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CHAPTER ONE

South Africa

IN 2011, SOUTH AFRICA became the first country to require integrated reporting on an “apply or explain” basis.¹ In 2014, it remains the only country to have done so. Since the Johannesburg Stock Exchange (JSE) added King III to its listing requirements—which as of 2011 have included integrated reporting—some 450² South African companies have been filing reports that present both financial and nonfinancial information³ in a meaningful way. While a variety of proposals related to sustainability and integrated reporting have been submitted in countries of the European Union,⁴ and while an initiative by the World Federation of Exchanges slated for discussion in 2014⁵ would require some form of nonfinancial reporting,⁶ no other country has shown signs of implementing such a far-reaching requirement.

Those not deeply entrenched in the topics of corporate governance and reporting are often surprised to learn that South Africa is the first country where integrated reporting was given a widespread mandate. Indeed, in 20 years the country’s corporate governance code went from being undeveloped to regarded as an international vanguard. The governance principles that would launch South Africa’s integrated reporting journey coincided with the country’s first multiracial elections in 1994. In codifying values of stakeholder inclusivity—the idea that nonshareholder interests and expectations should

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be taken into account during strategic decision-making—those principles testified to a burgeoning democracy’s effort to create structural and corporate transparency where, previously, corruption had prevailed. Because integrated reporting’s meaning in South Africa—for companies, investors, and the country as a whole—must be seen in the context of its evolution from corporate governance principles, and because the movement has gathered more momentum in South Africa than any other geography, we will describe the motives of the key individuals and groups that led to this recommendation, ultimately reviewing the results of this country’s experience.

THE UNIQUENESS OF SOUTH AFRICA

The particularity of South Africa’s circumstances begs the question of how much momentum the country’s decision has created for the adoption of integrated reporting on a global basis. One might suppose the adoption of integrated reporting by a mid-sized country (population of 51 million in 2012)⁷ with a divisive history says little about the integrated reporting movement’s prospects for the rest of the world. It is unlikely that a developed country would be motivated by the same set of reasons to improve its corporate governance.

As the increased trust thought to accompany integrated reporting could signify easier entry into foreign markets directly, through joint ventures, or through acquisitions, however, other developing countries may have similar incentives to attract foreign investors and make their large companies credible players on a global stage.⁸ Although this suggests integrated reporting can play a role in establishing the legitimacy of the State and its economy in times of turmoil and change, it certainly does not mean that it always will. In countries where the legitimacy of the State and its business community are more secure, companies and countries may see fewer benefits of integrated reporting—particularly when taking into account its costs and risks.

Yet, while South Africa’s unique circumstances may have led it to be the first country to adopt integrated reporting, one could argue, as South Africans Mervyn King and Leigh Roberts have in *Integrate: Doing Business in the 21st Century*,⁹ that the underlying forces that put integrated reporting on the agenda are the same worldwide. Central to the development of South Africa’s code of corporate governance, King now occupies a similar role on the global integrated reporting stage as Chairman of the International Integrated Reporting Council (IIRC). As a member of the Integrated Reporting Committee of South Africa (IRC of SA) and the Technical Task Force of the IIRC, Roberts was deeply involved in the development of integrated reporting in South Africa.

They see integrated reporting as one of “four corporate tools” to manage companies in a changing business environment. “Integrated thinking” is suggested as the most important, with the other two being stakeholder relationships and good corporate governance.¹⁰ We will discuss the relationship between integrated reporting and integrated thinking in detail in the next chapter, “Meaning.”

While the analysis of King and Roberts would suggest that integrated reporting is as relevant elsewhere as in South Africa, exactly how its adoption might best be aided remains unclear. The authors' four tools, much like the five forces they cite as changing the investor environment, are useful to companies all over the world even as their strength varies by country.¹¹ The nine problems with corporate reporting they identify are similarly applicable.¹² The remaining instrumentalist questions are concerned with scope and strategy. Should the focus be on improving corporate reporting *per se*, which is how it is largely being defined in other countries? Or should integrated reporting be part of a larger context, such as a code of corporate governance, as it was in South Africa? What is the right combination of market and regulatory forces? The South African strategy was what might be called “soft regulation” due to the “apply or explain” basis and the central role of the JSE, in contrast to the hard regulation of a pure mandate supported by the country's securities commission. These questions will be addressed in our final chapter. Here, we present South Africa's particular journey in order to glean what can be learned from the only country in which integrated reporting is mandatory.



SOUTH AFRICA'S JOURNEY TO INTEGRATED REPORTING

In 1990, the Republic of South Africa emerged from the shadow of 42 years of apartheid into an uncertain future. The ruling white-controlled National Party began negotiations to dismantle the system of racial segregation that had allowed it to enforce white supremacy and Afrikaner minority rule at the expense of a black majority since 1948.¹³ Nelson Mandela, a Xhosa attorney and organizer of resistance against that system, was released from prison and his political party, the African National Congress (ANC), was legalized by the last State President of apartheid-era South Africa, F.W. de Klerk. While the path to democracy seemed secure by the mid-1990s, South Africa's social triumph was projected onto a backdrop of fiscal unknowns.

By 1989, 155 American educational institutions had fully or partially divested from South Africa and 22 countries, 26 states, and more than

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90 cities had taken binding economic action against companies doing business there.¹⁴ Between 1985 and 1988, the United States, Japan, Great Britain, Israel, and a number of European countries enacted legislation or initiated trade restrictions with South Africa.¹⁵ Around the same period, the country—the world's largest gold producer—saw a precipitous drop in the price of gold from \$850/oz. in 1980 to \$340/oz. by 1992. Coupled with political unrest and sanctions, this drop resulted in South Africa's withdrawal of its last gold reserves from the International Monetary Fund in 1986, just as pressure from the sanctions intensified.¹⁶ Net capital movement out of the country between 1985 and 1988, the most intense years of divestment political pressure and sanctions, totaled over R23.9 billion, causing a dramatic decline in the international exchange rate of the South African rand and, consequently, a rise in the price of imports. Inflation was rising at a rate of 12–15% per year.¹⁷

Even measures like the 1973 Companies Act,¹⁸ which the South African government adopted in its eagerness to attract foreign investment, did not prevent the extensive flight of private capital that occurred as a result of anti-apartheid pressure.¹⁹ Foreign direct investment, at 34% of gross domestic product (GDP) in 1956, had dropped to 9% by 1990 (Figure 1.1), and the

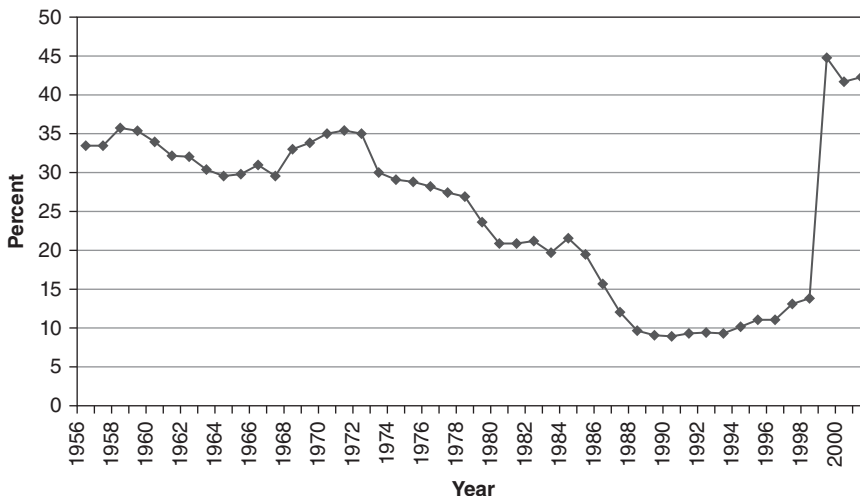


FIGURE 1.1 Foreign Direct Investment in South Africa as a Percent of GDP

Source: Fedderke, J.W., and Romm, A., 2006, Growth Impact and Determinants of Foreign Direct Investment into South Africa, 1956–2003, *Economic Modelling*, 23, 738–60.

depleted South African economy cast corporate accountability deficiencies into sharp relief.²⁰ What remained were a few large companies—often, family corporations operating in a culture of cronyism and impunity.²¹ While the language of reconciliation spoken by politicians like Nelson Mandela lent the postapartheid state moral credence, the basic unreliability of the South African business environment and economy posed a critical challenge to the new government's legitimacy.²²

King I

Based on the Companies Act of 1973, corporations were allowed to withhold information from their auditors on the basis of “national interest.”²³ Such opaque business standards, when combined with the political turmoil of the early 1990s, fostered an atmosphere of uncertainty for foreign investors. While Great Britain lifted the first economic sanction against South Africa in 1990, the last would remain until 1994. Meanwhile, the new government had difficulty attracting foreign capital, likely due to lack of experience,²⁴ as repugnance to a fairly stable apartheid system was replaced with nervousness about the State's political and economic solvency. To mitigate some of this uncertainty, the Institute of Directors in Southern Africa (IoDSA)²⁵ resolved to reinterpret business practices to prepare the South African economy for exposure to international markets by establishing the King Committee in 1992. Named after Mervyn King, a former corporate lawyer and Supreme Court judge selected as its chair, the King Committee sought to develop corporate governance standards that adequately reflected the values of postapartheid South Africa.²⁶

Published in 1994, the first King Code of Corporate Governance Principles (King I) went beyond the reigning standard of corporate governance, the U.K.'s Cadbury Report,²⁷ to advocate total transparency. Key topics included who should be on a company's board, the role of nonexecutive directors, and the categories of people who should fill this role—none of which had ever been addressed in South African business history. “King I” also advocated for disclosure of executive and nonexecutive directors' remuneration, set guidelines for effective auditing, and encouraged companies to implement a Code of Ethics to demand “the highest standards of behavior.”²⁸ King I did not, however, call for sustainability reporting.

Mervyn King explained this approach to corporate governance as a way to understand a company's worth in a more comprehensive manner, saying, “The board should take account of the needs, interests, and expectations of

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the stakeholders . . . their duty being the best interests of the company for the total maximization of the total economic value of the company, not just book value.”²⁹ South Africa began to address the “shareholder vs. stakeholder” polemic debated so vigorously around the world today. In his quote, King makes clear that the duty of the board is to the company, not to its investors or any particular stakeholder group. While this is true in many parts of the world, there is a common perception, especially in the United States—and in spite of the law’s lack of affirmation on this point—that directors are responsible for putting shareholder interests first.³⁰

Although the report advocated a principles-based approach,³¹ the JSE made elements of the King Code a listing requirement in 1995 on a “comply or explain” basis.³²

King II

Following large-scale corporate governance failures in the United States, the United Kingdom, and at home, the second King Code of Corporate Governance (King II) was released in 2002. King II included sections on risk management, the role of the board, sustainability, and the suggestion that companies create an internal audit charter.³³ In a corporate context, “sustainability” was interpreted as a focus on “those non-financial aspects of corporate practice that . . . influence the enterprise’s ability to survive and prosper in the communities within which it operates, and so ensure future value creation.” Defined as the essence of corporate social responsibility, it means “the achievement of balanced and integrated *economic*, *social*, and *environmental* performance,” or what is commonly called the “triple bottom line.” The report clarified that these sustainability—or nonfinancial—issues should not and cannot be treated as secondary to established business mandates, noting, “It should also be pointed out that the reference to these issues as ‘non-financial issues’ is for ease of reference. There is no doubt . . . that these so-called non-financial issues have significant financial implications for a company.”³⁴

The concept of integrated reporting began to take shape in King II through the notion of an “integrated sustainability report.” A chapter devoted to integrated sustainability reporting reviewed the stakeholder-inclusive model. The spirit of *Ubuntu*, an African values system, was suggested as a natural foundation for effective corporate governance. Reuel Khoza, Chairman of AKA Capital and The Nedbank Group and Chair of the Integrated Sustainability Reporting task team for King II, articulated the connection, saying, “The guiding principle of *Ubuntu* can be stated in one sentence:

'*Ubuntungubuntu*.' In English you can put it as, 'I am because you are, you are because we are.' We are interrelated beings, we operate best when we care about one another."³⁵

As discussed above, King II linked a focus on sustainability to company survival over the long term. Thus, King II articulated relationships between good corporate governance and transparent reporting, transparent reporting and sustainability, and sustainability and corporate performance, especially over the long term. These elements remain at the center of the integrated reporting debate today.

In the years after King II was published, sustainability appeared with great frequency in the national dialogue. While still not enforced by legislation, key aspects of King II's code were further validated when the JSE developed a set of criteria to measure the "triple bottom line" performance of companies, making explicit reference to King II. The move to create a Sustainable Stock Index made South Africa both the first emerging market, and its stock exchange the first worldwide, to bring sustainability issues to the fore through a structured index. In 2008, the passage of the National Framework for Sustainable Development by the Cabinet of South Africa lent government support to the concept of sustainability.³⁶

King III

Corporate governance visionaries, however, remained unsatisfied with the treatment of sustainability in King II, and King himself believed its placement of sustainability in an eponymous chapter had led companies to isolate it inappropriately from strategy and corporate governance. To underscore the importance of sustainability's integration into business strategy, the group revised the code to include the crucial recommendation that companies combine material financial and nonfinancial data in a single, integrated annual report. King I and II had already achieved the Committee's goal of placing South Africa at the vanguard of international corporate governance, and a third report would allow them to push the envelope again. Furthermore, changes in international governance trends, as well as the passing of the new Companies Act No. 71 of 2008, made a third report necessary.³⁷ In 2009, the third King Code of Governance (King III) was released, and it was applicable from March 2010 onward.

Departing from King I and King II, King III changed from a "comply or explain" to an "*apply* or explain" approach in the effort to be more flexible in the application of its now 76 principles. That is, King III was applicable to all public,

private, and nonprofit entities, but those entities could opt out voluntarily by explaining why some of those principles were not applicable to their operations. The principles-based approach, rather than a rules-based one, was intended to allow companies to adapt those principles to their own situation to allow for a much wider scope of interpretation than a “comply” or explain approach. Still, many felt it would hinder King III’s success unless companies had active shareholders to force them to account for their behavior. Because the United Nations (UN)-backed Principles for Responsible Investment (PRI)³⁸ believed there was not enough guidance in South Africa for institutional investors to behave as active asset owners, the King III Committee recommended the creation of a code according to which institutional investors should set their expectations in order to ensure companies apply the principles and suggested practices effectively.³⁹

Structurally, the concept of integrated reporting developed in King III emphasized “a holistic and integrated representation of the company’s performance in terms of both its finances and its sustainability” to be remarked upon annually in a single report.⁴⁰ How to represent these elements was subsequently defined in explicit, if aspirational, terms.⁴¹ On a higher level, King III emphasized that integrated reporting was not just about year-end disclosure but integrating sustainable practices into company operations all the time—a phenomenon that has come to be referred to by many, including King, Roberts, and the IIRC, as “integrated thinking.” This meant that the skill sets and responsibilities of audit committees would need to expand to account for nonfinancial considerations. Furthermore, emphasis was placed on “the principle of materiality, which links sustainability issues more closely to strategy, as well as the principle of considering a company’s broader sustainability context.”⁴² Although King III acknowledged the helpfulness of international frameworks and guidelines like Global Reporting Initiative’s (GRI’s) G3 Guidelines, it suggested that companies should also develop criteria based on their unique circumstances. King III also advocated independent assurance of sustainability reporting and disclosure.⁴³ In recognition of the King Codes’ pioneering nature, Kofi Anan, the Secretary-General of the UN, invited King to chair the UN Committee on Governance and Oversight.⁴⁴ Shortly thereafter, the King Reports were translated into Japanese.⁴⁵

Meanwhile, the IRC of SA,⁴⁶ established in May of 2010, was created to develop integrated reporting guidelines for South African companies. In January 2011, its “Framework for Integrated Reporting and the Integrated Report Discussion Paper” (IRC of SA Discussion Paper)—the first attempt at integrated reporting codification—was released.

The Integrated Reporting Committee of South Africa's Discussion Paper

The IRC of SA Discussion Paper outlined three categories of principles for the integrated report. The first included principles to define the scope and boundary of the report.⁴⁷ The second pertained to the way in which the report's content was selected and the dependability of the information that comprised it: companies must ensure that the information they provide is appropriate (relevant), material, complete, neutral, and free from error. Thirdly, the information presented should be comparable and consistent, verifiable, timely, and understandable.⁴⁸ The IRC of SA Discussion Paper also suggested specific elements of the report. It was to include a profile outlining its scope and boundary and an organizational overview discussing business model and governance structure. The company operating context was to be explained by including information on material issues, impacts and relationships, and identifying risks and opportunities. Strategic objectives and targets were to be covered along with the Key Performance Indicators (KPIs), Key Risk Indicators (KRIs) that would track performance, and a demonstration of the competencies required to pursue the objectives. The IRC of SA Discussion Paper also emphasized that the account of organizational performance, financial and nonfinancial, should include a list of objectives and targets, along with a discussion of whether or not they were achieved. Companies were to state future performance objectives and internal activities along with the structures required to achieve them, remuneration policies should be brought to light, and an analytical commentary on the company's current state and anticipated performance in the context of strategic objectives was to be described.

The IRC of SA Discussion Paper also devoted a fair amount of attention to the topic of materiality, noting in its discussion of the second principle that it is defined differently for financial and nonfinancial information. For financial information, the IRC of SA Discussion Paper used the common definition: "For financial information, materiality is used in the sense of the magnitude of an omission or misstatement of accounting data that misleads users and is usually measured in monetary terms. Materiality is judged both by relative amount and by the nature of the item."⁴⁹ For nonfinancial information, the IRC of SA Discussion Paper observed, "In the context of sustainability, materiality is a more difficult measure to define and a great deal of judgment is required."⁵⁰

Recommending assurance on sustainability disclosures by an independent third party under the oversight of the audit committee, the IRC of SA Discussion Paper noted that "the organisation's board should ensure the

integrity of the integrated report.”⁵¹ Using a metaphor that has since gained considerable traction among members of the integrated reporting movement, it also observed that “Developing the ideal integrated report will be a journey for many organizations and so too will the extent and level of assurance.”⁵²

While companies were not required to follow the principles and elements in the IRC of SA Discussion Paper, and the JSE did not attempt to assess the extent to which they were doing so, it likely had credibility in the corporate community due to the impressive multistakeholder group that prepared it. The members of the Integrated Reporting Committee and the Integrated Reporting Committee Working Group included senior representatives from individual companies and investors, company and investor associations, accounting firms and the accounting association, the stock exchange, non-governmental organizations (NGOs), and academics.⁵³ After this groundbreaking publication was released, the International Federation of Accountants (IFAC) launched a revised edition of its sustainability framework, discussing the specifics of sustainable business operations—like stakeholder engagement, goal setting, carbon foot printing, KPIs, and the nature of integrated reporting.⁵⁴ The IRC is now promoting the international harmonization of integrated reporting by working with the IIRC⁵⁵ and, in March of 2014, the IRC of SA endorsed the International Integrated Reporting Framework (published in December 2013) as guidance for how to prepare an integrated report.

SOUTH AFRICAN ASSESSMENT OF THE SOUTH AFRICAN EXPERIENCE

As South African companies began practicing integrated reporting and issuing integrated reports, the Big Four accounting firms began to study them to identify trends and best practices. After the first mandatory integrated reporting season on an apply or explain basis concluded for 2011, Ernst & Young (E&Y) South Africa published a short report, “Integrated Reporting Survey Results,” examining 25 companies listed on the JSE to interpret their understanding of integrated reporting and its perceived benefits and challenges.⁵⁶ The next year, the firm began to publish its annual “Excellence in Integrated Reporting” awards as a way to improve best practices by providing special scrutiny of the top 100 companies in terms of market capitalization. PricewaterhouseCoopers (PwC) followed suit, analyzing the top 100 companies listed on the JSE in the period after March 1, 2011, in the second full reporting season after the third King Report on Governance was released, and its analysis even contained

screenshots of successful integrated report sections' layouts.⁵⁷ From 2011 to 2013, Deloitte and KPMG conducted similar surveys, publishing their results along with white papers reiterating the business case for integrated reporting, clarifying best practices, and addressing ongoing challenges. Local accounting firm Nkonki also began to produce an annual awards program covering the largest listed companies.⁵⁸

Other organizations got involved in reflecting on the South African experience as well. For example, the University of Pretoria's Albert Luthuli Centre for Responsible Leadership collaborated with E&Y South Africa to interview 16 thought leaders, some of whom had been involved for over two decades in corporate governance and corporate reporting, lending nuance to the accounting firms' quantitative assessment of South Africa's integrated reporting experience.⁵⁹ Chartered Secretaries Southern Africa undertook an annual awards program for integrated reports. The IRC of SA began to release the results of a survey of the top 100 companies listed on the JSE covering general areas, such as the size of the reports. While one can assume that things have progressed in the past year since these reports were published, below we consider trends indicated by the most recent reports and surveys available at the time of this writing.

Report Quality

While Deloitte identified "pockets of excellence," the consensus among the Big Four remained that no one company could be indicated as exemplary in all aspects of integrated reporting.⁶⁰ Companies were increasingly engaging with sustainability issues, but there was no overall "Poster Child" Integrated Report due to, among other factors, the lack of definitive reporting guidance. Deloitte's 2012 report alone identified 15 potentially relevant frameworks, regulations, and standards⁶¹ relevant to the process. It also addressed such issues as fear of disclosing competitive information related to strategy, board governance, how director remuneration was determined, and overall adjustment of internal controls, assurance, and data collection. Although the E&Y survey respondents demonstrated a solid understanding of the definition of an integrated report and the information it should represent, with all respondents agreeing that an integrated report was not simply a cross-reference between annual and sustainability reports, few disclosed these interdependencies in a useful manner.⁶²

Overall, the following trends were indicated by most of the accounting firms: companies that had not embraced integrated reporting would become

isolated; clear ways of telling the company narrative were improving, and companies relied more on visual storytelling and graphics than before; stakeholders were dealt with in greater detail in the reports; and companies were increasingly embedding sustainability issues into their business models. While KPMG estimated it would take up to three years for integrated reporting to become a fully established way of reporting business strategy and performance, the length of the journey depended entirely on a company's commitment to the spirit of King III in general and integrated reporting in particular. In some cases, companies were adopting a "tick-the-box" mentality to integrated reporting and simply outsourcing the production of the report to their audit firm or other consultants at a cost perceived to be high by the companies.

Materiality

Addressing the materiality of KPIs in a fulsome way remained one of the biggest hurdles for companies in their journey to integrated reporting, and it improved the least out of all other factors considered in the surveys from 2011 to 2013. South African shareholder activists like Theo Botha, Director of CA Governance,⁶³ viewed the uptake of integrated reporting as evolving on par with the development of appropriate KPIs that required a comprehensive definition of company-specific materiality. While companies had been culling nonfinancial information for sustainability reports for years, many surveyed described the difficulty of how to decide which material issues were the most relevant as a concern. Furthermore, too many companies failed to explain the methodologies behind the selection of material factors, simply saying things like "material issues are identified by the Board."⁶⁴ Deloitte found that only 11% of client companies disclosed the methodology used to assess materiality, and the link to stakeholder engagement was not clearly presented.⁶⁵ While deciding what is material enough to go into the report remains a challenge for companies to this day, the process has improved with the benefit of experience.

Disclosure of Nonfinancial KPIs

Integrated reporting was overwhelmingly credited with enabling management to redefine and focus its strategy to ensure sustainability's incorporation into its business model. This could be seen in the elevation of sustainability to the board level in some cases where it was not there before, the push for improved definitions of KPI data for measurement and management, inclusion into project decision-making, and an emphasis on an ongoing dialogue with stakeholders. Nevertheless, while companies had improved their integration

of material environmental and social aspects into their overall business strategy, this improvement was not always reflected in their reporting practices. Many nonfinancial factors were still presented without context.⁶⁶ Companies showed a tendency to disclose nonfinancial KPIs in a separate section of the report without apparent thought for the relevance to their operations or context, resulting in a weak disclosure of the interdependencies between those indicators and company performance in a holistic way.⁶⁷ Indicators of how green a company is, for example, should only matter if measures like recycling or carbon emissions have a significant impact on business.

To make nonfinancial disclosure more useful for decision-making, E&Y suggested that mention of measures per unit produced or consumed, along with a comparison to industry norms, would give the KPIs greater meaning.⁶⁸ Noting that stated KPIs were not always relevant to business strategy, KPMG suggested that benchmarking was helpful in determining what the most relevant KPIs were and linking them to strategic imperatives.⁶⁹ As of 2013, PwC observed that while 55% of the 40 JSE-listed companies surveyed had identified one or more material capitals, only 6% effectively communicated their holistic performance.⁷⁰ Likewise, PwC found that 81% of the JSE's top 40 companies' reports could improve in their definition of KPIs and the provision of a rationale for their use. However, 71% of KPIs were quantified, indicating progress in the process of disclosing nonfinancial factors in a comparable, easily understandable way.⁷¹ Although "silo reporting" was still evident, with KPIs sealed off in separate sections regardless of relevance to strategy, companies that considered the connections between KPIs and strategy found that their report content naturally addressed the most material issues affecting business value.⁷²

Disclosure of Risks

While E&Y's 2013 "Excellence in Integrated Reporting" survey referred to risks that "will affect the businesses' ability to create value"⁷³ rather than dividing them into financial and nonfinancial risks, much like disclosure of nonfinancial KPIs, nonfinancial risk disclosure had often increased without being adequately linked to strategy or performance. While companies demonstrated an improved level of disclosure for items like the amount of money spent training staff or bursaries to build future capacity, the lack of links back to goals and strategies was disappointing to the accounting firms. Most companies surveyed had improved in presenting a balanced view of risks, but it was unclear how companies linked those risks to strategic objectives or how those

risks translated into measurable KPIs. Many risks mentioned were generally applicable to any company in South Africa.⁷⁴ Few companies highlighted business opportunities arising from nonfinancial risks or linked risk disclosure of nonfinancial factors to International Financial Reporting Standards (IFRS) disclosures in statutory annual financial statements. While 97% of companies surveyed by PwC reported on principal nonfinancial risks,⁷⁵ only 52% integrated them into other areas of their reporting and only 10% of companies supported risk disclosure with quantitative information like KPIs. A mere 13% provided thorough insights into the dynamics of their risk profiles and how they could change over time.⁷⁶

Director Remuneration and Board Transparency

Disclosure of director remuneration, introduced by King III, remained contentious. While PwC⁷⁷ observed that 51% of companies provided clear alignment between KPIs and remuneration policies, and Deloitte⁷⁸ conceded that disclosure had improved, it was clear that not many companies were assessing the effectiveness of the board as emphasized by King III. Moreover, detail regarding remuneration was scarce, and the way remuneration was aligned to facilitate the delivery of strategic objectives was not often addressed. E&Y found that little to no information was provided on how the variable portion of short-term bonuses was determined. When KPIs determining bonuses were discussed, there was seldom any sign of how those indicators translated to rand amounts or whether they were for previous or current accrual periods. Most of the information for director compensation was likewise convoluted.⁷⁹ Indeed, many companies were more comfortable reporting on board charters and terms of reference rather than actual activities undertaken by the board over the year. Only 16% of those surveyed by PwC described the activities of the board.⁸⁰ “Some companies have battled with what to include in their report about governance. The information that is most relevant is that which reflects how governance affects the value creation ability of the business,” said Roberts.⁸¹

Disclosure of Forward-Looking Information

Although an area that had improved since the first reports, companies were loath to disclose too much forward-looking information. This was especially true when it came to environmental, social, and governance (ESG) factors.

While Deloitte found that companies disclosing KPIs generally included historical trends and future targets—an increase from 75% inclusion to 80% inclusion from Period 1 to Period 2 for fiscal 2011—future performance projections still suffered from a lack of completeness. Only one-third of those surveyed by Deloitte set measurable nonfinancial targets linked to strategy and stakeholder concerns.⁸² Similarly, PwC found that only 13% of companies surveyed provided effective communication on future outlook. Only 10% provided future targets for KPIs. While 90% discussed future market trends, only 61% of companies linked them to strategic choices, and expected market rates and growth were, more often than not, not quantified. Nor was there much explanation of which factors would impact those trends in the future. However, 68% of companies did identify the time frame in which future viability had been considered.⁸³

Reasons cited for the lack of disclosure were fear of regulatory reprisal and creating expectations that could be used against management in the future, as well as the simple fact that corporate reporting has traditionally been focused on past performance. In its 2011 assessment, KPMG suggested substantial cultural change was necessary to achieve a truly forward-looking perspective corroborated by a consideration of past performance against strategy and strategic perspectives, and that companies could guard against liability by wording their future performance goals and expectations carefully.⁸⁴ “This was a scary area for companies first stepping out on their integrated reporting journey,” said Roberts. “But over the years disclosure has improved, with companies realizing that it was not about giving a profit projection; rather, the focus lay in transparency regarding the significant relationships and factors with the power to affect the future value creation ability. Companies have been quite inventive, using ratios, waterfall graphs, commodity reviews, and other clever ways to show true relationships.”⁸⁵

Characteristics of the Report

Company report preparers overwhelmingly felt that it was impossible to provide the amount of detail stakeholders would want in a single integrated report if that report were to remain clear and organized. Journalists like Ann Crotty feared that the reporting structure had succumbed to a gradual “densification” in which a checklist approach led to documents of 400 pages. However, analysis by the accounting firms showed that companies were slowly learning how to balance transparency with accessibility of reporting documents.⁸⁶

Although all the accounting firms conceded that overall reports were still “too long,” there was evidence that companies were trying to shorten their reports. While 35% of companies initially surveyed by E&Y in 2011 believed that an integrated report would be less than 50 pages and 44% were neutral, most respondents envisaged the next integrated report as being between 50 and 80 pages.⁸⁷

In the following two years, the goal shifted to producing an integrated report between 80 and 120 pages. Graham Terry, Senior Executive at The South African Institute of Chartered Accountants (SAICA), noted that, in the application of integrated reporting, some principles would necessarily conflict with each other. Further, little guidance existed for what should or should not be included in the report.⁸⁸ Left to their own devices, some report preparers found that the most effective way to incorporate all of King III’s requirements without producing information overload in the integrated report was to refer to other, more detailed documents with explicit links to the full IFRS financial statements and other detailed information like the sustainability report—a strategy Deloitte observed worked well when those links were clearly highlighted.⁸⁹ E&Y noted that companies that appeared to have started from scratch in determining what and how to report often produced shorter and more effective reports.⁹⁰

Although nearly all companies agreed that other reports were necessary, responses varied on exactly where and how information was being distributed. One hundred percent of the top 100 JSE-listed companies disagreed that integrated reporting was merely cross-referencing between annual reports and sustainability reports. This did not mean that other reports would disappear. During the first cycle of mandatory integrated reporting, 36% of companies reported a belief that a separate integrated report would be published alongside a sustainability report and the annual report on financial statements, 43% disagreed, and 21% expressed no strong belief that an integrated report should be published separately alongside the financial statements.⁹¹ Mohamed Adam, a member of the King Committee, and Jo-Anne Yawitch, CEO of National Business Initiative,⁹² noted that companies tended to get distracted by form (one report vs. multiple reports) when they should be focusing on the substance of the report itself.⁹³

All accounting firms noted an increase in the use of graphics, charts, and images in conveying overviews of information. Heat maps for materiality were especially useful, and E&Y noted the increased use of waterfall charts⁹⁴ that explained the factors influencing movement in key measures such as profit over time.⁹⁵

Internet Use

Although most companies initially made little use of the Internet in their integrated reporting efforts, all members of the Big Four firms and many South African thought leaders noted ways in which a more effective use of the Internet could ease the growing pains of integrated reporting. When it came to improving the treatment of materiality, Nigel Payne, a professional Non-Executive Director, suggested that those preparing an integrated report “need to be aware about the five or six things that are cooking at the moment” and put the details of these issues on the website. That is, thoughtful use of the company’s integrated reporting site and the potential incorporation of Extensible Business Reporting Language (XBRL)⁹⁶ could assuage concerns about report length and content; by posting longer, more detailed documents on their website that need only be referenced in a concise integrated report, the company did not sacrifice completeness of information for clarity.

E&Y found in 2013 that many companies had improved in their use of navigation aids, icons, and other forms of cross-referencing to connect information across the report and that they had put detailed sustainability, corporate governance, and risk disclosure information on their website. While companies offered a few “quick reading”⁹⁷ options, some had begun to use XBRL⁹⁸ to tag information relevant to different stakeholders.

Auditing and Assurance on Nonfinancial Information

While companies surveyed had not sought uniform “reasonable”⁹⁹ assurance on nonfinancial information by an independent auditor, many agreed that it was desirable, and an increasing number of companies were seeking independent assurance on particular KPIs. E&Y noted that although more ESG indicators had received some form of external assurance, how those indicators were chosen did not always align with the material concerns of the business. E&Y suggested that the most material KPIs should receive the greatest consideration, as they were most relevant to the long-term sustainability of the business. Whether financial or nonfinancial, these KPIs selected for assurance based on materiality makes the business case for incurring the costs attached to the independent assurance of those indicators.¹⁰⁰ Achieving credibility of nonfinancial information was paramount and, from 2012, the topic of assurance of nonfinancial KPIs began to receive more attention from reporters.¹⁰¹ That same year, an international group of accounting and legal experts led by the country’s Independent Regulatory Board for Auditors was

formed in South Africa to address the development of an appropriate assurance process over integrated reporting.¹⁰²

OUR REFLECTIONS ON THE SOUTH AFRICAN EXPERIENCE

In tracing the origins of mandatory integrated reporting back to the period of 1990–1994, when the full consequences of the decision to end apartheid remained unknown, it becomes clear that South Africa’s corporate governance journey developed from a unique set of circumstances. The emergence of mandated integrated reporting in South Africa was a small consequence of tumultuous political and social change as the country passed from apartheid to an era of social and economic inclusion. The architects of South Africa’s new reality saw corporate governance as a way to rehabilitate the country’s national image and attract the foreign capital that fled during the apartheid-era sanctions.¹⁰³ Sustainability reporting, and then integrated reporting, were simply one component of a much larger effort to make South African companies exemplars of corporate governance.

Still, the challenges facing South African companies plague companies all over the world. Shareholders and other stakeholders are demanding that companies be more responsive to ESG issues, and integrated reporting can help them identify, manage, and communicate how they are responding to these challenges in order to create value for shareholders over the long term. South African companies are on the vanguard of this social movement. While much can be learned from their experience, however, it is necessary to place it in the broader context of global efforts to shape the meaning of integrated reporting—the subject of the next chapter.

NOTES

1. A 2012 report compiled by Jess Schulschenk for Ernst & Young South Africa refers to the 2009 King Code as transitioning from a “comply or explain” to an “apply or explain” approach. Although integrated reporting is not “mandatory” in a strict legislative sense, for convenience we will use this term throughout the chapter with the understanding that it means “comply or explain,” and following the 2009 King Code’s appearance, “apply or explain.” “Interview Summary Report.” Compiled by Jess Schulschenk in

collaboration with the Albert Luthuli Centre for Responsible Leadership at the University of Pretoria. Published by Ernst & Young South Africa. August 2012. 1–40. In February 2010, the principles of the King Code of Governance of 2009 (King III), including those that recommend integrated reporting, were incorporated into the Johannesburg Stock Exchange's listing requirements and listed companies were obliged to apply the King III principles or explain their reasons for deviating from them (for financial years starting on and after 1 March 2010). SustainabilitySA. www.sustainabilitysa.org, accessed May 2014.

2. Not all listed companies produce integrated reports. There is no accurate number of the number of companies that do.
3. Nonfinancial information refers to environmental, social, and governance (ESG) information that reflects company performance in these areas.
4. On April 16, 2013, the European Commission issued a proposal to require large EU companies to report on social and environmental issues in annual financial reports. "Proposal for a Directive of the European Parliament and of the Council amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of nonfinancial and diversity information by certain large companies and groups." European Commission. Strasbourg, France. April 16, 2013. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0207:FIN:EN:PDF>, accessed April 2014. On April 15, 2014 the plenary of the European Parliament adopted this directive by a vote of 599 to 55 from its 28 member states. http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm, accessed April 16, 2014. In July of 2010, France took a step towards mandating integrated sustainability and financial reporting for large companies with a law called Grenelle II, Article 225 of which states that all listed companies on the French stock exchanges, including subsidiaries of foreign companies listed in France, and unlisted companies, must incorporate information on "the social and environmental consequences" of company activities or publish a justification for the exclusion of information if it is deemed irrelevant. Ernst & Young. "How France's new sustainability reporting law impacts US companies" 2012, [http://www.ey.com/Publication/vwLUAssets/Frances_sustainability_law_to_impact_US_companies/\\$FILE/How_Frances_new_sustainability_reporting_law.pdf](http://www.ey.com/Publication/vwLUAssets/Frances_sustainability_law_to_impact_US_companies/$FILE/How_Frances_new_sustainability_reporting_law.pdf), accessed February 2014.
5. Brazil's BM&FBOVESPA and India's Bombay Stock Exchange have taken concrete steps to encourage listed companies to use sustainability reporting, and eight member exchanges of the World Federation of Exchanges (WFE) have joined the UN's Sustainable Stock Exchanges initiative to help research how stock exchanges can facilitate corporate transparency. In 2012, the WFE published the first "sustainability disclosure ranking" to benchmark the annual change in performance of global stock exchanges. Morrow, Doug.

"Measuring Sustainability Disclosure on the World's Stock Exchanges." World-Exchanges.org, <http://www.world-exchanges.org/insight/views/measuring-sustainability-disclosure-world%E2%80%99s-stock-exchanges>, accessed February 2014.

6. Also known as social accounting, nonfinancial reporting is the process of communicating the social and environmental effects of an organization's economic actions to society at large and particular stakeholders (interest groups). PwC. Audit and Assurance Services, "What is corporate reporting?" <http://www.pwc.com/gx/en/corporate-reporting/frequently-asked-questions/publications/what-is-corporate-reporting.jhtml>, accessed February 2014.
7. "Statistical Release for Census 2011 (embargoed until October 30, 2012)." Published by Statistics South Africa for the South African government, Private Bag X44, Pretoria 0001. Population was 51,770,560 people as of 2011. P0301.4. <http://www.statssa.gov.za/publications/P03014/P030142011.pdf>, accessed February 2014.
8. Empirical studies have shown that better corporate governance is highly correlated with better market valuation and operating performance, for example: Klapper, Leora F. and Inessa Love. "Corporate governance, investor protection, and performance in emerging markets." *Journal of Corporate Finance* 10, no. 5 (2004): 703–728.
9. King, Mervyn and Leigh Roberts. *Integrate: Doing Business in the 21st Century*, by Cape Town: Juta and Company, Ltd., 2013.
10. *Ibid.*, pp. 40–44. The five forces are growing investor power supporting sustainability issues, requirements of large corporate customers for more sustainable business practices in their suppliers, increasing regulation on societal issues, pressures on companies from governments to deal with poverty and growing social inequality, and the need to reduce the waste of diminishing natural resources.
11. *Ibid.*, pp. 5–9.
12. *Ibid.*, pp. 16–22. The problems are: (1) too heavy for the postman, (2) yesterday's story, (3) not the whole story—the financial pictures only, (4) not the whole story—some intangibles are excluded, (5) not the whole story—some costs are excluded, (6) different reports for different users, (7) nonfinancial information is not considered mainstream by all, (8) reporting influences behavior, (9) short-termism, (10) reporting is behind the technology curve, and (11) no common system for preparing the annual report.
13. While 1994, the year of the first multiracial democratic elections, is commonly regarded as the end date of apartheid, making it a 46-year phenomenon, the process to dismantle apartheid legislation officially concluded in 1990, when the African National Congress ceased to be regarded as a terrorist organization by the South African state and was instead made a legal political party and all laws enforcing apartheid were abolished.

14. Knight, Richard. "Sanctions, Disinvestment, and U.S. Corporations in South Africa." *Sanctioning Apartheid*, edited by Robert Edgar, Trenton: Africa World Press, 1990.
15. Denmark, France, and Canada initiated bans on investment in and oil trade with South Africa, which Israel enacted in 1987 and Japan followed from 1986–88. To restrict loans and exports to South Africa, the United States passed its main anti-South Africa legislation, the Comprehensive Anti-Apartheid Act of 1986. Teoh, Siew Hong, Ivo Welch, and C. Paul Wazzan. "The Effect of Socially Activist Investment Policies on the Financial Markets: Evidence from the South African Boycott." *The Journal of Business*, Vol. 72, No. 1 (January 1999), pp. 35–89.
16. Ibid.
17. Knight, "Sanctions, Disinvestment, and U.S. Corporations in South Africa."
18. The 1973 Companies Act allowed for the establishment of private and public limited-liability companies, and most foreign firms that created South African subsidiaries capitalized on the private form. Other policies that indicated the government's keenness to attract foreign investors included the absence of a requirement for approval of foreign investors, who are subject to the same laws as domestic investors in most cases. The Close Corporation Act of 1984 (Act 69) also created a third legal form for corporations that is suited for small businesses, and no limit exists for the amount of foreign ownership or the rights of foreign owners outside of the banking sector. UNCTAD Investment Country Profiles: South Africa. pp 1–29. http://unctad.org/sections/dite_fdistat/docs/wid_cp_za_en.pdf, accessed January 2014.
19. Bjorvatn, Kjetil, Hans Jarle Kind, and Hildegunn Kyvik Nordas. "The role of FDI in economic development." The Research Council of Norway: Foundation for Research in Economic and Business Administration. Bergen, December 2001, http://brage.bibsys.no/nhh/bitstream/URN:NBN:no-bibsys_brage_24613/1/A62_01.pdf, accessed January 2014.
20. From 1956 to 1990, FDI as a percentage of GDP decreased from 34% to 9%. Fedderke, Johannes and A.T. Romm, 2004. "Growth Impact and Determinants of Foreign Direct Investment into South Africa, 1956–2003," Working Papers 12, Economic Research Southern Africa.
21. Schulschenk, "Interview Summary Report," p. 1.
22. Fedderke and Romm, "Growth Impacts and Determinants of Foreign Direct Investments into South Africa."
23. Nxasana, Sizwe (2012b). Ibid. At the corporate level, governance was, in the words of many interviewed, "absent." Sizwe Nxasana, CEO of FirstRand Limited & FirstRand Bank, remembered his experience as an articulated clerk in the early 1980s as a time of unparalleled corporate licentiousness.

24. Bjorvatn, Kjetil, Hans Jarle Kind, and Hildegunn Kyvik Nordas. "The role of FDI in economic development." The Research Council of Norway: Foundation for Research in Economic and Business Administration. Bergen, December 2001, p. 17, http://brage.bibsys.no/nhh/bitstream/URN:NBN:no-bibsys_brage_24613/1/A62_01.pdf, accessed in January 2014.
25. IoDSA was founded to empower those charged with organizational governance duties with the right skills and ethics to execute on their duties based on the values of southern African society. "About the IoDSA" Institute of Directors in Southern Africa, <http://www.iodsa.co.za/?page=About>, accessed February 2014.
26. Schulschen, "Interview Summary Report," p. 1.
27. Published in draft version in May 1992, the "Cadbury Report," formally titled *Financial Aspects of Corporate Governance*, was a report produced by The Committee on the Financial Aspects of Corporate Governance in Britain, chaired by Adrian Cadbury, that set recommendations on corporate boards and accounting systems to mitigate governance risks and failures. Hailed as an international vanguard, certain recommendations of the Cadbury report were used to establish other codes in the United States, the European Union, and the World Bank, among others. "Report of the Committee on the Financial Aspects of Corporate Governance." Gee (a division of Professional Publishing Ltd.) London. 1 December 1992, <http://www.ecgi.org/codes/documents/cadbury.pdf>, accessed February 2014.
28. "King Report on Corporate Governance for South Africa 1994, Chapter 20: The Code of Corporate Practices and Conduct," Institute of Directors South Africa, p. 2, http://www.ecgi.org/codes/documents/king_i_sa.pdf, accessed February 2014.
29. Schulschen, "Interview Summary Report," p. 4.
30. Stout, Lynn A. "Bad and not-so-bad arguments for shareholder primacy." *S. Cal. L. Rev.* 75 (2001): 1189. "Milton Friedman is a Nobel Prize-winning economist, but he obviously is not a lawyer. A lawyer would know that the shareholders do not, in fact, own the corporation. Rather, they own a type of corporate security commonly called 'stock.' As owners of stock, shareholders' rights are quite limited . . . Thus, while it perhaps is excusable to loosely describe a closely held firm with a single controlling shareholder as 'owned' by that shareholder, it is misleading to use the language of ownership to describe the relationship between a public firm and its shareholders." (p. 1191)
31. Ibid. p. 14.
32. Schulschen, "Interview Summary Report," p. 6.
33. A pro forma internal audit charter is contained in an appendix to King II, which describes the scope of an internal audit as "an independent objective assurance activity" that "brings a disciplined approach to evaluate risk

- management, control and governance.” King II Report on Corporate Governance: Summary of Code of Corporate Practices and Conduct. Appendix 4. 2009, 343, https://www.icsa.org.uk/assets/files/pdfs/BusinessPractice_and_IQS_docs/studytexts/corporategovernance2/w_CorpGov_6thEd_StudyText_Appendix4.pdf, accessed February 2014.
34. “King Report on Corporate Governance for South Africa 2002,” King Committee on Corporate Governance. pp. 91–92. http://library.ufs.ac.za/dl/userfiles/documents/Information_Resources/KingII%20Final%20doc.pdf, accessed February 2014. As an idea, “sustainability” was gleaned from the way “Our Common Future” (commonly known as the Brundtland Report) defined the term “sustainable development” in 1987 to mean “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” United Nations. “Report of the World Commission on Environment and Development: Our Common Future,” no page numbers in online report, <http://www.un-documents.net/wced-ocf.htm>, accessed May 2014.
 35. Schulschenk, “Interview Summary Report,” p. 10.
 36. “National Framework for Sustainable Development,” Sustainability South Africa Website, <http://www.sustainabilitysa.org/GlobalResponse/SAGovernmentsresponse/NationalFrameworksandPolicies.aspx>, accessed February 2014.
 37. “King Report on Corporate Governance for South Africa 2009,” King Committee on Corporate Governance, Introduction and Background, The Need for King III, p. 2, <http://www.library.up.ac.za/law/docs/king111report.pdf>, accessed January 2014. When the Companies Act was revised in 2008, it fundamentally rewrote South African company law to give legal authority to some of the guidance in King II. In addition to introducing the concept of an Independent Review as a way to audit company financial statements, the Act touched upon issues like appointment of board members to the board of directors, which King III then sought to elaborate upon. For example, the Companies Act acknowledged the importance of appointing a board for company governance, but King III expanded extensively on the role and function of the board. The Companies Act clarified procedures for the appointment or election of directors, but King III went a step further to describe the qualities of people who might be appointed, also providing guidance for the appointment and duties of CEO and chairman, which were not discussed in the Companies Act. Further differences necessitating that a third King Code be published related to board committees in general, group boards, audit committees, social and ethics committees, risk committees, remuneration committees, and nomination committees. PricewaterhouseCoopers. “The board of directors and committees—a comparison between the new Companies Act and King III,”

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October 2011, http://www.pwc.co.za/en_ZA/za/assets/pdf/companies-act-series-3.pdf, accessed February 2014.

38. The UN-supported Principles for Responsible Investment initiative is an international network of investors working together to understand the implications of sustainability for investors and to support signatories to incorporate such issues into their investment decision-making and ownership practices by putting the UN's six Principles for Responsible Investment into practice. UN Principles for Responsible Investment. About the PRI Initiative, <http://www.unpri.org/>, accessed February 2014.
39. "Institutional Investors." King III Introduction and Background, Section 7. <http://www.library.up.ac.za/law/docs/king111report.pdf>, accessed February 2014.
40. Institute of Directors in Southern Africa, "King Report on Governance for South Africa 2009," p. 109, <http://african.ipapercms.dk/IOD/KINGIII/kingiiiireport>, accessed February 2014.
41. *Ibid.*, p. 111. Clarity and a long-term outlook were emphasized: "Integrated reporting should be focused on substance over form and should disclose information that is complete, timely, relevant, accurate, honest, accessible, and comparable with past performance of the company. It should also contain forward-looking information." Sustainability was to be interwoven with financial reporting. In addition to reporting on the company's financial performance, the company should put its economic performance into context by discussing the environment in which it functioned and its impact on stakeholders, as well as strategies for mitigating any negative outcomes. In short, "the integrated report should describe how the company has made its money."
42. *Ibid.*, p. 111.
43. *Ibid.*, p. 111. Since King III was published, the interplay between the 2008 Companies Act and the King Code has begged a number of questions about the relationship between governance principles and legislation. King III was written to reflect the changes in company law, but the Companies Act did not go into effect until 2011, causing many to believe a process of refinement is necessary to bring the reports into alignment with legislation. This in itself has caused strong reactions among supporters of principles-based approach. While King III was more progressive than its predecessors by leaps and bounds, some felt it had gone too far. Amid these debates, integrated reporting gained cachet on the international and domestic stages.
44. The UN Committee on Governance and Oversight was formed to recommend improvements that affect management and the governing structures that serve the United Nations. For further information, see "Implementation of decisions contained in the 2005 World Summit Outcome for action by the Secretary-General: Comprehensive review of governance and oversight

- within the United Nations and its funds, programmes and specialized agencies.” Report of the Secretary-General. 10 July 2006. United Nations General Assembly, <http://www.un.org/ga/president/62/issues/resolutions/a-60-883.pdf>, accessed in February 2014.
45. Schulschenk, “Interview Summary Report,” p. 9.
 46. The IRC of SA was established by the joint efforts of the Association for Savings and Investment South Africa (ASISA), Business Unity South Africa (BUSA), Institute of Directors in South Africa (IoDSA), JSE Ltd, and the South African Institute of Chartered Accountants (SAICA).
 47. The South African Institute of Chartered Accountants. The Integrated Reporting Committee (IRC) of South Africa “Framework for Integrated Reporting and the Integrated Report,” <https://www.saica.co.za/Technical/SustainabilityandIntegratedReporting/IRGuidance/tabid/2372/language/en-ZA/Default.aspx>, accessed April 2014.
 48. Ibid.
 49. Ibid., p. 9.
 50. The Paper further explains that materiality needs to be defined by answering three questions: (1) Are the “right things” being reported? (2) What level of error or omission in the data would influence the assessments and decisions of stakeholders in the organization?, and (3) Is the organization being response to the legitimate interests and expectations of its key stakeholders (sometimes referred to as stakeholder inclusiveness)? Ibid.
 51. Ibid., p. 17.
 52. Ibid., p. 17.
 53. For a list of members see “Framework for Integrated Reporting and the Integrated Report Discussion Paper,” by the Integrated Reporting Committee of South Africa, January 25, 2011, p. 25.
 54. “IFAC Sustainability Framework 2.0,” International Federation of Accountants. International Federation of Accountants Website, <http://www.ifac.org/publications-resources/ifac-sustainability-framework-20>, accessed February 2014.
 55. SustainabilitySA. Integrated Reporting. The Integrated Reporting Committee of South Africa, <http://www.sustainabilitysa.org/IntegratedReporting/TheIntegratedReportingCommitteeofSouthAfrica.aspx>, accessed April 2014.
 56. Ernst & Young South Africa. “Integrated Reporting Survey Results,” 2011, pp. 1–15, http://hesabras.org/Portals/_Rainbow/images/default/download/Integrated%20Reporting.pdf, accessed February 2014.
 57. PricewaterhouseCoopers. “Greater disclosure but little insight under new code,” PwC, Corporate Reporting, <http://www.pwc.com/gx/en/corporate-reporting/integrated-reporting/corporate-reporting-south-africa-king-iii.jhtml>, accessed January 2014. Since this first evaluation, PricewaterhouseCoopers has produced an annual analysis of the Top 40 listed companies’ integrated reports.

58. <http://www.nkonki.com/IR/awards.php?a=integrated-reporting&page=Nkonki-Top-100-Integrated-Reporting-Awards-Winners>. While Nkonki produced a special report in 2011 on the Top 40 IR Award Winners, the Nkonki Top 100 Integrated Reporting Awards began in 2012.
59. Schulschenk, "Interview Summary Report," p. 3.
60. Deloitte. "Integrated Reporting: Navigating Your Way to a Truly Integrated Report: Edition 2, February 2012," p. 20, <http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Integrated%20Reporting%20Publication%20II%20.pdf>. The report, like Ernst & Young's "Excellence in Integrated Reporting" awards, analyzed 100 JSE-listed companies and identified top trends.
61. These included The Companies Act, No. 71 of 2008, King Code on Governance Principles, International Financial Reporting Standards, Global Reporting Initiative Third Generation, International Organization for Standardization, AccountAbility, Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, United Nations Principles for Responsible Investment, Code for Responsible Investing in South Africa, International Council for Mining and Metals, United Nations Global Compact, Equator Principles, Carbon Disclosure Project, Water Disclosure Project, and eXtensible Business Reporting Language. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report."
62. Ernst & Young South Africa. "Integrated Reporting Survey Results," 2011. http://hesabras.org/Portals/_Rainbow/images/default/download/Integrated%20Reporting.pdf, accessed February 2014.
63. CA Governance is a South Africa-based independent corporate governance entity that provides assurance of ESG information in reports to companies in addition to assurance and verification as called for in Global Reporting Initiative, CDP and Institute of Directors in Southern Africa GAI submissions. "An Introduction." <http://www.ca-governance.co.za/>, accessed February 2014.
64. Ernst & Young South Africa. "Excellence in Integrated Reporting Awards 2013," [http://www.ey.com/Publication/vwLUAssets/EYs_Excellence_in_Integrated_Reporting_Awards_2013/\\$FILE/EY%20Excellence%20in%20Integrated%20Reporting.pdf](http://www.ey.com/Publication/vwLUAssets/EYs_Excellence_in_Integrated_Reporting_Awards_2013/$FILE/EY%20Excellence%20in%20Integrated%20Reporting.pdf), accessed February 2014.
65. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report," p. 61.
66. Fifty-five percent of the companies analyzed by PwC described material capital inputs into their business models, but only 19% explained the resources and relationships relied upon to deliver the company strategy or the degree of dependence the company had on them. Fifty-five percent of companies assessed by PwC did not accomplish integration in governance because there was little linkage between company narrative and governance reporting. That is, leadership structure and the decision making process

- were not explained. PricewaterhouseCoopers. "The Value Creation Journey: A Survey of JSE Top-40 Companies' Integrated Reports," 2013, PwC South Africa, The value creation journey, <http://www.pwc.co.za/en/publications/integrated-reporting.jhtml>, accessed May 2014.
67. Ernst & Young South Africa. "Excellence in Integrated Reporting Awards 2012," p. 7.
 68. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2013," p. 11.
 69. "Integrated Reporting: Performance Insight Through Better Business Reporting, Issue 2: 2012." KPMG 2012. <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/integrated-reporting/Documents/integrated-reporting-issue-2.pdf>, accessed February 2014, p. 8.
 70. PricewaterhouseCoopers. "The Value Creation Journey," p. 6 and p. 29.
 71. PricewaterhouseCoopers. "The Value Creation Journey," p. 30.
 72. Integrated Reporting: Performance Insight Through Better Business Reporting." Issue 2: 2011.
 73. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2011," p. 11.
 74. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report."
 75. PricewaterhouseCoopers. "The Value Creation Journey," p. 9.
 76. Ibid.
 77. Ibid.
 78. Deloitte, "Integrated Reporting: Navigating Your Way."
 79. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2013."
 80. PricewaterhouseCoopers. "The Value Creation Journey."
 81. Leigh Roberts email correspondence with Sydney Ribot, March 27, 2014.
 82. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report." In 2012, the numbers had not changed much.
 83. PricewaterhouseCoopers. "The Value Creation Journey."
 84. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2012."
 85. Leigh Roberts email correspondence with Sydney Ribot, March 27, 2014.
 86. Schulschenk, "Interview Summary Report," p. 25.
 87. Ernst & Young South Africa. "Integrated Reporting Survey Results," 2011. p. 5.
 88. Schulschenk, "Interview Summary Report," p. 25.
 89. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report," p. 12.
 90. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2012."

91. Ibid.
92. Mohamed Adam is a longstanding member of the King Committee and, in 1991, he joined as legal adviser at South African state-owned utilities company Eskom. As of 2014, he serves as Eskom's Corporate Counsel and Senior General Manager of Regulatory Affairs. "Mohamed Adam." http://www.icsa.co.za/index.php?option=com_content&view=article&id=335&Itemid=479, accessed February 13, 2014. National Business Initiative is a South African organization that advocates for corporate citizenship and business leadership, facilitates collective business action and social dialogue, and implements strategic projects backed by rigorous policy analysis and research in order to foster public-private partnerships to build trust in and credibility of organizations via active engagement with members and the government. "Our Purpose." National Business Initiative. <http://www.nbi.org.za/>, accessed February 12, 2014.
93. Schulschenk, "Interview Summary Report," p. 24.
94. A waterfall chart or graph is a form of data visualization that shows the cumulative effect of sequentially introduced positive or negative values. Because its suspended columns are visually reminiscent of bricks or columns leaped over by the protagonist of the videogame Super Mario Brothers, it is also known as a "flying bricks chart" or "Mario chart." In finance, this chart is often known as a bridge chart.
95. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2013," p. 12.
96. XBRL, or eXtensible Business Reporting Language, is a freely available global standard for exchanging business information, XBRL. XBRL Basics, <http://www.xbrl.org/GettingStarted>, accessed April 2014.
97. One of the criteria used by Deloitte in their research into the quality of integrated reports was the extent to which companies were effectively communicating the context in which they operate. A key measure of effective communication was the concept of a "quick reading" summary that included key performance indicators, historical trends, and future targets. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report," p. 31.
98. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report," p. 93.
99. In American parlance this is the same as "positive" assurance.
100. If management questioned the need for assurance, it is perhaps indicative that management should reconsider the motive for including that factor as a material KPI. Ernst & Young South Africa, "Excellence in Integrated Reporting Awards 2013."
101. Deloitte, "Integrated Reporting: Navigating Your Way to a Truly Integrated Report," p. 21.

102. "Integrated Reporting: Performance insight through Better Business Reporting." Issue 1. 2011. KPMG. <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/road-to-integrated-reporting.pdf>, accessed February 2014.
103. From 1956 to 1994, FDI as a percentage of GDP decreased from 35% to 10%. Fedderke and Romm, "Growth Impacts and Determinants of Foreign Direct Investments into South Africa."

