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Sustainability reporting patterns of companies listed on the Johannesburg securities exchange

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ABSTRACT

The demand by stakeholders for information about companies' social and environmental performance has led to sustainability reporting becoming essential. The Global Reporting Initiative (GRI) guidelines are the international reporting standard whereas the Johannesburg Securities Exchange Socially Responsible Investment (JSE SRI) Index guidelines are used in South Africa. Although South Africa is regarded as one of the leaders in sustainability reporting in the world, the JSE SRI Index is still a relatively new standard and its efficiency will only be proved over time. The research on which this paper is based, determined whether reporting patterns exist across specific market sectors of the sustainability reports of companies listed on the JSE in order to establish if the JSE SRI Index guidelines on reporting are efficient. Results indicated that all the selected market sectors reported on the environment, society and governance (ESG) categories as per requirements of the JSE SRI Index. The mining and materials sector reported more in the environment and the society categories than the other sectors, while in the governance category less reporting on indirect impacts by all the sectors was noted. The implication of this is that in general, companies find the JSE SRI Index guidelines on reporting easy to implement. However, less reporting of companies' indirect impacts on their operating environments could mean that there is still a lack of completeness and transparency from the companies' reports, which could be as a result of a lack of firmer guidelines by the JSE SRI Index guidelines on reporting of such issues.

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1. Introduction and research question

Prior to the Global Reporting Initiative (GRI) guidelines and the King III Report on Corporate Governance in South Africa, global efforts by movements such as the Coalition for Environmentally Responsible Economics (CERES) evolved, whose aim was to provide frameworks for companies to report on their sustainability initiatives. However, it was found that (i) reporting about aspects of companies' performance was varied in content; (ii) the reports were inconsistent and incomplete; (iii) there was a lack of comparability between companies and reporting periods; (iv) increasing numbers of reporting guidelines and frameworks were being introduced in different countries and sectors by various sources; (v) some reports displayed market sector and country variation. Most importantly, reporting was mostly subjective and unsystematic (Brown, de Jong, & Lessidrenska, 2009; Farneti & Guthrie, 2009; Kolk, 2003, 2004, 2005, 2008; Willis, 2003).

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To address the lack of consistency, subjectivity and unsystematic reporting, the Global Reporting Initiative (GRI) guidelines were established in 1997 (subsequently updated and improved) as a common framework to develop globally applicable guidelines for reporting on economic, environmental and social impacts of companies, and, eventually of other organisations (Brown et al., 2009). Using the GRI guidelines as a point of reference, and recommendations from the King III Report on Corporate Governance, the Johannesburg Securities Exchange Socially Responsible Investment (JSE SRI) Index was launched in May 2004, not only for people to invest in companies that are sustainable, but also to provide a guideline to report on such practices as sustainability reporting for South African companies.

Based on the recommendations by the King III Report on Corporate Governance, the JSE SRI Index is South Africa's standard for sustainability reporting. The JSE SRI Index could be regarded as a rating tool for investors as it offers (i) alignment with global standards such as the GRI, while keeping in mind the complex nature of social responsibility in South Africa; (ii) progressive criteria which reflect the on-going development of both the concepts and practices of SRI and sustainability; (iii) annual review of company policies, management systems and performance, and reporting; and (iv) to contribute to the development of sustainable business practice in South Africa and beyond (JSE & EIRIS, 2010). Since the inception of the JSE SRI Index, no previous research could be found, which investigated whether or not patterns of reporting on sustainability exist across and within different market sectors of South African companies. Thus, the research question was:

Do patterns exist in different market sectors of the sustainability reports of South African companies listed on the JSE?

The identification of patterns across and within the selected market sectors will provide insight into how South African companies generally report on sustainability issues, as well as what types of sustainability issues are reported on. The patterns identified within each market sector will allow for more insight into the specific sustainability elements both reported on or neglected. From these insights, further investigation can be done to identify whether a lack of reporting on a specific issue is a result of poor reporting practice, or actual neglect in sustainable practice. By implication, the results will also indicate whether or not the JSE SRI Index is an efficient standard of sustainability reporting in South Africa.

Firstly an orientation on sustainability reporting in general is given followed by sustainability reporting in the South African context. Thereafter the research methodology and a summary of findings are discussed. Finally the article concludes with managerial implications and recommendations for future research.

2. Background and orientation

According to the GRI guidelines sustainability reporting is described as "... the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development" (KPMG, 2008, p. 8). This statement suggests that sustainability has become relevant and applicable to the daily activities of companies, governments and society in general. The call for attention on sustainability, and the reporting thereof, can be attributed to the impact that the rapidly accelerating industrial growth has had on the planet. This to the effect that companies are now compelled to be responsible and accountable for their actions (King, 2010). Hence organisational sustainability is the active management of issues regarding the environment, society, and governance (ESG), and sustainability reporting is the integrated reporting of ESG activities by organisations.

Farneti and Guthrie (2009) argue that companies are inclined to engage in sustainability reporting because through sustainability reporting companies gain a favourable international reputation, and thus a licence to operate. Kolk (2010) concurs by stating that in order to decide on what to report on, firms balance the information needs of their internal and external stakeholders-of-varying-power. Thus, organisations decide on which issues to address in their sustainability reports based on the power of the stakeholder(s) that raise these issues. However, with the proliferation of global sustainability reporting guidelines, such as the GRI, organisations are obliged to address the sustainability concerns of all stakeholders or risk being frowned upon.

Sustainability reporting has been used by companies worldwide to measure, disclose and account to their stakeholders about their companies' economic, environment and social impacts. Sustainability reports contain the vision statement that summarises the company's definition of sustainability; what the company benefits from sustainability initiatives and the justification of the investment and upfront costs for planning and implementation; as well as notable achievements accomplished and barriers encountered in the previous year. In addition to providing a balanced and reasonable representation of the sustainability performance of a reporting organisation, sustainability reporting is viewed not only as an accountability mechanism, but also as a management tool to build long-term relationships with shareholders and other stakeholders alike (Tsang, Welford, & Brown, 2009). Doorley and Garcia (2007) concur that companies adopt responsible corporate practices because they, among others, want to protect and enhance their reputation, brand equity and trust; manage and mitigate risk; improve operational and cost efficiency; secure and ensure a licence to operate and develop new business opportunities.

Although many companies have shown interest in reporting on their sustainability matters, others have reasons for non-reporting. Table 1 below provides the companies' reasons for reporting and non-reporting as explained by Kolk (2010, p. 368).

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