An understanding of materiality in an integrated reporting context: An application of logics

A research report submitted by

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Declaration

I, Dannielle Cerbone, hereby declare that the work contained in this research report is my own. It is submitted in partial fulfilment of the degree of Master of Commerce at the University of the Witwatersrand.

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Contents

I. List of abbreviations and acronyms

GEMI	Global Environmental Management Initiative
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IOD	Institute of Directors
IRC	International Reporting Council
JSE	Johannesburg Stock Exchange
SEC	Security Exchange Commission
UN	United Nations
WWF	World Wide Fund

II. Abstract

This study is concerned with the adoption of materiality as a key reporting principle in the integrated report. This study investigates how preparers are determining which information is material and ought to be included in their integrated reports. The influence of logics is observed through an investigation of the different conceptualisations of the materiality concept by the preparers of integrated reports. Qualitative data was gathered from interviews with preparers of integrated reports in South Africa. The data was analysed using a grounded theory approach and the interplay between old and new logics that are shaping materiality in integrated reporting was identified. The findings of this research indicate that there are three groups of preparers each embodying different logics. The compliance preparers view integrated reporting as a compliance exercise. The stakeholder-aware preparers are aware that the integrated report should communicate with a wide variety of stakeholders and the interpretive preparer uses the integrated report not only to communicate to stakeholders but to identify weaknesses with in the entity. The findings also indicate that there are variations in practices and understandings of materiality and reveal differing organisational priorities which highlight the extent to which materiality is a social and behavioural phenomenon.

The research adds to the limited body of corporate governance research drawing on an interpretive epistemology to explore recent reporting developments in a South African context the findings of this study will be relevant for the current debate about materiality in the integrated report, especially given the emergence of integrated corporate report.

Keywords: King 3, GRI, Sustainable reporting, South Africa, Materiality, Institutional Logics, Integrated report.

1. Introduction

1.1. Purpose of the study

The purpose of this thesis is to investigate how preparers are determining which information is material and ought to be included in their integrated reports. Through an investigation of the logics or values which underpin the concept of 'materiality', the research will highlight current conceptualisations of 'materiality' in the South African integrated reporting space and explore possible shortcomings of using constructs of materiality from financial reporting or auditing to prepare an integrated report.

1.2. Context of the study

Over the past two decades, there has been a shift in corporate financial reporting from traditional financial statements to the more inclusive integrated report (Institute of Directors (IOD), 2009; Montabon, Sroufe, & Narasimhan, 2007). South Africa appears to be at the forefront of this transformation and has been ranked first with regards to strength of auditing and reporting standards (Solomon & Maroun, 2012; World Economic Forum, 2014). The shift in reporting paradigms, however, raises questions about how companies are determining what information to emphasise, include or exclude from their integrated reports (International Integrated Reporting Council (IIRC), 2011a).

The integrated report is considered a more comprehensive report which aims to address the lack of sustainability issues addressed by conventional accounting[1] (Burritt & Schaltegger, 2010; IIRC, 2011b). There is only limited guidance to aid preparers when creating an integrated report but this guidance emphasises that disclosures made should be material (IIRC, 2013). As mentioned by Edgley, Jones, and Atkins (2015), materiality acts as a foundation for financial reporting and determines the importance of an item for stakeholders. Material information helps stakeholders to make effective decisions. In order to make effective decisions, 'materiality' should not only reflect the magnitude of an item but also the nature of the said item (Eccles, Krzus, Rogers, & Serafeim, 2012). It is this characteristic of 'materiality' which makes it relevant, not only for financial statements, but also for the sustainability accounting framework (Lamberton, 2005).

[1] The major difference between the integrated report and financial statements is the non-financial disclosures made. These non-financial disclosures are used to assess risks and sustainability of entities. These disclosures have gained popularity and are increasingly important to stakeholders and institutional investors (Dawkins & Ngunjiri, 2008)

Material disclosures might include, for example, corporate water and energy usage, CO_2 emissions, the environmental impacts of production, fair trade, employee working conditions, workplace diversity, safety technology or areas of stakeholder activism (Global Reporting Initiative, 2000). The IASB have, however, noted that 'materiality' is difficult to apply (International Financial Reporting Standards (IFRS), 2014) because materiality is seen as an entity-specific measure (International Accounting Standards Board (IASB), 2014). In particular, as materiality is interpreted and applied differently and remains a matter of professional judgement, integrated reports are inconsistent (Chewning & Higgs, 2002). Materiality is a pluralistic concept. To understand how preparers determine whether information is material and ought to be included in their integrated reports, it is necessary to explore their understanding of integrated reporting as a whole, how they identify and engage with their stakeholders and how they interpret materiality within the IR.

This study is concerned with the adoption of materiality as a key reporting principle in the integrated report and it focuses on materiality because it is a key factor to be considered when determining the inclusion of information in the integrated report (IIRC, 2013). Increased importance placed on sustainability by society has extended the concept of 'materiality' beyond financial impacts to the significant social and environmental impacts of corporate performance for a stakeholder audience (Edgley et al, 2015). The shift to the more comprehensive integrated report has augmented 'materiality' from a classical, conservative materiality, as defined in the conceptual framework (IASB, 2010), to a more stakeholder inclusive 'materiality' (Zadek & Merme, 2003). The influence of institutional logics can, therefore, be observed through a study of the conceptualisation and operationalisation of the materiality concept.

1.3. Research question

The primary research question is:

How are the preparers determining if information is material and should, therefore, be included in the integrated report?

This is broken down into the following sub-questions:

1. Why do preparers produce integrated reports and what frameworks are they using to do so?
2. What processes do preparers have in place to identify and engage with their stakeholders?

3. How do preparers interpret the need to include only material information in their integrated reports?

Each of these sub questions are addressed in Section 5 of this thesis.

1.4. Significance of the study

The lack of a specific standard guiding preparers on the nature and extent of information included in an integrated report has resulted in considerable variation of information being communicated to users, driven almost exclusively by the views of individual preparers (Chewning & Higgs, 2002). With materiality in the integrated report still in its infancy (Edgley et al, 2015), the findings of this study will be relevant for the current debate about materiality in the integrated report, especially given the emergence of integrated corporate reporting (Burritt & Schaltegger, 2010) and calls for sector specific materiality and sustainability reporting standards (Eccles et al, 2012).

The extension of materiality from financial reports to the integrated report raises important questions about the disclosure decisions and policies made by preparers. These decisions or policies have a direct influence on whether information is included or is excluded from an integrated report and needs to be analysed to gauge if the decisions or policies are sufficient. This study intends to address this question and add to our knowledge about the values that underpin materiality and shape the integrated report. Furthermore, this study intends to answer, from a theoretical perspective, a call by Lounsbury (2008) for research to understand the subtleties of change within institutional logics in a corporate reporting context. This report extends an institutional logics approach, often focused on accounting materiality, into a new locus, by examining tensions between old and new logics in the understanding of materiality in integrated reporting. It considers the emergence of new hybrid logics that are encouraging the development of varied constructs of materiality in South African corporate financial reporting. In doing so, the research makes an important practical contribution by providing a frame of reference for preparers seeking to formalise the identification of material information for inclusion in their integrated reports. Concurrently, the research adds to the limited body of corporate governance research drawing on an interpretive epistemology to explore recent reporting developments in a South African context (Brennan & Solomon, 2008; Coetsee & Stegmann, 2012; Maroun & Jonker, 2014).

1.5. Delimitations of the study

The thesis will only deal with materiality in the context of South African integrated reports. The merits of an integrated approach to corporate reporting are not addressed and the study will make no effort to compare views on integrated reporting and materiality in different jurisdictions. In addition, this study does not intend to address the assurance aspect of the integrated report.

The research makes use of neo-institutional theory and institutional logics and so is inherently limited by underlying theoretical assumptions. This research assumes that individuals understand the world differently and that multiple beliefs about concepts may exist (Edgley et al, 2015). It is also assumed that all interviewees will be honest and forthcoming with their responses. This study does not intend to suggest, or propose, a better way of defining 'materiality' or how to quantify non-financial disclosures in the integrated report.

1.6. Structure of the thesis

Section 2.1 examines the prior literature on institutional logics, providing a brief overview of institutional logics to provide the theoretical foundation for this thesis. Section 2.2 identifies how institutional logics have been applied in analysing change and, therefore, how it can be used in a similar fashion to interpret the change in the concept of materiality. Section 3.1 provides a background to corporate financial reporting in South Africa in order to understand the complexities faced from a South African perspective with Section 3.2 detailing the importance of the integrated report. Section 3.3 describes the concept of materiality and Section 3.4 forms the initial links between institutional logics and the concept of materiality. An analysis of the materiality concept from different perspectives is carried out to form an expectation of the rationale underpinning materiality. Section 3.4.3 summarises the discussion. Section 4 addresses the research methodology used in this report. The findings are discussed at length in Section 5. Section 6 concludes and summarises the objectives of the research, key findings and closing remarks.

2. Institutional logics

2.1. Background to institutional logics

Institutional logics were introduced by Alford and Friedland (1985) to describe the inconsistent practices and beliefs in institutions. Institutional logics provide the organising principles for an institutional field (Friedland & Alford, 1991). They are the basis of taken-for-granted rules guiding behaviour of field-level participants, referred to as actors. Institutional logics aid in obtaining an understanding of the way individuals make sense of reality and provide a valuable insight into changes in ideas and practice (Edgley et al, 2015). Institutional logic highlights predominant belief systems which can be prepared and attributed to practices for legitimacy reasons. Thornton and Ocasio (1999) defined institutional logics as:

> *The socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality. (p. 803)*

Each of the institutional orders has a central logic which directs its underlying principles and provides social actors with purpose (Thornton & Ocasio, 2008). These central logics are influenced by individuals, organisations and society and are said to constrain both the means and ends of individual behaviour (Thornton & Ocasio, 2008). Individual and organisational actors are responsible for the shape and change in institutional logics (Thornton, 2004).The institutional logics approach is a useful tool which highlights how the cultural elements of institutions both enable and constrain social action (Thornton & Ocasio, 2008). The theoretical concept of institutional logics provides an analytical link between institutions at the macro structural level and individuals at the micro level (Friedland & Alford, 1991; Scott, 2000; Waldorff, 2013).

The institutional logics approach utilises a broad meta-theory on how institutions are able to shape and encourage change in individuals and organisations through an underlying logic. An institutional logics approach emphasizes how institutions provide social actors with a dependent set of social standards where behaviour is driven by a logic of appropriateness and not by a logic of consequences (Thornton & Ocasio, 2008). There can be conflicting logics which co-exist but these have been presented as a temporary phenomenon which is resolved through competition after which the organisational field reforms around the winning logic (Reay & Hinings, 2009).

Some theorists have suggested that cooperation of logics may be the reason for institutional change (as opposed to competing mechanisms) and they regard this as an important component of institutionalisation (Gray, 2000). Researchers explain institutional change as a movement from one dominant logic to another and, although other logics exist, it is the dominant logic that dictates behaviour (Reay & Hinings, 2009; Thornton, 2004). A change in concepts does not necessarily reflect a move from one dominant logic to another (Edgley et al, 2015). Competing logics create ambiguity and this explains why variations in practice develop (Lounsbury, 2008). The benefit of a logics approach lies in investigating how change is brought about by substituting or merging logics and how this affects the understanding of outcomes (Edgley et al, 2015).

2.2. The operationalisation of institutional logics

Accounting practices and concepts provide a relevant context for adding to the understanding of logics and change processes (Lounsbury, 2008). Logics have highlighted tensions between the values that accounting brings to a new context (Edgley et al, 2015). Logics can be mobilized as part of change processes (Waldorff, 2013). Thornton and Ocasio (2008) note that mechanisms for institutional change are not necessarily in competition but are in a combination of the effects of market selection pressures, power of institutional actors, and changes in the relative prevalence of societal-level institutional logics. Logics are said to compete and produce tensions rather than blend harmoniously (Thornton & Ocasio, 2008). Where there are incompatible, competing logics, it may be difficult to resolve tensions (Edgley et al, 2015). Three competing logics, identified by Edgley et al (2015), are market, professional and stakeholder logics.

Market, professional and stakeholder logics

A logics approach is relevant to this study because integrated reporting provides a rich setting for analysing the relationship between old and new logics in redefining materiality. Drawing on Edgley et al (2015), and central to the study, are three logics: a market logic, a professional logic and a stakeholder logic. A market logic is a shareholder's logic that is concerned with the accumulation and maintenance of material financial wealth (Friedland & Alford, 1991) which is important to investors and capital providers. It has been suggested by Edgley et al (2015) that a market logic is a logic that serves to protect shareholders from misleading information.

A professional logic is a logic adopted by auditors to perform financial audits. It is said to bridge the gap between government regulation and the market expectations (Edgley et al, 2015). A professional logic is deep-rooted in commerce and the public interest but is supposed to be independent of both. This logic supports professional guidance about financial audit and materiality practices for practitioners and is reflected in the duty that auditors have to shareholders as a group.

A stakeholder logic has arisen through the creation of sustainability reporting (Edgley et al, 2015). With the focus broadened to include both financial and non-financial information, the stakeholder logic challenges the ethics of capitalism and iterates the idea of social responsibility practices. Stakeholders include a wide variety of individuals and, as such, a 'stakeholder' logic is all encompassing (Edgley et al, 2015). Main stakeholders look for evidence of the impact of corporate social responsibility policies in SER. They have greater trust in company reports that adhere to the stakeholder-focused GRI and AccountAbility reporting standards (Dawkins & Ngunjiri, 2008).

Materiality logics in an integrated reporting context

The integrated report contains qualitative data and lacks a set of dominant benchmarks, such as net profit, to guide materiality decision-making which makes materiality decisions more subjective (IIRC, 2011a). This has resulted in the relationship between organisations involved in integrated reporting experiencing instability (Edgley et al, 2015). This institutional environment has the potential to create tensions between logics. Although a stakeholder logic is likely to be common amongst most preparers, it is anticipated that deviations in logics are likely to be observed between preparers and a hybrid-logic may be evolving (see Atkins & Maroun, 2015; de Villiers, 2003).

Preparers are likely to be indoctrinated with a market logic stemming from the traditional materiality concept. This would limit the preparers' capability to commit fully to the stakeholder logic and the preparers are, therefore, likely to be blending traditional logics that have shaped accounting materiality with a new stakeholder logic. It is suggested that these logics compete and shape understandings of materiality differently (Edgley et al, 2015; Simnett & Huggins, 2015).

For the purpose of this thesis, institutional logics are operationalised by examining how a stakeholder logic changes understandings of the concept of materiality with respect to the integrated report. It is possible that preparers' beliefs are influenced by a market logic due to the dominance of accounting and finance discourse (Atkins, Solomon, Norton, & Joseph, 2015). In preparing the integrated report, preparers must provide relevant and useful information to all stakeholders. They also have to consider the financial statements, which are audited, and they must remain aware of assuror requirements. The two different perspectives (shareholder and assuror) of a market logic on the development of materiality are not mutually exclusive (Edgley et al, 2015). The success of an entity is linked to its ability to attract financing and, by disclosing useful information, an entity exposes itself to increased pressure to deliver financial performance (Zhang & Andrew, 2014). As a result, it may be the case that, despite the emphasis on different types of capital transformations by the IIRC, preparers retain a traditional understanding of materiality founded on a market logic. The extent to which they accept a new, stakeholder logic is unclear. A stakeholder-based understanding of materiality considers the significant impacts of a company on the environment for a broad audience (Edgley et al, 2015). The study intends to question which logics influence the understanding of materiality amongst preparers of integrated reports. In order to do so, it is necessary to consider the South African corporate governance and reporting environment in more detail.

3. South African corporate governance and reporting

3.1. Historical context

Corporate reporting is seen as a social system (Harrison & McKinnon, 1986), a result of complex exchanges amongst the parties involved in or affected by the reporting requirements (Watts & Zimmerman, 1978). In order to understand what is at stake in the 'accounting endeavour', it is important to understand and study the process of accounting change (Hopwood, 1983).

South Africa's racist past and international, as well as local, corporate failures have allowed South Africa to become a crucible for corporate reporting, shaping the corporate setting (Maroun, Coldwell, & Segal, 2014). A brief overview of corporate reporting history in South Africa indicates that it has undergone a morphogenetic change, influenced by a stakeholder influence and the need for South Africa to legitimise itself in order to gain the confidence of foreign investors (Solomon & Maroun, 2012).

Prior to the first democratic government in 1994, South Africa experienced political and economic exclusion because of Apartheid, which resulted in South Africa relying almost exclusively on a self-regulatory system (Maroun et al, 2014). The relationship between shareholders and companies was mainly regulated by company law at this time. The release of Mandela saw South Africa reintroduced into the international arena (Maroun et al, 2014; Rossouw, Van der Watt, & Rossouw, 2002). With the election of the first democratic government in 1994, South Africa had to regain the trust of international investors and King-I was published (Rossouw et al, 2002).

King-I was the first formal code on corporate governance in South Africa and was the second formal code in the world. The adoption of King-I signalled South Africa's alignment with international standards and mirrored epitomes found in the Cadbury report (Maroun et al, 2014; Solomon, 2007). International investors still remained cautious after the first democratic elections and it was for this reason that most of South Africa's governance reform was, and still is, concentrated on gaining trust in its governance systems (Maroun et al, 2014). In 2002, King-II was released, focusing on the integration of sustainability into governance and reporting (Lamberton, 2005).

In 2003 a decision was made to adopt formally International Financial Reporting Standards (IASB, 2014), followed by the Companies Act 71 of 2008 legislating IFRS and corporate governance structures, to be in place for certain entities. SAICA also created a deadline for companies to move from SA GAAP to IFRS on the 1 December 2012 (SAICA, 2012). These developments were important for fortifying the country's image as a legitimate developing economy from international investors' perspective (Atkins & Maroun, 2015; Maroun et al, 2014). The changes also highlight the transformations in institutional logic from a market-focused approach to reporting to more stakeholder-centric models (as discussed in more detail in Section 3.2 and Section 3.3).

Corporate reporting has shifted from the classical financial statements to the more encompassing integrated report, mainly due to government reporting requirements and stakeholder pressure (Montabon et al, 2007). Conventional accounting neglects corporate sustainability issues (Burritt & Schaltegger, 2010) which has further prompted the need for an all-encompassing report. With the establishment of King-III during 2009, and subsequently with the Johannesburg Stock Exchange (JSE) requiring listed entities to apply King-III (in 2010), a focus on the need for more transparency and integration within financial reporting was engendered[2].

In 2010 South Africa became the first country to require listed companies to prepare an integrated report and is regarded as a forerunner internationally, in terms of the value of its auditing and other governance standards (Klaus Schwab, 2014). These developments of corporate reporting were important for fortifying the country's appearance as a legitimate developing economy in the eyes of international investors, mindful of the lingering effects of the country's racist past (Maroun et al, 2014). To further understand the concept of why the items of an integrated report are included, an understanding of the integrated report in a South

[2] The Johannesburg Stock Exchange (JSE) enforces integrated reporting across all listed companies through its listing requirements via compliance with the King-III Report, using a comply or explain approach (IOD, 2009; JSE, 2012; Solomon & Maroun, 2012)

African context is explored in Section 3.2. Thereafter, the report focuses on the concept of materiality with regards to the integrated report (Section 3.4).

3.2. Integrated reporting in South Africa

An integrated report is a single document which presents and explains a company's financial and non-financial information. In 2011, the world's first guidance for companies practising integrated reporting was issued, which King-III (2012) hopes will cause a domino effect globally (Eccles & Saltzman, 2011). It is said that changes in reporting, principally the shift from sustainability reporting to integrated reporting, may result in changes within the corporate community of South Africa (Solomon & Maroun, 2012). It is also believed that the integrated report is becoming the primary reporting vehicle, specifically in South Africa (Atkins & Maroun, 2015; Solomon & Maroun, 2012). A counter argument is that most disclosures create no real change (Deegan & Blomquist, 2006).

Integrated reporting has increased in popularity over the past few years due to the perception that environmental management practices are linked to the performance of the organisation (Montabon et al, 2007) and investors' concerns over the sustainability of organisations, this resulting in an increasing interest in non-financial information (Eccles & Saltzman, 2011). The perception is linked to Porter's (1991) "win-win" argument mentioned by Montabon et al (2007), by which organisations involved in environmental management practices can gain legitimacy and decrease costs. The popularity of the integrated report can also be attributed to the release of voluntary and international standards such as King-III and the GRI's reporting guidelines (Atkins & Maroun, 2015; Felix & Grimlund, 1977; Maroun et al, 2014).

With the support of the IIRC, World Wide Fund for Nature (WWF) and the Global Environmental Management Initiative (GEMI), organisations which disclose the effects of social, economic and environmental impacts are seen to be legitimate (Deegan & Blomquist, 2006). Organisations are deemed to be legitimate if there is congruence between the social values associated with or implied by their actions. In this way, an organisation choosing to provide an integrated report can gain legitimacy in the eyes of stakeholders (Deegan & Blomquist, 2006). The movement away from the market logic and adoption of the market logic highlights the change in societal norms and, as noted above, there is an increasing number of organisations which are supporting the integrated report and non-financial disclosures (Atkins & Maroun, 2015).

Visser (2005) mentions that legislative reform, such as the changes to the Companies Act and Johannesburg Stock Exchange (JSE) listing requirements, globalisation, codification of corporate governance and stakeholder activism all have an effect on the perceptions surrounding corporate reporting. The reasons behind disclosures of corporate social responsibility are to maintain perceptions or reflect corporate values. Research by GEMI, as mentioned by Montabon et al (2007), suggests that integrated reports are produced because of public reporting requirements, to maintain public relations and meet investor demands. Sustainability reporting may be observed to be an outcome of 'social constructivism' where the discourse within the accounts is prepared for rhetorical and political purposes (Solomon & Maroun, 2012). It is, therefore, difficult to pinpoint the reasoning behind the adoption of integrated reporting in South Africa and it is accepted that there are multiple forces behind the adoption (Solomon & Maroun, 2012). There is much evidence to suggest that an integrated report is aimed at stakeholders with the objective of managing perceptions and persuading stakeholders that organisations have shareholders' interests at heart, in line with a stakeholder logic (Dawkins & Ngunjiri, 2008; Solomon & Maroun, 2012).

Critical theorists, however, argue that corporate sustainability accounting is a fad and that it will disappear in time because methods used to record and disclose information relating to social and environmental impacts are not suitable. The methods are considered not suitable due to the subjective nature of the disclosures made in the integrated report (Burritt & Schaltegger, 2010). It is also suggested that integrated reporting may result in a failure to initiate decisive action against issues being reported and may mask a lack of progress, averting a crisis, misleading users (Lamberton, 2005). Concerns have been raised about the intention of sustainability accounting and it has been suggested that this type of reporting is being used as environmental propaganda to hide the reality of the environmental crisis (Atkins et al, 2015; Bommel, 2014; Lamberton, 2005). This is supported by the observation that integrated reporting can be used as a means to manage negative events and alleviate regulatory pressure by emphasising positive aspects and masking the negative (Dawkins & Ngunjiri, 2008). Highlighting that institutional logics do not necessarily result in best practice but rather on what is deemed, based on societal norms, to be most appropriate (Edgley et al, 2015; Thornton & Ocasio, 2008).

The implementation of mandated integrated reporting by the JSE, through compliance with King-III, is successful in incorporating non-financial information into the report but the repetition of information with different phrasing raises concerns about the information available and organisations' understanding as to the content required in the report (Solomon & Maroun, 2012). The increase in disclosure may be attributable to recent corporate failures. It was noted by Dawkins and Ngunjiri (2008) that one of the three reasons for integrated reporting is to maintain legitimacy in the eyes of stakeholders. Corporate failures attract criticism and, in an attempt to maintain and enhance perceptions, entities disclose more information (Dawkins & Ngunjiri, 2008). The variability in reports made by preparers has been noted and the fact that there is no set standard defining what is to be included in the report has been identified as a problem (Eccles & Saltzman, 2011; Montabon et al, 2007).

This links to the fact that there may be competing logics, namely the market logic and the stakeholder logic, which are responsible for variations in practice (Reay & Hinings, 2009). This matter is further exacerbated by the fact that integrated reporting is voluntary and only a listing requirement in South Africa. Other international markets, such as the European Union, are considering making certain disclosures, relating to socio-environmental issues, mandatory but there are concerns over comparability due to the lack of guidance and quality information available (Eccles & Saltzman, 2011). The IIRC and GRI have attempted to standardise the integrated report by releasing their interpretations of what should be disclosed, however, these serve only as basic guidance and may not be appropriate for constructing a truly integrated assessment of how organisations create sustainable returns (Eccles & Saltzman, 2011).

An integrated report is not a compendium of the financial statements and sustainability but rather an incorporation of material information allowing stakeholders to assess an entity's performance and its ability to create and sustain value (Solomon & Maroun, 2012; IIRC, 2013). Ideally the integrated report should show the relationship between the financial and non-financial information but this is uncommon (Eccles & Saltzman, 2011; Raemaekers, Maroun, & Padia, 2015). In accordance with IIRC (2013), an IR should depict the value creation around six capitals: financial, manufactured, intellectual, human, social and natural. This is not the only framework that provides guidance for preparing an IR: there are also the GRI and others that have led to an increase in variability with regards to IR's (Chewning & Higgs, 2002).

Increased costs of environmental operations and international standards have resulted in an increased importance placed upon selecting meaningful and effective measures for environmental performance (Montabon et al, 2007). Much of this is due to governmental reporting requirements (ibid.). Integration of social, environmental and ethical impacts in core sections is occurring in the IR (Solomon & Maroun, 2012) but given the interconnectedness inherent in the natural environment, it is not practicable to detect and report all human-related environmental impacts. Instead, impacts should rather be prioritised, dependant on significance and relativity with regards to stakeholders (Lamberton, 2005). The financial accounting concept of 'materiality' is, consequently, also relevant to the integrated report (Lamberton, 2005). As the content of integrated reports relies on materiality and the IIRC (2013) stress that only the most material information for decision making purposes is to be included in the report (Solomon & Maroun, 2012). As preparers choose whether to include information in the integrated report based on materiality questions around materiality begin to emerge, specifically how are the preparers determining whether information is material and should be included in the integrated report? This study intends to address this question and add to our knowledge about the values on which materiality is founded on and the values that shape the integrated report in South Africa.

3.3. The concept of materiality

Materiality is a “cornerstone” concept which determines if an item is important or not (Edgley et al, 2015) and is thought to have its origins in English common law dating to 1895 (Chewning & Higgs, 2002). ‘Materiality’ is generically defined as the relative importance of some piece of information to a user in the context of a decision to be made (Frishkoff, 1970).

The concept of materiality, traditionally, is founded on a market logic and is concerned with the importance of items relative to the users these being the shareholders. Materiality is a vague concept and has no set of rules in order to determine what information is or is not material (Edgley et al, 2015). Materiality is said to support the other concepts mentioned by IASB such as ‘understandability’, ‘relevance’ and ‘faithful representation’ (Edgley et al, 2015), however, the IFRS only mentions the concept of materiality in select standards such as the Conceptual Framework, IAS 1[3], IAS 8[4] and IFRS 8[5] (IASB, 2014). The IASB are currently working on a materiality standard as they have realised that the application of the concept of materiality in financial reporting is a source of disclosure issues (IFRS, 2014).

One such issue is the effectiveness of financial disclosures and disclosure overload (Chewning & Higgs, 2002). This is why the concept of materiality was created: to close the gap between what preparers want to disclose and what stakeholders require. Standard setters appear to be hesitant to set explicit guidelines for materiality, due to misapplication and abuse by preparers (Ibid). The abuse stems from preparers utilising materiality to justify manipulation of numbers and misapplications of standards (Chewning & Higgs, 2002; Patterson & Smith, 2003). To counter the abuse of the materiality, concept regulators, such as the Security Exchange Commission (SEC), announced new materiality guidelines in 1999 and ISA 320, a standard set to aid auditors in the determination of materiality, withdrew guidance on which percentages to use for specific items when calculating materiality (Chewning & Higgs, 2002; International Auditing and Assurance Standards Board (IAASB), 2009). The SEC states that the use of percentages and quantifying materiality is only the beginning of an analysis of

[3] IAS 1: Presentation of Financial Statements
[4] IAS 8: Accounting Policies, Changes in Accounting, Estimates and Errors
[5] IFRS 8: Operating Segments

materiality and it cannot be used as a substitute for a full analysis (Commission, 1999). In this context, ISA 320 refers to ‘materiality’ as defined in the IFRS and states that an item’s magnitude and nature should be taken into account (IAASB, 2009). The auditing profession, however, appears to set materiality in line with the cost of audit failure and is more concerned if there are material misstatements (Patterson & Smith, 2003).

The change in materiality standards was to promote more scepticism and avoid reliance on rules of thumb when determining “what is important” (Chewning & Higgs, 2002). Materiality is considered to be relative to the user and is contingent based on the nature and context of the item and it remains a matter of professional judgement (Chewning & Higgs, 2002). The variation in the adaption of the materiality concept seems to stem from the different logics involved and, without a definitive basis for determining or defining ‘materiality’ in an integrated reporting context , the understanding of what should be disclosed in an integrated report is entirely at the discretion of an entity’s management (Dawkins & Ngunjiri, 2008). The result is that the concept of ‘materiality’ has been adapted differently by preparers, auditors and stakeholders.

Materiality has been shaped mainly by two logics: a market and a professional logic (see Section 2.2) (Edgley et al, 2015). As described in Section 2.2, there appear to be different interpretations of materiality between each of the logics (Simnett & Huggins, 2015). Auditors are said to have a professional logic while shareholders have a market logic (Edgley et al, 2015). Preparers prepare integrated reports based on their perceptions of what society expects (Deegan & Blomquist, 2006). As society prefers reports that encompass corporate responsibility, social and environmental issues (Dawkins & Ngunjiri, 2008), it is implied that there is a new “stakeholder logic” influencing the concept of materiality and disclosures (Edgley et al, 2015).

3.4. A delineation of materiality in the integrated report

3.4.1. Materiality in the financial statements

In IFRS Materiality is defined as:

> *Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report (IASB, 2010, p. A23).*

The IASB identifies the primary users of the financial statements as existing and potential investors, lenders and other creditors (IASB, 2010, p. A18). With the focus of financial reporting being to meet the needs of capital and finance providers, most of the disclosures have the purpose of relaying useful information to them and less emphasis is placed on non-financial information (Zadek & Merme, 2003). The shareholders and capital providers are concerned with profitability and sustainability of an entity: this would result in financial statements being created with a focus on a market logic. Shareholders prefer forward looking information (Zhang & Andrew, 2014) and this further stresses an inherent focus on the protection of the stakeholders' investment, linking to the characteristics of a market logic.

3.4.2. Materiality in the auditing profession

The auditing profession follows a professional logic which bridges the gap between government regulation and the market expectations (Edgley et al, 2015). Auditors' guidance, with regards to materiality, differs substantially amongst firms (Chewning & Higgs, 2002). With auditors being employed by shareholders, one would expect auditors interpret 'materiality' in the same way as shareholders but auditors set materiality according to ISA 320 to mitigate risk of misstatement. ISA 320 places emphasis on the materiality described for financial reporting purposes only. IAS 320 states that auditors should use materiality, as described by IFRS, as a frame of reference in determining a materiality level or levels for the audit (IAASB, 2009).

ISA 320 states that an auditor should adhere to ISA 200[6] which requires the auditor to plan and perform the audit to reduce audit risk to an acceptably low level. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a result of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatement (IAASB, 2009). It has been suggested that auditors set materiality in proportion to the cost of audit failure (Patterson & Smith, 2003). Misstatement and the cost of audit failure are not what shareholders are concerned with, while many of the items overlap some areas are bound to be left out as auditors materiality may not coincide with the materiality of the users of the financial statements (Chewning & Higgs, 2002).

3.4.3. Materiality in the integrated report

Establishing materiality for financial risks is a difficult and complex task but materiality for non-financial risks, which are inherently difficult to quantify, is seen to be far more challenging

[6] ISA 200: Objective and General Principles Governing an Audit of Financial Statements

(Solomon & Maroun, 2012). In this sense, interpreting non-financial information is more difficult than analysing financial information. Adapting the concept of materiality, a concept rooted in financial reporting, into the IR has resulted in multiple conceptualisations of materiality by users, preparers and assurers (Edgley et al, 2015; Simnett & Huggins, 2015). Coupled with the different guidance available and a lack of a definitive means of determining what is and what is not material to the user, it is not unexpected that there are inconsistent disclosures and understandings made by preparers (Eccles et al, 2012).

It is suggested that the concept of sustainability is insufficiently understood by preparers and that any evaluation of social and environmental information being included in an integrated report is imperfect and basic. This has led to obfuscation in many integrated reports, of the 'real' situation as the disclosures are not indicative of the environment in which an entity operates (Burritt & Schaltegger, 2010 & Schaltegger, 2010). One argument, grounded in a market logic, is that the most important factor is the effect that an item has on income (Chewning & Higgs, 2002). If an item has no effect on income, it is not material and should not be disclosed. A purely quantitative method of determining materiality is, however, at odds with a stakeholder logic which requires qualitative factors, taking different financial and non-financial variables into consideration when determining materiality (Chewning & Higgs, 2002). For example, a market-logic derivative of materiality is not appropriate for capturing social and ecological impacts (Lamberton, 2005). Monetising social and ecological impacts would understate and misrepresent the significance of the underlying issues due to the poor quality of information gathered on the ecological and social issues by entities (Lamberton, 2005).

Sustainability-related information is especially difficult to collect and report (Solomon & Maroun, 2012) with concerns raised over the quality of the social and ecological information that is being disclosed due to internal controls and measurement systems not having the same quality as for financial information (Eccles & Saltzman, 2011). Capturing social and ecological impacts necessitates using a range of measurement tools to capture nature's diversity and the social aspect of sustainability. This makes assessing the accuracy of the information complicated (Lamberton, 2005). The differences in disclosure, as well as methods used to gather non-financial information, have also raised concerns over comparability of reports (Eccles & Saltzman, 2011).

Qualitative tools, such as narratives to describe an organisation's social and environmental impacts form a critical part of sustainability accounting (Lehman, 1995) but the decision to report on certain factors appears to be heavily influenced by legislation. For example, reports by JSE listed companies on diversity policies are said to be clearly influenced by BBBEE requirements in South Africa (Dawkins & Ngunjiri, 2008). Companies with a good reputation have more to lose when reporting negative information and appear to be more cautious when approaching corporate social responsibility reporting (Dawkins & Ngunjiri, 2008). Legislation is not the only factor influencing disclosure policies. Companies also need to manage stakeholder expectations (Morsing & Schultz, 2006; Perrini & Tencati, 2006).

Sachs, Post, and Preston (2002, p. 9) emphasize that 'the capacity of a firm to generate sustainable wealth over time, and hence its long-term value, is determined by its relationships with critical stakeholders' and 'any stakeholder relationship may be the most critical one at a particular time or on a particular issue'. However, as there is a lack of communication between preparers and stakeholders and preparers are adopting disclosure strategies based on their perceptions of what society expects the organisation to do, this results in organisations neglecting information regarding the negative impacts of their activities (Deegan & Blomquist, 2006). The market logic that preparers have can also be attributed to the lack of stakeholder communication. There is the perception that by meeting auditor requirements, stakeholder requirements are automatically met (Chewning & Higgs, 2002). This is not the case. While the perception is changing (Solomon & Maroun, 2012), integrated reporting remains a moving target and it is up to preparers to adapt to changes in stakeholder expectations to remain relevant (Morsing & Schultz, 2006). With the increased interest that stakeholders are showing in non-financial disclosures, there are likely to be competing logics (Atkins et al, 2015). Preparers have to shift from a market logic to a stakeholder logic in order to meet societal and stakeholder expectations (Edgley et al, 2015).

4. Research methodology

This chapter explains the chosen research method. Section 4.1 discusses the use of a qualitative methodology in this research. Section 4.2 explains why semi-structured interviews have been used to conduct this research. Section 4.3 explains how and why the sample was chosen. Section 4.5 to Section 4.7 lay out the data collection, data analysis procedures and limitations of this research respectively. Finally, Section 4.7 addresses the validity of this study.

4.1. Research methodology

There are various frameworks that can be used to aid in the preparation of an IR but the concept of materiality, within the IR, is vague and there are different perceptions of what constitutes 'material' information (Simnett & Huggins, 2015). These perceptions can be said to have arisen through the various logics that are competing and it appears that materiality is still relative to the user (Frishkoff, 1970).

In this context, this report utilises a qualitative research methodology. This is to aid in the development of an understanding and highlight the interpersonal and social construction of everyday decisions and actions with respect to materiality (Creswell, 2013; Holland, 1998). The chosen method is designed to provide detailed insights into the understanding of the concept of materiality within the IR (Edgley et al, 2015). The research provides results that are understandable and not far removed from the interests of the profession and practitioners (Parker, Guthrie, & Linacre, 2011). This methodology also offers the possibility of deeper insights into the issue than would have been possible in a quantitative study (Holland, 1998; O'Dwyer, Owen, & Unerman, 2011).

With the assumption that individuals understand the world differently and multiple beliefs about concepts may exist, an interpretive approach to investigating preparer understandings of materiality was adopted (Simnett & Huggins, 2015; Thornton & Ocasio, 2008). Rather than just describing a relationship this research contributes to the improvement of corporate financial reporting disclosure as a whole (Leedy & Ormrod, 2010; Parker et al, 2011). It is hoped that the conclusions reached in this study can be used as a basis for future research and to assist preparers with disclosure policies.

4.2. Research design

This research used semi-structured interviews. The interview questions were open-ended which allowed interviewees to highlight what they perceive to be relevant issues (Alvesson, 2003). This was beneficial as it allowed the interviewees to provide a detailed account of experiences, knowledge, ideas and impressions that were considered and documented (Alvesson, 2003; Holland, 1998). This also allowed interviewees to interpret and discuss the matter freely (Holland, 2005).

A pilot interview was conducted with an industry expert before the full study began. This was done to ensure that the questions posed during the interview were clear and adequately addressed the research question (O'Dwyer et al, 2011; Rowley, 2012). The pilot study was done with the objective of improving the interview agenda and all necessary changes that emerged from the pilot interview were appropriately addressed before the commencement of the full study[7] (Rowley, 2012). None of the data collected from the pilot interview were used in compiling the findings of this report and the pilot study was done to increase the validity of the research conducted (see Section 4.8).

Other research instruments (such as questionnaires) were considered but were not used for a number of reasons. Although questionnaires may gather information from a much larger sample set, facilitating generalisations, they often have poor response rates. Questionnaires do not allow the researcher to obtain the deep insight required to understand the subtleties of the topic at hand (Rowley, 2012). Furthermore, generalisation of the findings is not the purpose of this study. As noted in Section 4.3, this study aims to use a limited sample of purposefully selected preparers to provide a detailed account of preparer's understandings of materiality within integrated reporting (Rowley, 2012).

4.3. Selection of interviewees

Purposeful sampling was used for the selection of interviewees (Creswell, 2013; Rowley, 2012). Although purposive sampling may introduce bias, it has the benefit of ensuring that the participants chosen were able to provide the researcher with the insights required to answer the research question (Alvesson, 2003; Rowley, 2012).

The interviewees selected are the preparers of integrated reports of JSE listed entities. JSE listed entities are required by listing requirements to prepare an integrated report and it can be concluded that the preparers should have the adequate experience in preparing an integrated report. This report focuses of the preparers only because disclosure of non-financial information, unless required by legislation, is at the discretion of preparers (Chewning & Higgs,

[7] The questions were altered and amended. Certain questions were excluded from the original interview agenda and were used if they were relevant. Questions were reworded to reduce confusion during the interview and to ensure that the questions asked addressed the issue appropriately.

2002; Dawkins & Ngunjiri, 2008). While the importance of stakeholders is noted, stakeholders cannot dictate what should be in the report.

In an attempt to ensure that the data collected was not skewed, interviewees were selected from the EY Excellence in Integrated Reporting Awards 2014[8]. They were selected from the Top 10, Excellent, Good, Average and Progress to be made categories. This was done to obtain a spread of "quality" amongst the interviewees. It should be noted that lower categorised preparers had a lower response rate but this did not seem to affect the findings (see Section 5).

Although (Rowley, 2012) recommends 8 to 12 interviews, a total of 20 interviews were done[9] ranging between 45 to 90 minutes. This was done to ensure that conceptual saturation was attained[10]. The length of these interviews was appropriate in that it led to sufficient data being obtained to generate worthwhile findings (O'Dwyer et al, 2011; Rowley, 2012). It is important to note that relatively small sample sizes are an inherent characteristic of qualitative research (Rowley, 2012). The intent in qualitative research is not to generalise the information but to explore a problem, in-depth, and offer insight (Creswell, 2013; Leedy & Ormrod, 2010). As such a small sample size is a core feature of qualitative research (Ryan, Scapens, & Theobald, 2002)

4.4. The research instrument

Semi-structured interviews were conducted to allow individuals to express themselves in their own words. Follow up questions were asked where appropriate. To retain an exploratory focus, general questions regarding materiality were asked (see Appendix A) which formed a discreet section within a wider study of integrated reporting. Interviewees were asked open-ended questions about: (1) the reasoning for preparing an integrated report; (2) what role guidance plays when preparing an IR; (3) how they approach disclosures in the IR, their understanding of the role of materiality; (4) how this differs from financial reporting; (5) how they have adapted materiality to their business; and (6) the impact of their stakeholders on the integrated report and materiality.

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8 The EY Excellence in Integrated Reporting Awards is a survey of integrated reports of South Africa's top 100 JSE-listed companies. They are benchmarked using a process to give entities the opportunity to obtain independent input about the quality of their integrated report (EY, 2014)

9 Conceptual saturation was achieved after the 14th interview had taken place. Additional interviews were done to ensure that no new themes emerged and to add to the validity of this research.

10 During this thesis's presentation to the School of Accountancy's subcommittee of the Higher Degrees Committee of the University of the Witwatersrand, it was suggested that more than 12 interviews may be required before conceptual saturation.

Interview questions were derived from prior literature on materiality in financial reporting and the corporate financial reporting literature on the integrated report, as well as prior literature on the concept of materiality (Chewning & Higgs, 2002; Craig & Michaela, 1997; Messier Jr, Martinov-Bennie, & Eilifsen, 2005; Zadek & Merme, 2003). Additional secondary data sources regarding materiality were obtained from professional guidance such as IFRS, SEC, GRI and AccountAbility (see Section 3.4). Questions were indirect, allowing underlying themes and concepts to be explored while avoiding imposing the researcher's own views on the interviewees (O'Dwyer et al, 2011).

4.5. Data collection

The selected interviewees were contacted by e-mail or telephone. The nature and purpose of the study was explained to the interviewees and their involvement in the study was requested. Interviewees were informed that the interviews would be conducted and reported on an anonymous basis. An appropriate date and time was set for the interview with the majority of the interviews taking place at the interviewees' offices. The interview agenda (see Appendix A) was made available to the interviewees prior to the interview to ensure that they were informed and could provide sufficient information in their responses (adapted from O'Dwyer et al (2011)).

Before the commencement of the interview, permission to record the interview was requested. The purpose of recording the interview was merely to ensure the accuracy of the interview and to enable the interviewer to explore issues arising more fully without being constrained by having to take detailed notes (Creswell, 2013; Leedy & Ormrod, 2010; Rowley, 2012; Ryan et al, 2002). This was explained to interviewees while requesting permission to record. Recording the interview allowed the researcher to save time and made the interviewees more comfortable during the interview process (Rowley, 2012). At the beginning of each interview, interviewees were reassured that they will remain anonymous and the interviewees were made aware that if they do not wish to answer any question, they may decline. The interview was guided by the themes included in the interview agenda and attention was given to not going off course to ensure the consistency of the content covered amongst the interviews. This allowed the interviewer to pursue emerging themes in the various interviews (O'Dwyer et al, 2011). Although the sequence in which the issues were discussed differed in each interview, the same themes were addressed in each session (O'Dwyer et al, 2011)).

Shortly after each interview, a discussion ensued between the researcher and supervisor where reflections were made and issues for probing in subsequent interviews were noted. These were also recorded and used as part of the data analysis process (see Section 4.6).

After the interview had been conducted, the researcher listened to the audio recording. Any important points were noted, as well as any practical details that may have affected subsequent details. These notes were compared to the discussions between the researcher and the supervisor to ensure consistency and to note discrepancies to be followed up. The recordings of the interviews were then transcribed using NCH Express Scribe Transcription Software. The transcriptions were kept, both logically and physically, secure to ensure confidentiality. Interviewees were notified that they could obtain a transcript of the interview on request and that they were free to make any amendments to the transcript should they feel it necessary (Rowley, 2012).

4.6. Data analysis and interpretation

Data analysis and interpretation was inspired by institutional logics. A grounded theory approach was utilised that involved an iterative process (Rowley, 2012) with the researcher identifying themes from the analysis of transcriptions and reanalysing transcripts for new themes. Transcripts produced from interviews were analysed using a formal process of data reduction, data display, and conclusion drawing and verification (Creswell, 2013; Rowley, 2012).

A detailed reading of all transcripts and notes resulted in identification of key themes which were most frequently highlighted by interviewees. These themes were then compared to the initial discussions regarding the interview to ensure consistency and validity. The data were then codified into categories and themes that relate to the research question which aided in the analysis (Leedy & Ormrod, 2010; Rowley, 2012). This assisted in structuring the findings and informed the presentation of results in Chapter 5. Further readings of the transcripts took place until a sufficient level of conceptual saturation and familiarity with the content was obtained (Creswell, 2013). Collated data and initial notes were compared to understandings obtained from the literature relating to definitions of materiality, sources of guidance followed, beliefs about its role and relevance, practices and user information needs. The data were then analysed further using an institutional logics framework (see Section 2.2).

Logics were identified through an iterative process of reading and interpreting statements made by the interviewees with a focus on comments accepting, rejecting or blending the three logics discussed in Section 2. The rationales for given practices were also identified (Thornton & Ocasio, 2008).

The statements were compared to logics identified in prior literature; the market, professional and stakeholder logic (Edgley et al, 2015), to consider whether the interviewees embodied these logics. Through this process it was considered if these logics are competing or a hybridisation of logics is occurring due to pressure from the reporting environment and society as a whole (Atkins et al, 2015; Lounsbury, 2008). Contradictions and disagreements made by or between interviewees were noted and further analysis of the contradiction was done in order to gain a more complete picture. Contradictions identified were evaluated and follow-up interviews with selected interviewees were held as necessary (Leedy & Ormrod, 2010). This process was followed in order to present findings under headings that reflect the main themes which have guided the analysis and to present it in a meaningful way that is easily understood by a reader (Rowley, 2012)

4.7. Limitations of the study

One of the major limitations of the current study is the absence of multiple stakeholder views about materiality. This study does not intend to compare different views from various stakeholder groups but rather to focus on the considerations made by preparers. This study focuses on only one jurisdiction (see Section 1) but the theoretical approach makes the findings broadly applicable.

Due to the qualitative research methodology there is an inherent limitation that the findings of this study will not be easily generalised, but the aim of this research is not to generalise findings, extrapolate results or achieve a measure of statistical consensus (Creswell, 2013). The data collected may not be representative of the population studied but will instead be utilised to explore the research question further and highlight areas for future research (Holland, 1998; Leedy & Ormrod, 2010). The findings can be affected by the fact that the sample of interviewees engaged are the largest listed companies (see Section 4.3). However, the principles identified can be used for all companies due to the conceptual approach used in this study. . A further limitation of this study is the unavoidable risk that interviewees will provide rehearsed responses or give commentary that is modified due to social pressures, such as the need to remain consistent with the views of their employer organisation (Alvesson, 2003). Nevertheless, safeguards were introduced to mitigate this risk (Section 4.8) and the candid discussion with most interviews, coupled with often critical views on the processes involved to prepare an integrated report (see Section 5), suggest that these validity and reliability measures reduced the risk of modified responses.

4.8. Validity and reliability

Quantitative and qualitative research place different levels of importance on validity (Leedy & Ormrod, 2010). As this study is qualitative, internal validity is of little importance (Creswell,

2013) but contextual validity is relevant (Ryan et al, 2002). To incorporate contextual validity, this study incorporates the following techniques; Interviews are of appropriate length, which allowed interviewees to generate complete descriptions of the issue so this ensures that sufficient evidence is collected on each issue to allow the data to be triangulated (Leedy & Ormrod, 2010; Ryan et al, 2002)[11]. This can be seen from the fact that sufficient information was obtained from the interviews conducted to explore the various types of logics preparers have and to provide multiple corroborations of the different approaches to materiality.

Validity was incorporated into the interview process itself. By interviewing suitably experienced and knowledgeable interviewees, the quality of responses is improved (Rowley, 2012)(see Section 4.3). The interview agenda was derived following an extensive review of the literature. A pilot study was done to improve the interview agenda and to ensure it would stimulate appropriate responses which could be used to answer the research question (see Section 4.2). Open-ended questions were asked to reduce the risk of rehearsed responses (Alvesson, 2003). Finally, at the commencement of each interview an explanation of the purpose of the interview and an emphasis on the point that the results of the interviews were to be used for academic purposes only was communicated to the interviewee. Respondent validation was achieved by following up with respondents and sending them transcripts of their interviews for review (Leedy & Ormrod, 2010; Rowley, 2012). After each interview debriefing sessions were held between the researcher and the supervisor and these were compared to the findings as a validity check. Preliminary findings of this research were piloted with a panel of reporting experts at the Independent Regulatory Board for Auditors (IRBA) on 10 October 2015 as a reasonability check.

A comprehensive research design was followed and all data from interviews and analysis of this data was documented to maintain procedural reliability (see Section 4.6) (Ryan et al, 2002). Through the use of semi-structured interviews, a focus on the research question was maintained and validity of the findings of this study ensured (Leedy & Ormrod, 2010; Rowley, 2012). Although the use of interviews can result in biased or subjective findings , this is an inherent characteristic of qualitative research and not, in itself, a threat to validity and reliability (Creswell, 2013).

Finally, ethics clearance was obtained from the University of the Witwatersrand before the commencement of the interviews. Before the commencement, permission to record as well as the interviewee's rights were explained to the interviewee. With the objective of obtaining complete and honest responses, the researcher informed interviewees that all responses

[11] This was confirmed by the fact that 'saturation' of responses resulted after the 10th interview.

would remain anonymous (see Section 4.5). Any quoted answers which could indicate the identity of respondents were sanitised through either paraphrasing or amending, with changes clearly indicated. Participants were also interviewed in comfortable environments where they were able to stop the interview at any time should they wish (Creswell, 2013). No material threats to research ethics were noted during the study.

5. Findings

This chapter contains an analysis of the detailed interviews conducted. The analysis highlights the different logics, as mentioned in prior literature, evident when determining materiality. The interviewees provided evidence to support the emergence of a responsible investment logic as mentioned by Atkins et al (2015). Evidence suggests that the long-standing finance logic, otherwise known as market logic, is diminishing but is still evident in the majority of the reports (Atkins & Maroun, 2015; Edgley et al, 2015). The findings are discussed below in Section 5.1, Preparer understanding of materiality within the integrated report, the different groups of preparers identified are separated and addressed in Section 5.1.1 to Section 5.1.3.

5.1. Preparer understanding of materiality within the integrated report

Preparers were questioned about their reasons for preparing an integrated report (IR) and their understanding of materiality within the context of IR. They shared their views on the relevance of integrated reporting, how material issues are identified and how the concept of materiality in an IR is different from the guidance provided by IFRS for preparing financial statements.

Companies primarily listed on the JSE are required to prepare an IR (IOD, 2009). All interviewees understood this requirement. However, it became apparent that there were different schools of thought with regards to preparers' understanding of materiality. Common themes were identified and three groups of preparers emerged[12] . The three groups are: (1) The compliance preparer, (2) the stakeholder-aware preparer and the (3) integrated and interpretive preparer. The three groups are discussed.

[12] The identification of these groups was an iterative process requiring the researcher to move between interview transcripts and the prior literature as the data collection and analysis phase took place (see Section 4.6). The groupings were determined after the 14th interview and were not significantly modified by findings from the remaining six interviews suggesting that all relevant information was taken into consideration when developing the groupings. In addition, the final groupings were piloted with a panel of reporting experts at the IRBA on 10 October 2015 as a validity.

5.1.1. The compliance preparer

Understanding of the IR and reference to frameworks

The compliance preparer is very focused on regulation and prepares an IR primarily to meet the JSE listing requirements. While all the preparers are aware of these requirements, the compliance preparers feel that they have no other choice but to prepare an integrated report.

> *Do we have a choice? The real reason why we prepare an integrated report is because we have to… It is quite difficult to prepare an integrated report … That is why we prepare the integrated report; it is more of a must. (R7)*

These respondents also felt that the preparation of the integrated report is a difficult and costly exercise which may not reflect the value provided to the users:

> *You need time [to complete an IR] and it's* ***not conspicuously value adding to a company****. It* ***is a luxury*** *in that sense and I think companies need to have the time, the capacity and the man-power to prepare an integrated report. (R13, emphasis added)*

The difficulty experienced stems from a lack of understanding of the six capitals and how to apply them to their business. Compliance preparers were unanimous that an integrated report yields little or no direct benefit to the organisation and, as a result, they interpret their reporting environment as a purely regulatory one where the main concern is providing comprehensive disclosure. The companies falling into this category were often concerned with winning integrated or sustainability reporting awards and being able to demonstrate that they are the best corporate reporters which they define as the best compliers in terms of a given framework. For example:

> *We kick off the meeting right, we meet up with our auditors and with the different departments to discuss the integrated report going forward this year. We check the EY integrated awards who won what, who are in the top ten. We want to be in the top ten and that is the aim for this year. We discuss areas of improvements by looking at what people have done last year, those who won. (R16)*

Compliance preparers often approach the IR as a "checklist" exercise. They interpret King-III, GRI, the IIRC frameworks not as conceptual frameworks and principles but as rules and regulations which automatically ensure that useful information is provided to their users.

> *Sometimes it's* ***just easier if it's just a checklist****, with King-III you have got a checklist and* ***you can tick it and say you comply or you don't comply.*** *(R12, emphasis added)*

> *We have been using the IIRC's discussion document much more this year than we used it in the past, when we tried to find material issues and address those material issues. We also* ***tick off the GRI.*** *(R7, emphasis added)*

There was little evidence of interpretation of reporting principles by integrated teams to ensure that the IR provides a holistic account of the value creation process, as recommended by the IIRC (2013). Instead compliance-focused preparers are concerned with meeting minimum disclosure requirements in 'terms of relevant statutes' (R7). Drawing heavily on a professional logic, compliance preparers focus on rules of thumb and regulations when preparing their integrated report as highlighted by frequent references to 'checklists', 'ticking off disclosures' and ensuring 'compliance' with different reporting 'prescriptions' or 'rules' (cf. Edgley et al, 2015).

Interestingly, these companies frequently ranked well in terms of the local reporting awards, including, for example, the EY excellence awards. This is probably because of the fact that they understand that certain information needs to be included in the IR, such as reference to the 6 capitals (IIRC, 2013). In keeping with a focus on compliance, the companies frequently engage experts to develop comprehensive disclosure checklists which address each major issue or theme found in the relevant reporting guidelines: One consultant explained how these checklists are constructed:

> *We will have a kick start meeting; **we will develop a framework** using data sources that they've given us… I have always **based everything on GRI**… I know all the GRI indicators and then you've got the sector supplements. I will ask them why these things matter and why they think they are material and then you ask who is accountable for it and how far is it managed because if something is very important to a company then it needs be managed and then if it's important enough to report then you should say how you are managing it and I think people **sometimes just lose that because they feel it's like ticking a box** but if it really is important then you want to prove that you've got it. (R11, emphasis added)*

For compliance-focused preparers the preparation of the IR is a regulatory exercise only and not part of an integrated approach to business management. As a result, the task of either preparing the report (or determining the main issues to be included in the document) is often outsourced because the preparers feel that the IR is not part of the daily management of the organisation and is beyond their areas of expertise (R12; R14). This is consistent with a commonly-held view of the IR as a marketing tool which is best left to consultants specialising in these activities.

> *So historically the main use we have had from the document is ironically because our marketing department takes sections of it and uses it in other publications. So we do a lot of work and it's quite a thick document and then we get comfortable with it and we publish it and then we use that and extracts of it. (R7)*

> *I don't think it is wrong. Internally I call the integrated report a marketing document where it is a nice, little tool that tells the story of you as an organisation. I don't mean that it's only the good story because it's not, it's finding the balance between it. (R6)*

Some of these IR's address each of the main issues recommended by King-III and the IIRC and can rank well on lists of good reports (such as those prepared by EY). The compliance preparers do not, however, see the IR as an important tool for managing the business, promoting self-reflection and giving stakeholders insights into how the business model depends on different capital transformations to generate value. The emphasis on addressing the requirements of the IIRC, King-III and GRI often results in repetition and creating an outward display of legitimacy while there is little evidence of internalisation of the potential value of process of preparing a truly integrated report.

Stakeholder identification and engagement

The team involved in the preparation of the IR usually consists of two main members: the CFO and company secretary or investor relations. The latter are responsible for the collection of all the data and, with help from either a marketing department or consultant, the preparation of the IR. Compliance preparers place emphasis on the shareholder when preparing an IR and the management of financial capital because of a deeply held finance logic (Atkins & Maroun, 2015).

> *We use the integrated report to show shareholders that we don't waste their money, how we keep costs as low as possible and the opportunities we have taken to increase their return. (R12)*

The compliance preparer de-emphasises the relevance of stakeholders because of the importance they place on meeting analyst and investor expectations.

> *Our experience in the past has indicated that few of the investors have read [the non-financial sections of the IR]…I've never had any indication of [other stakeholders] having read the integrated report… [For example], I think customers go a lot more on brand and I assume that if there was something wrong they would've read about in the newspaper. (R7)*

The de-emphasis of the stakeholders in favour of a shareholder-centric approach to reporting is indicative of a finance logic because compliance preparers are more concerned about the providers of capital and focus on financial performance rather than long-term sustainability (cf. Edgley et al, 2015). However, it can also be said to be a result of their compliance mentality as they focus on the IIRC's framework which mentions that the main stakeholders are the providers of financial capital (R3; R4; R7; R8; R12; R15). In focusing on the shareholders the compliance preparer also ensures adherence to the Companies Act no 71 of 2008 by complying with their fiduciary duties. One of the fiduciary duties is the duty to exercise their powers for the proper purpose, to act bona fide in the interests of the company and in a manner in which he/she conceives to be for the benefit of the company as a whole (Companies Act, 2008, s76(2)). This further evidences elements of the professional logic embodied by compliance preparers[13].

They often underplay the importance of the IR because they see it as a compliance and regulation exercise which adds no value in its own right. As a result, they have little engagement with their stakeholders. Where they do have stakeholder engagement, it is focused on investors and done in the form of roadshows and analyst presentations. At these sessions, the IR's are not circulated because the preparers believe 'it is too big' or their 'investors will not read it' (R7; R8; R12). Instead they hand out summarised financial statements. This reaffirms a central finance logic which emphasises the importance of financial performance, notwithstanding the efforts of the IIRC and King-III to promote an awareness of the importance of other capitals for generating sustainable returns (cf Atkins and Maroun, 2015).

> *We have a lot of contact with them [the investor community] generally much more on the results as per say, the roadshows… So we talk to our investors literally all the time. We don't push the integrated report. If we are going to hand something out, it would be the summarized results which are released at the time of our results… which is much easier to read. (R7)*

For other stakeholders, compliance preparers usually have an internal process of identification which is performed by a small group of staff (often the Financial Director in consultation with investor relations). When pressed by the researcher, compliance-focused preparers could offer few substantive methods for determining how they identify stakeholders and ensure that their list of stakeholders is complete. In keeping with a professional logic (which stresses the importance of compliance with generally-accepted codes of best practice (cf Edgley et al, 2015), preparers referred to 'common sense' (R12; R15), 'rules of thumb' (R7; R8) or lists of stakeholders in reporting guidelines (R12). There was no indication of these organisations using a systematic approach to test the reasonableness of their lists of stakeholders or of physical engagement with stakeholders, other than the main investors, to identify their reporting needs or of a formal method used to identify stakeholders. It should, however, be noted that these reporters also received little feedback from their stakeholders on the IR.

> *In the last 5 years … I haven't had one request on my integrated report from shareholders so I think that speaks for itself. (R12)*

The lack of stakeholder feedback may indicate that their IR simply does not communicate the issues that their stakeholders are actually interested in (cf Atkins & Maroun, 2015). However, the compliance preparers utilise the fact that there is no stakeholder engagement as evidence

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[13] The professional logic evident in compliance preparers was not unexpected because many of the compliance preparers have a professional accounting background (R3; R7; R8; R12).

to support their claim that the IR adds little to no value for the shareholders and is unimportant for the organisation as a whole (R7; R8; R12; R15).

In this way, the compliance-focused preparer concentrates almost exclusively on the current and future providers of financial capital, as recommended by the IASB (2010). This is fully in line with a finance logic described by Atkins et al (2015). There is also evidence of a strong professional logic. Most reporting teams are led by staff with an accounting/finance background (as discussed above). They interpret the IR framework as a type of regulation or disclosure checklist with which they must comply in order to produce useful integrated reports. In this way, we have a compliance-type logic which incorporates features of professional and finance logics characterised by a financial-orientation of corporate reporting and reduction of the IR process to a regulatory one which has little intrinsic value.

Interpretation of Materiality

In determining materiality, compliance preparers follow an internal process similar to the one they use for stakeholder identification. They have meetings and discuss issues experienced by the firm which they want to disclose in their IR:

> *We've actually got a Reporting Materiality Committee that has been meeting from about January. Which are the internal stakeholders representing various parts of the business. So executive assistants to the CEO's of the various business divisions, various CFO's, also myself representing Investor Relations, obviously Marketing who are driving the content of the report, people who are looking after the sustainable side of the business. (R8)*

Interviews falling in the identified compliance category state that they incorporate views obtained from analysts and through the internal meetings with different divisions or operating units. However, the ultimate decision of what is included in the IR is left to senior management who are ultimately responsible for any disclosures.

> *So into that process [referring to the determination of materiality] we put a lot of the interactions that we've had with the analyst community. We make notes of the sort of key issues that we have been discussing in the various meetings and that feeds into the process. We narrowed down and consider what the material issues were and we send them up to more senior management. (R7)*

Compliance preparers understand that determining materiality for the IR is not a quantitative exercise and that disclosures in the IR are more the ‘soft side’ of reporting (R6; R7; R8; R12) but there are elements of a professional logic which interprets the IIRC’s recommendation of disclosing how an organisation develops a materiality threshold as a regulatory one which is inextricably linked to financial performance and providing reassurance to shareholders:

> *Materiality isn't a numbers thing for us. Say for instance, now with the economic downturn, that's going to be a question for every shareholder. That's material for us and disclosing it in our IR is how we can provide assurance to that shareholder. (R12)*

> *Materiality is quite a difficult thing for integrated reporting because integrated reporting to me is more your soft side of the business. I can't say that when you go and talk to someone then this is how you address them and this is how you talk to them and that will make you a good corporate citizen. I* ***think it's the confidence that you actually have in your shareholders****. (R12)*

In keeping with the finance logic and shareholder-centric approach to reporting, information in the IR is material if it can be quantified and has a direct (or easy-to-understand) financial link which could influence investors' decisions:

> *I think materiality is more a financial driven thing. I guess if it's number of litres of water, for example, for assurance for integrated reporting then it's important but I think things like that will also pull through into your financial reporting as well. (R12)*

> *Some people are happy with the financial numbers, they are happy with the financial indicators so they are happy to talk to the financial story. In our strategy we said that ROE is the be-all and end-all of our performance. If we can grow ROE then we've got a long term approach. (R6)*

> *Our experience in the past has indicated that very few of the investors have read it [the integrated report]. At this point we haven't really handed it out to investors on the road, sometimes we know they have read it but they probably look at the rest of the website that read this report. (R7)*

The compliance preparers have a binary approach to disclosure because of their compliance logic and narrow shareholder focus which influences how they understand materiality:

> *In strategic issues, integrated reporting and what the business is about, I guess it is a case of either the thing is material or it is not and it is kind of hard to define. I can't say we have kind of said something is an issue but is not material. If it's not material, it's not an issue. (R7)*

The respondents elaborated on this view. They explained that, in terms of IFRS and auditing standards, determining materiality is a very quantitative exercise based heavily 'on rules of thumb' (Chewning & Higgs, 2002). Here the rule of thumb is not a quantitative measure, such as 10% of profit before tax. The inherent difficulty of quantifying the 'value' of certain non-financial indicators means that focus is on providing high or low disclosure based on a given framework while ensuring sufficient reporting to claim compliance (R12; R15). In keeping with a market logic, the best indicator of whether an item or transaction is material is if it has a direct financial impact which would affect investors' capital allocation decisions (R17; R12; R15). Consistent with the compliance logic, compliance-focused interviewees suggested that information is material if it is referred to by any reporting framework or applicable law or regulation. This has the consequence of long IR's with excessive disclosure to meet all the frameworks and regulations (cf Atkins & Maroun, 2015).

5.1.2. The stakeholder-aware preparer

Understanding of the IR and reference to frameworks

The stakeholder-aware preparer understands the JSE's requirement to prepare an integrated report and, similar to the compliance logic discussed in Section 5.1.1, the main reason for preparing the report is to meet the listing requirement. However, in contrast to the compliance preparers, they recognise that the IR is not only for the provider of financial capital and that it adds value for a wide group of stakeholders.

> *There is the JSE in terms of listing, in terms of how they see integrated reporting. We have also taken a step back and said **beyond just compliance** I think is **real value** in demonstrating our level of responsibility and accountability to **stakeholders**. So **beyond what the law requires** in terms of environmental stewardship and social responsibility from a reputational perspective, it's **good to do it.** (R4, emphasis added)*

They embody elements of the compliance logic because there is still a financial focus where they are concerned about financial capital, capital returns and laws and regulations (R3; R4; R6; R9; R10) but they are also mindful of the fact that the integrated report can be used to manage stakeholder expectations and that they need to include information that the stakeholders believe affects the company.

> *At the bottom of all that or the core of integrated reporting, it is really, in my view, information management and the reason I say that is because if I'm going to build a plant and if you look at how we are expected to report on integrated reporting, it is about your business model, the value chain: you want to know what the inputs are, the process and the outputs. (R4)*

> *We know it's supposed to be for providers of capital and for regulatory purposes but we feel quite strongly that you go through all of this work and all of this effort and you're looking at an integrated fashion of how you look at your stakeholders so we still like to use this, I don't want to say marketing tool, but an integrated report lasts an entire year. (R9)*

This is not necessarily impression management but rather an indication of entities reporting on the information because of the provisions of relevant laws and regulations and in response to stakeholders' expectations. This indicates that they are concerned with how their stakeholders view the company and are attempting to meet their expectations in terms of disclosure (cf Atkins et al, 2015). This evidences elements of the market logic as the stakeholder-aware preparer understands that there is value in preparing an IR in addition to demonstrating compliance with regulation (see Section 5.1.1).

The stakeholder-aware preparer thinks that compliance with GRI and the IIRC is important but it is not a primary issue. They have attempted to interpret the frameworks and apply the principles to their business, either through an internal process or with the help of an industry expert (R3; R4; R9; R10). They concede that preparing their first sets of IR's was challenging and that they relied heavily on the frameworks to address minimum disclosure requirements. The reporting process has, however, become more mature with several interviewees commenting that they rely less on the frameworks as a type of disclosure checklist. For example:

> *In the beginning we needed a little bit of help to get our grounding [in integrated reporting]. We grew, matured and developed in this whole process. After a process of learning we were able to depart from the framework, embellish and guide ourselves on how we can go further and have assurance in our hearts that we are reporting accurately and transparently, and what is necessary. (R3)*

As a result of the internalisation of the principles and concepts found in the relevant frameworks, preparers explained that they experienced fewer difficulties when deciding what information to include in the IR. In particular, they are starting to use the various frameworks as guidance to prepare an IR rather than interpreting them as disclosure checklists or rules.

> *We used the IIRC's framework as a guide and we use the business model that they propose conceptually, the ideas and the principles in the IIRC's framework, we use that as far as possible but not perfectly. It is definitely helpful. So we are letting ourselves be guided by that. (R3)*

As a result, their IR's are often shorter than those prepared under a compliance logic (cf. Atkins & Maroun, 2015). Ironically the stakeholder-aware preparers do not necessarily score as well as the compliance preparers in local integrated reporting awards even though they provide evidence of the interpretation and application of the frameworks. This may be because their interpretation process is evolving as many of them raise concerns about the challenges of "integrated thinking" and the IR[14].

> *I think the other thing that I would like to challenge the IIRC on is, when we think about these things conceptually they make sense but, practically, you also have to say, what degree of integration are we talking about? What degree of integration makes sense? Do we really have to integrate everything? Because running a business, you are running a business in a very dynamic and volatile environment and we're talking of integration in the time of when businesses have been in place for much longer. (R4)*

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[14] It is also possible that the reporting awards focus on the extent of disclosure being provided and, therefore, favour the compliance logic. This is, however, not the specific focus of this thesis.

Interviewees explained that they have not finalised the processes used to prepare the IR (R9; R10). Concerns were raised about the cost and time taken to develop systems which can collect the necessary data (cf Atkins & Maroun, 2015); the challenges of having information assured (Maroun & Atkins, 2015); and the issue of providing forward-looking information (as per the IIRC) where the JSE has prohibitions on providing certain forecast information (R19). Many stakeholder-aware respondents felt that they have integrated processes in place but also stressed that the disclosure of these process is sensitive.

> *There are two areas: there are prescribed officers and the disclosure of their remuneration and the second area is competitive information. We do not report anything that our competitors can use because we found out that a competitor would jump on things that we were doing. So we have actually cut back on the disclosure of competitive information, we would rather do it and then disclose it once it is done. (R19)*

> *We draft and we leave gaps and sometimes you draft whole things that do exist but they get pulled out anyway because they don't want to be too transparent. People are worried about the fine line between sharing and over sharing. (R11)*

Respondents are generally concerned with the loss of competitive advantage and of shareholder value (R9; R10; R11; R15; R19). They felt that the business model and future opportunity sections of the IR need to be broad in order not to reveal any advantage but, in line with a stakeholder logic, understand that the broad nature of the disclosures currently found in IR's is insufficient to meet stakeholder expectations. Nevertheless, there is a strong financial logic with the result that information needs of a broad group of stakeholders is often second to managing the financial cost of IR. Consider, for example, the following comment on the development of an ESG reporting system by one organisation:

> *To know what the inputs are you got to have a system that captures the detail of the inputs. A lot of businesses today don't have that technology: it needs to be retrofitted. You can challenge me very easy on how much water I use … I will tell you one number today but I may tell you a different number tomorrow. Because the systems in place to manage information are not there yet and the cost of retrofitting that it is quite expensive. For me that is one big challenge to integrated reporting and I don't think it is sufficiently appreciated. (R4)*

When asked for specific examples of the costs of providing ESG information and for details on exactly how this was being weighed against the benefits of additional reporting, details could not be provided. Concerns about the cost of system development may be valid but there was no indication that any formal costing exercise had been performed. In many cases, the prohibitively high cost of refined ESG reporting was assumed. Related to this, none of the stakeholder-aware respondents could explain precisely how the benefits of enhanced ESG reporting could be quantified and compared to the costs. On one hand, this is due to the difficulty of defining and measuring the value of traditionally non-financial information (Atkins et al, 2015). On the other hand, the limited responses imply that the organisations are yet to realise additional value in integrated reporting besides the use of the IR to address the information needs of shareholders, satisfy regulatory requirements and meet stakeholders' general expectations.

This interpretation is consistent with the fact that, as with preparers following a compliance-logic, stakeholder-aware organisations rely on a FD (or equivalent staff with a finance/accounting background) to prepare the IR. When compared to the compliance preparer, however, there is more reliance on ESG specialists when preparing the IR and mature methods for identifying and engaging with stakeholders.

Stakeholder identification and engagement

Similar to the compliance logic, a staff member is tasked with the responsibility of collecting data from different units or divisions (often through a simple communicative process) and that person, in conjunction with a small group of team members, writes the IR.

> *I think the group risk compliance officer was given the task of putting it together and he then, through a process of consultation with subordinate managers, with the EXCO, with the board refined it to be where it is. (R3)*

As discussed in Section 5.1.1, compliance-focused preparers depend almost entirely on the finance and accounting team (assisted by the company secretary) to compile the IR. In contrast, stakeholder-aware preparers are drawing on the collective experience of their firms to conclude on stakeholders and their information needs. There is some formal engagement with boards of directors, investor relations and ESG specialists but it is not complete integrated thinking because responsibility for the IR ultimately vests with one or two people to collect the information and compile the report[15] (R3; R4; R6; R9; R10; R19).

The stakeholder preparer claims to be aware of his/her stakeholders and claims to be preparing the report aimed at the stakeholders. Similar to those following the compliance logic (Section 5.1.1), there is the presumption that "we understand our stakeholders and that we know what the stakeholders require" (R3; R4; R6; R15). However, they never or only seldom engage with the stakeholders and can offer the researcher little objective evidence to support the statement: "we understand the stakeholders and what they require" (R3; R4; R15). As with the compliance-focused preparer, 'stakeholders' are those parties identified in recommended best practice and, drawing on a professional logic, it is presumed that compliance with these

[15] There still is evidence of integrated thinking within the organisation but it is not being rewarded by the EY excellence awards. As the stakeholder-aware preparer tends to score lower than the compliance preparer.

codes results automatically in the appropriate identification of stakeholders in the IR. In some cases, however, the emergence of a more rigorous stakeholder identification process was apparent. While not common, some organisations relied on investor relations to provide feedback from active stakeholders to the individual or team responsible for the preparation of the IR:

> *My take on it is, I think there is the direct inquiry in terms of people saying what's missing and then is the indirect response in terms of the silence where we don't get it where we think is it because I missed the mark and people are saying well you are not talking to me anyway and that's something that we're constantly battling with, to make the content of the report relevant. (R4)*

This is not an intense process of interaction, as envisioned by the IIRC (2013) and King-III (2009). Nevertheless, there is an awareness of a group of users (other than the providers of financial capital) and an effort to react to their requests for additional information (R6; R9; R10; R19). Due to the fact that there is at least some dialogue between the reporting entity and its stakeholders, preparers also interpret the absence commentary as an indication that sufficient information is being provided to users (R9; R10).

> *So they [the primary stakeholders] will engage on these issues if they present a challenge and if they are preventing progress in terms of the strategy but if you are doing well, they [the primary stakeholders] are happy not to know about it and I think it's something is dawning on me as well that we are constantly wanting to push the sustainability agenda with investors and miss the fact of what their interest is in the company and how they are perceiving the nonfinancial issues and where we don't get a response or an interest we tend to think that they are not interested. (R3)*

Unlike the compliance preparer, where stakeholder silence is interpreted favourably, there is a sense that the absence of stakeholder engagement promotes at least some self-reflection on the information provided in the IR:

> *What I would like is that when we generate a report we stimulate discussion from point of view of saying, I see you are showing great trends in terms of X, Y or Z… or you are showing negative trends and what's happening? Why? We're not even getting that with the content that we are putting in place so the question is: Is it because it's the wrong content? Is it because it is irrelevant? Or is it the way that we disclose the content? (R4)*

Preparers influenced by a stakeholder logic are concerned about addressing the expectations of a broader group than just the investor community. The GRI and other frameworks are used to address what they presume to be the stakeholder issues. There is the assumption that, by meeting the disclosure requirements of the frameworks, they are automatically meeting stakeholders' disclosure expectations.

The stakeholder-aware preparers are often at entities which have a direct social or environmental impact providing one explanation for higher levels of stakeholder engagement and a shift in preparers' logic from a purely compliance-based one to a stakeholder-centric approach to reporting. The majority of the active stakeholders are NGO's and environmental groups. For example, one respondent explained that the most active stakeholders include:

> *The likes of NGO's, mainly. That will be a specialist NGO. The communities as well who will express their complaint not just directly to us but through government as well. But that is how you get these inquiries on sustainability. (R3)*

Nevertheless, preparers following a stakeholder-aware logic still recognise the financial statements as the main part of the integrated report (Atkins & Maroun, 2015) and feel that stakeholders would prefer quantitative data.

> *An investor would always want it to be quantitative, it's a challenge for us to convert some qualitative sustainability aspects into Rands and things. I think conceptually about it but it is difficult to quantify some things and leaning towards the side of quantitative it's the better side to be on. (R3)*

They concentrate on trying to quantify the impact of non-financial disclosures, similar to the compliance logic. This is likely because the main stakeholder is seen as the provider of capital and the stakeholder-aware preparer is, in fact, still concerned with providing a document that meets the expectations of shareholders in line with a market logic.

Interpretation of materiality

Stakeholder-aware preparers remain focused on the provision of financial information for the shareholder (R3; R4; R6; R19). Unlike the compliance preparer, however, they are more aware of the fact that there are other users looking at the integrated report and that their information needs are not only addressed indirectly by concentrating on shareholders and regulatory compliance (see Section 5.1.1). Consequently, their understanding of materiality is more complex.

As discussed above, these companies rely on more diverse teams to discuss possible stakeholder information needs than compliance-focused organisations. Interviewees could not, however, provide examples of technically rigorous processes for identifying specific stakeholders and either determining or confirming their information needs. As a result, respondents pointed out that they are reluctant to depart significantly from the recommendations of relevant frameworks such as the GRI and King-III.

This is not precisely the same as the compliance logic presented in Section 5.1.1.Interviewees did not feel that the disclosure requirements/recommendations of generally accepted frameworks are material only because they are codified as 'best practice'. For example, one preparer pointed out that the integrated reporting process was not sufficiently developed for the respective organisation to feel confident enough to conclude that specific sections of, for example, the IIRC framework need not be addressed given the entity's business mode:

> *I think with time companies will say this is what sustainability means to us and it will be a distant reference to what manufactured capital may be and in some instances to the extent that some capitals are now irrelevant given your industry. (R3)*

Despite the continued relevance of existing frameworks for informing what information is material, stakeholder-aware preparers determine their materiality more rigorously than those following a compliance logic. It involves more thought and more internal reflection. They understand that lengthy IR's are not read by stakeholders and addressing stakeholders in a clear and concise manner is key (cf Atkins and Maroun, 2015).

> *The old door stopper days of these big books are pretty much over because nobody reads them, because if we can't express in a page or two the essence of what you're doing, people just lose interest. (R3)*

There are different approaches to materiality as described by a consultant at an organisation which was mindful of servicing the information needs of a broad group of report users:

> *Materiality can be done in different ways depending on your budget but in an ideal situation you will first do a desktop review so you will look at your internal documents as well as media and external documents. You will see what's coming out in your board minutes, what's coming out is your key issues as well as what's been reported in the media. You will also have a look at what stakeholders are saying. Then you will interview people and we often have a session where we discuss all of these things… You don't have to do it that way, maybe what you will do is a strategy report on, "This is our strategy and this is how we've performed against our strategy." so they are not pulling it through in terms of themes on material issues. It's feasible as well to have a more strategic focused report. (R11)*

Several interviewees, however, confirmed that a stakeholder-aware approach to reporting should be grounded in the organisation's strategy complemented by what stakeholders are likely to regard as material issues. Even though their materiality seems to be guided by their strategy, they understand that the stakeholders may have different views regarding materiality.

> *I guess one should also then turn around and say, from where I'm sitting it's relative to the business strategy but then an external stakeholder may look at the same thing and maybe not see it as material or we might see something as immaterial but a stakeholder sees it as material. (R3)*

Stakeholder-aware organisations use their strategy as the base for defining materiality but acknowledge that the large number of stakeholders means that an optimal outcome which addresses every stakeholder's needs cannot be developed (R15; R20).

The stakeholder-aware preparer has at least some type of panel review by the team responsible for the IR to exclude information which does not have a direct effect on the business model, is not necessarily risk-associated, or does not have strategic relevance. Unlike the compliance-focused preparer, they also understand that following the frameworks as rules is not appropriate and know that, in order to write a useful IR, only the most material items should be emphasised.

> *Integrated reporting is about taking the most essential, key issues, that have the biggest impact on the business whether positive or negative. There can sometimes be an opportunity in it as well. Because integrated reporting is a narrative and concise and succinct we limit ourselves mainly to the material issues. (R3)*

Among the stakeholder-aware preparers there appear to be two approaches to integrated reporting although a similar IR result. The first approach views the GRI and frameworks as core and the internal analysis of the team responsible for the IR complements the recommendations of these frameworks (R3; R4; R19). Companies following this approach tend to have longer reports[16] and are more similar to the compliance preparers. The second type view the GRI and frameworks as important but the frameworks are used to complement the internal analysis performed by the organisation's reporting team (R6; R9; R10).

Both approaches, however, view the frameworks as guidance rather than rules. As a result, information required by those frameworks can be material but a requirement to disclose is merely an indicator of materiality rather than the deciding factor (R3; R4; R6; R9; R10).

> *We use good risk practice to know what or how to approach risk. We also use the GRI to give us a sense of how to link the typical KPI's to risks, what to report on and how to measure. So we use the frameworks out there. (R3)*

> *We use a little bit of the IIRC's framework in terms of what works and what doesn't work. Materiality is such a vast term where it means different things to different people. (R9)*

The stakeholder-aware preparer tends to determine their materiality using an informal method which is almost entirely dependent of information generated internally by the organisation and detailed discussions among members of the IR team with little or no interaction with stakeholders

[16] It was found that where there is more regulated ESG, it is more likely that the company is a type 1 and uses the GRI as a core in reporting because it is very worried about the issue of compliance.

> *What we have done in the past - we get various board reports and packs from different teams and we look at what their summaries say and what the trends are. We take that to the board … We then have a team of people that sit with the chief risk officers, we sit with all the CEO's, we sit with some of the board directors, some of the non-executive directors also sit in meetings with us, we interview them … So it's a little bit more of an informal process. (R6)*

This process is similar to that of the compliance preparer. There is, however, more integration between the different 'segments' of the company and because the focus is not only on demonstrating compliance with specific reporting guidelines, respondents were unanimous that the determination of materiality is subjective and based on professional judgement, similar to a professional logic. . As a general principle, however, the determination of materiality is guided by the organisation's strategy in that, if it does not affect the strategy, it is not material (R3; R4; R6; R19). For example:

> *I think materiality is important in both financial and nonfinancial because of the current impact it can have on the business and* ***so we keep that reference to strategy. If it's going to make it difference to the direction of the company or the ability to achieve its objectives then it is material****… I think that's a very important perspective and also to look at materiality not in absolute terms but relative and we make sure that an issue* ***is material given its impact on the strategy****. (R3, emphasis added)*

'Materiality', in the context of the integrated report, is also informed by financial implications, similar to the market and professional logic underpinning traditional accounting and auditing frameworks for determining materiality (IASB, 2010; see IAASB, 2009).

> *I think that's it is a very important perspective to look at materiality not in absolute terms but relative. In absolute terms everything becomes material.* ***In relation to or in comparison to financial [information] I think the definition is probably the same from a financial perspective*** *[which] is being* ***defined in quantitative terms*** *as well to say that if some companies say that if it's material given the size of the company, if there's a* ***difference of 5% in profit or revenue in terms of impact of an issue that's material****. (R4, emphasis added)*

This is different to compliance preparers as they still consider materiality important for non-financial disclosures even though there is a desire to rely on impact and quantification of the disclosures made.

Overall, the stakeholder-aware preparers define materiality as information which, according to their processes of internal assessment and strategy, complimented to a limited extent by external information[17], has a material impact on the investors' decision to provide capital and

[17] As mentioned earlier, some companies relied on feedback from their Investment Relations Office to modify the information being included in their reports. This was, however, an indirect result of engaging in roadshows and interacting with capital providers rather than a specific strategy aimed at improving the quality of an integrated report.

to a lesser extent has a material impact on the way stakeholders perceive the company, based on the perceptions that stakeholder-aware preparer has of their stakeholders.

In defining materiality, anything which can affect the investor's decision to invest in capital or which affects the perception of the company are the two primary indicators (R3; R4; R9; R10). Compliance with law and anything which is required by law and regulation is a secondary but important materiality consideration (R6; R19). This is much broader than that of the compliance preparer[18].

Although the stakeholder has a more rigorous process for determining materiality they still find that the IR has limited use as a method for changing the manner in which an organisation does business. Unlike the compliance preparer, however, the IR is more than just a regulatory exercise. One interviewee explained as follows:

> *It's one of those things the JSE requested so we decided that we are going to do it* ***but I think since then it has evolved*** *because we have been doing it for about 5 years now. It's evolved into something that's* ***actually useful****… the integrated report kind of gives a summary of what we are as an organisation, what we are trying to do and what our approach is. I think having seen the usefulness of something that is in a slightly more summarised form that tells our story and the board uses it for non-executive inductions and they carry it around with them to analyst and investor meetings. (R6)*

In general, stakeholder-aware preparers confirmed that an IR is useful for communicating the nature of the organisation's business to users. The utility of the report is, however, limited to educating current and potential stakeholders. Respondents felt that it was theoretically possible for the IR to provide insights which could promote actual change but could not provide specific examples. The consensus was that their reporting process was not in a sufficiently mature state to capitalise on self-reflection and promote reforms.

5.1.3. The interpretive preparer

Understanding of the IR and reference to frameworks

Similar to the stakeholder-aware preparer, the interpretive preparer believes that the IR is very useful for stakeholders. These interviewees believe that it is an optimal way of providing useful information to a broad group of stakeholders.

> *Researcher: Why do you prepare an integrated report?*

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[18] Although the materiality process followed is more rigorous, the stakeholder-aware preparers do not necessarily score as well as the compliance preparers in the EY excellence awards. It appears that the EY excellence awards is not necessarily a good indicator of how well the company is understanding materiality within the context of integrated reporting as it fails to consider the differences in understanding amongst preparers.

> *Respondent: Well the standard answer is what your shareholders want but for us it is not really. For us it is to tell our stakeholders what we have achieved and what you're planning to do. I think we still have a long way before we are able to get all the information in there. It is to provide a message to our stakeholders, not necessarily our shareholders. (R1)*

They are aware of laws and regulations but they believe that if a company prepares a good IR it will automatically address the majority of the compliance issues (R1; R2; R5; R17; R18). The remaining compliance issues are, therefore, residual so laws, regulations and compliance are not the primary focus. Consider, for example, the following response to whether or not all of the information found in the respective company's integrated report should be interpreted as being material:

> *We've also highlighted issues that we do not regard as material but we still report on it because the Companies Act requires us to do it or some form of legislation requires us to. So despite the fact that it's not material for us we will have the data to report on it so we will report on it. (R1)*

Interpretive preparers use the frameworks to guide, rather than dictate, their disclosures. They indicate that they still consider various frameworks important for the preparation of a good integrated report but that the frameworks need to be interpreted and applied according to the organisation's context, including whether or not stakeholders would find the information useful.

> *We do believe that we are not G4 compliant. We didn't do it to be compliant. We aren't even sure if we want to be G4 compliant: we are using it as a guideline and a framework but we do believe that we report on way too many things that aren't material to the group. They have no impact to the group. We have the information but we don't necessarily need to share it. (R2)*

Other respondents confirmed this sentiment. Companies with mature integrated reporting systems often collected significant amounts of data, or are in a position to do so, but do not report the information in the IR because they do not regard it as material for their stakeholders. (R1; R2; R5; R10; R17; R18). The awareness of the users, other than providers of financial capital, makes the interpretive preparer similar to one applying a stakeholder logic. A key difference, however, is the process of rigorous analysis or interpretation of the principles in reporting framework in order to generate a context-specific integrated report.

For example, specific disclosure recommendations are not automatically regarded as material as was the case with a compliance logic (Section 5.1.1). Instead, they provide a basis for identifying and reporting on material issues as part of a coordinated analysis undertaken by multi-disciplinary teams tasked with the preparation of the IR:

We took the GRI as a guideline of what environmental issues are problems, they give a very good sense of what we need to report on. We literally went through all the indicators and we then assessed it as a team and we said is this a problem for the group. (R1)

Unlike the stakeholder logic, discussed in Section 5.1.2, the preparers do not rely on occasional feedback from users to refine the report or assume that the absence of feedback implies that sufficient information is being provided, as was the case with a compliance logic (Section 5.1.1). In line with the recommendations of the IIRC, self-reflection is apparent with IR teams critically reviewing their own reports, in addition to incorporating information specifically requested by stakeholders:

There is a lot of research that goes into that area [integrated reporting]. We try to improve the report on an annual basis you will see that if you followed the last four years of our integrated report it really did change significantly year on year based on how we've grappled and learned from the different guidelines. (R1)

The interpretive preparer shows evidence of understanding and the application of integrated thinking. They attempt to show the overall impact of their actions on their strategy. Consider, for example, the following comment:

Integrated reporting helps our stakeholders to identify that if we are going to invest in supply chain, there is going to be a cost associated with it and it can be directly linked products and services or whatever the case might be…. so they [material issues] can't stand on their own. We do appreciate that they are integrated into everything else and you will hear the IIRC talking about integrative thinking and all those types of things. We've applied that and that we take away from this so when we do report we do realize that: look, you know, even if you do have a social initiative there is going to be a financial impact as well. (R2)

They recognise the importance of the financial capital providers and accept that they are essential in the business model (R1; R2; R19). They understand that the majority of the providers of capital have a finance logic and that, as a result, financial information has an important role to play in the IR (cf Atkins et al, 2015). However, they do not focus exclusively on the quantitative values. Interpretive preparers believe that reporting the transformations of financial capital is necessary but that this needs to be explained in the context of the firm's business model and the other capitals under review.

I think that our shareholders would definitely prefer more facts, numbers, specifics but I think that it's great to give a number but to explain the number is also very important. If you say that you want to grow by 20% next year you need to say why and how you're going to do it. I think that's still a problem for all companies because you don't give away corporate secrets or strategies necessarily. But you also don't want to keep everything to yourself because nobody knows what you are doing. It's a very fine line but in the situation that we are in the moment we are very keen to go full disclosure on everything, very transparent. So that our shareholders and others know where we are going. (R1)

Perhaps the most important distinction between a compliance and stakeholder-aware logic and an interpretive logic is that the latter sees the IR as an important tool for identifying weaknesses within their business model:

> *You'll see on our annual reports we've done a heat map in terms of what are the areas that we've determined as being very high risk for us in terms of probability, the likelihood of happening of things. It's all there and it's the first time we have done those… we can then have a look at our risk management reports and those things and as the emphasis on these items dwindles they will obviously fall off or just change… every year we compare it to our audit risks or the risk committee reports so we get a good idea and, in fact, we have actually identified one or two material issues that have now been raised at risk… At least we can track these type of things on the dashboard types of perspective in terms of how they group performs in these areas going forward. R2*

They make use of heat maps and perform comparisons to their stakeholder engagement, risk reports and board discussions to identify risk areas. Once the areas of risk are identified, they proceed to measure the risk and implement processes to mitigate the risks and track the performance on those risk areas. They provide evidence to suggest that the processes in place for the IR have alerted them to risks that were previously not identified providing a means for detecting weaknesses in a timely manner.

At the same time, the IR is regarded as the product of complex interactions between different parts of the organisation and the summary of essential information, unlike the stakeholder-aware and compliance logics which see the IR as only a discrete corporate reporting exercise:

> *Our internal audit will do the checking, will say: "show your invoices", and explain to me why there are discrepancies between invoices and what's on the system. As part of a half year and full year reporting we have got to give a status update on how we are performing against the reduction targets and ultimately prepare them for the external assurance engagements. So the processes are quite key for us and this helps us in terms of defining the definitions and the calculations how the guys report what they need to report on and what's the source. Because it is also giving us who's responsible and how frequent and potential sources of the information… We've also got a program to run reduction targets selected to guide every increase or decrease; so we can track how we performed against those particular indicators (R2)*

Although not a common finding, there were indications of the IR evolving into a fully integrated system with feedback loops. As explained by some respondents, the information included in the IR – initially as part of their earlier integrated reports – heightened awareness about the importance of so-called 'non-financial information' for the management of their organisations. For example, one respondent explained how water usage reporting has led to the development of new key-performance indicators and a tracking of this statistic for environmental management and for determining the efficiency of production processes. As a result, one respondent felt that:

> *The report is the noun that comes out and the reporting is the action. The reporting is important, it's everything you do, the thinking, the data collecting, considering materiality. It's all the processes that are important. (R11)*

These are the same processes used to manage the entity at a senior level which have been implemented due to integrated reporting (R1; R2; R5; R17; R18). The interpretive preparer has adapted to integrated reporting and no longer views the IR as only a compliance exercise or communication document. They view it as a means to better the processes within the entity as a whole and possibly a means for constructing new fields of economic visibility (Hopwood, 1987). Preparers following an interpretive logic have introduced internal systems to collect data and use the systems to identify whether or not material issues which have an impact on the business are incorrectly measured in order to implement new procedures to mitigate losses and improve efficiency. Their rigorous oversight provides them with comfort over the data collected by ensuring that the data is both accurate and reliable. This process of evolution takes time as they are unable to predict the outcome of new policies so instead they have to see if it works at the end of the reporting period. Once their policies and procedures are perfected some have applied the same policies to subsidiaries to improve the group as a whole.

> *And we even took one step further last year, where we took this diagram and we did the same for one or the two subsidiaries we hold. So even though their strategies are more specific, it still has an impact on the group. So we hope to take it to all of our operations going forward. (R1*

The interpretive preparer maximises the potential value of the IR by adopting an integrated business approach to managing the entity and, as King (2009) intended, they are able to benefit in the form of financial savings. At the heart of this is a sophisticated process of stakeholder engagement:

Stakeholder identification and engagement

The interpretive preparers show elements of the stakeholder logic as they understand that there are a variety of users of the IR and that the IR needs to be a document that can be read by anyone of their stakeholders.

> *When you say 'stakeholders' you think of community; I don't think one community member has picked up an integrated report but, nevertheless, you do write it on the basis that it's not just your shareholders that look at the report. (R5)*

They have a comprehensive stakeholder engagement process in which they have identified their stakeholders and contacted the stakeholders. The identification of their stakeholders is not unlike the stakeholder-aware preparer. They identify stakeholders though an internal process (R5).

> *Our stakeholders generally stay the same, we have identified a group of people we know that we impact on and people that impact on us and we have regarded those as our stakeholders. We do group them into categories (R2)*

However, in contrast to the stakeholder-aware preparer, the interpretive preparer concedes that it is 'impossible to know what your stakeholder want from the entity' (R1; R2). Instead of assuming that they understand the stakeholders and what they want, they engage formally with their stakeholders.

> *So we went through a very rigorous process … almost 400 interviews, one-on-one, where we engaged with our blue-collar workers through to our investors, through to our suppliers. (R1)*

The process is timeous and the interpretive preparer engages with both internal and external participants.

> *We had a lot of participation internally. Externally we had good participation from our supply chain, not so much from the customers: they were one of the groups that participated but not as much as we had hoped for. And obviously had some of our NGO's that we got feedback from. (R1)*

This engagement does not happen annually because it is time consuming and expensive but occurs every 3-5 years. This process is ultimately used to determine what information is material, as discussed in more detail below.

The interpretive preparers have a team with a variety of skills. The leader of the team is often an individual without a finance background. They receive good support from their top management and CEO's that tend to be involved in the IR process.

> *I think internal was very active, we especially got very good support from our top management. … We communicated this whole thing through various awareness campaigns and we had, literally, employees participating in face painting and hand painting and making them remember these things. So when our CEO goes up and delivers the results presentation to our investors, he bases it on these four themes… I think it got a lot of buy in. (R1)*

As a result of involvement by top management, the collection of data and determination of what is disclosed becomes more of a group effort and is not a decision made by one or two members of the team. There was also evidence of formalisation of the stakeholder identification process to ensure consistency of processes and definitions implemented throughout the entity.

> *We like to make sure that the process is at least consistent and is not a question of thumb-sucking and it uses some form of check to ensure that the data has some form of validity… This is also why we brought this* ***manual/internal document into life was to make sure that definitions are consistent*** *so that when we talk about a death versus a fatality, it's two different things. It might have the same outcome but it's totally different in terms of how to report back on it. (R2, emphasis added)*

The interpretive preparer also relies on interactive technology such as HTML 5 to engage indirectly with stakeholders; provide a platform for them to comment on the report and track the parts of the reports which users are downloading (R1; R2). In addition, they look at information in the press, articles, newspapers, Twitter, Facebook and perform a competitor comparison.

> *Based on social media so what we get back from Hello Peter, Facebook and Twitter. Also feedback from our CE and our company secretary has monthly meetings with the stakeholders and investors and the feedback from that as well. (R1)*

This is different from stakeholder-aware preparers which rely primarily on internal discussion among members of the team responsible for preparing the IR and the assumption that any stakeholders referred to by the IIRC or King-III are relevant for the reporting entity (R20). In this way, the research describes the preparer as 'interpretive' because the perspectives of multiple user groups/sources of information are used to define a group of stakeholders taking the specific context of the organisation into account.

As is the case with the stakeholder-aware logic, the interpretive preparers are concerned about meeting stakeholder expectations. They actively engage with their stakeholders and rely on feedback from their stakeholders as a measure to determine whether they have met the stakeholders' expectations or not. The primary focus of the interpretive preparer is identifying who their stakeholders are and what information they require (R1; R2; R5; R17; R18). This is in complete contrast to the compliance preparer and they also do not assume that they know what the capital providers want (Section 5.1.1).

As a result of the extensive stakeholder engagement the interpretive preparers have also classified their stakeholders and ranked their importance.

> *Our main stakeholders obviously get a lot more correspondence, we deal with them more on a face-to-face basis. Where our secondary is more on a documentation or a briefing or a presentation. Our tertiary is on an if-and-when required basis. We determined through the responses during the year and also the impact we had on the community so although we say*

we evaluate it every year, we haven't seen the change in our stakeholders in the last three years, in the groupings, so they have remained the same. (R1)

This is one of the key processes for determining the nature and extent of disclosures in the IR. Ultimately the stakeholder engagement has a strong impact on materiality and guides the IR in terms of disclosures.

Interpretation of materiality

Like the stakeholder-aware preparer, the interpretive preparers agree that, at first, they had no option but to follow the frameworks and guidance available because they had limited knowledge. Through a complex process of interpreting the frameworks, trial and error and self-reflexion they were able to obtain a better understanding of the IR. This was only through a process of evolution over time.

As a result, these preparers often have the most mature integrated reporting systems. While the other preparers commonly utilise frameworks, guidance, laws and regulation to begin the IR process (Section 5.1.1), the interpretive preparers rely on their determination of materiality which is not informed directly by specific reporting recommendations. As explained by one preparer, this is a very detailed process which resembles formal academic enquiry: The process of defining or rather calibrating materiality occurs in conjunction with their extensive stakeholder engagement which happens every 2-5 years (R1). During these processes, they collect large volumes of information from multiple sources such as, but not limited to; their stakeholder feedback, social media, industry specific information and frameworks. Once all the information is collected, it is ranked and subjected to a type of factor analysis[19] where common themes are identified. One preparer explains as follows:

We took all of that information and that is when the process started and we then rated them. I think we then use the rating system where we managed to get 21 material issues. So we continue to refine materiality and it's the most important things the things that will make sure that we stay in business, basically. (R1)

The IR reporting team substitutes for the statistical manipulations of a formal factor analysis. The themes identified are discussed in detail until the team is satisfied with the 4-6 primary

[19] This does not make use of sophisticated statistical analysis but is based on assessments of the data collected by the IR team, including the frequency of themes or issues raised during engagement sessions with other members of the firm.

‘theme buckets’[20] which are usually representative of the 6 types of capital referred to by the IIRC (2013) .

> *It was a very easy process. Of the many issues we got from the stakeholders we could easily group them into the four categories. We didn't have them before the time but as we started grouping them together we realized that there are four themes coming through and that's how we built them. (R1)*

> *What we got out of the whole process as well is we try to cover everyone and anybody. Out of the entire process we came down to four value drivers. As time progressed we also tied those up to the six capitals. Out of those we said what are the key objectives of the four value drivers that we identified, and out of these then the material focus areas became clear to us. (R2)*

They state that their material focus areas tend to remain constant but the importance placed on them varies. The material issues do not necessarily change but rather the timeframe for which the company has allocated to the issue does. This expected impact timeframe is directly driven by the entity’s strategy.

> *Our material focus areas tend to stay very stable. However, the material issues tend to change. Not necessarily change as in fall-off but change from short-term to long-term or long term to medium term or long term to short term. Or they might become bigger part or a bigger priority. (R1)*

Once the information has been through the “factor analysis”, they identify their material focus areas. For this a type of triangulation technique is used as a reasonability check. This takes the form of comparing the material focus areas identified by the IR team discussions with the risk registers, board discussions and stakeholder feedback.

> *It’s a very simple process but we do meet about 10 external stakeholders in all of our regions and ask them to tell us what they think is important… We have a risk table here with our top 10 risks… we had outside stakeholders and we asked them to please rate what they consider important to us and we give them the criteria. Then we ask them to rate and say, “In terms of 1 being very important to you, 10 being least important, what do you consider?” then we add them up, divide them and we arrive at a very simple equation. (R5)*

> *With those issues I then did a desk review of all our risk reports, audit committee report, board reports and EXCO reports and compared with the topics that they were discussing in the meetings and how it related to what we find and it was a remarkable similarity and that is very interesting. And that’s why we're very comfortable with our material issues because what we realized is that the board was concerned about the same issues as the stakeholders. That*

[20] The theme buckets do not necessarily match perfectly with the capitals but tend to be made of one or more of the capitals.

also gave us the confidence that we were on the right track and we still do that every year. (R1)

In this way, the thesis refers to an 'interpretive logic' because the companies in question are using generally-accepted qualitative research methods to support their conclusions on the material focal points for the IR[21]. As discussed, they perform an adapted form of factor analysis, common in interpretive research studies, and use multiple sources of data to corroborate conclusions similar to the approach recommended to improve the validity and reliability of qualitative research findings (cf Creswell, 2013).In this way, unlike the compliance and stakeholder-aware logics, there is a method for formalising the determination of materiality. For example:

I do my stakeholder participation and then I compare it to what was in the board and in the EXCO and the risk committee meetings, because that gives me gives me a good sense of whether we are on the right track and, if we are not, we raise it as an extra concern. (R1)

The interpretive preparers understand that materiality within the IR is not a quantitative figure. They wish to show the overall impact of non-financial information on the entity as a whole, however, they experience difficulty in doing so.

Absolutely like reputation, the impact you have on society. Ultimately, you can do an economic impact assessment and look at the bottom line but that's a very long process. There are some that are KPI related like growth, currency risk etc. but when you look at the broader societal issues and reputation, you can't quantify those and those are massive risks to the business. The easier issues to report on are the ones that are quantifiable. (R9)

To answer you, no I don't think it is currently, because financial information is basically there, there is a standard of what you report. I don't necessarily think there is a link to our material issues that is that clear. So we are starting to look, for example, at how does human capital affect the financial or the balance sheet information? It is very difficult. (R1)

Instead of quantification, the interpretive preparer attempts to make links and interprets the information as part of a detailed discussion with different members of the organisation, to disclose the positive and negative impact on the entity. The methodology that appears quantitative and formal is just being used to support the qualitative analysis of the materiality. Materiality is, therefore, still interpretive[22] in that the preparers do not try to develop a monetary

[21] What was especially interesting is the fact that the preparers in question are not formally trained researchers nor do they have an academic background. During the course of the interviews, they made no reference to specific research method texts but appear to have developed these analytical methods through a process of trial and error.

[22] What makes them interpretive and enlightened is that they are actually embracing academic methods, which in a South African setting is revolutionary, where academia is marginalised and isn't seen as driving industry standards.

threshold; they do not see the IR as a compliance exercise driven by the quantum of the disclosure but rather as a subjective exercise which involves interpreting the numbers, non-financial information, stakeholders' information needs.

The interpretive preparer defines 'materiality' as information which addresses the information needs of a broad group of stakeholders and which affects the company or the perception of the company in the eyes of its stakeholders and any information or indicator which could lead to significant business process reform in the future. Regulation and compliance is regarded as a residual, which needs to be checked at the end of the reporting process.

Their sophisticated approach to materiality results in very concise IR's which (contrary to the compliance and stakeholder-aware logics) seldom include all of the disclosure recommendations of the IIRC, King-III and GRI[23]. They tend to rely on complimentary reporting platforms (sustainability reports, social reports and webpages) because they view the IR as the main report that should be used to communicate succinctly with stakeholders. Additional information which may be relevant for only select users is, therefore, included mainly on hyperlinked webpages.

> *If you want to know about additional information, call us and we'll tell you about it. We find that, especially on the environmental side we do not have a very big impact. There are a lot of things we spend a lot of money on, trying to report on that isn't necessary. We'll keep the data and we'll monitor it but it's not material…If you want something else, then come talk to us about it but we find that specifically from the investors point of view, generally we got the feedback of: don't give us the fluff, give us the facts we want to know what you are about, where you are going and what you are going to do about it. (R1)*

The result is what King-III intended: "one report for multiple purposes" (IOD, 2009). The interpretive preparer understands that there is a balance and a limit to what may be disclosed.

> *So I think that's still a problem for all companies because you don't give away corporate secrets or strategies necessarily. But you also don't want to keep everything to yourself because nobody knows what's you are doing. It's a very fine line… So that our shareholders and others know where we are going. (R1)*

The interpretive preparers maximise the potential value of the IR. They understand that preparing the IR has a significant financial costs but see the IR as an output of a value creation process. They provide evidence of a deep understanding of the IR as they know that the IR's purpose is to provide comfort for the stakeholders with regards to the value creation and sustainability of the value creation of the entity (Simnett & Huggins, 2015) and in order to meet

[23] Perhaps for this reason they are, paradoxically, not always identified as leading reporters in terms of different integrated reporting award schemes such as those use in the EY excellence awards.

stakeholder expectations, they make a concerted effort to link material disclosures in the IR to stakeholder concerns.

> *We try through our stakeholder engagement process. Which is described in the annual report, we then try to link the issues. For example, if a customer is worried about quality you would be a good link to services and products. So we are starting to make that link a lot clearer but it was through a process of evolution. (R1)*

6. Conclusion

6.1. Summary of the findings

This paper investigates how preparers are determining which information is material and ought to be included in their integrated reports by examining their understanding of the IR, the frameworks used to prepare these documents and their stakeholder identification and engagement processes. In turn, an investigation of the logics or values which a preparer adopts was analysed, providing insights into the conceptualisation of 'materiality'

This research was performed in a South African integrated reporting space. Qualitative data was gathered from interviews with preparers of IRs and consultants who prepare on behalf of listed entities. The data were then codified into categories and themes which relate to the research question were developed. Additionally, the interplay between old and new logics which are shaping materiality as a reporting concept in integrated reporting was analysed.

Integrated reporting is a rich field for studying the dynamics of corporate reporting change because it consists of both financial and non-financial disclosures. It has a broad, stakeholder audience where preparers have to consider disclosure carefully in order to meet stakeholder expectations. The findings in this report reiterate that there are different perceptions and approaches to materiality as mentioned by Simnett and Huggins (2015). These perceptions are brought about through competing logics that have encouraged different beliefs about materiality and the development of varied reporting practices (see Edgley et al, 2015).

Specifically, this thesis highlights the emergence of three approaches or logics to materiality in an integrated reporting context. . Table 1 summarises how compliance, stakeholder-aware and interpretive preparers engage with and internalise the requirement to prepare an integrated report which provides material information on how the organisations generate value

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
Name of logic	Compliance logic	Stakeholder-aware logic	Interpretive logic
Theoretical grounding	The professional and market logics	The stakeholder and market logics	The stakeholder logic
	Sub-question 1: Understanding of the IR and reference to frameworks		
Reason for preparing an integrated report.	To comply with JSE listing requirements and to be able to demonstrate that they are the "best compliers" in terms of a specific framework.	To comply with JSE listing requirements and to manage stakeholders' expectations by disclosing information that the preparer thinks the stakeholder requires.	Not only to meet compliance but effectively to communicate with a broad stakeholder group. They also see the IR as the primary reporting vehicle complimented by other information such as the sustainability reports, social reports and webpages.

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
Emphasis placed on regulation	Strong emphasis as they are concerned with meeting the minimum disclosure requirements.	They are still concerned about regulatory bodies but it is not a primary concern.	They are aware of regulation, however believe that if you prepare a good IR, most of the regulatory and compliance issues will be addressed automatically.
Reference to Frameworks	They consider the various reporting frameworks such as the GRI and IIRC's framework as rules and regulations, rather than as conceptual frameworks and principles. They assume that compliance with frameworks automatically achieves fair presentation with useful information.	Compliance with frameworks is still important but not of a primary concern. They understand that the frameworks can help identify issues that are material. Some use the frameworks to complement their material issues and others use them as a starting point.	The frameworks are not seen as the primary determinant of what information should be disclosed in an IR, rather they use the frameworks for guidance on new issues and possible indicators of material items.
Emphasis on their capitals	They understand that information needs to be integrated. However,	They understand that there are 6 capitals, however, they use judgement	They have a deep understanding of the capitals applicable to their business and

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
	there is little evidence of internalisation of the potential value of the IR.	and materiality to determine whether to report on them.	they have pinpointed those which have a greater impact on the business model and focus their disclosures around those identified.
The perceived value of the IR	They see value in the IR as a marketing tool.	They use the IR to meet the perceived needs of stakeholders. They concede that it has provided them with insight into their business but they are yet to work out how to capitalise on that to change operations.	They see the IR as very important for communicating with stakeholders and use the processes in place for the IR to identify weaknesses within their own business model.
Sub-question 2: Stakeholder identification and engagement			
Structure of the reporting team	The team involved in the preparation of the IR usually consists of two main	Under the control of the financial director, however, there is more reliance on internal ESG specialists.	They usually have a diverse team which is responsible for the collection of data and is involved in the entire process. In

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
	members: the CFO and company secretary or investor relations.	Usually one person is responsible for the collection of the data and that person in conjunction with someone else prepares the IR.	addition, they have support from senior management.
Who are considered stakeholders	Shareholders and any current or future capital providers.	They are concerned about addressing a broader group than just the investor community.	The stakeholders are a broad group that have an impact on them and vice versa.
Relevance of stakeholders	De-emphasise the relevance on the stakeholder and focus on the shareholder.	Stakeholders are considered to be of some importance as disclosures are made to meet stakeholder expectations.	The stakeholders are considered important to the entity and it is important to communicate effectively to them as well.
Stakeholder engagement process	They have an internal process of identification which is performed by a small group of staff. The lack of feedback from stakeholders is seen	They claim to be aware of their stakeholders and, as such, they follow a similar process to the compliance preparer. Stakeholders are identified	This is their primary focus since there is a very comprehensive measure in place to address the stakeholders. They address stakeholders through various forms of

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
	as evidence to support their claim that the IR adds little to no value for the shareholders and is unimportant for the organisation as a whole.	through an internal process, complimented by 'best practice' as suggested through frameworks.	engagement processes such as interviews, questionnaires, media, social media and social platforms.
Sub-question 3: Interpretation of Materiality			
Determination of materiality	They follow an internal process similar to the one they use for stakeholder identification, in line with which they have internal meetings and discuss issues, experienced by the firm, which are to be disclosed in their IR. These issues are guided by law, regulation and various frameworks.	Their understanding of materiality is more complex and materiality seems to be guided by their strategy. They utilise some form of a review process when determining whether to exclude information that does not have a direct effect on the business model, is not necessarily risk-associated, or does not have strategic relevance.	They use sophisticated research methods to determine materiality, such as factor analysis. They identify all their stakeholders and the information that they require. Comparisons are drawn between the required information, the business model, risk registers and strategy and this is then triangulated as a reasonability check.

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
Qualitative vs Quantitative	They understand that determining materiality for the IR is not a quantitative exercise and that disclosures in the IR are more the 'soft side' of reporting, however, they consider information to be material if it can be quantified and has a direct financial link which could influence investors' decisions.	They understand that the IR is not necessarily about quantitative disclosures, yet believe that their stakeholders prefer quantification as it helps in understanding the magnitude of the issues disclosed.	They do not try and quantify disclosures as they understand that it is interpretive. They understand that the IR is a subjective exercise that involves interpreting the numbers and non-financial data. The methodology that looks fairly quantitative and formal is really used to compliment the qualitative analysis of the materiality.

Table 1: Summary of Findings			
Group of preparers	**Compliance Preparer**	**Stakeholder-Aware Preparer**	**Interpretive Preparer**
Definition of Materiality	Materiality is defined very rigidly and is dependent on whether a framework requires or recommends the disclosure, or any disclosure that is referred to by law or regulation.	The information which according to their process of internal assessment complimented to a limited extent by external information, has a material impact on the investor's decision to provide capital and to the lesser extent has a material impact on the way stakeholders perceive the company.	Materiality is defined as information which addresses the information needs of a broad group of stakeholders and which affects the company or the perception of the company in the eyes of its stakeholders, and any information or indicator which could lead to significant business process reform in the future.

Evidence of logics identified in prior literature was observed in the three groupings of preparers summarised in Table 1. There appears, however, to be a hybridisation of logics. The logics are depicted through preparer understandings of the IR and their use of reporting frameworks, as well as the methods for stakeholder identification and engagement. Theses logic adopted by preparers ultimately has an effect on the determination and definition of materiality used by the respective reporting entities.

Firstly, the compliance preparer adopts a compliance logic which has elements of the market and professional logic. The market logic element is evidenced by the concern placed on financial impacts which would affect investors' capital allocation decisions and the professional logic is evidenced by the focus on rules of thumb and regulations when preparing their integrated report, as highlighted by frequent references to 'checklists' (R11; R12; R16), 'ticking off disclosures' (R12; R16) and ensuring 'compliance' (R7; R8; R11) with different reporting 'prescriptions' or 'rules'. The competing of the market and professional logic have resulted in a hybridisation into the compliance logic which is evident in the compliance preparer (Section 5.1.1).

Secondly, the stakeholder-aware preparer showed evidence to suggest that there was a hybridisation of all three logics. The professional logic was observed in a similar fashion to the compliance preparers in that they still focused on rules, regulations and frameworks but to a much lesser extent (Section 5.1.2). The market logic was demonstrated by the fixation of quantifying disclosures in the IR in order to provide more understandable disclosures (Section 5.1.2) and the stakeholder logic was represented by the concern that stakeholder-aware preparer placed on stakeholders in general (Section 5.1.2). Although stakeholder engagement observed by the stakeholder-aware preparers is not extensive, the stakeholder logic was still evident because they still prepared the IR to address a broad group of stakeholders.

Finally, the interpretive preparer showed few characteristics of the professional logic. There was evidence to suggest that they embodied the market logic and the stakeholder logic. The market logic was demonstrated through the need of the interpretive preparer to cut costs and maximise shareholder value, attributing to the additional value extracted from the reporting process in the form of identifying weaknesses in the entity's' business model. The more dominant logic, the stakeholder logic, was supported by the extensive focus on stakeholders and the intensive stakeholder engagement process followed, in order to gain a deeper understanding of the stakeholders and their needs in terms of information requirements. Frameworks, rules of thumb and the need to comply with best reporting guidelines (key elements of a professional logic characterising the compliance and stakeholder-aware preparer) are de-emphasised. They are used simply as recommendations to inform the preparation of the IR *after* material issues have been identified.

Interestingly, the preparers are not stagnant in terms of their approach for preparing an IR. They seem to be evolving and, through this evolution, the hybridisation of competing logics is occurring. Organisations in early stages of their IR process are compliance orientated. As they become more experienced with and confident about the objective of integrated reporting, they focus more on providing detailed accounts of how their organisations are creating value (in line with an interpretive logic) and less on compliance with reporting prescriptions. The preparer groups identified in Section 5 can, therefore, be seen as a key points on a continuous ‘scale’ describing how the preparer interprets and understands integrated reporting. It should be possible for a preparer to shift between the different groups based on their approach. However, this research has not addressed what could cause a preparer to shift between the different groups.

6.2. Research contribution, implications and recommendations

Through the utilisation of institutional logics, this thesis answers the call of Lounsbury (2008) for more critical analysis of change in the accounting profession and corporate reporting practice. An interplay between multiple old and new logics is advantageous as it encourages the exploration of different aspects of materiality and this report compliments research done by Edgley et al (2015) and adds to the existing body of research in the corporate financial reporting sphere (add some references for examples).

This report has confirmed that institutional logics can be utilised to understand change in an institution in an integrated reporting context. This report is the first to provide a detailed analysis of institutional change in a South African setting utilising institutional logics. The findings indicate that integrated reporting is not complete (IIRC, 2013) but there is evidence to suggest that there are pressures at work, driving positive change. More specifically, there is evidence to support the assertions of the IIRC (2011a, 2013) that integrated reporting signals the beginning of a comprehensive reporting philosophy as seen by the emergence of the interpretive preparer.

The findings also indicate that there are variations in practices and understandings of materiality and reveal differing organisational priorities which highlight the extent to which materiality is a social and behavioural phenomenon. Materiality in the IR is still in its infancy and, although these findings may not be generalised in a positivist sense, the principles identified by this research may have relevance for future debate regarding the concept of materiality. The findings are relevant especially given the emergence of integrated private reporting (Atkins et al, 2015), the increased importance placed on ESG information by institutional investors (Atkins & Maroun, 2015), the release of G4, the ongoing creation of King-IV, the materiality project undertaken by the IASB (Edgley et al, 2015) and calls for sector specific materiality and sustainability reporting standards (Eccles et al, 2012). This is not, however, to say that this report is without limitations.

6.3. Future research

This research used an institutional logics approach to explore preparer rationales surrounding the concept of materiality. The analysis was developed via an interpretive methodology. Other perspectives, grounded in models of economic rationality, such as contingency theory, were not applied and this constrains the thesis's usefulness. Other theories could be used to provide a different perspective on the preparers' understanding of integrated reporting and materiality within the IR.

In addition, the underlying causes for the differences in preparer groupings were not examined. Future research could be done to address the underlying reasons for a difference in approach, allowing further insight into the topic. This could also allow for guidance on how to incorporate features and processes that would encourage preparers to adopt an integrated thought process and become interpretive preparers.

Thirdly, the thesis only dealt with materiality in the context of South African integrated reports. A study that incorporates different jurisdictions may provide different insight into the differences in jurisdictions with regards to materiality.

Finally, the main limitation of this report is that there is no research done on the stakeholder perceptions of materiality. Future research which explores stakeholder understandings of materiality and information needs could assist the development of guidance. Related to this, the thesis did not address the assurance aspect of the integrated report. Further research regarding whether materiality plays the same role in IR assurance as it does in financial assurance would provide a different perspective into the role of materiality in integrated reporting.

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V. Appendix A

Interview Questions

1. Do you prepare in integrated report?

2. Why do you prepare an integrated report?

3. What sources of professional guidance do you follow when preparing an integrated report?

4. How do you decide on what to include in the integrated report?

5. What do you understand about the reference to materiality?

6. Do you think materiality is as important and relevant for integrated reporting as for financial reporting?

7. How do you identify material issues for key stakeholder groups?

8. What do you consider stakeholders' expectations are, in relation to the integrated report?

9. In operationalizing materiality, could you give us examples of techniques you use to verify data provided to you and assess materiality?

10. Approximately what proportion of the data you receive is verified?