporting of companies. Mashile (2015) which followed Makiwane and Padia (2012), evaluated the annual integrated reports of JSE listed entities to determine if there had been any changes to King III recommended disclosures in the years from 2010 to 2012. The study found that, even though there has been an increase in the level of disclosures by these companies, the change was not significant. In addition to

these findings, Mashile (2015) also found that there is still room for improvement in the integrated reporting of companies and cited disclosures related to risk management, compliance management, and IT governance as areas that needed significant improvement. Surty (2018) investigated the trends in South African state-owned enterprises (SOE) integrated reporting for financial years 2013, 2014 and 2015. The study found that, although the level of reporting by SOEs had improved, there was a lot of room for improvement. These studies quite clearly indicate that from 2009 until 2015, there has been average compliance with King recommended principles and improvement is needed. This study indicates a need for compliance with King in the South African corporate sector. Therefore, this study will analyse the corporate governance disclosures in the integrated reports of JSE listed companies by comparing the level of compliance from the year 2016 to 2017 and from the year 2017 to 2018. The comparison between the years will yield results that will indicate whether there have been significant changes in disclosures provided by these companies.

1.3. Significance of the study

South Africa is the leader in adopting integrated reporting (Rensburg & Botha, 2014) and as a result of this, the country is being perceived as also being the leader in global financial reporting and corporate governance (Mashile, 2015). This has led to South African corporate governance frameworks undergoing comprehensive changes over the years. This was a response to economic globalization (Andreasson, 2011) and pressures from society's need for additional non-financial information (Villiers & Maroun, 2018). The South African market is globally available and therefore, compliance with corporate governance recommendations is essential to ensure that South Africa does not only attract foreign investment but retains it as well.

South African corporate governance is guided by King IV, which is the most recent code to be released by the Institute of Directors of South Africa (IoDSA). Much of the existing academic literature has studied compliance with recommended principles of King III and as a result of this, this study aims to contribute to the scarce literature concerning the new recommended principles contained in King IV. In addition to this, the study expands on the existing knowledge of integrated reporting.

While this study significantly contributes to the theoretical side of corporate governance, it also contributes to the practical side of corporate governance. PWC (2016a) identifies some significant changes brought in by King IV meaning that from a corporate perspective, these recommended principles are important. Amongst others, the changes include the move from 'apply or explain' to 'apply and explain', introduction of fair, responsible and transparent

organization-wide remuneration, balanced composition of the board, risk governance, performance evaluations, IT governance and board committee's responsibilities. In addition to this, South Africa is perceived as being the leader of corporate governance and therefore, preparers of integrated reports need to fully understand which disclosures to focus on and how to comply with the principles of King IV (Mashile, 2015).

Given that King IV has fewer studies compared to King III, this study aims to update the existing literature on King IV. Mashile (2015) also identified a need for improvement in how JSE listed companies disclose their risk management activities, compliance management and IT governance. This study will analyse whether there has been an improvement on the previously mentioned issues. Over and above, the study aims to guide managers and the board of directors on factors within an integrated report that needs special or additional attention. It will also provide users of integrated reports on whether South African companies are complying with King IV or not which may assist in decision making. The study aims to establish whether, through integrated reporting, companies have successfully linked their financial and non-financial performance.

1.4. Research question

To what extent has the level of corporate governance reporting by South African listed companies improved from the financial year 2016 to 2017 and from 2017 to 2018, given the introduction of King IV which became effective on 1 April 2017?

1.5. Limitations of the study

The first limitation is that only listed companies that have prepared annual reports for both 2016, 2017 and 2018 financial years will be considered.

The second limitation is that organizations listed on the JSE after 2016 will not be considered as the ratings will not be a true reflection over the three selected financial years.

1.6. Delimitations of the study

The first delimitation of this study is that only South African JSE listed companies and their respective annual reports were considered. While it is a requirement for all JSE listed companies to comply with the recommended principles of King IV and produce annual integrated reports, the listing requirements allow for companies not to produce annual integrated reports if an appropriate explanation is provided (JSE, 2007).

The second delimitation is that the study will only look at the level of reporting by these companies over the financial years 2016, 2017 and 2018

The remainder of this report will be as follows, Section 2 will go through the literature review relevant to the research. Section 3 looks at the methodology applied throughout the research and the last section critically looks at and analyses the results developed from the testing.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Before 2013, users of financial statements relied mainly on financial information that is supported by management commentary (Villiers & Maroun, 2018). As the global economy was advancing, the focus shifted from the use of financial information for decision-making to using sustainability information (Rensburg & Botha, 2014). The main concern was that the financialinformation was more historically based (Rensburg & Botha, 2014), and one cannot make decisions based on historical data. The introduction of non-financial disclosures has been encouraged by many academics with aim of ensuring that forward-looking sustainability information is provided to users of reports (Villiers & Maroun, 2018). In response to these demands, the IIRC was formally incorporated in August 2010 to develop a globally accepted framework for processes that will result in communication by organizations about value creation over time. The IR Framework was developed. South African listed companies were amongst the first to adopt the IR Framework in the pilot program that commenced in October 2011 (Rensburg & Botha, 2014). The IR Framework was later integrated with corporate governance reporting principles in King IV, which, according to the JSE Listing Requirements, listed companies are now obligated to comply with it. King IV became effective on 1 April 2016, and the purpose of this report is to evaluate compliance with the recommended principles of King IV (refer to APPENDIX A).

This literature review critically assesses the background of King IV alongside integrated reporting to understand the root of integrated reporting and how it was developed. The next subsection will look at the possible reasons for the early adoption of the IR Framework in South Africa. This will assist in identifying whether early adoption has contributed to enhanced compliance or not. It would be expected that early adoption makes South African organizations leaders of integrated reporting and the analysis results seek to give a glimpse into whether this is true. The last section will look at the tactics used by management to ensure that their organizations' integrated reports are prepared most attractively. The purpose of including impression management is to inform users of integrated reports about the possible mechanisms used by management to make their integrated reports more appealing.

2.2. King Report on Corporate Governance

The significance of corporate governance is highlighted by Krechovská and Prochazkova (2014) which provides that for companies to fulfil the principles of sustainability they must achieve good corporate governance structures. Dzingai and Fakoya (2017) indicated a direct

relationship between corporate governance and financial performance, which increases the need for good corporate governance structures in companies. The role of corporate governance in society has been widely studied, but the OECD (2004) explains that corporate governance is meant to hold management and board of directors accountable which is in line with the objectives of the IIRC. This is achieved by encouraging organizations to be an integral part of society, to become, and remain good corporate citizens (IODSA, 2016b). The framework also motivates organizations to maintain an interdependent relationship between the organizations and their stakeholders (IODSA, 2016b).

The South African corporate governance disclosures are guided by the King Report on Corporate Governance. The first version, that is King I, was released in 1994 and the most recent version, which is King IV, was released in 2016. While most of King III principles are retained in King IV, PwC (2017) lists several changes with the most significant change being the move from 'apply or explain' to 'apply and explain'. The IODSA (2016a) suggests that this move was to encourage companies to see corporate governance as a tool that yields results only if approached mindfully and with due considerations, rather than just a 'tick-box' concept. In applying the new 'apply and explain' concept, King IV requires organizations to provide a narrative explanation of the recommended practices that have been implemented, and how these achieve the related King IV principles (PWC, 2016a). In addition to this change, King IV emphasizes the need for integrated thinking which is defined as being a multi-capital management approach that allows companies to deliver their purpose to the benefit of their key stakeholders over time (IODSA, 2016b). Integrated thinking is centred around the creation and preservation of value (IIRC, 2013a). It includes considering integrated reporting. In the foreword of King IV, Mervyn King (the chair of the King Committee) states that the world is moving from traditional reporting to integrated reporting where sustainability issues have become an integral part of decision-making. He further provides that King IV's recommendedprinciples take integrated reporting into account by the inclusion of stakeholder management,technology governance and security, and strategy disclosures. To ensure that King IV is in line with the objectives of the IIRC, King IV was drafted with reliance being placed on the IR Framework as issued by the IIRC.

King IV's main principles are arranged and sorted in five parts as follows:

Leadership, ethics and corporate citizenship – this part guides companies on how they can remain ethical in all business they conduct. It guides these companies on how corporate citizenship can be attained and maintained.

Strategy, performance and reporting – this part encourages users to ensure that their stakeholders are well informed in terms of the organization's core purpose, risks and

opportunities, strategy, business model, performance and sustainable development to make informed decisions.

Governing structures and delegations – it guides users on the compositions of the governing body and its associated committees. It also guides on the roles and responsibilities of the body and its committees.

Governance functional areas – this part identifies key areas that need significant governance, such as risk, IT and compliance, and guides on how it may be maintained.

Stakeholder relationships – this part provide guidance on how relationships with stakeholders may be maintained.

2.3. Integrated Reporting

2.3.1. The need for integrated reporting

Before the King Report on Corporate Governance implemented the concept of integrated reporting in South Africa, management commentary was the primary source of non-financial information (Villiers & Maroun, 2018). The IASB defines management commentary as disclosures contained in the financial reports that provide the context within which to interpret the financial information of a company. However, stakeholders found management commentary insufficient because the society had increased their demand for information, emphasizing the need for non-financial information relating to the governing body, society, and environment (Villiers & Maroun, 2018). The need for this kind of non-financial information was to have a forward-looking perspective of the company for decision-making. Non-financial information is largely used to assess the company's and board's performance, set targets, and allocate capital efficiently (Wong, 2004).

The response to these demands was the IR Framework that was released in 2013. The IIRC (2013b) provides that the IR Framework was developed to hold companies accountable and for companies to provide sustainability information to stakeholders. Villiers, Rinaldi, and Unerman (2014) confirm that the development of integrated reporting was due to considerations linked to social and environmental reporting. "Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation" (IIRC, 2013a), this indicates that integrated reporting allows stakeholders to have a forward-looking perspective of the company on how they generate wealth over time. The forward-looking perspective is achieved through disclosures on the company's short, medium

and long-term value creation strategies (Wulf, Niemöller, & Rentzsch, 2014). Integrated reporting is seen as a tool that promotes a more decision-relevant approach to communicating value creation (Chen, 2016).

The integrated reporting concept was first introduced in King III (released in 2009) but the understanding of it has significantly evolved and as such, the most recent issue, King IV, contains updated and improved recommended principles on integrated reporting (IODSA, 2016b). Integrated reporting also forms part of the main concepts for the foundation stones of King IV (IODSA, 2016b). South Africa was amongst the first country to adopt the IR Framework on a large scale, with many JSE listed companies issuing their first integrated reports in 2010/11 (Mashile, 2015). Although many academics argue that the early adoption was due to the legitimacy theory and the isomorphic forces (see section 2.6), the IIRC has praised South Africa for ensuring that integrated reporting is a common practice among public and non-profit organizations. The principles were contained in King III; however, the code did not explain how the reports should be structured or the content that should be contained. This led to the birth of the Integrated Reporting Council (IRC) that developed the framework for integrated reporting applicable to South Africa. One of the praises cited by the IIRC is that the IRC that was formed because of this early adoption has significantly contributed to the final draft of the framework that was issued by the IIRC.

2.3.2. Benefits of Integrated Reporting

Integrated reporting provides benefits for both the organizations and the users. The IIRC defined an integrated report as being a document that demonstrates the linkages between an organization's strategies, governance and financial performance and the social, environmental and economic context within which it operates (IIRC, 2013b). The reports are aimed at existing and potential investors, lenders and creditors (IASB, 2018), however, the IIRC's users include customers, suppliers, local communities, legislators, regulators and policymakers. Given that users of corporate reports needed to understand how organizations create wealth over time and their governance structures, the introduction of integrated reporting has significantly satisfied this need. The use of the six capitals (i.e. financial, manufactured, intellectual, human, social and relationship and natural capital) has allowed organizations to disclose how they are affected by these capitals, how they are affecting these capitals and their responses to any significant risks to the capitals. This allows users of annual reports to understand the sustainability of the organizations and allows them to have a holistic perspective of the organization (Eccles & Krzus, 2010). It also enhances the commitment of users, particularly providers of capital, by achieving a greater level of amalgamation between financial and non-financial information (Frias-Aceituno, Rodríguez-Ariza, & Garcia-Sánchez, 2014). The amalgamation between financial and non-financial information also allows an organization to

communicate and provide clarity about their relationships and commitments (Eccles & Krzus, 2010). The principles of the King IV & the IR Framework require organizations to assess risks and employ mitigating actions to reduce or eliminate the risks. Given this, organizations can manage their reputational and other operational risks.

2.3.3. Disadvantages of Integrated Reporting

While many academics have praised integrated reporting, some have questioned the reliability and accuracy of integrated reports. Roberts (2017) explained that integrated reports lacked structure and sometimes, had too much or too few disclosures. However, the recently issued King IV guides in this respect. Another issue posed by Jones and Solomon (2010) is that other than financial information, there is no assurance on the contents of the integrated report. In addition to this, the assurance of some information in the integrated report such as the disclosures on how the organization assessed and responded to negative consequences of its activities and outputs on the triple contact it operates in and the capitals it uses may be impossible. This is asserted by Villiers and Maroun (2018) who state that stakeholders have continued to question the credibility of the reports and external assurance should be considered. In the interviews conducted by Jones and Solomon (2010), with interviewees including sustainability managers, executives, company secretaries, risk managers and many more, enough respondents supported the idea of assuring sustainability information. The responses suggested that external auditors should do the assurance while some insisted that the internal auditors should assure the contents of the integrated report. A significant number of respondents suggested that the assurance of integrated reports should be a choice of the organization and not an obligation. Those against the idea of external auditors assuring the integrated report was that the costs would be 'horrendous'. The data from this research shows that 45% of the respondents were in favour of assuring the integrated report, 45% of the respondents were against that and 10% remained undecided (Jones & Solomon, 2010). Although the responses are equally distributed between assuring the integrated report and not assuring it, verification of integrated report details is necessary. One issue with assuring the integrated report, as stated by one of the respondents in the research conducted by Jones and Solomon (2010), an audit trail would be required to have a robust audit. Given the nature of the majority of the sustainability information and that it mostly involves human judgement, a robust audit might not be possible due to the lack of an audit trail. However, this does not disregard factors that are auditable. A few JSE listed companies have had limited assurance provided on their integrated reports which indicates that it is possible to assure certain items of the reports (IIASA, 2018; Villiers & Maroun, 2018). However, this should be made a voluntary exercise and not mandatory as suggested by some respondents (IIASA, 2018).

One of the main issues is that integrated reports do not have structure and sometimes contain too much or too little information. Toit et al. (2017) investigated the extent to which integrated reporting had evolved from 2012 to 2014 in comparison to 2009 to 2011. The case study was conducted on four JSE listed companies; Implants Platinum, Group Five, Sasol, and Bidvest. The study was building on Solomon and Maroun (2012) who found that there was an increase in social, environmental, and ethical disclosures from 2009 to 2011. Toit et al. (2017)'s findings were significantly different. The study found that there had been a reduction in the number of times certain social, environmental, and ethical issues are repeated in an integrated report. The study also found that these companies were struggling to improve the quality of integrated reporting. This is in line with the findings of Mashile (2015) who found that there was no significant change in integrated reporting by JSE listed companies over the three-period year (2010, 2011 and 2012). Toit et al. (2017) state that management cannot simply attempt to increase the quality of integrated reporting by reducing the number of times certain issues are dealt with in the integrated report. This suggests that the quality of integrated reporting may be enhanced through an increased number of disclosures. However, Melloni, Caglio, and Perego (2017) is of the view that increasing disclosure quantity may appear as a smokescreen for low-quality disclosure and possibly low firm performance which is supported by Atkins and Maroun (2015) that found that majority of integrated reports contained over 500 pages and in most cases was in direct contrast with the substance of sustainability. Melloni et al. (2017) studied the conciseness, completeness, and balance in integrated reports as key features underpinning high-quality integrated reports. The study found that firms with lower financial performance tend to produce longer and more complex reports that are unbalanced towards optimism and have enough environmental, social, and governance disclosures. This is said to be an attempt to redirect the attention of stakeholders from financial information to non-financial information. Contrary to this, the study found that firms with devastating social performance tend to have less complete related disclosures and in turn, they have good-looking firm performance. This phenomenon of environmental, social, and governance disclosures being dependent on the firm's performance ties down to the concept of impression management, which will be discussed later in the report.

2.3.4. Prior research on integrated reporting

The integrated report intends to communicate with stakeholders, but the question is whether these stakeholders are using the reports for decision-making? In an attempt to answer this question, Rensburg and Botha (2014) conducted an exploratory study to determine whether primary users of annual reports (which include existing and potential shareholders, lenders and other creditors) make investment decisions using integrated reports or other sources (such as financial advisors, print media and economists). Online surveys were used in this research.

They found that the reports from companies (including integrated reports) were sometimes used. Respondents also indicated that they rarely use the advice of financial advisors and internet searches. A significant number of respondents indicated that they relied on advice from colleagues. They also found that respondents prefer to get investment information from economists and business analysts, and from the company itself (through annual reports). “Even though the respondents do not value the integrated report, stakeholders still need to create their dashboard of financial information, of which the integrated report is a key source” (Rensburg & Botha, 2014). This indicates that the integrated report is a key element in the decision-making process. To encourage stakeholders to use integrated reports more, Rensburg and Botha (2014) suggest that the reports should be simplified and comprehensible and legible to a broader stakeholder audience. The reports should also find a way to communicate in such a way that not only highly educated people with degrees could read and use its information. However, this is a complex issue in South Africa given the challenging factors relating to education, poverty and economy. Organizations are, therefore, not the only ones to blame for this issue.

Even though the IIRC has praised South Africa for adopting integrated reporting early, many academics have questioned this choice. The next few sections will look at possible reasons for the early adoption of integrated reporting by South Africa. This is to understand whether integrated reporting is practised by organizations because of the underlying benefits or due to other intentions.

2.4. Limitations of the traditional set of financial statements

The preparation of traditional financial statements is prepared and presented in terms of the IFRS. While the traditional set of financial statements mostly consists of financial information, it does incorporate a sense of non-financial information in the form of disclosures. The disclosures are governed by the qualitative characteristics in the Conceptual Framework. The Conceptual Framework provides that the objective of financial statements is to enhance the usefulness of the information contained in the financial statements (IASB, 2018).

The IASB (2018) provides a guide as to what information needs to be presented in the different components of the financial statements, and it includes the presentation of statement of financial position; statement of profit or loss and other comprehensive income; statement of changes in equity; statement of cash flows; and notes to the financial statements which outlines important accounting policies and other explanatory information. With the explanations provided by the IASB as to what needs to be presented in these statements, it is quite clear that the financial statements place great focus on financial information only.

However, financial information has become redundant without forward-looking non-financial information.

While the financial statements may be used to assess management's stewardship and accountability of managers and boards of directors (IASB, 2018), this information is not sufficient because stewardship does not only encompass accountability for the resources controlled by the entity but includes social and environmental responsibility (Steele`, 1991). This indicates that the financial information does not provide stakeholders with the total effect of management's decisions as it lacks information on a company's impacts on the society and environment (Mashile, 2015).

In the traditional set of financial statements, no disclosures about the composition of governing bodies, risk management, technology and information, and compliance management were made. These factors have proven to be more important to stakeholders as they provide them with information on how the organization is held accountable to stakeholders, how it creates wealth over time and how the decisions made by management affect the society and environment. The importance of these will be further discussed in the literature review.

The following subsections have been identified as having poor disclosures and needing improvement by Mashile (2015). The report will not necessarily focus on these disclosures, but attention will be paid to them.

2.4.1. Composition of governing bodies

The importance of the governing body is confirmed by Bhagat and Bolton (2008), which provides that the governance structures of an organization and its performance have a direct relationship. Rossouw, Watt, and Malan (2002) also provide that the governance structures of a company are a critical element in eliminating or mitigating the principal-agent problem. In addition to this, the board of directors plays an important role in establishing corporate governance structures and acting as representatives of shareholders (Scholtz & Kieviet, 2018).

The concept of 'tone at the top' increases the significance of the need for competent, transparent, and accountable board members as they oversee the ethical performance of the organizations and are expected to prevent ethical disasters within their organizations (Schwartz, Dunfee, & Kline, 2005).

However, given the significance of the board of directors, the traditional financial statements do not provide any disclosures regarding the company's governing body and as a result, stakeholders cannot make any decisions based on the financial statements. King IV then recommends principles that may be followed by organizations in disclosing their governance

structures. Mashile (2015) found that companies were steadily showing improvement in increasing the number of independent non-executive members in their governing body. The study also found that not many companies had appointed independent non-executive chairman to their board. It also adds that there was little to nothing regarding the evaluation of the board's performance.

The IODSA (2016b) in principles 7 and 8 of King IV, recommends that organizations' boards consist of a mix of executive and non-executive directors and that majority of the non-executives should be independent. This is to ensure that the decisions made by the board consider both operational views and effects as well as independent views and judgement (IODSA, 2016a). It is also an attempt to ensure that board members have the most honest business ethics.

2.4.2. Risk Management

The benefit of companies complying with the risk management disclosures is that it encourages the managers and directors to identify and respond to risk in a timeous manner. This is confirmed by Eccles and Krzus (2010) which provides that integrated reporting allows organizations to identify key risks that are a result of the company's decisions. The risk analysis process brings a clearer view of opportunities that will support the mitigation of strategic risks (Ferguson, 2019). As a result, Eccles and Krzus (2010) state that organizations that comply with risk management disclosures are more likely to be exposed to less regulatory risk.

This is another area that (Mashile, 2015) saw little improvement. The study found that companies tend to disclose detailed information about the composition of the committee and meeting attendance but neglect the actual risk management processes undertaken. In addition to this, the study found poor disclosures on whether risk tolerance and appetite had been set within the organizations.

The IODSA (2016b) in principle 11 of King IV, recommends that organizations should govern and monitor risk in a way that supports the organization in setting and achieving strategic objectives. The organizations are encouraged to govern risks in a manner that allows for the identification of opportunities as well as risks associated with that opportunity (IODSA, 2016b). In addition to this, risk management disclosures encourage organizations to establish to risks that significantly support business continuity (Ferguson, 2019).

2.4.3. Technology and Information

IT governance has become significantly important for organizations. The use of IT is now the centre for most businesses' strategic and operational activities (Goosen & Rudman, 2013),

with the world moving away from the use of hard copies and towards the use of soft copies and documents no longer being stored in a ‘file room’ but in a ‘cloud’. Goosen and Rudman (2013) provide that the most significant benefit of IT is that organizations gain a competitive advantage.

The significance of IT is evidenced by the events of the year 2020, in which the coronavirus pandemic forced companies to shut their doors and allow employees to work remotely from home. This indicates that IT governance should be improved globally. Ramalepe (2020) predicts that the trend of working from home might continue even after the pandemic is erased.

The IODSA (2016b) in principle 12 of King IV, recommends that the board of directors should assume responsibility for the governance of technology and information by setting the direction for how technology and information should be approached and addressed in the organization. The management of IT should be delegated to the management of the company (IODSA, 2016b).

2.4.4. Compliance Management

Compliance with legal and regulatory obligations is an important factor in companies to ensure that company’s exposure to fines and penalties is minimized. This is confirmed by Gaur, Ghosh, and Zheng (2019) which states that organizations that have effective compliance management systems are exposed to less regulatory risk.

The IODSA (2016b) in principle 11 of King IV, recommends that the board of directors should assume responsibility for the governance of compliance with relevant laws and adopted codes and standards by setting a direction as to how compliance should be approached and addressed within the organization. This allows firms to gain a better understanding of the laws and regulations that affect them and can develop a better response to demanding ethics and compliance expectations (Gaur et al., 2019).

2.5. Legitimacy and Integrated Reporting

With South Africa being amongst the first countries to adopt the IR Framework. This would be an attempt to acknowledge the role of global society in building the corporate disclosures of South African companies. Legitimacy has been widely defined; however, Suchman’s definition has been consistently utilized. His definition explains well why there are continued developments of laws and regulations such as the IR Framework and King IV and reasons behind early adoption of these standards by certain organizations. Suchman (1995) defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems of norms, values,

beliefs, and definitions. Organizations seek legitimacy for several reasons with two main reasons being; the distinction between pursuing continuity and pursuing credibility, and the distinction between seeking passive support and seeking active support (Suchman, 1995). Legitimacy enhances the stability and comprehensibility of an organization's activities and it alsoaffects how people act towards organizations and how they understand them (Suchman, 1995). In the context of integrated reporting, South Africa remained legitimate in the eyes of the world by adopting the framework early. This enhanced how foreign investors perceive South African companies and they are being viewed as critical members of South African society. There is also an appropriate understanding between the investors and the organizations. Suchman (1995) also provides that for organizations to attain and maintain active support they only need to make sense and avoid questioning activities. The use of integrated reporting by South African organizations allows them to answer possible questions that foreign investors may have.

Suchman (1995) provides three broad types of legitimacy being pragmatic legitimacy, moral legitimacy and cognitive legitimacy. He states that these types involve a generalized perception that organizational activities are desirable, proper or appropriate within some socially constructed systems of norms, values, beliefs and definitions.

Pragmatic legitimacy rests on the self-interested calculations of the organization's most immediate audiences (Suchman, 1995). It is an exchange-related form of legitimacy based on an organization's capacity to persuade key stakeholders of its usefulness (Elms & Phillips, 2009). Individual willingness to work for organizations and to financially invest in them provides evidence of pragmatic legitimacy (Elms & Phillips, 2009), in that we see the usefulness of these organizations. The usefulness for each key stakeholder may be different ranging from capital appreciation, dividend pay-outs, job security and tax revenues. The adoption of the IR Framework is then motivated by the need to communicate information that will enhance the usefulness of the organizations.

Moral legitimacy reflects a positive normative evaluation of the organizations and their activities (Suchman, 1995). It does not rest on judgements about whether a given activity benefits the evaluator or not but on whether an activity is a right thing to do (Suchman, 1995). This is heavily based on the rules of ethics, which are not necessarily documented but may be incorporated in governmental legislation. In the context of South Africa, an example would be the Bill of Rights which strives to attain and maintain human dignity, equality and freedom. In applying the integrated reporting principles, organizations can communicate actions that they undertook to enhance human dignity, equality and freedom. As we may have seen in many JSE listed companies, many boards of directors now comprise a balanced number of

races indicating actions attempting to enhance equality within the organizations. In addition to this, more women are appointed to boards indicating a strive for gender equality in the corporate world.

Cognitive Legitimacy is the assessment that organizational activities are desirable, proper or appropriate because they match pre-constructed beliefs about ways of organizing work and generating social values (Suchman, 1995). This type of legitimacy is based on comprehensibility and 'taken-for-grandness'. The legitimacy based on comprehensibility suggests that not all explanations are equally viable and that one explanation must have a significant link between larger belief systems and with the experienced reality of the audience's daily life (Suchman, 1995). This is evidenced in South African companies' integrated reports in which they report on pressing social issues such as HIV/AIDS and the application of the B-BBEE scheme protocols. In doing so, they maintain their legitimacy by aligning themselves with the daily issues of many South Africans (Rensburg & Botha, 2014).

Organizations can purchase pragmatic legitimacy by directing tangible rewards to a specific area in which moral and cognitive legitimacy is largely dependent on cultural values (Suchman, 1995). The management's skills and knowledge allow the organizations to adopt laws and regulations that align them to widely supported cultural values to be legitimate. In Suchman's strategies for gaining legitimacy, he states that organizations implement efforts to conform to the dictates of pre-existing audiences within the organization's current environment. This technique is used by organizations to ensure that they remain legitimate. For example, it can be said that the majority of companies have adopted the King IV (which includes the IR Framework), not only because JSE requires compliance with it, but to also ensure that they conform to existing audiences within the environment. Suchman (1995) further provides strategies that are used by management in maintaining legitimacy being perceiving future changes and protecting past accomplishments. Management of organizations are always monitoring changes to the cultural environment and assimilating elements of that environment into the organizational decision process (Suchman, 1995). In 2012, Johannah Moriti identified a gap in the natural chemical-free products that do not alter the structure of ethnic hair (Hartigh, 2013) and ever since, hair product companies have moved to this idea. They had anticipated that in the future the world would be embracing natural hair products. More evidence of this, IRBA has indicated that 33% of all audit firm rotations since 2017 were due to the mandatory audit firm rotation (MAFR) which is due to be effective from 1 April 2023 (IRBA, 2018). Although it is already in the public domain that MAFR will be mandatory for all organizations, some have already implemented the concept voluntarily. In the eyes of the stakeholders, this gives the organizations a good look. They appear to be compliant with relevant laws and regulations. Many companies remained legitimate by

anticipating the cultural developments over time and through early adoption of laws and regulations as well. In attempting to remain legitimate, organizations always defend and embrace past actions that enabled them to attain legitimacy (Suchman, 1995). Organizations that adopted King IV early will always disclose this in their annual reports to ensure that their stakeholders are aware of this fact. It is more likely than not that; the organizations that have already adopted the MAFR will disclose this in their annual reports. Concerning the early adoption of the IR Framework by South Africa, it will always be written in 'history books' that the country adopted the framework early. JSE will always defend this fact to enhance its legitimacy.

The early adoption of the IR Framework appears to be an action to attain and maintain legitimacy by South Africa. It could have been a calculated self-interest by South Africa, to highlight to the global economy that we were moving towards a more transparent and accountable economy. This would be targeted at foreign investors. According to the data collected by the Department of Trade, Industry and Competition foreign direct investment increased by almost R20 billion in 2013/14 which was the year that the IR Framework became effective (DTIC, 2020). King IV became effective on 1 April 2016, and the foreign direct investment increased by just over R32 billion in 2016/17 (DTIC, 2020), indicating investor confidence in the integrated reporting practices of South African organizations. Although South Africa may have benefited through the early adoption of the integrated reporting frameworks, it is important to note that the political forces, as well as the general global economic standings, could have contributed to these figures.

In addition to the abovementioned reasons, other reasons exist for South Africa to adopt the integrated reporting early to appear as being legitimate. The King IV recommended principles (which include the principle of the IR Framework) are driven by the historic significance of social issues for South African companies, such as, HIV/AIDS and matters relating to black economic empowerment following the end of the apartheid era (Solomon & Maroun, 2012). "Legitimacy is generalized in that it represents an umbrella evaluation that, to some extent, transcends specific adverse acts or occurrences; thus, legitimacy is resilient to particular events, yet it is dependent on a history of events" (Suchman, 1995). This explains that the history of South Africa may have played a significant role in the early adoption of the IR Framework, to ensure that these companies are contributing to improving the social issues within the community and to provide information to foreign investors on the role that they play. In addition to this, South Africa is a stakeholder-orientated country and according to Kolk and Perego (2010), these countries are more likely to adopt sustainability reporting earlier than others

Organizations can attain and maintain legitimacy as a result of the three institutional pressures relating to coercive, normative, and mimetic isomorphic forces (Kolk & Perego, 2010). The next section looks at the links between isomorphism, legitimacy and integrated reporting.

2.6. Isomorphism in Integrated Reporting

Organizations compete not just for resources and market shares, but also for political powers and institutional legitimacy, for social and economic fitness as well (DiMaggio & Powell, 1983). The studies by DiMaggio and Powell (1983), Martínez-Ferrero and García-Sánchez (2017) and Kolk and Perego (2010) explains how an institutional isomorphism is a useful tool in understanding the politics and ceremonies that appear within the modern organizational life. Three types of isomorphism that have been identified are coercive, mimetic and normative isomorphism as explained by studies conducted by DiMaggio and Powell (1983) and Martínez-Ferrero and García-Sánchez (2017).

Coercive isomorphism involves formal and informal pressures exerted on organizations by other organizations to exhibit certain behaviours that conform to society's expectations (DiMaggio & Powell, 1983). Government laws sometimes mandate these pressures. The JSE listing requirements obligate all listed companies to apply King IV in preparing their annual reports. Given the early adoption of the IR Framework by the JSE (that is incorporated in King IV), the application by the organizations may only be through coercive forces.

Mimetic isomorphism results from situations of uncertainty in which organizations may adopt an activity referenced by other organizations (Martínez-Ferrero & García-Sánchez, 2017). Uncertainty is a powerful tool that demands imitations (DiMaggio & Powell, 1983). The early adoption of certain standards may have been influenced by uncertainty and this may have caused the early adoption of the IR Framework in South Africa. Early adoption by South Africa may have been a reaction due to the global reactions about their social, environmental and corporate governance disclosures. With some European organizations adopting the IR Framework earlier, South Africa may have attempted to imitate the actions of these organizations. This is again supported by the fact that South Africa seems to be mimicking European organizations given the similarities between South Africa and European nations' laws and regulations that were adopted. The imitation of European organizations may have also been encouraged by their success and South Africa had calculated self-interests in enhancing the image of their organizations.

Professionalization is the cornerstone of normative isomorphism (DiMaggio & Powell, 1983). Same as organizations, professionals are also influenced by mimetic and coercive forces (DiMaggio & Powell, 1983). The exchange of information among professionals contributes to

the commonly recognized hierarchy of status which also facilitates the flow of information from one organization to the other (DiMaggio & Powell, 1983). If one organization, within an industry, is of the view that certain laws should be adopted, it is more likely than not that they willbe adopted by all organizations. This is further explained by DiMaggio and Powell (1983) who explain that professionals, particularly managers, have a uniform way of thinking because of the similar education and training they receive. The study provides that the most important feature of normative isomorphism is the filtering of personnel, which allows a majority of top professionals to be virtually indistinguishable. The early adoption of the IR Framework by South Africa may have been influenced by the links between Mervyn King who is the chair ofthe King Committee on Corporate Governance and has served as the chair of the IIRC board. His knowledge and experience gained from being the chair of the IIRC board may have significantly influenced the early adoption of the IR Framework in South Africa.

Many organizations are driven by isomorphic forces to remain legitimate. Martínez-Ferrero and García-Sánchez (2017) differentiated between developed and undeveloped countries and found that organizations from countries with greater social developments prefer to use sustainability information with intentions of avoiding political costs, ensuring legitimacy, and meeting the needs of the more powerful stakeholders. South Africa falls between the developed and undeveloped countries (i.e., developing); however, one may argue that the early adoption of the IR Framework may have been encouraged by the need to satisfy the more powerful stakeholders. It is also important to also note that this may be due to different organizational cultures and values.

This discussion provides various reasons as to why South Africa may have adopted the IR Framework early. Ranging from mimicking other countries to being influenced by the social and economic pressures from the Apartheid era. Even though the influences are external, the relationship of Mervyn King with the IIRC and King Committee on Corporate Governance may have played a significant role. The analysis into the compliance with King IV may indicate whether the early adoption has benefited South African organizations or not. These organizations have been applying integrated reporting for a while now and the expectation would be enhanced compliance with King.

In addition to these reasons, the next section will further explore other reasons that may have caused the early adoption of the IR Framework.

2.7. Impression Management in Integrated Reports

As explained in previous sections, the disclosures in integrated reports are sometimes driven by the concept of impression management. This is because the information contained in the reports impacts the behaviours of the recipients of the reports. Impression management is a tool that is used by preparers of corporate reports to influence users and it is also used to shape the audience's impression of the organization (Brennan & Merkl-Davies, 2013). In most cases, management draws favourable conclusions from users by selecting the information that displays and is presented in a manner that is intended to distort readers' perceptions of their achievements (Godfrey, Mather, & Ramsay, 2003). In certain cases, impression management is used as a reactive tool to restore an organization's image, reputation and/or legitimacy (Brennan & Merkl-Davies, 2013). Poor financial results and governance issues that are already in the public are significantly explained to try to sway the minds of the stakeholders. This is confirmed by Villiers and Maroun (2018) stating that management is reluctant to reveal negative news voluntarily and would rather only disclose the reasons for bad news that is already known to the market. Looking at the Eskom Integrated Report's Reportable Irregularities Note for the 2019 financial year, governance issues that were already in the public domain are heavily discussed. Although it is not certain that they are trying to sway users' minds, it is more likely than not that they are attempting to do so. This is a "self-serving bias" as explained by Bozzolan, Cho, and Michelon (2013).

There are a few reasons why impression management is used. The most important one is that corporate reports are viewed as a reflection of management's performance (Merkl-Davies, Brennan, & McLeay, 2011), and management will always attempt to portray a good performance to maintain their remuneration packages and positions. They then use corporate reports to report about how efficient their performance was over the relevant financial year. The second reason is that organizations always want to remain legitimate. Yuthas, Rogers, and Dillard (2002) confirm that management always takes action to communicate about their credibility at the same time they communicate information about corporate performance. They do this to attain and maintain their legitimacy. In certain cases, organizations try to portray themselves as being responsible and use disclosures for this purpose (Villiers & Maroun, 2018). The third reason is that impression management is used, particularly for public companies, is to reduce investor uncertainty which in turn reduces risks of falling share prices and reduced investor confidence (Yasseen, Moola-Yasseen, & Padia, 2017). Management do so by using corporate reports to communicate information to users, more especially to existing and potential investors, that will ease their uncertainties. They do so to increase investor confidence.

Impression management is used in many ways. To start with, we look at the tone and language used in corporate reports. Preparers of corporate reports give special attention to content, language and/or presentation of information which is used to manipulate perceptions of stakeholders (Bozzolan et al., 2013). Yasseen et al. (2017) found that corporate reports use personal reference words such as 'I", 'me', 'my' and collective personal reference words such as 'our', 'we', 'us'. The study found that management mostly uses personal reference words to attribute positive outcomes to themselves and distance themselves from negative outcomes using collective references by using collective personal references. This is explained by the attribution theory. Brennan and Merkl-Davies (2013) give seven communication choices that are applied for impression management; (i) thematic manipulation; (ii) visual and structural manipulation; (iii) attribution of performance. Thematic manipulation is when management overstates the good news and understate the bad news (Brennan & Merkl-Davies, 2013). Management would rather have a page-long paragraph on how they improved the environment rather than how they had governance issues in their reports. This is evidenced in the Eskom Integrated Report for 2019 that includes a section of "governance clean-up" which consists of over eight paragraphs indicating that they are trying to convince users that they are repairing their governance issues. However, in their "reportable irregularity' section they have just one paragraph on governance issues relating to their former CEO. This leads the discussion to another type of impression management which is visual and structural manipulation. This occurs when management overemphasizes the good news and position them on first pages of the report and burying the bad news in the middle or last pages of the reports (Brennan & Merkl-Davies, 2013). In Eskom Integrated Report for 2019, the chairperson's statement appears on the early pages of the report and the statement is designed to communicate the good news in detail hence it is in the early pages of the report. Governance and reputational issues are only dealt with on page 141 of the Integrated Report. This is always the case with Integrated Reports, the chairperson's statement will always come first as it normally contains positive information in it. This could be an attempt to bury the bad news. Attribution of performance (which is related to attribution theory) is defined as whether a company takes credit for positive outcomes and blames external factors for negative outcomes (Brennan & Merkl-Davies, 2013). As explained previously, management would rather be linked to positive outcomes rather than negative outcomes. They would normally blame the external factors for any negative outcomes their organisations face. "Attribution theory aligns with the psychological and sociological perspectives of impression management" (Yasseen et al., 2017). The psychological perspective has been proven to be focused on managerial actions to manage shareholders' and other stakeholders' perceptions of financial performance (Brennan & Merkl-Davies, 2013). Management use reports directing the attention of users to specific areas about the

financial performance of the organization. The sociological perspective has also been proven to be about corporate social and environmental responsibility image and legitimacy (Brennan & Merkl-Davies, 2013). Management use corporate reports to prove that they are responsible corporate citizens, and this allows them to remain legitimate uses corporate reports.

Impression management is a tactic used to influence users hence ethics are in question. It is a tool used to control images projected by users. Provis (2010) argue that impression management could be seen as lying to users because management tries to deceive stakeholders, which would be unethical. The issues around the ethics of impression management are valid because users do not know that the information disclosed is being used to persuade them into having certain ideas about the organization. Even though the credibility of the reports is questioned because of impression management, assurance will not necessarily provide any comfort over the uses of impression management. It is quite clear that integrated reports are used to serve many purposes and mostly benefit the organization rather than the stakeholders. While this is true, they also remain a critical document that contains information that is paramount for decision-making.

2.8. Conclusion

There have been many calls for non-financial information that is forward-looking. The issue was that the financial information, alongside management commentary, only focused on historical events, which was not viable for decision-making. The IIRC answered these calls by issuing the IR Framework that guides organizations to provide sustainability information that enables stakeholders to understand how they generate wealth over time. These assist stakeholders in confirming the going concern of the organizations and allocating capital. With South Africa being amongst the early adopters of the IR Framework, they have assisted in shaping the final draft of the IR Framework. The principles of the final draft of the IR Framework are integrated into the recently issued King IV. Even though King IV does not require organizations to comply with its principles, it is recommended that organizations should apply them. However, all JSE listed companies are required to comply with its recommended principles. The integrated reports should tie financial and non-financial information into a single report and communicate how they are generated and will generate wealth.

This literature provided various reasons for the early adoption of the IR Framework, which include the fact that South Africa may have been trying to attain and maintain legitimacy given our history and the possibilities of isomorphic forces. These factors are valid given the prior literature referenced and how South Africa has been an early adopter of many accounting regulations, including the IFRS. Even though there were some ‘behind-the-door’ reasons for

the early adoption has positively affected the South African economy and has enabled us to lead the integrated reporting world. It has also assisted South African organizations to remain relevant in the context of the global economy given the steady increase in foreign direct investment. The early adoption may have been due to the abovementioned reasons, however, these reports must be analysed to confirm if the compliance with King has improved or not. Are these companies merely complying because they are required to comply given the early adoption?

The use of impression management brings doubt into the credibility of the reports. This adds to the issues brought out by the fact that integrated reports are not necessarily assured through an audit. However, the investigations into the compliance with King IV may provide some clarity into whether organizations' reports do reflect the true wealth and capital. The analysis of indicators relating to the internal audit functions could indicate the effectiveness and completeness of internal controls which in turn may indicate whether the governance structures are reliable or not.

This study seeks to analyse the trends in integrated reporting by JSE listed companies from 2016 to 2017 and from 2017 to 2018. This will assist in identifying compliance with the newly adopted King IV and to identify whether companies are merely complying because they are required to do so or not.

CHAPTER 3: METHODOLOGY

3.1. Research Methodology

A descriptive research methodology was used to assess the extent of compliance with integrated reporting recommendations. Leedy and Ormrod (2010) provide that research of a descriptive nature purely seeks to explore an existing situation as opposed to altering the status quo. A descriptive research approach is appropriate for this study as the study only attempts to investigate the trends in the extent of integrated reporting by JSE listed companies. The study, therefore, involved content analysis of the reports. Content analysis involves the analysis of the contents of specific reports to identify key ideas (Leedy & Ormrod, 2010). This method is most appropriate for this study as it includes the inspection of integrated reports for key trends relating to various disclosures.

3.2. Research Design

The study was be conducted through the inspection of the annual integrated reports of the top 100 JSE listed companies. The reports were analyzed for disclosures relating to the following five parts of King IV:

i. Leadership, ethics, and corporate citizenship
ii. Strategy, performance, and reporting
iii. Governance of structures and delegation
iv. Governance of functional areas
v. Stakeholders relationships.

The annual integrated reports of the selected companies were sourced using the IRESS database. In cases where IRESS could not provide the reports, these were sourced from the respective companies' websites. The reports for the financial years 2016, 2017, and 2018 were inspected to identify any significant changes that have occurred in the way that companies disclose the information above.

It is important to note that King IV was issued as a response to governance issues and the Code itself is not legislation (IODSA, 2016b). The code works on an "apply-and-explain" basis and as such, companies' annual integrated reports will be examined for the application of King IV principles and the explanations to the applications.

This method of research forms part of Archival Research which involves the use of administrative records and documents as principal sources of data (Saunders, Lewis, &

Thornhill, 2019). “Archival research allows for research questions to focus on historical data, which have subsequently changed over some time” (Saunders et al., 2019).

3.3. Research Population and Sample

3.3.1. Population

This study looked at the JSE listed companies and as a result of this, the population consisted of 349 companies.

3.3.2. Sample and Sampling Method

Leedy and Ormrod (2010) advise that where the population size of the data is less than 100, the entire population be used. This does not apply for this research as the population six is 349 which is greater than 100. The larger the sample size used in the proportion of the population the closer its distribution will be to the normal distribution per the central limit theory (Saunders et al., 2019).

As the JSE listing requirements obligates all listed companies to comply with the recommended principles of King IV and therefore, only JSE listed companies will be considered for this study. A number of 100 companies formed part of the sample. The decision to test the top 100 was because they represent 97.2% of the total market capitalization. Accordingly, it was expected that the integrated reporting trends by these top 100 JSE listed companies would represent that of the entire population. The sample was selected based on the market capitalization as of 28 July 2020. The market capitalizations of JSE companies were sourced using the IRESS BFA database, arranged from one to the last company and for this study, the top 100 (number 1 to 100) companies were selected and analysed. The JSE listing requirements do allow listed companies to no prepare integrated reports provided they explain why they do not prepare integrated reports (JSE, 2007). The only case where a company did not prepare an integrated report is when it is secondary listed on the JSE, this in terms of section 18.4 of the JSE Listing Requirements. The reports for respective companies for financial years 2016, 2017, and 2018 were obtained from IRESS.

In total, the study contained 300 integrated reports of JSE listed companies. However, 16 companies did not form part of the study as they are secondary listed on the JSE and are not required to comply with King IV. Although this deviates from the initial sample size, Stutely (2003) provides that to carry out statistical analysis, the sample size should consist of at least 30 items of data irrespective of the population size.

3.4. Research Instrument

The research instrument to be adopted is a scorecard approach, where the recommendations of King IV were recorded and scored based on the disclosures contained in the companies' reports. While all five parts of King were focused upon, special attention was directed to compliance with principles relating to board composition and its committees, risk and compliance management, internal audit function and IT governance.

It is recognized that the use of a checklist is not in the spirit of integrated reporting and corporate governance disclosures, as it encourages a 'tick-box' approach and not a 'apply and explain' approach. However, as a result of all companies being rated on the basis of the same indicators it was decided that it suits this research as it helps to attain and maintain consistency throughout the research

Alongside the guidance of (IODSA, 2016b) and (Mashile, 2015), a list of indicators has been developed (see APPENDIX A: Research Instrument (Indicators)). The indicators have been derived from the recommended principles of King IV. The information disclosed under each indicator was scored from 1 to 5 and the results were analysed for the level of disclosure over three years.

A rating scale (indicated in Table 3.2.) which is similar to the one used by Daub (2007) in assessing the quality of sustainability reporting by Swiss companies will be adopted for this study. The scale was also adapted from Makiwane and Padia (2012) and has been used by Mashile (2015), and Surty (2018) indicating the reliability of the scale.

Table 3.2:

Score	Indicator	Classification
1	The equivalent of 0% compliance	Non-compliance
2	Ranging between 0 – 25% indicating that little detail provided	Poor/Average Compliance
3	Ranging between 25 – 50% indicating that some detail provided	Satisfactory Compliance
4	Ranging between 50 – 75% indicating that more detail provided	Good Compliance
5	More than 75%, which indicates that much detail was provided.	Excellent Compliance

The details on how this scale was used and what each indication represents are explained in APPENDIX B: Research Instrument (Rating Scale)

3.5. Data Collection

The companies' annual integrated reports for the financial years ended 2017, 2018, and 2019 were downloaded from the IRESS database, an electronic database of financial data. These reports were inspected and examined by the researcher to evaluate the extent of disclosures. The evaluation was conducted in line with the list of indicators to be developed. During the evaluation process, the rating scale was used to score the information disclosed under each indicator and the scoring was done and maintained on a Microsoft Excel sheet. It is recognized that the evaluation of the extent of reports may include some level of subjectivity, however, the researcher's consistency was relied upon for dependable results. In addition to relying on the researcher's consistency, a sample containing 10 companies was selected before the commencement of the research. The researcher then scored each of the 10 companies and has discussions with the supervisors to ensure that the results are consistent and the understanding of reports of high quality.

3.6. Data Analysis and Interpretation

Using Table 3.2. values, the level of disclosure by each company was ranked from 1 to 5. To ensure that uniform scoring occurs during the data analysis process, the same rating score was used for all sampled annual reports. The results were arranged and grouped into the following categories:

- All companies in the sample
- Per research indicator
- Indicators displaying the most significant trends

By grouping the results in the category of 'per research indicator' assisted in analysing areas that JSE listed companies thrive in and areas in which more attention is needed.

The study uses descriptive statistics such as frequency and multiple bar graphs to results derived. In addition to this, a non-parametric test was used to assess for any significant differences in the extent of compliance with the frameworks for the financial years 2017, 2018, and 2019. The use of non-parametric data is important and Hanke and Reitsch (1993) provided that it is most valuable when data is of a qualitative nature because it is objective to the population of data thus making it an appropriate tool to assist in decision making. The non-parametric test to be used is the Spearman's rho to determine whether there is any correlation between scores for one year and scores for the other year. A high correlation between the years indicates a significant improvement from one year to the other. A low correlation between the years indicates somewhat improvement from one year to the other.

The scores were derived for each company per measure per year and averages, which will be represented by mean. A comparison will also be done for the 2016 and 2017 scores, and then for the 2017 and 2018. The comparison was for means from the same group and at different periods and as a result, paired t-tests were used to compare means from one year to the other. The ability to use paired t-test for this analysis is confirmed by Leedy and Ormrod (2015) that provide that paired t-test may only be used to compare two means of a single group. The results from the paired t-test are used to provide information on any significant differences between the two means, being the significant differences between the 2016 and 2017 integrated reporting compliance and the 2017 and 2018 integrated reporting compliance. A significant difference, analysed in conjunction with Spearman's rho, indicates an improvement in compliance with the integrated reporting recommendations and principles.

The paired t-test assumes that the data is normally distributed. In a case where this assumption is not in line with the data collected, the Wilcoxon signed-rank test will be used to analyse the data. It will be relevant as the Wilcoxon signed-rank test can be used to analyse two means of a single group without the assumption that the data is normally distributed. The paired t-test assumes that the data is normally distributed. In this case, the assumption is not in line with the data collected and therefore, the Wilcoxon signed-rank test will be used to analyse the data. It will be relevant as the Wilcoxon signed-rank test can be used to analyse two means of a single group without the assumption that the data is normally distributed.

3.7. Validity and Reliability

White (2003) provides that for a study to be valid it should answer the questions and meet objectives that the study aims to achieve, and reliability is about consistency and whether or not another researcher could obtain the research and reperform the study. Reliability is about consistency and whether another research could use the design and obtain similar findings (White, 2003).

This study will be completed using audited annual reports of JSE listed companies and therefore, in terms of the International Standards on Auditing (ISA) would have expressed an opinion on the fair representation of the information contained in the annual reports. This enhances the value of the reports as it shows stakeholders that there is a reasonable assurance that the information presented in free from material error. As a result, the information in the annual reports can be relied upon and can be used as a source of evidence for conducting this research.

The study will be conducted to assess the extent of the reporting practices and it involves some level of subjectivity. However, Unerman (2000) provides that subjectivity itself does not

lead to the threat that the validity and reliability of a study will be compromised. The researcher's consistency will be relied upon to deliver dependable results in a fair, just, and equitable manner. In addition to this reliance, the supervisors will draw a sample from the companies used in the research and rate their disclosures. The results will be compared to those of the researchers and any significant differences will be investigated and addressed. The supervisors are experienced with this method (i.e. the rating scale) and these checks will ensure consistency in the results.

3.8. Limitations of the study

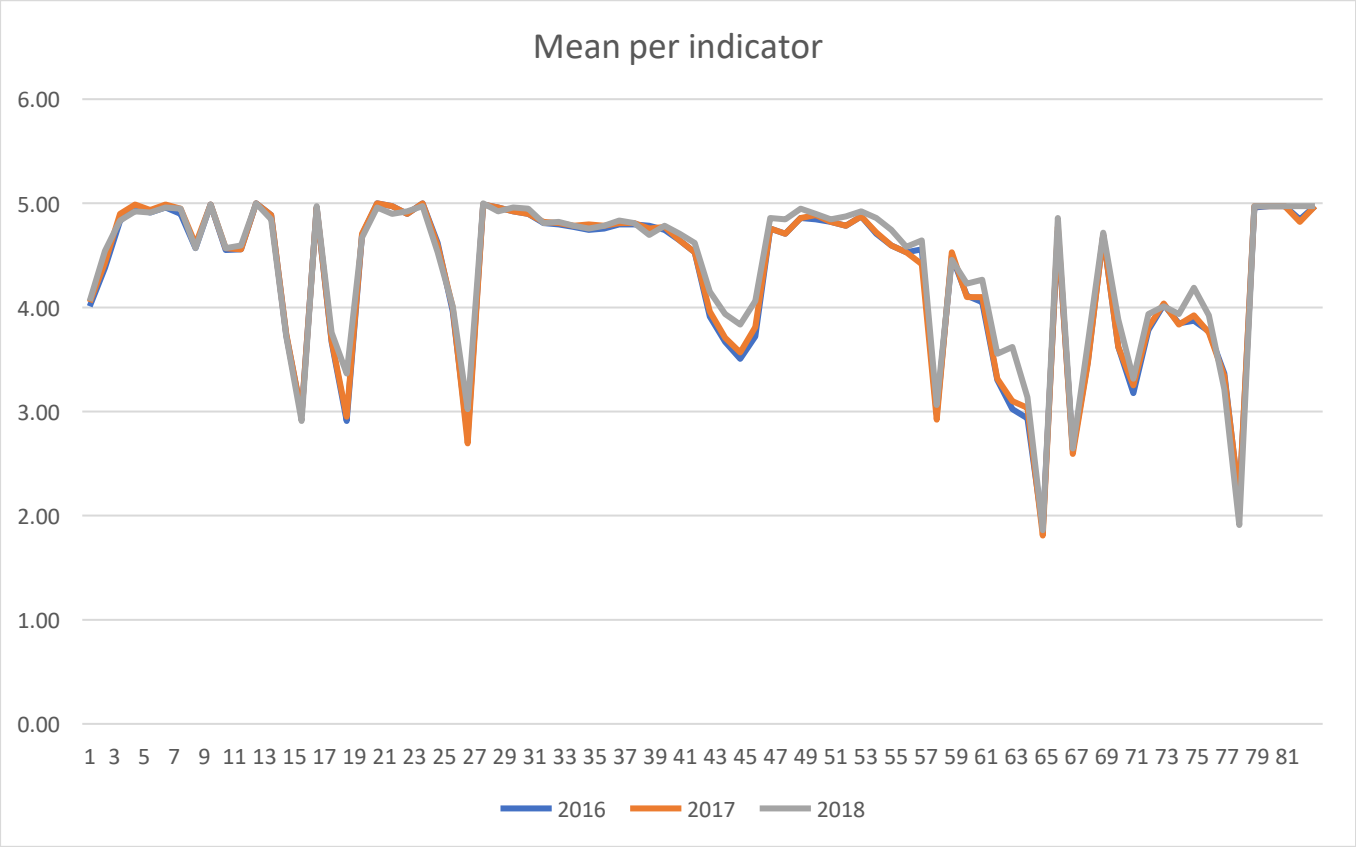
Mashile (2015) points out that a risk that some integrated reports may have not included certain information that could be on the companies' website due to the reports being obtained from the IRESS database. In such circumstances, the company would be awarded a rating of 1 for such an indicator unless there is a clear reference in the integrated report to refer to the entity's website. In addition to this, companies that are secondary listed on the JSE were not analysed as they are not required to comply with King IV. The requirement number 18.4 of the JSE Listing requirements require secondary listed companies to only comply with the primary listing's requirements.

There were cases where some companies only listed after 2016 which meant that there was no mandatory compliance with King IV and these companies were not included in the study. In addition to this, companies that did not prepare annual reports for all the selected financial years (2016, 2017 and 2018) were not included in the study.

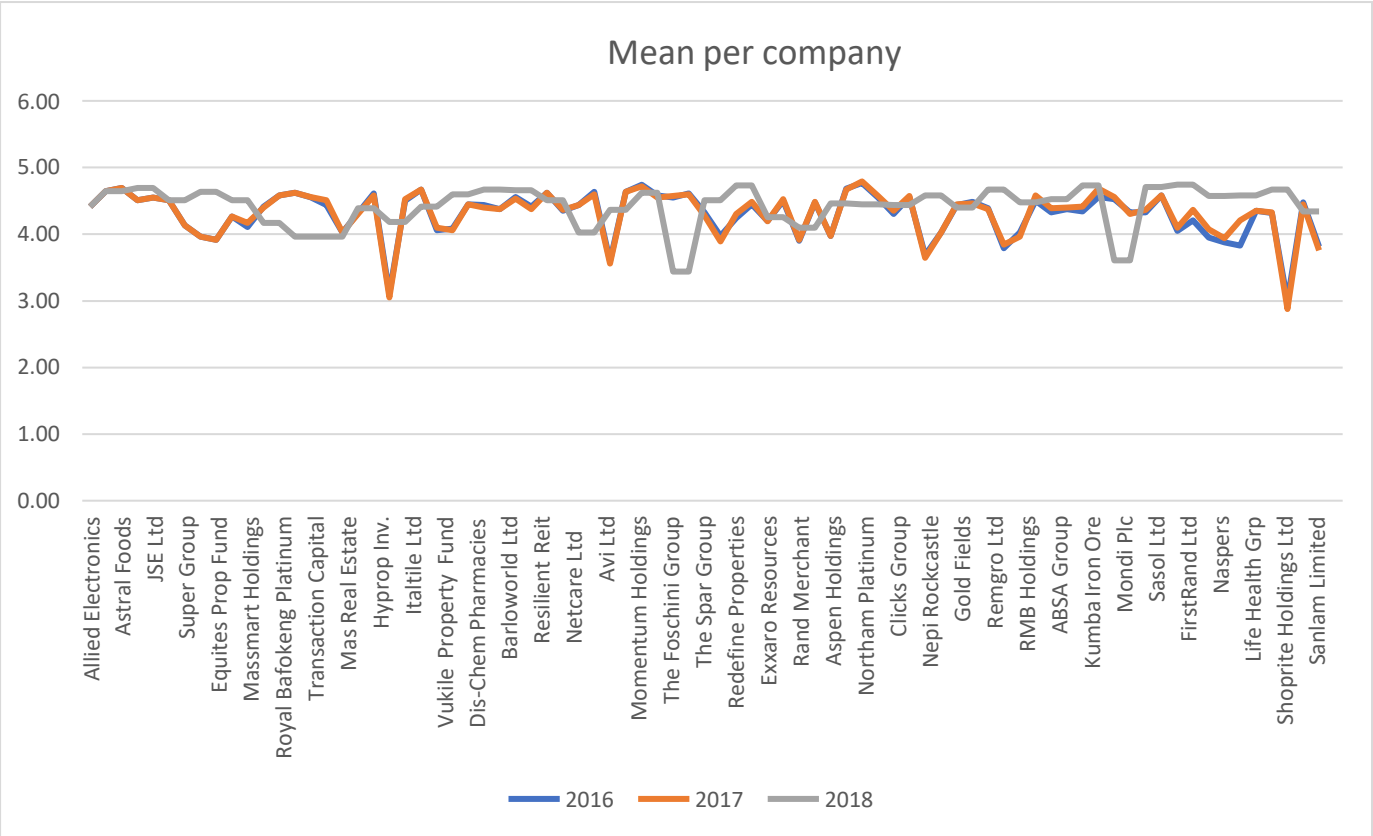
CHAPTER 4: RESEARCH RESULTS

This chapter will discuss several key findings noted during the analysis of the companies' integrated reports. The chapter will further present the trends in the level of compliance with King IV under the selected research indicators. These indicators were selected based on the best performance and the worst performance. The chapter will end with an overall analysis of the results.

As detailed in section 3.6, the analysis of the results is as follows:



The above graph shows the mean for each indicator per financial year. It indicates that the compliance has not increased significantly however, the average for most of the indicators is above 3 which is the average rating. The analysis in the next sections will go into details as to which indicator was performing poorly.



The above chart shows the mean for each company over the three-year financial period. In line with the mean per indicator, there seems to be an overall improvement in how the integrated reports are being drafted. While the improvements are insignificant, it adds to the previous study by Mashile (2015) which also saw an overall improvement in how companies were drafting their integrated reports.

4.1. Key Findings

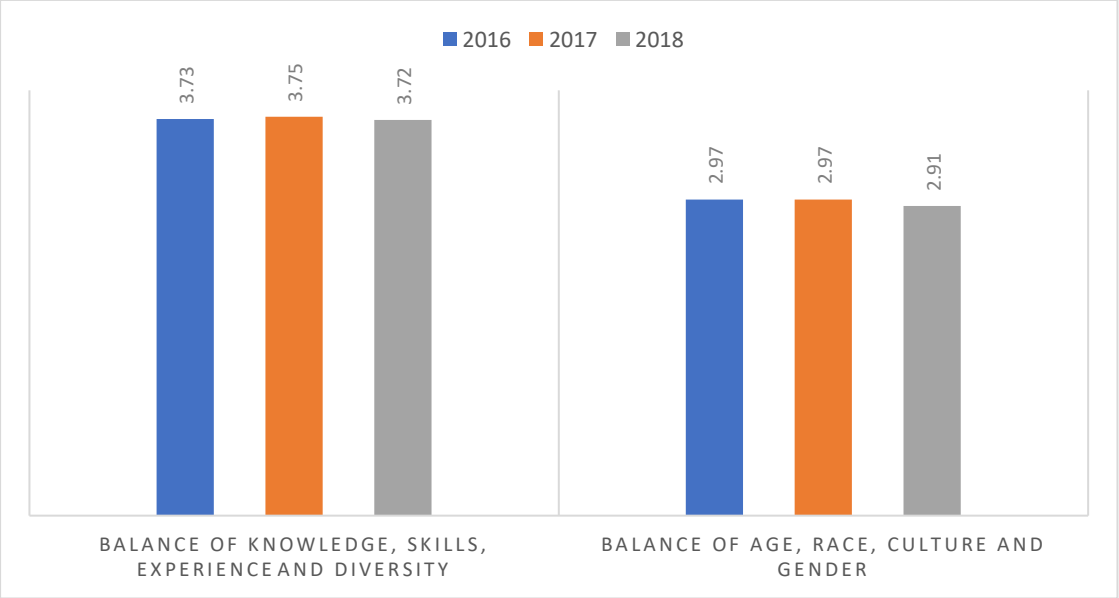
King IV has been advocating for companies to issue a single report that harmonises their financial and non-financial performance. Although the majority of the companies' integrated reports contained all the financial and non-financial performance, certain companies' integrated reports ignored certain reports. Most of the reports that were ignored included the audit committee report. This report was normally located in the annual financial statements document. While this makes sense given that the audit committee report significantly related to the annual financial statements, it is against the concept of King IV. It was noted that some companies did not include the detailed audit committee report in their integrated reports they included a summary of the audit committee's duties and responsibilities executed in the relevant financial year. These were found useful as they provided an idea of what the audit committee's duties and responsibilities are without having to navigate to another document.

The following subsections will look at the detailed analysis of indicators that were deemed to be significant.

4.1.1. Boards and directors

This section will analyse the results of research indicators for the composition of the board of directors over the three financial years.

One of the main purposes of the introduction of King IV was to improve diversity (in terms of race, age, culture and gender). This initiative, specifically to South Africa, was encouraged by the previous disadvantages for certain races and genders adopted from the Apartheid era. However, through the analysis of the sampled integrated reports, it was noted that this is still not the case with some companies. In terms of race and culture, it was noted that white personnel dominated both the board of directors and the executive committee. Concerning gender, it is quite clear that male dominance in the corporate world remains an issue. Males dominate both the governing body and the executive committee. King IV requires an appropriate balance of age, race, culture, and gender. However, from the mean analysis of this indicator the following was noted:



From the above chart, it is quite clear that the JSE listed companies are barely complying. However, it must be noted that the researcher found that there was a good balance of knowledge, skills and experience. The main issue that led to the poor ratings was the lack of balance in diversity, age, race, culture and gender.

Concerning age, the majority of the board of directors were above the age of 50 years. While this is understandable in terms of appointing members who are more experienced, it is also advisable to appoint young capable members for succession planning as well as to assist in

identifying and responding to issues that affect young people in the economy. This is highly recommended for clothing, technology and telecommunications companies (e.g., The Foschini Group, Telkom SA SOC Limited and Truworths Holdings) to ensure that their products remain relevant to the youth. We refer to the loss of confidence in Edcon as an example. Although other issues contributed to the loss of confidence in Edcon, one of them is the failure to remain relevant with their clothing lines. This failure could be a result of a lack of evolution.

The average means of research indicators relating to the composition of boards are as follows:

Table 4.1. Means of research indicators relating to board's composition

Indicators	2016	2017	2018
Board is comprised of a majority of non-executive directors	5	5	5
Of the non-executive directors, the majority is independent, and the definition of independence is correctly applied.	4.89	4.89	4.85
The CEO and the CFO (or any other executive) form part of the board	4.96	4.96	4.97
The board is chaired by a non-executive independent director.	3.67	3.68	3.76
There is a lead independent director appointed by the board.	2.91	2.95	3.37
The board is assisted by a competent, suitably qualified, and experienced company secretary.	4.7	4.71	4.67
The performance of the governing body is evaluated regularly (preferably, independently).	2.77	2.70	3.03

There seems to be an improvement on the findings of (Mashile, 2015), stating that there was a low number of independent non-executive board members. This is evidenced by overall good compliance in relation to the boards comprising many non-executive directors of which the majority were independent. As we can see from Table 4.1, the majority of directors being independent was not awarded a perfect score and this is because in some reports it was not indicated whether the directors were independent or not. In some cases, the issue was the applying of the definition of independence in terms of King IV. Some reports had the independence checks being performed by other members of the board. The researcher considered this to pose a self-review threat to independence.

Contrary to what (Mashile, 2015) found relating to the lack of independent non-executive, there was an improvement in the chairperson of the board being a non-executive independent

director as evidenced by mean moving from 3.67 in 2016 to 3.76 in 2018. This is indicative that Kind IV was considered and applied as it came into effect.

In addition to this, the majority of lead independent directors started being appointed in the 2017 financial year. The mean relating to this indicator significantly improved from 2.91 in 2016 to 3.37 in 2018 which is above satisfactory compliance. It must be noted that a deputy chairperson who was non-executive and independent was considered to be a lead independent as they serve a similar purpose.

The Kind IV recommendation for companies to be assisted by a qualified company secretary is also a requirement in terms of Companies Act No. 71 of 2008 hence the good compliance by JSE listed companies. The main issue that the researcher found in the reports was that the skills, experience and knowledge of the company secretary were not disclosed which lead to an average rating. While it can be assumed that the company secretary is qualified the reports should disclose this fact along with the 'apply and explain' principle of Kind IV.

In the study (Mashile, 2015) it was found that there were little to no disclosures relating to the evaluation of the performance of the board of directors. From this analysis, it appears that it is still the same. Although the board has the performance evaluation responsibilities delegated to a board's committee, the disclosure relating to this lacked substance. There were no details as to how the evaluation was conducted which deviates from the core principle of 'apply and explain'. As indicated in table 4.1, there was an insignificant decline in the indicators mean by 2.5% from 2016 to 2017 and a somewhat increase of 12% from 2017 to 2018. It is encouraging to see an increase from 2017 to 2018 which may indicate more compliance with King IV.

The recommendations on how JSE listed entities may improve on these will be discussed later in this report.

4.1.2. Board Committees

This section will look at the board committees' results. It will look at the compliance with the recommended composition of these committees as well as the execution of their duties and responsibilities.

Table 4.2. Mean of board committee compositions

Indicator	2016	2017	2018
Members of audit committee are suitably skilled and experienced in financial literacy, skills and experience to execute their duties effectively.	4.96	4.96	4.92
All members of the audit committee are independent, non-executive members of the governing body.	4.92	4.92	4.96

The audit committee is chaired by an independent, non-executive member of the governing body other than the chairman of the board.	4.9	4.9	4.95
The risk committee contains executive and non-executive members, with a majority being non-executive members of the governing body.	4.65	4.65	4.71
The risk committee is chaired by an independent, non-executive member of the governing body (not required by King IV but deemed to be significant for purposes of this research).	4.53	4.53	4.62
Members of the remuneration committee (RemCom) non-executive members of the governing body, with the majority of them being independent.	4.76	4.76	4.86
The RemCom is chaired by an independent non-executive director, other than the chairman of the governing body.	4.71	4.71	4.85
All members of nominations committee (NomCom) should be non-executive members of the governing body with the majority being independent.	4.59	4.59	4.75
It is chaired by an independent non-executive director, who can also be the chairman of the Board (Not required by King IV but deemed necessary for the purposes of this research).	4.53	4.53	4.58

Audit Committee

The above table clearly shows somewhat improvement in the composition of board committees. The leading committee is the audit committee as it always showed compliance with the recommended principles of King IV. The members of the audit committee always showed great skills and knowledge to execute their duties and responsibilities. The compliance with this recommended principle may also have been encouraged by the requirement for public companies to appoint an audit committee in the Companies Act No. 71 of 2008. This is a second indicator that is derived from the Companies Act that JSE listed companies outstand in. A question that may be raised is whether these companies respond positively to non-mandatory regulations.

In addition to the above, the researcher also looked at whether they execute their duties and responsibilities according to the recommendations of King IV. It was noted that out of all the recommended board committees, the audit committee achieved the highest score. The committee produced an average of 4.78 in 2016 and 4.79 in both 2017 and 2018 financial years. This is indicative that even before King IV was implemented the audit committee was efficient in carrying out their duties.

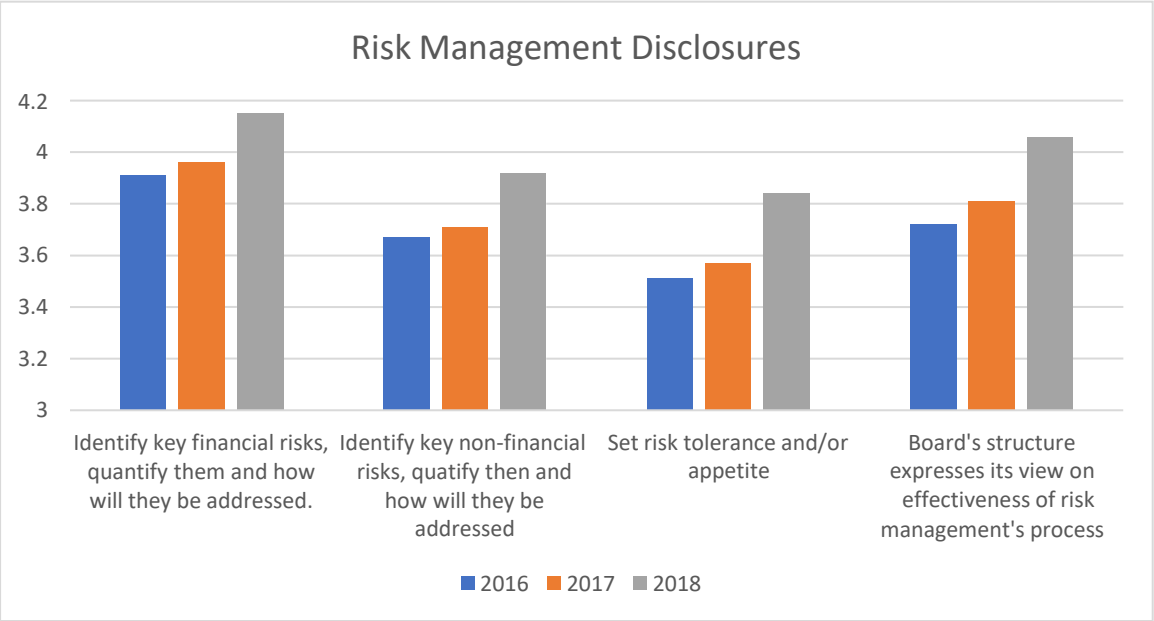
Furthermore, there was a clear and more detailed disclosure of audit committee responsibilities with regards to the internal financial controls, risk management and performance of the external and internal auditors. This is also in alignment with what Mashile

(2015) found. It may be that companies provide more detailed disclosure of audit committee responsibilities because it is a statutory requirement.

Risk Committee

Similarly, to the audit committee, the composition of risk committees was well aligned with the recommended principles of Kind IV with the mean seeing an increase over the three-year period. It must be noted that in some companies, the audit committee was tasked with the duties of risk management in which the composition of the audit committee was used to assess the risk committee's composition. The researcher found no issues with this as the audit committees have the skills, knowledge and experience to conduct these duties.

The researcher then assessed the duties carried out by the risk committees. King IV recommends that companies disclose a clear assessment and management of financial and non-financial risks. This was a struggle for the majority of companies, especially for non-financial risks.



There is a clear improvement in these disclosures from the financial year 2016 to 2018 which is a good thing. However, this is merely average compliance with these recommended principles. JSE Listed companies appeared to have more accurate disclosures on key financial risks but lacked non-financial risks. Although the scores are showing improvement, the disclosures for key non-financial risks were ambiguous and were vague on how they will be addressed which is the issue that was identified by Mashile (2015). In addition to this, there was a poor consideration to the risk tolerance and appetite which was pointed out by the

previously mentioned study that organizations disclosed ambiguous information about the risk tolerance levels. Some companies did not even consider risk tolerance and appetite.

The board structures, on average, did not express their views on the effectiveness of the risk management practices by the governing body. From the global financial crisis, it must be learned that robust risk management is a key to surviving situations such as the global financial crisis (Kirkpatrick, 2009). The main reason why risk management is key is that it avoids reckless risk-taking and may foresee certain events if applied accurately. By not having a proper risk appetite and tolerance levels, the company is exposed to all risks due to not having boundaries in the risk that the company is willing to take on. This also exposes the company to some significant risks to go unnoticed. This also increases the risk of the company deviating from its strategies. The recommendations on how companies may improve on this will be discussed later in the report.

Remuneration Committee

This committee's performance is similar to that of the audit committee. Concerning Table 4.2., the composition of the committee showed good compliance with King IV and an improvement from 2016 to 2018 however, the improvement was not that significant.

The committee also carried out their duties according to the recommended principles of King IV and showed improvement from 2016 to 2018 which was not significant.

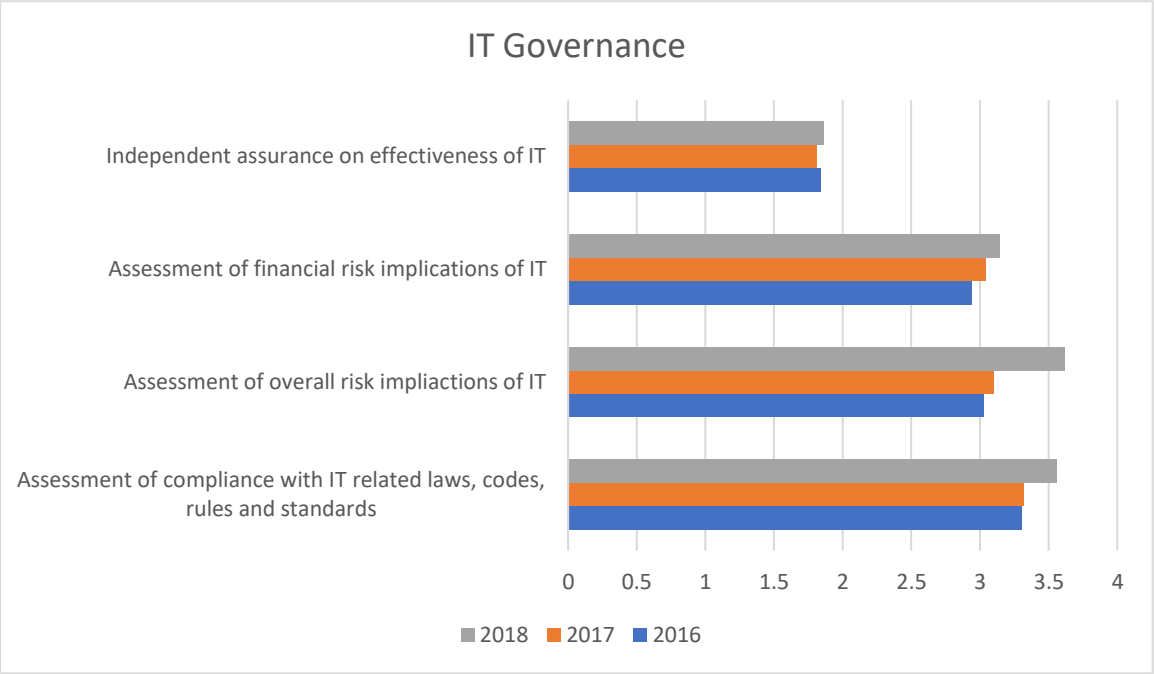
Nominations Committee

Concerning Table 4.2, the composition of the nominations committee indicated good compliance with King IV and there was an improvement from 2016 to 2018 which was not significant. Mashile (2015) found that there were not many nominations committee by 2012. There seems to be an improvement in this conclusion because all of the companies that were analysed a nominations committee was appointed or integrated with another board committee.

Concerning the duties that the nominations committee is responsible for, there is an improvement that is needed. The main issue was that the individuals eligible for nominations did not have their backgrounds independently investigated and their qualifications independently verified. This is indicated by the mean which declined from 2.97 in 2016 to 2.92 in 2017 but insignificantly increased from 2.92 in 2017 to 3.06 in 2018. This showed average compliance by the JSE listed companies.

4.1.3. Information Technology (IT) Governance

This was amongst the indicators where there was poor compliance. There was either little or no disclosure on IT governance. These findings are aligned with what Mashile (2015) found that there was no disclosure regarding ensuring compliance with IT-related laws and regulations and oversight over IT risk.

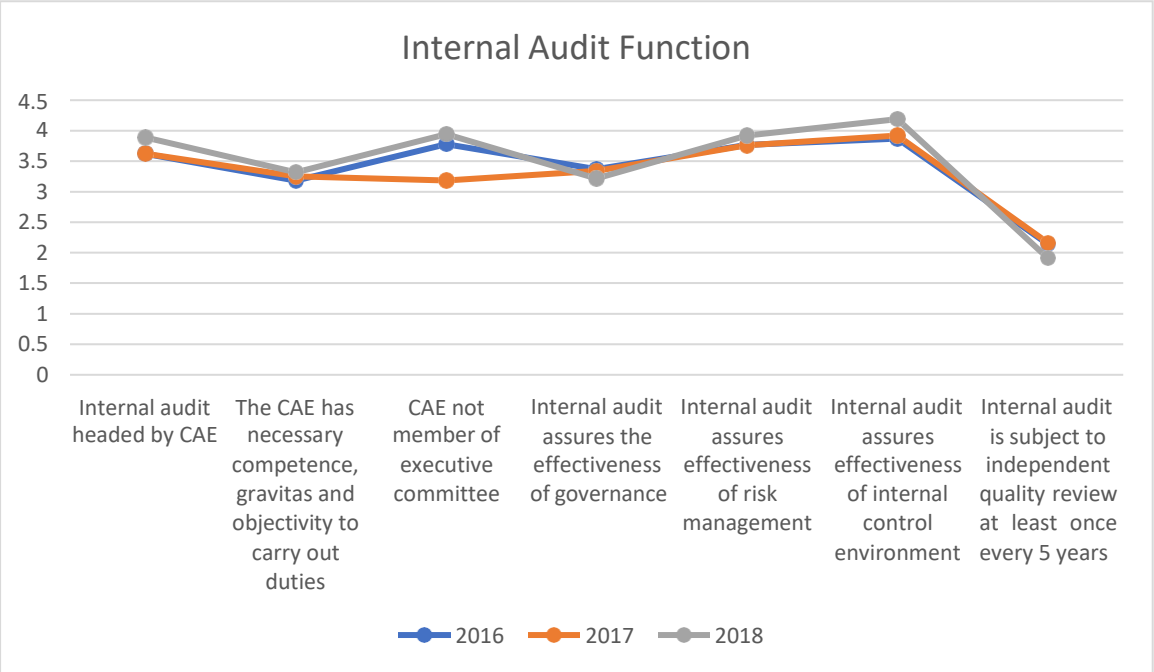


There were low disclosures on compliance with IT-related laws, rules, codes and standards. Although it is evident from the graph that there was an improvement over the three financial years, it was not significant to warrant excellent compliance. Furthermore, the assessment of IT-related risks, financial and non-financial, was poor. The recommendation obtaining an independent assurance on effectiveness was not complied with which indicated the low mean of 1.84 in 2016, 1.81 in 2017 and 1.86 in 2018. According to this rating scale, this indicates poor compliance with King IV. This is significantly worrying because of the direction that the world has taken in implementing technology in businesses. In addition to this, IT brings about various benefits for companies such as efficient collaboration and communication, reliable storage, information protection, and costs reduction. The poor assessment of IT risks may also lead to overlooked opportunities of using IT in conducting business.

These findings are contrary to the findings of Mashile (2015) who saw an improvement of IT disclosures between 2010 and 2011.

4.1.4. Internal Audit Function

Mashile (2015) concluded that the disclosures relating to the internal audit function still need improvement and an improvement was evident from the analysed reports. Although there was an improvement from the analysis done in Mashile (2015), there is some improvement that is still needed.



In cases where the internal audit function was headed by the external company, the researcher deemed it unnecessary to have an independent quality review as the external company would most likely be independent.

There seems to be somewhat compliance and improvement with King IV related disclosures. The majority of the reports analysed indicated that the internal audit function was headed by a CAE which complies with King IV. Those that disclosed this, also disclosed whether the CAE was qualified to do so and whether the CAE was objective enough to carry out his duties.

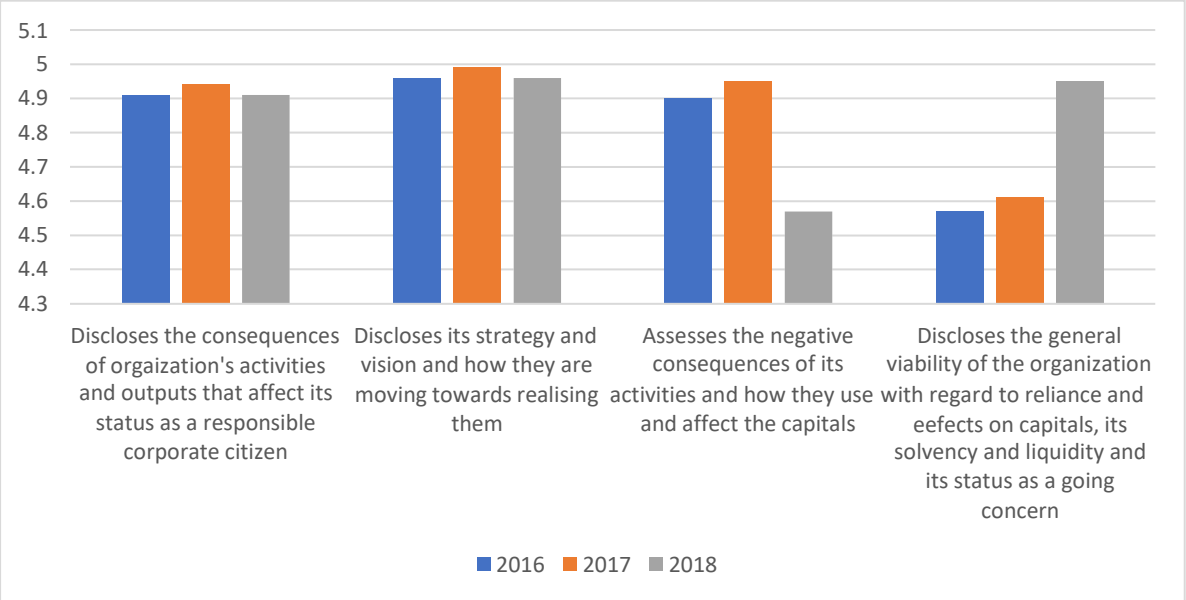
The reports disclosed that the internal audit function assured the effectiveness of risk management, governance and internal controls satisfactorily. There is significant improvement that is needed by JSE listed companies concerning these disclosures.

Poor compliance comes into play in the independent review of the internal audit function at least once every 5 years. The mean of this indicator insignificantly increased from 2.14 in 2016 to 2.16 in 2017 and declined from 2.16 in 2017 to 1.91 in 2018. This shows that this recommendation needs significant improvement.

4.1.5. Other compliance indicators

The overall compliance by JSE listed companies has improved. Other than the indicators previously discussed, there was a steady improvement in compliance with King IV from the financial year 2016 to 2017 and from 2017 to 2018. This analysis is evident from the average mean per company over these three financial years.

There was excellent compliance with disclosures on companies' strategies, vision, how their operations affect the capitals, the reliance on capitals, and solvency and liquidity.



The above graph indicates that there was an improvement in these disclosures, and they were disclosed excellently so. The issue that was identified was that some reports did not contain any mention of whether the entity is a going concern or not. This was in line with the reports that did not contain the audit committee report. To reiterate what has been discussed, this is against the principles of King IV that recommends that a stand-alone report must be prepared to indicate all non-financial information that the company was involved or will be involved in, including the audit committee report.

4.2. Overall Comments

Overall, the analysis showed the organizations' journey towards drafting an integrated report that displays and well integration of financial and non-financial information. In line with the 'apply and explain' recommendation by King IV, the companies showed great understanding of certain indicators. However, there is always room for improvement in this recommendation.

As evidenced in the mean per company line graph, there seems to be an overall improvement in the King IV recommended disclosures. Spearman Rho was used to analyse the

improvement in the level of disclosures from 2016 to 2017 and from 2017 to 2018. Spearman Rho was calculated based on the overall rating of each indicator per year.

In analysing the result of 2016 to 2017, Spearman Rho returned a value of 0.999998825. This indicates a strong correlation between the years which shows a strong relationship between the financial years 2016 and 2017. This means that there was a significant improvement in the level of disclosures from 2016 to 2017. The improvement is also indicative that organizations have taken an initiative to adopt and apply King IV.

Looking at the relationship between 2017 and 2018, the Spearman Rho returned a value of 0.999983845 which again indicates a strong correlation between the years. This follows the conclusion reached above, there was an overall significant improvement in the level of disclosures from 2017 to 2018.

The above analysis corroborates the statement that there has been an overall improvement over the three financial year period. However, there is room for improvement in certain indicators.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

The purpose of this study was to analyse the trends in the integrated reporting by JSE listed companies to determine the level of compliance with the recommended principles of Kind IV. The purpose also included the analysis of improvement from one year to the other (2016, 2017 and 2018). This analysis was conducted through the inspection of annual integrated reports of 80 JSE listed companies issued for the 2016, 2017, and 2018 financial years. The reports were inspected for specific disclosures as guided by the recommendations of King IV.

The JSE listed companies were arranged from 1 to 100 based on their market capitalization. Although the inspection was supposed to be for 100 JSE listed companies, 16 of them were not analysed because they were secondary listed on the JSE and therefore, was not required to comply with King IV. In addition to this, 3 companies were excluded because they were listed on the JSE after the end of the 2016 financial year and therefore, there was no compliance with King III which was used as a base for this study. The other 'company' was not analysed because it was a bond and not a company.

The level of disclosure relating to each indicator (*see APPENDIX A: Research Instrument (Indicators)*) was analysed using a rating scale (*see APPENDIX B: Research Instrument (Rating Scale)*). Average scores were then determined for each indicator and for each company for further analysis. The Spearman Rho was used to evaluate the level of improvement from 2016 to 2017 and from 2017 to 2018.

From the tests performed, it was quite clear that the overall level of disclosure had improved from the initial study conducted by Mashile (2015). This was evidenced by the Spearman Rho which showed a high correlation between the financial years 2016 and 2017 and 2017 and 2018. The improvement is in line with the expectations of an improved level of disclosure from the implementation of King III.

However, even though the overall level of disclosure has improved, there are certain indicators that are still lacking in quality. The reports analysed returned poor ratings in relation to the composition of the board, main issue being the lack of diversity in age, gender, race and culture. Furthermore, the analysis indicated that the audit committee report needed to be included in the integrated report to comply more with King IV. Moreover, there was a poor level of disclosure in the duties carried out by the risk committees which is concerning. The internal audit function was also not being independently reviewed to ensure that it conducted its duties objectively.

The main recommendation to preparers of integrated reports is to ensure that all responsibilities and duties carried out by the board and its committees are clearly articulated in the reports. The particular reason for this is that it aligns with the King IV recommended principles that requires companies to prepare a standalone report that provides stakeholders with information on how the organization has generated value and how it will generate value in futures.

Moreover, organisations are encouraged to improve diversity within their board of directors. A board with a diversified group of members is an advantage in a sense that the analysis of risks and opportunities will vary. While improving their diversity, the boards are also encouraged to initiate independent reviews on the performance of the board as well as the internal audit function to ensure that work is being carried out efficiently and objectively.

In addition to the previous recommendations provided by Mashile (2015), organizations are encouraged to significantly improve their risk assessment processes. This assist in forecasting any risks and opportunities that the company may be exposed to. Furthermore, they should implement a process that will see the company make use of risk appetite and/or tolerance. This guides companies to understand its policy in terms of the amount of risk they are willing to take on.

While there has been a significant improvement, integrated reporting is a journey and companies seem to have acknowledged that more improvement should be expected as they produce reports that are more enhanced that previous ones. Organizations are encouraged to keep on improving their governance structures and their integrated reports.

Further research may focus on assessing the integrated reports produced over the recent years to determine whether there has been any improvement in the issues identified in this report. Based on the issues identified in this report, research may also be based on determining the significance of having a diversified board as compared to a non-diversified one. Future researchers may also investigate how females contribute to organizations board in terms of risk assessment and tolerance.

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APPENDIX A: Research Instrument (Indicators)

A. Leadership [King IV – Part 5.1]

1. Members of the governing body individually and collectively have characteristics such as integrity, competence, responsibility, accountability, fairness, and transparency.
2. The governing body exercises ongoing oversight of the management of ethics and has appropriate protective disclosure or whistle-blowing mechanisms to detect a breach of ethical standards.
3. The governing body has assumed responsibility for setting direction on how ethics should be approached and addressed by the organization.
4. The company's ethical standards are well articulated in the code of conduct approved by the board.
5. The governing body oversees and monitors how the consequences of the organization's activities and outputs affect its status as a responsible corporate citizen.

B. Strategy and Performance [King IV – Part 5.2]

6. The company's strategies and vision are clearly outlined, and the governing body is ensuring that the organization is moving towards the realisation of them.
7. The company regularly assesses and responds to the negative consequences of its activities and outputs on the triple context in which it operates, and the capitals which it uses and affects.
8. The governing body has approved management's determination of the reporting frameworks to be used, considering all legal requirements.
9. An integrated report has been prepared and issued at least annually as a standalone report or integrated with the annual financial statements.

C. Governing Body [King IV – Part 5.2]

10. Directors are appointed through a formal process
11. Board is comprised of a majority of non-executive directors
12. Of the non-executive directors, the majority is independent, and the definition of independence is correctly applied.
13. There is an appropriate balance of knowledge, skills, experience, and diversity.
14. There is an appropriate balance in terms of diversity, there is an appropriate mix of age, race, culture, and gender.
15. The CEO and the CFO (or any other executive) form part of the board
16. The board is chaired by a non-executive independent director.
17. There is a lead independent director appointed by the board.

18. The board is assisted by a competent, suitably qualified, and experienced company secretary.
19. A formal charter that includes the board's roles, responsibilities, membership requirements, and procedural conducts is in place and is reviewed regularly.
20. Board committees have been appointed to deal with key functions such as audit, risk, remuneration and nomination committees as a minimum.
21. Committees are also regulated by a formal charter.
22. The process of nominating, electing, and appointing members to the governing body should be formal and transparent.
23. The induction program and ongoing training for new directors are in place.
24. The performance of the governing body is evaluated regularly.

D. Audit Committee [King IV – part 5.3]

25. The audit committee is appointed by the board (through the nomination committee) and is approved by the shareholders.
26. Formal charter and processes are in place outlining the functions of the audit committee.
27. Suitably skilled and experienced independent non-executive directors.
28. All members should be independent, non-executive members of the governing body.
29. The audit committee should be chaired by a non-executive, independent director, other than the chairman of the Board.
30. Oversees internal and financial controls.
31. Oversees internal audit function.
32. Assesses the performance, expertise, and skills of the financial function including the financial director.
33. Should ensure that there is a rotation of designated external audit partner as required by Companies Act No. 71 of 2008.
34. The audit committee (or company as a whole) applies a combined assurance model in assuring activities such as risk, compliance, internal audit, and governance.
35. Assesses the performance, expertise and skills of the financial function including the financial director.
36. Evaluates the independence and credentials of the external auditor.

37. Evaluates the performance of the external auditor.
38. Evaluates the independence and credentials of the external auditor.
39. Evaluates the performance of the external auditor.
40. Reports to the board and shareholders how it carried out its responsibilities.

E. Risk management committee [King IV – Part 5.3]

41. Board appoints risk and/or audit committee to oversee risk management.
42. Risk (or audit) committee consists of at least 3 directors (both executive and non-executive).
43. It is chaired by an independent, non-executive member of the governing body (not required by King IV but deemed to be significant for purposes of this research)
44. Risk committee (or audit/board) identifies key financial risks and quantifies them, if possible and how they will be addressed.
45. Risk committee (or audit/board) identifies key non-financial risks and quantifies them, if possible and how they will be addressed.
46. The risk committee (or audit/board) sets levels of risk tolerance.
47. The risk committee (or audit/board) expresses its views on the effectiveness of the company's risk management processes.

F. Remuneration committee [King IV – part 5.3]

48. All members are non-executive members of the governing body, with the majority of them being independent.
49. The committee is chaired by an independent non-executive director, other than the chairman of the Board or executive director.
50. Formal charter and processes are in place outlining the functions of the remuneration committee.
51. Satisfactory attendance of the remuneration committee as per attendance register.
52. The remuneration committee or other structure determines the remuneration of executive and non-executive directors.

G. Nomination committee [King IV – part 5.3]

53. All members should be non-executive members of the governing body with the majority being independent.

54. It is chaired by an independent non-executive director, who can also be the chairman of the Board.

55. Formal charter and processes are in place outlining the functions of the nomination committee.

56. Satisfactory attendance of nomination committee as per attendance register.

57. The nomination committee or other structure recommends the appointment and dismissal of executive and non-executive directors.

58. Directors nominated by the committee or other structures are presented for approval by the shareholders.

H. Governance of information technology [King IV – part 5.4]

59. Board or other structure monitors and evaluates significant IT investments and expenditure.

60. A suitably qualified and experienced chief information officer (CIO) is appointed to manage IT.

61. Board or other structure ensures that IT complies with IT-related laws, rules, codes and standards.

62. Risk committee or other structure oversees the overall risk implications of IT.

63. Audit committee or other structure oversees the financial risk implications of IT.

64. Board receives an independent assurance on the effectiveness of IT through internal audit function and/or external assurance providers.

I. Compliance laws, rules, codes and standards [King IV – part 5.4]

65. The governing body has assumed responsibility for governance of compliance with applicable laws and regulations, non-binding rules, codes and standards by setting direction as to how the compliance should be approached and addressed.

66. An independent assurance on the effectiveness of compliance management is arranged by the board.

    Material or repeated regulatory penalties, sanctions or fines for any contraventions, whether imposed on the company or on the member(s) of the governing body should be disclosed.

J. Remuneration Governance [King IV – part 5.4]

67. The governing body sets direction for how remuneration should be approached and addressed on an organization-wide basis.
68. A policy is in place that articulates and gives effects to its direction on fair, responsible and transparent remuneration.
69. There is a detailed disclosure (in the remuneration report) on all types of remuneration paid to the governing body and executive management.
70. The remuneration report is prepared with guidelines of King IV.
71. Any new remuneration policy for non-executive directors has been approved by a special resolution by shareholders within the two years preceding payment.

K. Internal audit function [King IV – part 5.4]

72. Internal audit function has been set up (within the company or externally).
73. Internal audit function reports to the audit committee.
74. An internal audit is headed by the chief audit executive (CAE) or external company.
75. Internal audit (or its CAE)/external company attends audit committee meetings, board meetings by invitation.
76. Internal audit/other structure assures the effectiveness of the internal control environment.
77. Internal audit/other structure assures the effectiveness of risk management.
78. Internal audit/other structure provides assurance on the effectiveness of governance (including ethics).
79. An internal audit is subjected to an independent quality review.
80. The internal audit follows a risk-based approach to its plan.

L. Governing stakeholder relationships [King IV – part 5.5]

81. Board identifies key stakeholders and their interests regularly.
82. Interests of key stakeholders are taken into account in the integrated report.

APPENDIX B: Research Instrument (Rating Scale)

This provides an explanation to the research indicators as guided by Leedy and Ormrod (2015) which states that instead of claiming to be objective, a researcher may describe personal beliefs and attitudes that may be slanting observations and interpretations (Leedy & Ormrod, 2015). As a result of this, the researcher has explained interpretations of each level of the rating scale which will decrease objectivity:

1 – Non-Compliance	This will be allocated in cases where the company has made no disclosure of the research indicator. Since King IV has moved to a "apply and explain", application without explanation will constitute non-compliance.
2 – Poor Compliance	This scale will be provided where the company has provided little/small detail about the research indicator. Also, in cases where disclosures are broad and do not provide a reference to practices that demonstrate the application of the principle.
3 – Satisfactory Compliance	This will be provided where there is enough information about a research indicator to understand the sustainability and/or governance of the entity. An average explanation is provided.
4 – Good Compliance	This will be allocated where a company has provided more than enough details about the research indicator. The application is fairly explained.
5 – Excellent Compliance	This will be allocated where the company has provided extensive details about the research indicator. The disclosure is well constructed, straight to the point, well explained, and is easily readable.

The researcher will use the above to allocate scores to companies' disclosures. In addition to this, supervisors will draw a sample from the companies used in the research and rate their disclosures. Their ratings will be compared to those of the researcher and significant differences will be investigated, if need be, the rating will be redone based on the results of the investigations. The supervisor is experienced with this method and will cross-check for consistency throughout the project. This will be to ensure that the researcher has consistently applied the rating scale.