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The Adoption of the Materiality Concept in Social and Environmental Reporting Assurance: A Field Study Approach

This study investigates the logics or values that shape the social and environmental assurance (SERA) process. The influence of logics is observed through a study of the conceptualisation and operationalisation of the materiality concept by accounting and non-accounting assurers. We gathered qualitative data from interviews with both accounting and non-accounting assurers. We analysed the interplay between old and new logics that are shaping materiality as a reporting concept in SER. SER is a rich field in which to study the dynamics of change because it is a voluntary, unregulated, qualitative reporting arena. It has a broad, stakeholder audience, where accounting and non-accounting organisations are in competition. There are three key findings. First, the introduction of a new, stakeholder logic has significantly changed the meaning and role of materiality. Second, a more versatile, performative, social understanding of materiality was portrayed by assurers, with a forward-looking rather than a historic focus. Third, competing logics have encouraged different beliefs about materiality, and practices, to develop. This influenced the way assurers theorised the concept and interpreted outcomes. A patchwork of localised understandings of materiality is developing. Policy implications both in SERA and also in financial audit are explored.

Keywords: Institutional logics; Materiality; Social and Environmental Reporting Assurance (SERA)

1. Introduction

This paper investigates the logics or values that shape the social and environmental reporting assurance (SERA) process conducted by accounting and non-accounting assurers. Nearly 95 percent of the largest 250 companies worldwide issue social and environmental reports (SER), of which 46 percent are independently assured (KPMG, 2011). Moreover, SER is increasingly important to stakeholders and institutional investors (Solomon, 2013). The influence of logics on SERA and assurance reports, is observed through a study of the conceptualisation and operationalisation of the materiality concept by accounting and non-accounting assurers. We focus on materiality because it is an iconic reporting concept associated with the fair representation of data.¹

In financial reporting, materiality is an essential concept that determines the importance of an item for information users (FASB, 1975). By law, companies are required to show a true and fair view in their financial statements, but the precise meaning of this term is unclear. Materiality complements this fuzzy requirement because it allows a tolerable degree of flexibility in judgments (Brennan and Gray, 2005). It determines important errors or omissions in data and is a cornerstone concept that underpins the quality of data for decision-making (Lee, 1984).

Our study is concerned with the adoption and significance of materiality as a key reporting principle in SER and SERA. New guidance has redefined and extended the concept, beyond financial impacts, to significant disclosures about corporate non-financial performance for a stakeholder audience (AccountAbility, 2003). Material information provides the basis for stakeholders to make decisions about the things that matter to them and take actions to change organisational performance (AccountAbility, 2006, p. 9). Material issues to stakeholders might include corporate water and energy usage, CO2 emissions, the environmental impacts of production, fair trade, employee working conditions, workplace diversity, safety technology or areas of stakeholder activism.

This redefinition of materiality raises important research questions for scholars, practitioners and users about the values that underpin assessor judgements in SERA. Why has a core concept, linked to economic decision-making, been adopted in a new reporting field that places corporate social responsibility at its heart? Is the concept of materiality

relevant to SER and if so, how? How is the concept of materiality in SER different to materiality in financial reporting? What rationales underpin the concept? How has materiality been adapted to SER? This paper seeks to address these questions and add to our knowledge about the values that underpin materiality and shape SERA.

To this end, our study draws upon insights from neo-institutional theory and institutional logics. Logics are deep principles that underpin behaviours within institutional fields. They prescribe social “assumptions and values” (Thornton, 2004, p.7) and frame the way individuals make sense of reality. Logics provide a useful lens for investigating changes in ideas and practices (Friedland and Alford, 1991). An analysis of the interplay between logics can explain how and why practices change (Lounsbury, 2008). Further work on logics has been called for, particularly in accounting, to understand the dynamics of change in practices (Lounsbury, 2008).

The conceptualisation of accounting materiality has been shaped by two traditional logics: a market logic (for the benefit of shareholders) and a professional logic that underpins financial audit. Its adoption into SER has introduced a new, stakeholder logic into its meaning for a wide community. A logics approach is relevant to our study because SER provides a rich context for analysing an interplay between old and new logics in adopting and redefining materiality. First, the unregulated status of SER allows non-accounting stakeholder organisations (the Global Reporting Initiative (GRI) and AccountAbility) as well as accounting bodies (such as the International Federation of Accountants, IFAC) to provide reporting guidance. Second, both professional accounting and non-accounting firms compete to provide SERA in this voluntary market. Differences in beliefs and practices between these two assessor groups have already been observed (O’Dwyer and Owen, 2005). Third, SER comprises softer, qualitative data and lacks helpful benchmarks, such as a net profit, to guide materiality decision-making. SER materiality decisions are more subjective. Fourth, boundaries and relationships between organisations in SER are still in a state of flux (Etzion and Ferraro, 2010).

This new institutional environment creates potential tensions between logics. Materiality is a malleable concept (Edgley, 2014) and assessor belief systems may reflect different logics. Although a stakeholder logic is likely to be common amongst all assessors (because SER operates for a stakeholder audience), we anticipate that points of

divergence in logics are likely to be observed between these assessor groups. Hybrid-logics may be evolving. The understanding of materiality amongst non-accounting organisations in SER (often from an environmental activist, engineering or consultancy background) is not constrained by professional regulation. Their expertise is in assessing risk from an environmental and community perspective. They are influenced by a strong commercial logic in seeking to establish themselves in a new field. Accounting assessors, by contrast, must adhere to professional guidance in their understanding of materiality. They are likely to be blending old shareholder and professional logics that have shaped financial reporting materiality with a new stakeholder logic in SER. Their expertise is in assessing financial impacts for shareholders. We suggest that these logics compete and may shape understandings of materiality in different ways. We evaluate the consequences for information users.

This paper has three objectives. First, our intention is to examine how assessors make sense of materiality in SER and the extent to which this differs from financial audit materiality. We investigate how assessors have accommodated a new stakeholder logic when traditionally materiality has been structured by a market and professional logic, for shareholders. Second, we examine the adaptation of materiality and beliefs that underpin new practices and technologies. We question whether competing logics encourage variations in practices to develop (Lounsbury, 2008). Third, we explore how assessors theorise and legitimise materiality as an emerging area of expertise in SER and SERA. We query how competing logics may influence beliefs about the outcome of materiality practices.

Our study used qualitative data from interviews with both accounting and non-accounting assessors and secondary data from sources of professional guidance to explore the conceptualisation and operationalisation of materiality. We focus on assessors because, although management initially make materiality decisions, more independent decisions are made by external assessors (Gray and Manson, 2008).² An interview approach was consistent with calls by O'Dwyer and Owen (2005) and Parker (2005) for more SER fieldwork. Furthermore, Messier, Martinov-Bennie and Eilifsen (2005, p. 184) specifically recommended research that examines materiality decision-making in a non-financial context,

“Research is needed to determine what is material and how is it determined when the subject matter of the auditor's report is something other than financial data.”

Materiality is one of a number of accounting concepts, such as understandability, relevance and faithful representation that have been adopted in SER and SERA but warrants analysis in its own right because it is pervasive and underpins other concepts (FASB, 1980). This paper makes two novel contributions. It is the first paper, to our knowledge, to explore, through interviews, both accounting and non-accounting assessor competing beliefs and values associated with materiality in SER and SERA. Second, it extends an institutional logics approach to the adoption of accounting materiality into a new location. It advances institutional logics studies by examining the interplay between old and new logics in the understanding of materiality in SER. It also considers the emergence of new hybrid logics that are encouraging variations in practices to develop.

The paper is structured as follows. In the following section, we outline the theoretical framework. Next, we review the literature on accounting materiality. Our methods are then described, followed by a presentation of key themes identified in the interview data. We discuss our findings, and then conclude.

2. Institutional Logics

New practices and beliefs amongst organisations have long attracted academic attention. Institutional theory provides a useful framework for investigating organisational change in key institutional fields such as the market, the state, bureaucracy, professions, the family, religion and community (Thornton, 2004; Thornton, Ocasio and Lounsbury, 2012). In our study, we view SER as a new institutional reporting field with a strong community, stakeholder focus. Ideas about materiality are spreading from financial reporting into SERA and are changing. Competing professional guidance setters and assessor firms are interpreting and operationalising the concept in different ways.

Institutional theory has previously focused on the diffusion of ideas amongst organisations, mimetic behaviours and convergence (Tolbert and Zucker, 1983). Newer approaches, referred to as institutional logics, view organisations as more varied. Individuals are likely to be influenced by multiple belief systems or logics (Lounsbury,

2007, p. 289). A logic refers to values that structure decision-making (Lounsbury, 2008). Logics are not rigid, but provide a frame of reference about appropriate behaviours (Suddaby et al., 2009; Thornton et al., 2012). Logics connect material practices with symbolic ideas, working together to form a type of order. Major changes in the behaviours and practices of organisational members draw attention to deep shifts in logics (Lounsbury, 2008). A logics approach is relevant to investigating how concepts change as they spread in an institutional field, with a focus on shifts and tensions in values.

There is a growing recognition that a change in ideas within or amongst organisations does not necessarily reflect a shift from one, dominant logic to another. Instead, multiple logics shape actions and behaviours (Lounsbury, 2008; Dunn and Jones, 2010). Dunn and Jones (2010) show how plural logics can co-exist, fluctuating over time. Tensions between logics may persist for years (Reay and Hinings, 2005). Competition between logics can create ambiguity and explains why variations in practices develop (Lounsbury, 2008). Where conflicting logics are reconcilable, new hybrid logics may emerge. A competing logic may be absorbed into a dominant logic (Suddaby and Greenwood, 2005). Within an institutional logics approach, Greenwood et al., (2002) highlight the importance of theorising change. This involves identifying the failure of existing norms and practices and the justification of new beliefs (Dacin et al., 2002, p. 48). The value of a logics approach lies in investigating how change is brought about by individuals who switch or combine logics and how this affects the interpretation of outcomes (Ezzamel, Robson and Stapleton, 2012).

As a precedent for our study, accounting practices and concepts provide a relevant context for contributing to knowledge about logics and change processes (Lounsbury, 2008). Logics have highlighted tensions between the values that accounting brings to a new context, (for example, in healthcare, between financial and medical care considerations). Logics have been used to analyse resistance to change in practices within organisations and institutions (Laughlin, 1991; Laughlin et al., 1994; Broadbent et al, 2001). Where competing logics are not compatible, it may be difficult to resolve tensions (Laughlin et al., 1994). A melding of logics can also produce tensions (Dunn and Jones, 2010).

Drawing on Thornton et al., (2012) and Suddaby et al., (2009), central to our study are three key logics: two old logics that have shaped beliefs about accounting materiality (a market logic and professional logic) and a new, stakeholder logic that has underpinned its adoption into SER. First, the core logic of the market underpins the accumulation and maintenance of material wealth (Friedland and Alford, 1991; Suddaby et al. 2009). A market rationale has shaped traditional, accounting materiality as a concept designed to protect shareholders from misleading information (Edgley, 2014). The shareholder focus of accounting materiality is crucial to investor confidence and the effective operation of capital markets.

Second, is the logic of professionalism which bridges the logic of the state (government administration) and the market. A professional logic is rooted in the public interest and commerce but independent of both (Suddaby et al., 2009). It is the exclusive right, granted to professional accounting firms by the state, to provide financial audit services. This logic frames professional guidance about financial audit and materiality practices for practitioners. It is reflected in the duty of care that auditors have to shareholders as a group. Breaching this duty of care, may result in litigation (Gray and Manson, 2008).

Third, the adoption of accounting materiality into SER introduces a new community, or stakeholder logic, into its meaning. Social factors, important to stakeholders, can substantially influence institutional change (Lounsbury et al., 2003). A stakeholder logic challenges the ethics of capitalism. It frames ideas about reporting social responsibility practices and outcomes (Harrison and Wicks, 2010). This extends the focus of reporting, from a narrow financial account, to the non-financial impacts of organisations on institutional environments. Stakeholder audiences are diverse, ranging from government and regulatory bodies to opinion leaders (legislators, the press, socially responsible investors and non-governmental organisations), employees and the general public. Opinion leaders look for evidence of the impact of corporate social responsible policies in SER. They have greater trust in company reports that adhere to the stakeholder focused GRI and AccountAbility reporting standards. Institutional investors look for an overview of corporate responsibility that fits in with business strategy

(Dawkins, 2004). Geographic location may also influence stakeholder information needs (Ernst & Young, 2012).

We mobilise logics, in our study, by examining how a new, stakeholder logic is creating changes in the understanding of materiality and practices. There was a strong likelihood that accounting assessor beliefs would be influenced by a professional logic. In making judgements, accounting assessor firms must act in the public interest. They are highly regulated. At the same time, they need to consider their reputation and commercial success. Balancing a professional and market logic (where they neither over or under-audit) is crucial for their success (Malsch and Gendron, 2013). We queried whether accounting assessors retained a traditional, shareholder focused understanding of materiality. To what extent did they accept or resist the stakeholder logic that permeates SER?

Non-accounting assessor firms, however, are not constrained by a professional logic or regulation of their activities. Their expertise is consultancy-related, in the implementation and accreditation of environmental managements systems. They are likely to be influenced by a stakeholder logic because they follow guidance produced by a stakeholder organisation, AccountAbility. Out of all the sources of guidance, the Accountability 1000 standards (AA 1000) are the most closely aligned to a stakeholder perspective through their focus on stakeholder-based materiality. This enhances the accountability of assurance statements (O'Dwyer and Owen, 2005). A stakeholder logic considers the material and ethical impact of a company on the environment and its community. The expertise of non-accounting assessors lies in the assessment and management of such impacts. At the same time, these firms are driven by a consultancy rationale (an aspect of a market logic) because they are establishing a niche role in the emerging SERA marketplace. They compete with accounting firms in carving out a market for their distinct methodology in providing assurance services that also help to improve business performance. We queried how acceptance, rejection or resistance to certain logics amongst this group of assessors, in seeking to establish themselves, influenced their understanding of materiality.

3. Background and Context

3.1 Accounting Materiality

The influence of logics in our study on SERA is observed through the conceptualization of materiality by assurors. Accounting materiality is a fundamentally important reporting principle that underpins the audit process (Gray and Manson, 2008). It has long been associated with the notion of a tolerable level of error in reporting (Power, 1997). Materiality functions as a threshold that determines significant errors or omissions, relevant to decision-making, for the benefit of shareholders. Materiality thresholds are initially the responsibility of management. Auditors then make independent decisions about materiality in reporting on whether the financial statements offer a true and fair view (DeAngelo, 1981; Beatty, 1989; Turley and Cooper, 1991; Davidson and Neu, 1993).

The conceptualisation of materiality in financial audit has been shaped by a market logic (a capitalist rationale). It was introduced into US legislation, by the Securities and Exchange Commission (SEC), after the 1929 Wall Street Crash, to protect investors and restore trust in the markets (Rutherford, 2007).³ Since then, definitions have been produced by many professional and legal bodies, in different countries. These definitions do not agree completely but share certain characteristics (Brennan and Gray, 2005).⁴ Materiality is a matter of professional judgement. It operates for the benefit of shareholders although no set of rules can be employed consistently to determine materiality in all circumstances. Materiality judgments are qualitative as well as quantitative and depend crucially on the *context* of a specific omission or misstatement (Gray and Manson, 2008).

International Standard on Auditing (ISA) 320 provides professional guidance for practitioners on materiality (IFAC, 2010). Interestingly, ISA 320 has withdrawn any formal definition of materiality, acknowledging that organisations may define materiality in different ways. Instead, it focuses on its generic characteristics. Items may be material if they could reasonably be expected to influence the economic decisions of users.

Prior research has explored materiality practices and rationales in a variety of contexts. Four key findings are apparent (Messier, Martinov-Bennie and Eilifsen, 2005). First, materiality appears to be a relative concept, contingent upon the nature and context

of an item. Second, a strong variable driving auditor materiality judgments is the percentage effect of errors or omissions on net profit after tax (Iskandar and Iselin, 1999). Broad rules of thumb may be used (such as a percentage of a base amount). Errors of more than 10% of net profit are generally considered material, with under 4% to 5% considered immaterial (Brennan and Gray, 2005). Ultimately, however, decisions regarding materiality cannot be made mechanistically (Gray and Manson, 2008).

Third, differences exist between materiality thresholds amongst management, assurors and users because of their different motivations and incentives (Messier, 1983; Krogstad, Ettenson and Shanteau, 1984; Estes and Reames, 1988).⁵ Users often have lower materiality thresholds than management, with assurors somewhere between. Amongst audit firms, factors such as firm size, auditor experience and industry may influence decisions (Carpenter and Dirsmith, 1992; Wright and Wright, 1997).

Fourth, materiality is a vague concept (Gray and Manson, 2008; Power, 1997). There are currently no agreed upon codes of practice that apply in all circumstances and thresholds are not disclosed (Gray and Manson, 2008). Interdisciplinary, critical research has suggested that materiality is a social-behavioural rather than a technical phenomenon (Carpenter, Dirsmith and Gupta, 1994). Brennan and Gray (2005) have described this vagueness about materiality as a best kept secret.

In a nutshell, materiality is a concept for *shareholders as a group*, for the purpose of financial decision-making. It has been shaped, by a market logic (a shareholder focus) and a professional logic (as a responsibility) to protect investors (Edgley, 2013). A move towards a stakeholder logic in financial reporting was briefly considered in the UK, during the Company Law Review in the early 2000's. This would potentially have extended the application of materiality to a wider audience (Company Law Review Steering Group, 2001). This idea was not pursued. Accounting materiality therefore has maintained an association with financial impacts and a shareholder focus.

3.2 A new framework for materiality in SER and SERA

International Auditing Practice Statement (IAPS) 1010 (IFAC, 1998) extended materiality to social and environmental matters in financial reporting. Such issues have

become significant to an increasing number of shareholders and should be disclosed where they have a material, financial impact on the financial statements.

The adoption of materiality into the contrasting field of SER was driven by quality concerns. With softer, qualitative data, directors have more flexibility to report information in a self-serving way, or include excessive detail. Materiality has proved appealing as a filter that sifts wheat from chaff (Sustainability, 2004).

Three prominent bodies have played an important role in the adoption of materiality into SER: IFAC and two non-accounting, stakeholder organisations (the GRI and AccountAbility). These bodies provide frames of reference for guiding reporting and redefining materiality for companies and assurers. Their definitions of materiality are different and are detailed below in Table 2.

Insert Table 1 here

IFAC has produced guidance for accounting firms on planning and conducting assurance engagements in International Standard on Assurance Engagements (ISAE) 3000 (IFAC, 2010). ISAE 3000 not surprisingly builds on a traditional accounting understanding of materiality as a threshold and professional judgment in relation to significant errors or omissions (FEE, 2002). The focus is on the reliability of data and the minimisation of assurance risk. There is, however, greater flexibility over the scope of the engagement (assurance may be restricted to part of the report) and over the level of assurance, which may be reasonable (higher) or limited (lower). The assurance statement only covers whether data is fairly stated in all material respects for a specific group of “*intended users and their needs*” (IFAC, 2010, para. 12). Under ISAE 3000, assurance may be narrow in scope. For example, Cobham plc’s assurance report provided by KMPG LLP is limited assurance of “*selected energy and carbon performance within specific highlighted data*” (emphasis added) on the sustainability section of its website.⁶

The GRI provides guidance about materiality for companies and management rather than assurers. The first set of GRI guidelines referred to materiality in traditional accounting terms. By the time the GRI (2002) guidelines were issued, beliefs about materiality had changed. Materiality was linked with other notions of Transparency, Completeness and Timeliness (Etzion and Ferraro, 2010) as a cut off point for important data,

“Materiality is the threshold at which an issue or indicator becomes sufficiently important that it should be reported. Beyond this threshold, not all material topics will be of equal importance and the emphasis within a report should reflect the relative priority of these material topics and indicators” (GRI, 2002, p. 9).

The GRI developed a graph technique to help management apply materiality. The horizontal axis plots the significance of an issue’s economic, environmental and social impacts and the vertical axis denotes its influence on stakeholder decisions (GRI, 2006).

AccountAbility has produced reporting guidance for both companies and assurers. In the AccountAbility 1000 standards, materiality is portrayed as a stakeholder-orientated concept (AccountAbility, 2003, 2006a). AccountAbility, at the time the interviews were conducted, had positioned materiality as a core-reporting concept linked to completeness and responsiveness. Assurers should assess the materiality of the entire report, with no restriction in scope (unlike the accounting guidance, in ISAE 3000).

SER lacks quantitative benchmarks, such as income or net profit to help determine the materiality of an item. Consequently, AccountAbility have designed a qualitative, benchmarking mechanism, in consultation with external stakeholders, known as the five-part materiality test. This test identifies five benchmarking criteria for material issues, comprising “policy based performance; business, peer-based norms; societal norms; stakeholder concerns; and short-term financial impacts” (Accountability, 2003, p. 4).

Materiality has been redefined in the AccountAbility guidance as “a framework that helps to align strategy, reporting and performance. Businesses need to work out what is material, and articulate this in credible ways in order to drive learning and innovation” (AccountAbility, 2006a, p.5). Materiality is relevant to managing the sustainability imperative for the long term (AccountAbility, 2006a, p. 13). AccountAbility have distanced materiality in SER from old market and professional logics, “traditional assessments of financial materiality take an overly myopic view of what drives business performance” (AccountAbility, 2006a, p. 14).

In summary, SER provides a flexible, unconstrained field that allows new beliefs and practices about materiality to develop. Key stakeholder groups, for example, socially responsible investors or opinion leaders, expect a different rationale to underpin materiality that extends beyond financial impacts. The mining industry, one of the most

heavily polluting sectors, has been encouraged by its stakeholders to assess its impact on local communities (Kyte, 2007). Indeed, an extensive list of material issues is considered relevant to key stakeholder groups, such as greenhouse gas emissions, water and energy usage, waste, hazardous spills, and biodiversity. In relation to social issues, material issues include for example, working conditions, human rights, diversity, staff benefits, and health and safety issues.⁷

Within these redefinitions, and the adoption of materiality into SER, we see old and new logics at play. In contrast to IFAC's traditional portrayal, the GRI and AccountAbility have not just borrowed, but have reinvented materiality to suit the needs of a broader stakeholder audience.

3.3 Prior scholarship on materiality in SER and SERA

There has only been limited research into materiality in SER and SERA. Deegan and Rankin (1997) observed that materiality is relevant to the presentation and disclosure of reported SER data for users. O'Dwyer (2002) emphasised that CSR is particularly vulnerable to management capture. Management can hide behind a narrow accounting understanding of materiality, only considering financial impacts, to avoid disclosures (Solomon and Edgley, 2008).

Research to date suggests that accounting assurers have maintained a traditional, accounting understanding of materiality in SER. O'Dwyer and Owen (2005, 2007), in their content analysis of SERA statements, found that accounting assurers potentially failed to consider materiality from a stakeholder perspective. Chiang and Northcott (2012) interviewed financial auditors in New Zealand about their assurance practices. Interviewees interpreted materiality in SER in a traditional way, focusing on financial impacts and ignoring aspects of environmental matters. To the best of our knowledge, we know of no prior study in Europe that has drawn upon logics to analyse the views of *both* accounting and non-accounting assurers about materiality. As significant differences have been noted in the content of the assurance report produced by these two assurers groups (O'Dwyer and Owen, 2005), a logics approach helps to explore why variations arise in beliefs and practices. A logics framework analyses rationales that influence the construction of ideas and their operationalisation. Logics can also be drawn

upon to analyse change and tensions between values as ideas develop in a new institutional field. We probe whether accounting assurers are influenced by traditional shareholder and professional logics that have framed accounting materiality. We then consider whether this competes with the stakeholder and commercial logics that may influence non-accounting assurers. The traditional logics may demonstrate a professional, risk averse approach to understanding materiality with an emphasis on the professional, reliable reporting of data for financial decision-making. This may compete with the stakeholder, commercial approach of non-accounting assurers, who may be inclined to consider broader environmental rather than financial/legal liabilities with an emphasis on improving business performance. A logics approach not only helps to explain differences in beliefs and practices but evaluates the implications for report users.

Methods

In order to investigate materiality in SER and SERA, we collected qualitative data from twenty interviews with SER assurers (12 with non-accounting assurer organisations and 8 with accounting assurers from 4 accounting firms, including one European office, over a two-year period, ending in 2007). The study is largely UK based. Norms and practices may differ in other countries which may yield fruitful areas for further research. At the time the interviews were conducted amongst accounting assurers, it was mainly the Big 4 accounting firms that operated in this area, with specialist teams, (the resource implications precluded smaller firms from competing). We conducted interviews with senior managers and partners from the Big 4 accounting/assurance firms. We also interviewed individuals at senior management level within all the prominent non-accounting assurer firms.

Prior academic research has identified a significant difference in approach between accounting and non-accounting assurers (O'Dwyer and Owen, 2005). For accounting firms, SERA has developed as a branch of audit and advisory services. Non-accounting assurer firms are often from an engineering background with assurance services having developed from their core consultancy services. Non-accounting assurers provide a broad range of consultancy services for clients as well as assurance.⁸

We adopted an interpretive approach to examining assessor understandings of materiality. This assumes that individuals understand the world differently and multiple beliefs about concepts, such as materiality, may exist (Lincoln and Guba, 1985). We examined assessor narratives to identify the extent of consensus or divergence in their experience of operationalising materiality. Measures were taken to ensure the trustworthiness and authenticity of the study (Lincoln and Guba, 1985; Lukka and Modell, 2010). Regarding the plausibility and sufficiency of the interview data, we interviewed all the major firms that provided assurance services for large listed companies and multinationals. The interviewees selected had relevant qualifications, expert knowledge and experience of senior involvement in SERA. None of the accounting assessors had initially embarked on an accounting career. This was typical of the career paths of individuals in this area. They had moved from a science or engineering or legal background into assurance services.⁹ However, they had all undergone extensive assurance training and had several years of experience working for an accounting firm. It was also usual practice for accounting assessors to work alongside a financial audit partner on an assurance engagement.

Two of the three authors were involved in the interviews, with the help of two research assistants. These assistants were both experienced interviewers and were directly involved in conducting interviews. In eight of the interviews more than one interviewer took part. This helped to ensure that responses were followed up but given the experience of all the interviewers, was not essential.

Semi-structured interviews were conducted to allow individuals to express themselves in their own words. Follow up questions were asked where appropriate. General research questions about materiality were employed (see Appendix 1) which formed a discrete section within a wider study of SERA. Interviews on materiality ranged from between sixty to eighty minutes. We asked interviewees open-ended questions: about the different sources of guidance; which guidance they preferred to follow and why; their definition and understanding of the role of materiality; how this differs from financial audit; the need, importance and relevance of materiality to SERA; how they have adapted and applied materiality to firm practices; the detailed operationalisation of materiality in SER and SERA; challenges encountered and

rationales adopted to resolve challenges. We also asked assurors for their views about how management interpreted materiality and their understanding of stakeholder information needs. Interview questions were drawn from our understanding of financial audit materiality and from our review of the SER and SERA literature. We encouraged interviewees to talk at length. A table providing contextual information about interviewees is attached in Appendix 2. Interviews were recorded. The recordings were transcribed by a professional third party audio-typist. We obtained additional secondary data sources about materiality from professional guidance (produced by IFAC, the GRI and AccountAbility). This ensured we had data from two different sources.

The software used to analyse the data was Nvivo. This added rigour and transparency to our analysis. The interviews were scanned into Nvivo and linked to the research project file. The first step was the discussion of the interview transcripts by the authors and interview assistants. The notes of these discussions were recorded and stored in Nvivo as memos. At an early stage in our analysis, fundamental differences were apparent between the beliefs of accounting and non-accounting assurors. Certain factors appeared to have influenced different beliefs. We grouped the data to distinguish between responses from accounting and non-accounting assurors. We coded the data to break it up into categories that related back to our research questions and themes (Richards, 2009). Initial codes were developed by the first author in dialogue with the second and third authors. At this stage, codes were developed, a priori, from the literature relating to definitions of materiality, sources of guidance followed, beliefs about its role and relevance, practices and user information needs.

Following further detailed discussions and analysis, the first and second authors developed additional descriptive categories to code information to themes that emerged from the data. These inductively derived categories provided deeper insights into the values and rationales that explained why different understandings and practices were emerging. We repeatedly read our data sources to check that our interpretations of connections between data and our coding structure were authentic.

Dialogue was maintained throughout the study between all three authors and consensus about our interpretations of the data was reached at all the stages of analysis. Once the data had been broken down completely so that it no longer resembled a series

of individual interviews, we reconstructed our findings in context. We found that our analysis built upon and corroborated themes that had emerged at early discussion stages of the data. This added reliability and validity to our analysis.

Through a logics lens, we analysed assessor beliefs about materiality. We identified statements that accepted/rejected or blended old and new logics. Rationales underpinning practices were analysed. We queried how assessors theorised materiality and how new practices were legitimized. We also sought to identify whether hybrid logics were emerging and whether they created changes in practices.

5. Results

5.1 Assessor understandings of materiality in SER- a stakeholder frame of reference

We asked assessors about their understanding and definition of materiality. We investigated their beliefs about its relevance to SER and SERA and asked how materiality in SERA was different to materiality in financial audit.

Assessor understandings of SER materiality were rooted in a traditional idea of accounting materiality, as a threshold concept about significant omissions or errors in information that could mislead readers. However, it was not an old concept being rolled out into a new field. Beliefs about the concept had shifted. SER materiality did not just consider financial impacts for the investment community but evaluated social impacts for a broader stakeholder audience,

“The definition of materiality in SER would be ... an item is material, when, if it is omitted, it affects the stakeholder’s or the user’s view” (I1).

Different stakeholders had diverse information needs. Therefore, assessors determined, for each client, which groups of stakeholders were most likely to use the report. This framed their judgements about material issues,

“So we do take into account that materiality is what’s material to the reader. We tend to view the reader as depending on the company, as the people who we think are the most likely to read the reports, so usually, as I said, the investors, NGOs, pressure groups if there are any, and sometimes customers” (I7).

Materiality extended to corporate impacts on the environment and the community,

“Materiality tends to be defined as whether the organisation has an understanding and is reporting on the significant issues; its environmental impact, its local community impact” (I13).

SER material issues were linked to social risks and matters of public concern. Examples included responsible resource usage, reductions in CO2 emissions, working conditions or factory protests, areas of stakeholder activism or the subject matter of corporate prosecutions (I20). Hazards for a local community were mentioned, such as chemical spills or flaring gas (I15). Material issues were essentially matters of corporate social responsibility. Some of these issues had direct financial impacts (I18). Others were sustainability/ethical issues, relevant to evaluating corporate performance, but without clear financial impacts. Assuror beliefs about SER materiality reflected a more social understanding of materiality. Interviewees all agreed that the concept of materiality was relevant to SER. It was just as important as materiality in financial audit, if not more so, because it considered the information needs of a broad audience (I18).

5.2 Changing rationales underpinning the role of materiality and ethics

We queried why materiality has been adopted into SER and SERA and rationales that underpinned its role. Although retaining its core characteristic as a threshold concept, its purpose and context had changed. Accounting materiality has traditionally been associated with financial impacts. In making materiality judgements, auditors have a moral and legal responsibility to protect the wealth of investors, as a group, from the damaging consequences of misleading information.¹⁰ In the softer voluntary reporting environment of SERA, materiality functioned as a critical, ethical lens for a wider community.¹¹ Non-accounting assurors in particular viewed the concept as a filter for the disclosure of a balanced, meaningful picture about corporate social responsibility and conduct for stakeholders. It helped to identify areas of unethical behaviour or weak governance and recommendations for improvements (I20).

First, given widespread concerns about SER being bloated, with little value, materiality was a crucial filter to make information meaningful (I18). Data dumping or over-disclosure made it difficult to assess performance. In financial audit, companies may also disclose too much and overwhelm readers. The FRC has raised concerns about

cluttered reports (FRC, 2011). In a qualitative context, such as SER, reporting non-material data is even more confusing for stakeholders. For example, a large donation by a company to a charity has a beneficial social impact but its disclosure is not material if it does not inform stakeholders about the ethicality of its core business activities and strategy (AccountAbility, 2006). Materiality was essential to focus attention on environmental and social ethical/responsibility issues that mattered to stakeholders (I18).

Second, SER concerned a different, more complex type of data (I13). With softer, qualitative information, directors could easily ignore, hide or gloss over important issues (I15). Materiality was essential to address the adequacy of disclosures and possible omissions (I15, I18). Materiality symbolised telling the whole story about an issue and not partial truths (I15).

Third, materiality considered past performance but more importantly, looked ahead to future significant environmental risks and challenges. This forward-looking aspect of SER materiality was described as an intelligent function and a type of critical ethical lens for identifying key issues for a multitude of audiences (I18). The amount of forward looking information in SER is vast. Disclosures could easily be harnessed to a self-serving management agenda. A shift to a stakeholder logic appeared to be changing materiality's role. It did not just improve the quality of historic data but could critically filter forward-looking information to anticipate important, future issues for a broad audience. In turn, this could lead to actions that might prompt a change in a company's conduct and behaviours.

Materiality therefore functioned as a stakeholder-orientated, ethical lens. This new role builds on the way AccountAbility have redefined the concept as a forward-looking concept involving judgements about meaningful data and corporate ethicality. It focused on issues that mattered, or could matter in the future, in the interaction and engagement between companies and society.

5.3 Problems in adapting materiality in SER- the necessity of a stakeholder logic

Adaptation involves change and uncertainty. How individuals resolve uncertainty can highlight the influence of particular logics. Not surprisingly, given the soft nature of

SER, materiality has been a difficult concept to adapt to SERA. We asked assurors about this challenge and evaluated which logics have influenced adaptation processes.

Problems were attributed to the absence of helpful benchmarks such as net profit to guide decisions about thresholds (I15). It was difficult to determine material items because of the qualitative nature of the data and the varied information needs of a vast readership (I14; I16).

A stakeholder logic strongly framed their problematisation of materiality. Indeed, SER materiality had to build on stakeholder engagement to make it work. In this respect, they were influenced by the AccountAbility guidance. Initially assurors depended on management to identify material disclosures,

“They (clients) have to assign some level of importance or significance to what they’re doing, and if they haven’t done that, we find it very difficult to verify” (I3).

Although this happens in financial reporting too, the softer nature of SER made materiality decisions more subjective. It took assurors longer to arrive at an informed view about material issues, especially for a new client (I13). The risk of management capture or selective disclosure of information was greater in SER (I15). This echoed the findings of O’Dwyer (2002) and Solomon and Edgley (2008). When asked if this was a problem, one interviewee commented,

“Potentially, that is one of those impossible questions which somebody has to deal with... is it better to do it at a defined level of risk, than not doing it to any level at all? It has to be that way, I think, because... you can’t get hold of what is material in this area, it’s very open to interpretation...so who else can define it?” (I6).

As one assuror further explained,

“The client must have their own ideas of what is material because they know their business. If they don’t have that then there’s no point in us sitting here saying, well what do we think because our judgment will be different from yours. That’s fundamental, the client must define it and then we have to determine whether we accept it” (I18).¹²

Given the risk of management capture of materiality, evidence that management aligned their understanding to stakeholder needs was crucial,

“If that process (stakeholder engagement) is there and it’s documented then we can use that as a way of assuring us, of getting comfort, that all the material issues are being dealt with in the report” (I15).

Assurors assessed management responsiveness to stakeholder information needs in three ways. First, they talked to stakeholder groups directly about material issues (I15; I20). Second, they evaluated the breadth of views that management considered (I16). Third, they examined management processes for engagement and minutes of meetings. Assurors might not take on a new client if stakeholder engagement processes were lacking (I18).

Given the scope for possible tension between management and assurator views of materiality, it was agreed that assurance statements should be addressed to stakeholders, and not management (I14). This was consistent with findings that stakeholder engagement in SERA was becoming a mechanism for driving forward more robust, stakeholder inclusive SER (Edgley, Jones, Solomon, 2010). A shift to a stakeholder logic has been fundamentally important in adapting materiality to SERA.

5.4 Different sources of professional guidance and multiple logics

There was consensus amongst assurors that materiality should operate for a stakeholder audience. We interpreted this as the influence of a stakeholder logic. However, points of divergence in their understanding of materiality and the influence of different logics were apparent when we asked which sources of professional guidance they preferred to follow.¹³ The interviewees recognized that the three main guidance setting bodies have redefined and framed the concept in different ways, relative to their respective organisational objectives,

“There’s the GRI...their definition of materiality in the sense of the right topics... AccountAbility 1000 is based more on a fluid and flexible approach, saying ‘understand your stakeholders and let us know what have been the significant issues that they raised, or that you are aware of, in running your operations’. Then the second state of materiality is whether the given issues that have been agreed to be reported on are accurate in a sense. That’s the one that is discussed in financial reporting” (I13).

Non-accounting assurers followed the stakeholder-orientated AccountAbility and GRI guidance. They linked materiality to the disclosure of important issues for stakeholders to help them make sound decisions about things that mattered to them. This assessor group recognised that accounting guidance existed, in the form of ISAE 3000. However, its “disciplined and objective” approach, with an emphasis on reliable but risk-averse reporting was considered narrow (I6). To illustrate this, interviewee 6 provided an example of a material issue involving a small spillage of a dangerous toxin. An assurance approach following the accounting guidance would focus on accurate reporting of the issue and would relate it back to a benchmark such as turnover or provisions or industry. This represents the professional (reliable and accurate) reporting of an issue.

By contrast, an approach following the AccountAbility guidance, would consider broader complexities. A spillage might be from contaminated land that was purchased, unknown to management at the time. The crux of the material issue was about understanding the origin of the problem and its management from a safety perspective as an environmental liability for a community (I6) rather than an accurate disclosure of the spillage. We interpreted this as acceptance of a strong, stakeholder logic by non-accounting assurers, with a focus on qualitative, community impacts. This acknowledged the existence of, but resisted a narrower shareholder focus and professional logic (with an emphasis on accurate reporting for an investment community) that underpin traditional accounting materiality.

Accounting assurers, on the other hand, were obliged, as a matter of professional ethics, to follow ISAE 3000. Yet, interestingly, they also cherry picked from other guidance (I15). They appeared comfortable with melding old and new logics. For example, they employed new technologies and practices such as the GRI materiality graph or the AccountAbility five-part test (both depend on stakeholder engagement to identify and rank material issues). They believed materiality should operate for a broad audience of stakeholders (I14) and not just a specific group of intended users (as prescribed by ISAE 3000). This suggested a shift towards a stakeholder logic. However, their beliefs were framed within the accounting guidance, underpinned by a strong professional logic. They emphasised that materiality judgements should focus on the

reliability and professionalism of the report in accordance with ISAE 3000 and the minimisation of assurance risk (I14).

All assurers drew attention to the limitations of the guidance. They considered materiality in SER to be an evolving, rather than a clearly defined notion,

“I attended an AccountAbility workshop on the materiality principle and there was still so much debate on what it really means” (I5).

Assurers therefore had considerable flexibility in their interpretation of the concept. Although this also happens in financial audit, there was greater latitude in SER.

5.5 Variations in materiality practices

The extent of the influence of divergent logics was apparent when we drilled down into the data, to compare assessor practices and objectives. Hybrid-logics appeared to be guiding accounting and non-accounting assessors’ operationalisation of materiality. Whilst there was consensus amongst all assessors that materiality should operate for the benefit of stakeholders, we found evidence of different, competing logics amongst the two groups. This tension has encouraged variations in practices to develop. For non-accounting assessors, practices focused on identifying material issues and narratives about significant aspects of non-financial performance. Reporting on the alignment of material issues with business strategy and the management of their impacts on the environment was more important than the material accuracy of the report, particularly in relation to numerical data. For accounting assessors, materiality was directed towards testing systems for recording data accurately and the reliability of the report for users. This was a more cautious, disciplined approach focused on the report content.

5.5.1 Non-accounting assessors

Non-accounting assessors, as a group, favoured an issue-focused approach to material practices. The objective was to check that management had selected the right topics for disclosure,

“In SERA, materiality is not really numbers at all, it’s more about ...subject, you know” (I4).

One interviewee commented that assurance *should* focus on material issues because mechanisms did not yet exist to enable readers to interpret numbers or make decisions based on quantitative data,

“With environmental issues, we don’t know what to do with the numbers just yet, realistically, if we’re honest about it. So actually you need assurance that the company’s doing the right thing rather than verification that the figures are right at the moment” (I11).

Above all, stakeholders required meaningful narratives (I4). Materiality practices involved determining a client’s key stakeholder groups and information needs,

“You know one of the first things that we do is basically identify, we’ll certainly double check, who their stakeholders are, who they think they are, who are their key ones and what are the material issues” (I8).

As well as directly talking to stakeholders, independent data were gathered about significant issues in the public domain, by using mapping techniques, information scans or internet searches, from websites, NGO’s and press clippings (I14; I20). Gathering data from different sources ensured that management were not ignoring important issues (I20). This assessor group favoured a freer, fluid approach to the operationalisation of materiality, *“you couldn’t put a series of numbers or guidelines on it” (I20).*

Non-accounting assessors further believed that understanding materiality from a stakeholder perspective helped their clients to address problem areas in their strategy and improve future performance (I19). Materiality was associated with doing the right thing, which in turn strengthened their clients’ environmental risk management processes (I3). As one assessor explained,

“it’s not just about checking if the numbers are right but how does that help them manage their risks, how do they respond to their stakeholders and are they reporting on their material issues?” (I19).

This added-value in understanding materiality, on the part of the non-accounting assessors, came through very clearly,

“At the end of the day, what you’re there to do is not just provide the stamp, you’re there to add value to the process, to the client’s disclosures and the client’s

management issues. Coming in to look at words and systems and count numbers doesn't exactly switch us on, but it's an important process" (I20).

An emphasis on *adding value* blurred the boundaries between consultancy and assurance, which has previously observed by O'Dwyer and Owen (2005). We interpret this as the emergence of a hybrid logic, combining a business case for materiality (underpinned by a consultancy-driven, market rationale) with a stakeholder logic. Aligning materiality to business strategy was viewed as a situation where everyone wins (I19). Materiality practices were geared towards identifying disclosures about corporate performance that would matter to stakeholders. This information provided a basis for future actions (for management and key stakeholder groups) to change or improve performance. These practices were described as assessing corporate environmental exposure from a community or societal and environmental perspective (I6).

5.5.2 Accounting Assurors

The accounting assurers, as a group, preferred a systems-based approach to materiality. We interpreted this as a dominant, professional logic, underpinning their practices. The emphasis was on assessing the adequacy of a client's systems for gathering data, professionalism and the reliability of the report. Materiality operated on at least two levels, an issue and a data level, with equal importance assigned to both,

"Materiality operates in terms of what are the issues. It could be issues purely in terms of global impact...and there's also materiality around if you get to a number. Well is the number wrong? If it is 10% adrift, is that significant? And at every level the benchmark is 'what is this information used for' because materiality has to be dealt with in that context" (I18).

Accounting assurers, in their practices, were prepared to combine the strengths of the AccountAbility standards and ISAE 3000 (an approach now endorsed by the Dutch Accounting Body, Nederlands Instituut van Registeraccountants (NIVRA)),

"A small assurance provider or a consultant can say I've done AA1000 and all the issues are in the report so it's materially complete, whereas they haven't looked in detail at the accuracy of the numbers [but] there is no requirement for an

accountant under ISAE 3000 to look at whether the report as a whole is complete. So it's one of the reasons I like the combination of the two approaches" (I15).

This assessor continued to explain,

"If you use the AccountAbility five-part materiality test to identify a list of issues, you actually come up with a list of relevant issues not material issues" (I15).¹⁴

The importance of a two-stage process in materiality judgments was emphasised. First, the relevance of the issue should be considered and then its completeness. Ignoring completeness could result in the selective or partial reporting of issues. One assessor drew attention to the potential misuse of partial reporting in the context of the global usage of carbon dioxide,

"The problem with materiality is that you can deal with it at a number of levels.....take.....a gas company... and Carbon Dioxide emissions, there might be a description of a 'super duper' project they're doing in ...Brunei, as a case study, but all the problems they've got with flaring gas in South America or Colombia or somewhere isn't mentioned. So you've got part of the story and you've got a material omission" (I15).

A systems based approach to assurance was essential to assess how clients collected data about non-financial indicators such as CO₂ emissions, energy or water usage. Clients often had immature systems for recording non-financial data and relied heavily on external assurance to detect material errors in data (I15).

Formalised practices were apparent. A rule of thumb to assess the materiality of numerical data of between 5% and 10%, not dissimilar to financial audit, was used. Other analytical procedures were also used such as assessing directional trends, flowcharts and matrices (I14; I15). Accounting assessors understood the traditional technical complexities of mobilizing the materiality concept in consolidating information, within group reports, such as CO₂ emissions (I14) and ranking the importance and reliability of items (I14). Also materiality judgments were client specific, depending on a specific set of client circumstances, which were unique (I14).

Similar to non-accounting assessors independent data were gathered from the public domain. Assessors were then in a position, where they had evidence, to challenge management about omissions,

“We talk to our clients about issues that we think, based on our analysis, should be in the report. If they [managers] can demonstrate in their stakeholder engagement that an issue is not material, then that’s ok but it’s very hard if you do a media search, internet search and you get 5 hits on a subject and it’s not in the report” (I15).

The majority of accounting assurers (but none of the non-accounting assurers), linked materiality with assurance engagement risk,

“There’s a definition of materiality that we as an assurance provider have in delivering our work, so that is what is the risk of misstatement” (I13).

Accounting assurers, consistent with ISAE 3000 (para 12), adopted a risk based approach to materiality decisions, linked to concerns about legal liability,

“Yes I think we (accounting assurers) are more aware of risks and we have deeper pockets. You will not see a multi million claim on a small engineering firm because they know that they will never pay it. So we are more aware about risk and risk management... Sometimes we are jealous that they (non-accounting assurers) do not have these constraints but it’s managed very carefully I would say” (I14).

Examples of litigation risk were cited,

“There are some companies, who will remain nameless, who had reserves numbers in their environmental reports (that) their assurance provider signed off. That reserves number proved wrong and the assurance provider may find themselves in court” (I18).

Although none of the accounting assurers were accountants by background, their audit training was within a professional firm. Assurance partners worked closely with financial audit partners (I14). Their understanding of materiality was strongly influenced by accounting firm culture,

“We are in the accountancy firms and I’m not an accountant by the way but we live under very rigid standards and regulation...based on that long track record, and body of knowledge from accountancy...There are certain things in the philosophy of accountants that I think are fairly valuable for this process” (I14, emphasis added).

Their practices suggested a shift towards a stakeholder logic, but this acceptance has been absorbed within a rigorous, professional approach. This again, we interpreted as a hybrid logic. There was a strong concern to minimise assurance risk and a focus on the reliability of the data for stakeholders. The focus was on the professionalism and the accurate content of the report. It was about reporting information that was not misleading. This contrasted with the more commercial approach of the non-accounting assurers which focused on a company's performativity (i.e. improving performance and the management of material issues).

5.6 Theorisation and legitimisation of different practices

Hybrid logics, arising from an interplay between competing logics, appeared to be encouraging variations in assessor practices. For non-accounting assurers a stakeholder logic was melded with a business case or commercial logic for materiality. From a consultancy perspective, materiality could add value for management and stakeholders by aligning business performance and strategy in the effective management of material issues. For accounting assurers, a stakeholder logic has been absorbed within a professional logic. We probed how the different assessor groups theorised and legitimised their different practices. Hybrid logics influenced their interpretation of outcomes, in distinct ways.

Non-accounting assurers were critical of the cautious, professional logic of accounting assurers (which echoed observations made by O'Dwyer and Owen, 2005). Accounting firms were considered to be,

“great with numbers and data but they struggled with the narrative, softer issues such as community, philanthropy, social and ethical issues” (I20).

They over-emphasised the importance of data accuracy,

“Say, carbon dioxide emissions, if you've seen somebody with a financial background go at it, they get really hung up in all the maths and the stuff behind it” (I1).

Accounting assurers were viewed as narrower in their construction of materiality. They tended to relate the materiality of an issue and corporate exposure back to a benchmark rather than environmental implications (I6). Non-accounting assurers legitimised their

own, different, softer approach as an alignment of materiality in SERA with responsible business planning and strategy. The value of this outcome lay in identifying, not just material impacts, but areas where socially responsible policies needed improvement. This assessor group disclosed recommendations about the management of material risks, in the assurance statement, for stakeholders.¹⁵ Providing advice, visible to readers, about materiality management, emphasised a stakeholder and consultancy-driven market logic.¹⁶ Indeed, making recommendations was viewed as a duty (I20).

In contrast, the accounting assessors were critical of the consultancy driven, market logic of non-accounting assessors,

“What I can see with the consultancies, the engineering consultancies, they are rather liberal in their view about mixing advice and giving assurance” (I14).

In focusing on issues and advice, they overlooked the relationship between materiality, evidence and the reliability of data,

“So the implication for the reader might be the whole report is reliable, when they haven’t actually done sufficient work” (I15).

Gathering sufficient evidence about material issues should involve careful planning and a systematic, defensible approach (I7). Accounting firms endorsed the benefits of a professional logic, and a risk based approach to assurance. High-risk clients, with unreliable systems, would not be taken on,

“We can lose as a firm our accreditation. It’s very serious for us, risk management and I’ve never seen it in engineering consultants (I14).

A strong professional logic shaped accounting assessor beliefs about the outcome of materiality in SERA. The value of this approach lay in enhancing the reliability of reports and recommendations to management were private. The content of accounting assessor statements was formulaic (covering the scope of the engagement, guidance used, work performed and a conclusion) and the value of their work was less visible, for users,

“If you look at the report you will not see, after our work, what changes were in the report and there are sometimes significant changes in the report based on our work. The reader would not see it, and this is the internal value” (I13).

This reinforced an idea of materiality as a secretive matter of professional judgement and expertise, previously observed in financial audit materiality.¹⁷

6. DISCUSSION

This section discusses how our paper advances studies in institutional logics. Logics have not been used as a means of interpreting developments in the understanding of the materiality concept in SER before. We consider the influence of competing logics on assessor behaviours and practices. We also address several key questions about the role, and relevance of materiality in SER, compared to financial audit.

6.1 Institutional logics and materiality in SER

Following the adoption of materiality into SER, its meaning and practices have changed. Several factors have encouraged changes to take place: first, the malleable nature of the concept lends itself to reinvention (Edgley, 2014); second, the voluntary, unconstrained nature of SER provides a flexible frame of reference for multiple beliefs to develop; third, SER is more subjective; fourth, is the presence of heterogeneous guidance setters and assessors; and fifth, is the introduction of a new stakeholder logic into this field, something that financial reporting has always resisted (Company Law Steering Group, 2001). These factors have provided scope for interplay between logics.

The GRI and AccountAbility adopt the symbolic idea of materiality as a threshold concept, but are drawing on a community orientated, stakeholder logic to adapt and reconstruct the concept in SER. This process of copying an accounting concept and then differentiating it from traditional beliefs, has previously been interpreted as a mechanism for building influence in a new field (Etzion and Ferraro, 2010). Linking materiality with new scientific practices (or technologies) such as the AccountAbility five-part test and graphs, both designed in partnership with stakeholders, has helped to standardise and legitimise new practices. IFAC on the other hand has maintained a more traditional understanding of materiality as a matter of professional judgment about the reliability of the report.

A mix of old and new logics has influenced assessor practices. Indeed, a hybridisation of logics is encouraging variations in practices between the two assessor groups. Non-accounting assessor firms have identified with a stakeholder logic. We also saw evidence of a business case for materiality amongst this group (linking materiality to a consultancy rationale). This melding of a stakeholder and commercial interpretation of

materiality, reflects the expertise of these firms in providing advice about environmental management systems and accreditation. Indeed, the focus of materiality, for this assessor group, has shifted away from the report, towards improving corporate performance and aligning materiality with strategy.

For accounting assessor firms, a contrasting set of factors have influenced hybridisation in a different direction. First, the firm itself has technical expertise about traditional accounting materiality. For example, accounting assessors understood the complexities of applying materiality to consolidated reports. They retained a strong shareholder logic where errors in SER data could translate into financial impacts for shareholders. They also were influenced by a professional logic, recognising a responsibility to a client and users to carry out assurance practices rigorously. In addition, they sought to produce a professional report, emphasising discipline and accuracy, to minimise possible exposure to legal liability. Second, a mix of reporting guidance has influenced this assessor group. They have not ignored pressures to shift to a stakeholder logic from a shareholder focus. Indeed, they viewed information users as a broader group, than ISAE 3000 requires. This open-mindedness may result from their broader experience prior to joining an accounting firm. We noted that senior partners in the Big 4 firms networked closely with stakeholder organisations including AccountAbility. A professional logic was, however, dominant. The focus of materiality was on the reliability of the report and improving a client's systems for recording data. The stakeholder logic was secondary to a professional logic

Our observations confirm the findings of Carpenter et al., (1994) that materiality is a social-behavioural phenomenon, strongly influenced by a firm's culture and objectives. The way in which the two different assessor groups theorised the concept, particularly its outcomes, reinforced their respective jurisdictional strengths and values. For non-accounting assessors, a consultancy-orientated rationale, with no concern about legal liability, framed a performative understanding of materiality. The outcome of materiality was theorised as giving visibility, in the assurance report, to areas for improvement in relation to material issues. For accounting assessors, approaches to materiality decision-making were structured and systems orientated. The outcome of materiality was viewed as less visible to users (i.e. advice about the management of material issues was not

reported in the assurance statement) but an essential difference that accounting-assurors made to the quality of reporting. These conflicting beliefs as to whether opinions about material areas for improvement should be visible or invisible in the assurance statement, may explain why O'Dwyer and Owen, (2005) found little evidence of a consideration of materiality from a stakeholder perspective in their content analysis of accounting assurator statements.

With a highly subjective reporting concept, such as materiality, variations in practices and different beliefs about outcomes may create confusion. Users may not recognise that materiality decisions are localised and dependent on a mix of logics. Decisions may differ according to assurator firm culture, the agreed engagement scope, the extent of stakeholder engagement (between management, assurors and stakeholders) and sources of professional guidance. However, interplay between logics that encourages variations in practices has advantages too. Ideas are able to develop freely, unconstructed by regulation and tradition. Over time, this may encourage debate about best practice.

Our findings are also relevant to understanding how an interplay between logics continues to influence the development of guidance in SER. Dunn and Jones (2010) observed that plural logics can co-exist, fluctuating over time. Such tensions may persist for years (Reay and Hinings, 2005). For example, initially, the AccountAbility guidance distanced its beliefs about materiality from the professional logic that underpinned ISAE 3000. The risk averse, disciplined approach of the latter, for intended users, may have seemed too narrow when AccountAbility was promoting SER and SERA for a wide, stakeholder community. The AccountAbility standards were subsequently revised in 2008. The two major changes made (allowing two levels of assurance and formalising assurance engagement acceptance procedures) removed a major point of divergence between the AccountAbility assurance standards and accounting guidance. These changes were underpinned by a professional logic. This shift signaled recognition of how the scope of an assurance engagement affects the context in which assurors make judgements. We interpret this as evidence of a continuing interplay between logics that influences the development of practices.

6.2 Reflections about materiality - some key questions addressed

A number of questions about materiality were posed in the introduction. Why has a core concept, linked to economic decision-making, been adopted in a new reporting field that places corporate social responsibility at its heart? Is the concept of materiality relevant to SER and if so, how? How is the concept of materiality in SER different to materiality in financial reporting? What rationales underpin the concept? How has materiality been adapted to SER? To conclude our discussion, we address these. Materiality has been adopted in SER because of concerns about the quality of SER in a soft, unregulated arena. The scope for omissions in data or partial disclosures is a key problem. Materiality is relevant to SERA because it focuses on data that should be included and filters out clutter. It addresses uncertainty in reporting and social risks. In SER, risks for stakeholders are ultimately related to an absence of relevant, reliable information about corporate material impacts. These may affect business strategy, a community, working conditions, wider society, the environment, or climate change.

Materiality in SER is therefore significantly different from materiality in financial audit. Although contingent upon the idea of a threshold, or filter, a new stakeholder logic links materiality to social responsibility issues (as opposed to a purely, short term, market logic). It not only considers past data but is a forward looking lens.

The more subjective nature of materiality in SER and SERA makes it susceptible to management capture. Also, a mix of stakeholder, professional and shareholder logics underpin the way it is understood and operationalised by assurors. Therefore, a shift to a stakeholder frame of reference that recognises the value of stakeholder engagement in assisting the determination of material issues from a user perspective has been essential to its adaptation in SER. By contrast, in financial audit, such close involvement with information users is neither common place or encouraged. Sufficient expertise lies with auditors, but this is not the case in SER.

Our study highlights a strong association, particularly by non-accounting assurors, between materiality and important, ethical issues. Materiality operated as a type of critical ethical lens in checking that disclosures provided a complete story about responsible corporate conduct. Materiality focused on issues that mattered. This was not only about reliable data but could enable management and stakeholders to change

conduct. This shifts its focus away from accuracy in reporting to the inclusion of key areas of performance. This change in emphasis within materiality in SER and SERA is relevant to understanding why the newly formed Sustainability Accounting Standards Board (SASB) is mapping material issues by industry sector and calling for sector specific materiality and sustainability standards. In an uncertain reporting arena, the idea of *material issues* by industry is appealing as a standardised template for reporting (Eccles et al., 2012).

Materiality remains, however, a rather vague concept. This is the case too in financial audit but in SER, this vagueness was accentuated. Our study potentially adds to an understanding of the materiality concept generally. Materiality decision-making in practice could be viewed as a type of patchwork (Law and Mol, 2005).¹⁸ In SER, judgments about materiality are localised, varying from firm to firm, and context to context. Materiality decisions are the result of negotiation and engagement between assurors, management and key stakeholder groups. Decisions appear rational in their individual locations. However, it is problematic to construct a coherent, clearly defined, understanding of materiality when multiple logics underpin its operationalisation.

7. Implications and conclusion

This article presents new evidence about the influence of logics on SERA. An interplay between logics was observed through the conceptualisation and enactment of the materiality concept by both accounting and non-accounting assurors. The materiality concept is an essential but problematic concept in the audit process. Following its adoption into SER and SERA, central to our study is the introduction of a new, stakeholder logic into its meaning. We analysed the findings of interviews with assurance providers to explore how changes in the understanding and operationalisation of materiality in SERA have been influenced by an interplay between old and new logics. SER is a rich field in which to explore logics because of its qualitative, subjective nature and the absence of uniform regulation, among competing accounting and non-accounting bodies and firms. The framework of SER is shaping materiality to cope with the demands of softer, uncertain data and diverse user information needs.

Materiality in SER shares a threshold characteristic with accounting materiality but has shifted towards a stakeholder focus, emphasising the social and environmental impacts of corporate non-financial performance and the importance of stakeholder engagement. A key finding of the paper is how tensions between old and new logics have encouraged the development of hybrid logics amongst the two assessor groups, in different ways. Amongst non-accounting assessors, a business case for materiality melds with a stakeholder logic, focusing on corporate performance. Amongst accounting assessors, a stakeholder logic has been absorbed into a professional logic, driven by a liability constrained market logic. For non-accounting assessors, materiality was a highly visible concept drawing attention to areas requiring improvement in performance in the assurance statement. For accounting assessors, materiality was invisible, related to the reliability of reports and not referred to in detail in the assurance statement.

Accounting assessors point to a need for materiality decisions to be embedded in a systems-based approach to SERA, based on the traditional strengths of accountants, and a professional logic. They expressed strong concerns about a lack of reliability in SER data produced by weaknesses in controls over non-financial systems. This in turn affected materiality judgments. Managers often relied on assessors to identify material omissions or errors in reported data. A focus on the reliability of the report also aligned materiality with the desire to minimise the risk of litigation. For non-accounting assessors, materiality decisions should be performative rather than normative. Materiality helps companies to improve their SER strategy and performance. This linked materiality with consultancy objectives. These variations in practices and understandings reflect divergent organisational priorities and highlight the extent to which materiality is a social and behavioural phenomenon.

Localised interpretations of materiality are emerging which may be rational in context, but problematical when attempting to create a consistent, operationalisation of materiality in SER. This has implications for information users which we highlight below and we also identify areas for future research.

First, an interplay between multiple old and new logics is advantageous, as it encourages the exploration of different aspects of materiality. However, this constrains its usefulness as a screening mechanism. Stakeholders need to understand that hidden

factors, such as assessor culture, engagement scope and the extent of stakeholder inclusivity in SER and SERA, can influence interpretations of materiality. If such issues are not addressed, this potentially widens an expectations gap between users and assessors. More research could fully address these factors.

Second, there is a need for increased debate and disclosure generally about materiality in SERA to improve its quality, transparency and consistency. Dialogue should be encouraged between managers, assessors and users regarding best practice. A stakeholder inclusive approach should strike a balance, for example, between the reliability of data and material issues. Both are important.

Third, there is an urgent need for consistent, professional guidance about materiality. The International Accounting Standards Board (IASB) acknowledges that the application of the concept in financial reporting is a major source of disclosure problems in financial reporting. It is responding to calls for further guidance. This may be challenging but such a project could start by undertaking research that looks across jurisdictions and disciplines, both accounting and auditing guidance, case law, academic literature and regulatory guidance (IFRS, 2014). The same applies equally to the concept of materiality in SER and SERA. Research could be conducted by guidance setting bodies into different perspectives held by stakeholder groups. This could investigate factors that are causing uncertainty in reporting and could enable a stronger dialogue about materiality to develop. One of the major limitations of the current study is the absence of stakeholder views about materiality. A wider study that looks more closely at stakeholder understandings of materiality and the expectations gap in SER could encourage discussion about changes in behaviour in the preparation, assurance and review of reports. This could help the development of guidance in this area. Further research into the importance of other reporting concepts such as understandability, relevance and faithful representation would also be helpful.

Materiality in SERA is still in its infancy, but developing. Currently, it reflects the evolving nature of this new reporting field. The next stage in its evolution is crucial if a more consensual rather than a patchwork understanding of materiality is to develop. AccountAbility (2013) recently reported that SER materiality is increasingly relevant to effective governance and corporate valuation. This perhaps adds weight to the findings

of our study, that understandings of materiality are fragmented, underpinned by multiple logics. Certain logics are emphasised at different times in particular contexts. The findings of this study are therefore relevant to future debate about materiality in SER, especially given the emergence of integrated corporate reporting (KPMG, 2010) and calls for sector specific materiality and sustainability reporting standards (Eccles et al., 2012). This again radically changes the context in which materiality decision-making is made.

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Notes

¹ We are grateful to an anonymous reviewer for suggestions that have strengthened our articulation of the objective of the study.

² The concept of independence is central to accounting professional ethics and the quality of financial audit. A more independent professional judgment is reached by parties that are external to a company.

³ “The term “material,” when used to qualify a requirement for the furnishing of information as to any subject, limits the information required to those matters as to which an average prudent investor ought reasonably to be informed before purchasing the security registered,” (United States Securities and Exchange Commission (SEC), Regulation S-X, 1933).

⁴ Differences between the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) definitions are currently being addressed in a joint accounting conceptual framework project. Both Boards’ current position is that no general standards of materiality can replace human judgment.

⁵ Materiality remains controversial. Currently, it is the subject of consultation by the European Securities and Markets Authority (ESMA, 2011). The IASB has also recently made an announcement about undertaking a project about materiality and uncertainty.

⁶ [http://www.cobhamsustainability.com/media/20734/Independent2012Limited assurance StatementbyKPMG.pdf](http://www.cobhamsustainability.com/media/20734/Independent2012Limited%20assurance%20StatementbyKPMG.pdf)

⁷ This list can be viewed at <http://web.ifac.org/sustainability-framework/imp-sustainability-performance>.

⁸ Such consultancy services would include preparation for, and accreditation under, ISO 14000, the EU Eco-Management and Audit Scheme or other specific projects to improve business sustainability performance and strategy.

⁹ For one accounting assessor firm, a science background was a prerequisite for a career path in SERA.

¹⁰ A moral responsibility refers to norms or duties that guide interactions between individuals and is often interwoven within legal or social power structures.

¹¹ The term ethical lens is used in the sense of arriving at a judgement about ethicality. Sparks and Pan (2010) summarise an ethical judgement as an evaluation of the degree to which behaviour or a course of action is ethical or unethical.

¹² This follows the professional guidance. Both AccountAbility (2006a, p. 50) and the Fédération des Experts Comptables (FEE, 2002, paragraph 27) have both stated that the determination of issues, likely to be material to the long-term success of corporate strategy are the responsibility of the company rather than the assessor.

¹³ We are grateful to an anonymous reviewer for drawing attention to the importance of emphasising this point.

¹⁴ This comment echoed aspects of a long-running debate in the accounting literature on the trade-off between the concepts of relevance and reliability in materiality decision-making in financial audit in SFAC 2 (FASB, 1980).

¹⁵ As an example, one non-accounting assessor firm disclosed in a 2006 assurance statement a recommendation that company X should continue to strive for alignment to the principles of AA1000 in its future sustainability reporting and assurance, and should

update this to reflect feedback from the 2006 stakeholder dialogues. This should both help identify and manage material risks and support value creation.

¹⁶ As an example, illustrating this point, the Bureau Veritas assurance statement for Nestlé in 2009, and a visible opinion on materiality, states,

“Building on previous years, the assurance process was designed to understand how Nestlé identifies its material risks and emerging issues in a continually changing environment, and to challenge Nestlé’s in its CSV implementation, performance and reporting...Nestlé has further improved clarity in the reporting of its CSV governance, accountability and management structures in its reporting. In particular this has been achieved through additional disclosure over its approach to materiality determination and the newly formed CSV Alignment Board. Looking forward, Nestlé should now demonstrate to stakeholders how these governance mechanisms are used to inspire and empower individual markets towards business decisions aligned with its overall CSV aspirations.”

(http://www.nestle.com/asset-library/Documents/Creating%20Shared%20Value/About_reporting/BV_statement.pdf)

¹⁷ As an example, the KPMG assurance report on Cairn Energy 2008 is more focused on steps taken and procedures. It is concluded,

“Nothing has come to our attention that causes us to believe that the description of Cairn Energy’s adherence to the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, marked with the symbol + in the Report, is not, in all material respects, fairly stated in accordance with the GRI reporting principles for defining report quality.”

¹⁸ Law and Mol (2005) use patchwork metaphor to describe, in sociology, how our relationship with material objects in a material culture, is constructed in a social context. Material and social processes are produced together in situ. Localised understandings of materiality emerge.

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TABLE 1 Definitions of Materiality in SER Guidance

Table 1	Definitions of SER Materiality in Guidance	
Organisation	Description	Definition
International Federation of Accountants (IFAC)	The global organisation for the accountancy profession.	<ul style="list-style-type: none"> • Misstatements, including omissions, are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • Judgments about materiality are made in light of surrounding circumstances. • Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. (IFAC, 2010, ISA 320, p. 314).
AccountAbility	<p>A non-profit global, consultancy organisation.</p> <p>A multi-stakeholder network.</p> <p>Promotes accountability in reporting.</p>	<ul style="list-style-type: none"> • Materiality determines the relevance and significance of an issue to an organisation and its stakeholders. • A material issue influences the decisions, actions and performance of an organisation or its stakeholders. • Stakeholders need to know which material issues are relevant to the sustainability performance of the organisation. (AccountAbility, 2008b, p. 12).
The Global Reporting Initiative (GRI)	<p>A worldwide stakeholder network of experts.</p> <p>The GRI guidelines focus on standard disclosures in three reporting categories (economic, social and environmental).</p>	<ul style="list-style-type: none"> • The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental, and social impacts. • Materiality is not limited to topics that have a significant financial impact on the organization. It considers wider impacts that would substantively influence the assessments and decisions of stakeholders. • The concept of a threshold is important in sustainability reporting. • GRI 3, 2000-2006, p.8).

APPENDIX 1

Interview Questions

What sources of professional guidance does your firm follow?
What is the nature of materiality in SER and SERA?
What definition of materiality do you use when auditing SER?
Do you think materiality is as important and relevant for SER as for financial audit?
How is materiality in SER different from materiality in financial audit?
Is this the same definition that is used for auditing financial information?
What processes do you have in place to check that all material information is included in the SERA?
Could you comment on the potential usefulness/materiality of corporate social and environmental narrative reporting to users and capital market participants such as analysts?
What do you consider stakeholders' expectations are in relation to SERA? How does materiality benefit users?
Do you consider there to be an expectations gap in this regard? (i.e. stakeholders expect more than companies can provide.
What do you use as a proxy for financial analytical review techniques in assessing the risk of a material error?
In operationalising materiality, could you give us examples of techniques you use to verify data provided to you and assess materiality?
In your view, what criteria are important for SERA? From the following, which are of relatively greatest importance? <i>True and fair. Consistency. Completeness. Reliability. Balance. Fair Representation. Understandability, Stakeholder Inclusiveness. Responsiveness, Transparency, Materiality</i>
In SERA, how do you reduce risk to an acceptable level for your client in relation to materiality?
Approximately what proportion of the data you receive is verified?
What problems have you encountered in operationalising materiality?
Have you developed firm specific guidance on materiality?
Is management capture of materiality potentially a problem?
Is there any inter-relationship between materiality in SER and financial audit?

How do you identify material issues for key stakeholder groups

Appendix 2
Information about interviews

Interview Number	Firm*	Interviewee Role	Qualifications
1**	NA	Senior manager- Environmental Team	Science degree
2**	NA	Senior manager	Higher degree Environmental Science
3**	NA	Director	Chartered Planner
4	NA	Senior manager	Environmental Science background
5	NA	Joint interview with a Director and Senior manager	Higher degree Environmental Biotechnology/Geography degree
6	NA	Senior manager	Higher degree Geology
7	AA	Senior manager and consultant	Physics degree
8	NA	Senior consultant	Geography degree
9	AA	Senior manager since promoted to partner	Environmental science background
10	NA	Senior manager	Chemistry degree
11	NA	Senior manager sustainability development	Higher degree Environmental Technology
12	NA	Joint interview with two senior managers	Higher degree pollution management/Higher degree Geology
13**	AA	Senior manager	Higher degree Environmental management
14**	AA	Partner	Higher degree natural sciences
15**	AA	Senior manager	Degree biological science
16**	AA	Senior manager	Higher degree environmental business administration
17**	AA	Senior manager	Higher degree environmental management
18	AA	Senior manager	Legal qualification
19	NA	Joint interview with a business manager and senior consultant	Higher degree Science/NGO experience
20	NA	Head of sustainability – global role	Higher degree engineering

*NA signifies a non-accounting assurator firm, AA an accounting assurator firm

**Indicates where more than one interviewer was present