A comparative analysis of strategy disclosure reporting trends in South Africa in 2010

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ABSTRACT

In South Africa, the King II Report on Corporate Governance recommended that organisations should produce a sustainability report some time during the reporting cycle (IOD 2009: 13). The latest version, King III, places the emphasis on integrated reporting (Roberts 2009: 14). Integrated reporting entails the publishing of both the sustainability report and the annual report at the same time (Rea 2010: 13). King III thus recognises that strategy, risk, performance and sustainability are inseparable (Mammatt, Marx & Van Dyk 2009: 22). Therefore, the integrated report must contain information that is forward looking and gives strategic direction. The objective is to indicate the long-term sustainability of the organisation against the current financial performance (Roberts 2009: 14). In as far as the sustainability aspect of the integrated report is concerned, King III recommends the use of the Global Reporting Initiative (GRI) G3 Guidelines as a generic sustainability reporting framework (PwC 2010: 4).

From the above, it is clear that organisations should provide information for stakeholders on strategy as part of the disclosure requirements. The specific level of strategy disclosure by organisations in public documentation is not a well-researched area in South Africa. Some studies (Rea 2010; Kolk 2010) did report on the level of GRI reporting by industry and companies within industries, while others (Santema & Van de Rijt 2001; Santema, Hoekert, Van de Rijt & Van Oijen 2005) probed general strategy disclosure trends in Europe and South Africa (Padia & Yasseen 2011).

The rationale behind this study is to determine the specific level of disclosure of strategic information in annual and sustainability reports. With this aim in mind, three strategy disclosure baselines were created

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to determine the level of strategy reporting. The foundation of Baseline 1 was the GRI G3 Guidelines (GRI 2006); Baseline 2 was based on aspects associated with strategic architecture (Ungerer, Pretorius & Herholdt 2011: 144); and Baseline 3 included business model elements (Osterwalder & Pigneur 2010: 14).

The study focused on 24 companies in South Africa with GRI G3 aligned reports covering five industry sectors (Banking, Construction and Materials, Energy and Natural Resources, Mining and Metals, and Retail). The annual and (if published separately) sustainability reports published by these organisations during the 2010 calendar year formed the main data source.

The study found different disclosure levels between industries ranging from 81% aggregate average for the Energy and Natural Resources sector to 54% for the Banking sector. The disclosure levels per baseline varied from 57% for Baseline 2, to 66% for Baseline 3 and 68% for Baseline 1.

Key words: strategy, strategy disclosure, strategy transparency, integrated reporting

Introduction

Corporate reporting has been the subject of much debate in recent times. The focus of this debate has not been the financial statements, but rather the information that puts it into context – also known as the narrative. Traditionally, financial statements alone have dominated corporate reporting models. Currently, however, users and preparers of financial information have realised that financial statements provide only a limited perspective on business performance, with the information being inherently biased towards short-term results (PwC 2007).

Effective narrative reporting facilitates an understanding of the real value drivers within a business. It should demonstrate why the firm's strategy is the best one to drive the business into the future, and it needs to satisfy the informational requirements of investors and other stakeholders (CICA 2008). Core to these informational demands is information relating to the strategy of the organisation in question. Strategic information is forward looking and it is about 'intent' (Hamel & Prahalad 1989: 64; Porter 1996: 68). Stakeholders need to have insight into a company's strategy in order to assess a variety of factors such as the competence of management, whether the strategy incorporates sustainability issues, or simply whether the strategy seems viable (KPMG Australia 2008).

Disclosure of strategic information, however, carries inherent risks along with the benefits. Companies cannot be expected to divulge all their strategic information and put their success, or even survival, at risk. Balance is required when assessing the needs of stakeholders. In this context, shareholders stand to lose most if the strategic information disclosed leads to unintended advantages to competitors. In essence, companies need to publish information that is relevant yet non-detrimental in a competitive environment. With this in mind, the extent to which companies report on their chosen business strategies in selected industries in South Africa is investigated.

Literature review

The need for transparency in the disclosure of strategic information

"Transparency is the openness of an organisation with regard to sharing information about how it operates. Transparency is enhanced by using a process of two-way, responsive dialogue" (GEMI 2004:1). Transparency entails engaging with organisational stakeholders in open communication (Lazarus & McManus 2006: 924). Transparent organisations share information with stakeholders in such a way that stakeholders can gain insight into organisational issues (Dubbink, Graafland & Van Liedekerke 2008: 391).

Due to changes in media and information technology, transparency has risen to new levels. As a result, organisations are under scrutiny, and stakeholders can access information on corporate behaviour, operations and performance at the click of a button. Hence, consumers are now in a position to evaluate the true value of products and services, and employees can share information about management, challenges and strategy (Tapscott 2005: 17).

Nevertheless, the transparency decision is guided by weighing the advantages and disadvantages that stem from disclosure of information (Kolk 2010: 368). As indicated in Table 1, there are numerous advantages and disadvantages that stem from transparency. One of the advantages is that it creates a state of trustworthiness among stakeholders and organisations. In addition, transparency enables stakeholder dialogue (Lazarus & McManus 2006: 928). This dialogue could foster improved client relationships and could lead to product and service innovations, which in turn could result in a competitive advantage for the organisation (Lazarus & McManus 2006: 925).

Table 1: The advantages and disadvantages of transparency in disclosure of strategic information

Transparency advantages	Transparency disadvantages
Enhanced ability to track progress against specific targets	Doubts about the advantages it would have for the organisation
Facilitating the implementation of an environmental strategy	Competitors are not publishing the same reports
Greater awareness of broad environmental issues throughout the organisation	Customers are not interested in it; it will not increase sales
Ability to clearly convey the message internally and externally	The company already has a good reputation for its environmental performance
Ability to communicate efforts and standards	There are many other ways of communicating about environmental issues
Improve all-round credibility from greater transparency	It is too expensive
Licence to operate and campaign	It is difficult to gather consistent data from all operations and to select correct indicators
Reputational benefits, cost savings, identification, increased efficiency, enhanced business development opportunities and enhanced staff morale	It could damage the reputation of the company and have legal implications which will wake up 'sleeping dogs'

Today, a company's 'licence to operate' is largely dependent on reporting beyond the financial area and being transparent about those strategies affecting stakeholders (GEMI 2004: 1). Some benefits of transparent reporting include improvements in company reputation and market ratings, lowering of the cost of capital, and the attraction of superior talent (CICA 2008: 3). "Successfully addressing this ethical expectation (transparency) is more than a source of competitive advantage; it is key to gaining the trust of employees, current and potential customers, partners, and even competitors" (Vaccaro & Fontrodona 2010).

However, there is always the danger of revealing proprietary information to competitors, which will put the organisation at a disadvantage (Lazarus & McManus 2006: 932). In addition, from a financial perspective, transparency does have cost implications. Even though modern technology has diminished the cost of distributing information, the disclosure of certain information can be costly to organisations

(Dubbink et al. 2008: 393). Here, one would think of the legal environment that prohibits the disclosure of certain information. If an organisation does disclose such information, in an effort to be transparent, the organisation will be liable for damages (Lazarus & McManus 2006: 932). Kolk (2010: 17) also points to doubts about the benefits and advantages that will accrue to the organisation as another reason for not being transparent.

Surveys have shown that one of the priorities for stakeholders is to have trust and confidence in the organisation (IOD 2009: 18). An increasing number of organisations are therefore willing to share and disclose information about corporate strategy. One of the purposes of this disclosure is to achieve 'strategic credibility' with both internal and external stakeholders. Strategic credibility refers to the confidence both internal and external stakeholders have in the organisation's corporate strategy. If viewed positively, the benefits of strategic credibility include improved relations with the investor community and an increase in employee morale (Higgins & Diffenbach 1989: 136). Conversely, there is the risk that competitors could use the disclosed information to the detriment of the organisation, or that changes in the external environment warrant amendments to the strategy after it has been disclosed to stakeholders (Higgins & Diffenbach 1989: 134). However, a survey conducted among 500 chief executive officers on corporate strategy disclosure found that CEOs concur that the benefits of disclosing corporate strategy far outweigh the risks (Higgins & Diffenbach 1989: 134).

A study (Santema & Van de Rijt 2001: 107) that examined the extent of corporate strategy disclosure in the annual reports of Dutch companies found that Dutch companies do not disclose much information regarding their corporate strategy. The study found that the information disclosed tends to reflect on the actions of the previous year and that little information is disclosed regarding 'forward-looking action plans' and business unit goals. The study further found that some organisations disclose some information regarding the vision, organisational goals and business unit strategy, but not enough (Santema & Van de Rijt 2001: 106). One of the conclusions of the study is that forward-looking information in annual reports holds the most value for stakeholders, but that annual reports are only one of many mediums for communicating and disclosing corporate strategy (Santema & Van de Rijt 2001: 107).

A more recent study (Santema et al. 2005: 364) conducted among European firms found that national issues such as corporate governance and culture do have an impact on the amount of corporate strategy disclosed in annual reports. Managers should therefore determine the information demands of stakeholders before deciding on a corporate strategy disclosure policy (Santema et al. 2005: 365). A study by Padia and

Yasseen (2011:27) examined the extent of strategy disclosure in the annual reports of South Africa's top one hundred companies listed on the Johannesburg Securities Exchange (JSE). The results indicate that South African listed companies generally do disclose a fair amount of information about their strategy, with a preference for descriptive information about the strategy variables of mission, objective and goals. No studies to date have focused specifically on identifying the level of strategy disclosure per industry.

The basic consideration behind an organisation's decision to share and disclose information is the ability of the organisation to strike a balance between the pressures from both internal and external stakeholders (Kolk 2010: 368). Transparency must thus not endanger the interests of the organisation (Dubbink et al. 2008: 393). Scholes and Clutterbuck (1998: 227–228) indicate that communication with stakeholders in the current era should not be considered optional but rather an issue that needs to be managed for optimal effectiveness.

Strategy disclosure as part of integrated sustainability reporting

During 2009, the Institute of Directors in Southern Africa (IOD) released the third version of the King Report on Corporate Governance (King III) (PwC 2010: 1). King III gives recognition to the fact that sustainability reporting has been widely accepted in South Africa, mostly due to the influence of King II and institutions such as the JSE and Public Investment Corporation (PIC) (IOD 2009: 13). Thus, building on King II, King III recognises that risk, strategy, performance and sustainability are inseparable and should be included in an annual integrated report that covers economic, social, environmental and corporate governance aspects of an organisation's activities (Mammatt et al. 2009: 22). The objective is to indicate the long-term sustainability of the organisation against current financial performance (Roberts 2009: 14). In as far as the sustainability aspect of the integrated report is concerned, King III recommends the use of the Global Reporting Initiative (GRI) G3 Guidelines as a generic sustainability reporting framework (PwC 2010: 4).

The recommendations of King III are incorporated into the JSE Listing Requirements. Thus, listed companies are expected to publish integrated reports for the financial years that commence on or after 1 March 2010, or explain why integrated reports have not been issued (IRC 2011: 3).

The GRI has its roots in two American institutions, the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute. The Tellus Institute initially developed a framework on behalf of CERES with the aim of creating mechanisms with which adherence to the CERES principles of responsible environmental conduct could be measured (GRI 2007: 1). The necessity and importance of creating such a framework was put on the agenda by environmental disasters such as the Exxon Valdez oil disaster during 1989 (UNEP, KPMG, GRI & University of Stellenbosch 2010: 6).

The GRI reporting framework is designed to be used by organisations of all sizes and in any sector, with sector-specific supplements available. It was developed through the interaction and agreement of a wide range of stakeholders with the aim of developing a framework that is widely accepted (GRI 2006: 3). The GRI Guidelines assist report-makers in preparing sustainable reports in a standardised fashion. Today, the GRI G3 Guidelines constitute the framework that is utilised by most organisations when compiling voluntary sustainability reports. It is the intention of the GRI to increase the general acceptance of sustainability reporting, and in so doing the aim of the GRI is to elevate sustainability reporting to the same level as financial reporting (Nikolaeva & Bicho 2011: 137). Integrated reporting is still a relatively new concept (UNEP et al. 2010: 11), and a recent study (KPMG 2010: 2) found that 80% of organisations listed in the Global Fortune 250 still produce individual sustainability reports. In a survey completed in 2007 on the Fortune Global 500 Companies, PwC came to the conclusion that companies predominantly focus on performance reporting (56%) and then on strategy and structure (18%) (PwC 2007: 9–10). Rea (2010: 3) indicates that South Africa accounts for the fifth-highest number of GRI-based sustainability reports in the world.

A study conducted by SustainabilityServices.co.za, a niche consulting firm, indicated that in 2010 there were 86 reporting entities in South Africa that produced GRI G3-based reports, with the Metals and Mining, Banking and Financial Services, Retail, Health, Energy, and Construction and Materials sectors representing the leaders in sustainability reporting (Rea 2010: 17).

The focus of this study was to investigate the level of disclosure related to core strategic elements of a firm; the following GRI G3 performance indicators were included in the empirical analysis (GRI 2006: 20–24): strategy and analysis; organisational profile; report scope and boundary; commitment to external initiatives; stakeholder engagement; and economic performance. The aspects related to the GRI Content Index – namely assurance, governance, environmental performance, labour performance, human rights performance, society performance and product responsibility – were excluded from this study, as these GRI disclosure elements were seen as elements that do not contain direct core strategy-related information (see Table 2). These 59 GRI G3 indicators were used as strategy disclosure Baseline 1 for this study.

Table 2: GRI G3 strategy indicators

Reporting element	GRI G3 disclosure parameters	Strategy disclosure indicators utilised in this study
Strategy and Analysis	2	23
Organisational Profile	10	17
Reporting Scope	7	3
GRI Context Index	1	–
Assurance	1	–
Governance	10	–
Commitments to External Initiatives	3	3
Stakeholder Engagement	4	4
Economic Performance	9	9
Environmental Performance	30	–
Labour Performance	14	–
Human Rights Performance	9	–
Society Performance	8	–
Product Responsibility	9	–
TOTAL	117	59

By recognising that an organisation's strategy, governance and financial performance impact on the social, environmental and economic environment within which it operates, King III follows in the footsteps of the International Integrated Reporting Committee (IICR). The IICR is an organisation that consists of a vast array of members from the corporate, accounting and regulatory sectors, among others. The purpose of the IICR is to create an integrated reporting framework that will enable organisations to report on financial, social and environmental performance, as well as corporate governance, in a format that is clear, concise, consistent and comparable (IICR 2010). In South Africa, the Integrated Reporting Committee of South Africa (IRC) released a discussion paper on integrated reporting during January 2011. The discussion paper suggests that an integrated report should form only one part of the organisation's communication with its stakeholders (IRC 2011: 6). The primary objective of the proposed integrated report is to inform stakeholders, while at the same time it can create appreciation among stakeholders for the organisation's strategic ability to create sustainable value (IRC 2011: 6).

In September 2011, the IIRC released a discussion paper in which the business model of a firm is positioned as the central point of departure in reporting on the strategy of an organisation by disclosing aspects about how the organisation creates and sustains value in the short, medium and long term (IIRC 2011: 10). The strategy-related aspects on which a company is expected to report are explored next.

Other potential strategy elements to be reflected in reporting

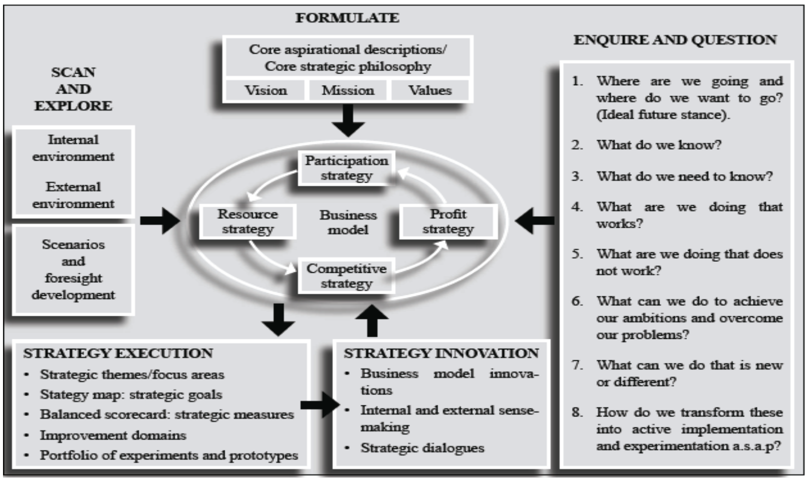
Markides (2004: 5–6) states that, if most executives were asked to define the concept of 'strategy', they would reply, 'How I could achieve my company's objectives'. He considers this to be a meaningless and far too general description and believes that strategy is about controlling the parameters within which people have the freedom to be creative (Markides 2004: 5–6). Organisational strategy is about decisions and choices based on informed analysis and synthesis (Hamel 1996; Kim & Mauborgne 2005; Markides 2004; Mintzberg 1994; Porter 1996). The strategic choices cover aspects such as which customers to serve and which not to, which products or services to offer those chosen customers, and which activities to perform and resources to use in the production of the chosen products and services (Markides 2004: 6). Organisations must also decide how to respond to changes in the external environment, such as changes in the economy and shifts in customers' preferences, among others. The answers to these decisions shape and form an organisation's strategic landscape (Ungerer et al. 2011: 10) and strategic architecture.

The strategic architecture of a firm forms the conceptual basis of how an organisation intends to create value on a sustainable basis. Strategic architecture guides strategic behaviour and serves as the "road map of the future" (Prahalad & Hamel 1990: 89). As such, the strategic architecture forms a comprehensive strategic description in which the business model is one of the components described (Ungerer et al. 2011: 141). Porter emphasises that strategy and operational effectiveness are not the same thing, while maintaining that they are both necessary to outperform rivals. He asserts that strategy is about building a difference that can be maintained, while operational effectiveness is about doing the usual activities better than rivals. Strategy is all about the 'difference' (Porter 1996: 61–62).

Ungerer et al. (2011: 144) identify the following core elements of a comprehensive strategic architecture description of an organisation (see Figure 1):

- Core aspirational descriptions (O'Shannassy & Hunter 2009: 38–39) covering vision, mission (Hamel 2002: 74) and shared values (Pietersen 2002: 153).

- Business model descriptions, which refer to participation, resource, competitive and profit strategies. A business model represents the choices an organisation makes about where to compete, with which products and services, where to position itself in the market and how to utilise its resources in a competitive manner to stay relevant in the future (Ungerer et al. 2011: 153–159):
  - The participation strategy includes aspects such as targeted customers, product/service spread, channel/delivery scope and geographical spread.
  - The resource strategy refers to core competencies (Prahalad & Hamel 1990: 82), strategic assets, strategic core processes (Hamel 2002: 79–80) and strategic enablers in the form of partners, people and organisation (Manning 2001: 22).
  - The competitive strategy includes a view of core competitive advantage choices (Porter 1996: 65), value propositions (price, relationships, service offering and delivery mechanisms), strategic control points (Slywotzky 1998: 16) as well as an activity system (Porter 1996: 70) description to support core strategic position choices.
  - The profit strategy (Slywotzky 1998: 16) reflects main cost drivers and income streams, pricing approach (margins), cost of capital/funding and efficiency ratio trends.
- Other strategic architecture components, such as strategy execution, strategic scanning and exploration, and strategic innovation and dialogue, all serve to support strategy implementation and renewal:
  - Strategic execution elements include strategic themes/focus areas, strategic goals/objectives – Balanced Scorecard and strategy map (Kaplan & Norton 1996) – as well as a portfolio of experiments and prototypes to test new innovations.
  - Strategic scanning and exploration activities cover aspects such as scenarios and foresight development, external environmental analysis (industry, competitors, customer trends) and internal environmental analysis (internal value chain, customer number trends, segment reporting, product/service production). The internal and external environment analysis aspects are aligned to the views of Hough, Thompson, Strickland and Gamble (2008), and Collis and Rukstad (2008: 89).
  - Strategic dialogue and innovation stimulation to support strategic execution include board and management interactions, stakeholder consultations and mechanisms to increase employee participation in strategising. The purpose of a stakeholder review is firstly to identify the relevant stakeholder groups and secondly to determine their impact on the interests of the organisation (Fassin 2008: 117).



Source: Ungerer et al. (2011: 144)

Figure 1: Elements of a strategic architecture

In Table 3, the 29 strategy elements related to the strategic architecture of an organisation (Ungerer et al. 2011: 144) that were used in this study to evaluate the level of strategy disclosure (Baseline 2) are displayed.

In another view of the concept of a business model, Osterwalder and Pigneur (2010: 14) describe a business model as “the rationale of how an organisation creates, delivers and captures value”. They indicate that a business model consists of nine building blocks, which in turn rest on four pillars (i.e. product, customer interface, infrastructure and financial aspects), as shown in Table 4. The business model “is like a blueprint for strategy to be implemented through organisational structures, processes and systems” (Osterwalder & Pigneur 2010: 15).

The business model elements contained in Table 4 are also present in the business model element as part of a strategic architecture view of a firm (see Table 3). However, the business model elements in Table 4 offer a more simplistic alternative for reviewing and analysing a business model. The competitive strategy elements of strategic control and the core competitive strategy approach are absent from the business model elements in Table 4, as are other strategic architecture components such as core aspirational descriptions, strategy execution, strategic scanning, and exploration and strategic innovation to support and sustain strategy performance (see Figure 1 and Table 3). According to Mansfield and Fourie (2004: 35), a review of the literature shows a general view that strategy and business models are linked but

Table 3: Strategy architecture disclosure indicators

A	Core aspirational descriptions	B	Business model descriptions	C	Other strategic architecture components
No.	**Description**	**Participative strategy**		**Strategic execution**	
1	Vision	4	Customer selection	21	Strategic themes - Focus areas
2	Mission	5	Product/Service spread	22	Strategic goals - objectives (Strategy map & Balance scorecard)
3	Values	6	Channel/Delivery	23	Portfolio of experiments and proto-types
		7	Geography	**Strategic scanning and exploration**	
		Resource strategy		24	Scenarios and foresight development
		8	Core competencies	25	External environmental analysis
		9	Strategic assets	26	Internal environmental analysis
		10	Strategic processes	**Strategic dialogue stimulation to support strategic execution**	
		11	Strategic enablers (Promotion, Process, Partners, People, Organisation)	27	Board and management interaction
		Competitive strategy		28	Stakeholder consultation
		12	Core competitive advantage choice.	29	Employee participation in strategising
		13	Value proposition (Price, Relation, Service offering, Delivery)		
		14	Strategic control points		
		15	Activity system		
		Profit strategy			
		16	Cost drivers		
		17	Income streams		
		18	Pricing approach (Margins)		
		19	Cost of capital – Funding		
		20	Efficiency ratio trends		

distinct. The strategic architecture view of Ungerer et al. (2011: 144) represents an integrated view of strategy, and the related elements also include a business model view. The business model approach followed by Osterwalder and Pigneur (2010: 14) is described from its inception as a more distinct and formal ontology of the business model domain (Osterwalder et al. 2005: 18). In this study, the nine strategy disclosure elements reflected in Table 4 were used to evaluate reporting transparency trends about the business model of an organisation (strategy disclosure Baseline 3).

Table 4: Business model pillars and building blocks

Pillar	Building block	Description
Product	1. Value proposition	Gives an overview of the organisation's bundle of products and services
Customer interface	2. Target customer	Describes the segments of customers a company wants to offer value to
	3. Distribution channel	Describes the various means of the company to get in touch with its customers
	4. Relationships	Explains the kind of links a company establishes between itself and its different customer segments
Infrastructure	5. Value configuration	Describes the arrangement of activities and resources
	6. Core competency	Outlines the resources necessary to execute the company's business model
	7. Partner network	Portrays the network of cooperative agreements with other companies necessary to efficiently offer and commercialise value
Financial aspects	8. Cost structure	Sums up the monetary consequences of the means employed in the business model
	9. Revenue model	Describes the way a company makes money from a variety of revenue flows

Research approach

It is clear that South African companies do have a positive track record of reporting within the GRI framework (Rea 2010: 17), but what is still under-explored is the level of specific strategic information that firms disclose and report on as part of their integrated reporting effort.

The main research question (RQ1) explored in this study is: '*What is the level to which organisations, in selected industries during 2010, disclose information regarding strategy in their annual reports and, if published separately, in their sustainability reports?*' This culminates in a comparison of strategy disclosure levels per industry. Other questions explored in this research are: RQ2: 'Is there a difference between the strategy disclosure levels per baseline?' The results from three strategy disclosure baselines are compared to develop a holistic view of a spread of strategy-related indicators from different perspectives. RQ3: 'What are the strategy-related aspects that are under-reported on?' RQ4: 'Is there a difference between total GRI G3 disclosure levels as reported by Rea (2010; 2011) and the specific GRI G3 strategy-related disclosure levels as used in this study?' The primary objective of this research was to determine how transparent organisations in the selected industries are regarding the disclosure of strategy in their communication with stakeholders.

The research sample for this study represents 24 companies from five industry sectors. The companies were all part of the research by Rea (2010), and the companies within the industries were chosen on the basis of their top scores achieved on GRI reporting as well as their relative dominance in the industry (see Table 5 for target industries and companies). The annual reports, and the separately published sustainability reports published during 2010, were the main data source for this study. The potential target of companies for this study was 86, based on the findings of Rea (2010: 17) that these reporting entities comply with GRI G3 reporting requirements. The sample of 24 companies represents 28% of the potential target population and features companies with a positive track-record of integrated reporting.

To determine the level of strategy transparency, three strategy disclosure baselines were used to determine the level of strategy disclosure as reflected in the annual and sustainability reports of the targeted 24 companies. Strategy disclosure Baseline 1 is based on the GRI G3 strategy indicators shown in Table 2. Strategy disclosure Baseline 2 is founded on strategy architecture disclosure indicators reflected in Table 3, and Baseline 3 utilises the business model building blocks shown in Table 4 to evaluate the level of strategy transparency.

Each organisation was scored on each of the three disclosure baseline strategy indicators by using a scale ranging from 2 to 0. A score of 2 represents a reasonable disclosure response on the sub-item per baseline, meaning that sufficient information has been disclosed to form an understanding of the specific strategy indicator. A score of 1 represents a partial response, meaning that some information has been disclosed but there is information lacking on the specific strategy indicator, and a score of 0 indicates there is no evidence of a response on the strategy indicator, meaning that no information has been disclosed. The same scoring approach for evaluating disclosure levels in company reports was used as followed by Rea (2010; 2011).

The cumulative results of the evaluations on the strategy disclosure indicators related to each of the three strategy disclosure baselines per company and per industry were analysed separately and graded using the scale, as indicated in Table 6.

Table 5: Research sample

Sector / Industry	Company	GRI G3 % score (Rea, 2010: 20–21)
Banking	Standard Bank Nedbank Absa Investec FNB	79.1 69.3 59.4 59.1 53.5 Reported sector average: 53.1
Construction & Materials	Pretoria Portland Cement (PPC) Group Five Murray & Roberts Aveng Basil Read	65.7 66.2 58.3 42.5 32.7 Reported sector average: 51.9
Energy & Natural Resources	Sasol Sappi Eskom Mondi	94.9 79.5 60.2 57.9 Reported sector average: 69.2
Mining & Metals	De Beers Anglo Platinum Anglo Gold Ashanti Lonmin Platinum Anglo American	93.3 89.4 85.8 85.4 83.1 Reported sector average: 73
Retail	Massmart Woolworths Clicks Truworths Pick n Pay	73.6 54.3 48.4 46.1 40.6 Reported sector average: 52.7

Table 6: Strategy disclosure baseline grading scale

Level	Level of disclosure
<40 %	Lacking disclosure
40% – 49%	Below average disclosure
50% – 59%	Average disclosure
60% – 69%	Above average disclosure
70% – 79%	Good disclosure
80% +	Excellent disclosure

Research results

The results of this study are based on the information obtained from the targeted 24 companies, which represent five sectors, namely Banking, Construction and Materials, Energy and Natural Resources, Mining and Metals, and Retail. The results are reported per strategy disclosure baseline. Each strategy disclosure baseline is viewed from a holistic individual baseline perspective, filtering down to subcategory performance for each baseline. The results are also reported at an overall level, taking into account all three baselines. As defined in the research approach, 'good' disclosure represents greater than or equal to 70%, and 'poor' disclosure denotes that strategy indicator items obtained 40% or less against the criteria.

Baseline 1: GRI G3 strategy indicators

In terms of strategy disclosure Baseline 1, two sectors achieved an average score of more than 70%. Mining and Metals achieved a score of 83% and Energy and Natural Resources a score of 82%, which represents an 'excellent' disclosure level, far beyond the measuring bar of 'good' disclosure at 70%. The aggregate average score for this baseline was 68%. No sectors performed in the 'poor' disclosure category on this baseline. The followers are the Banking and Retail sectors, which both scored around 54%. The findings are presented in Figure 2, indicating a ranking per sector on this baseline.

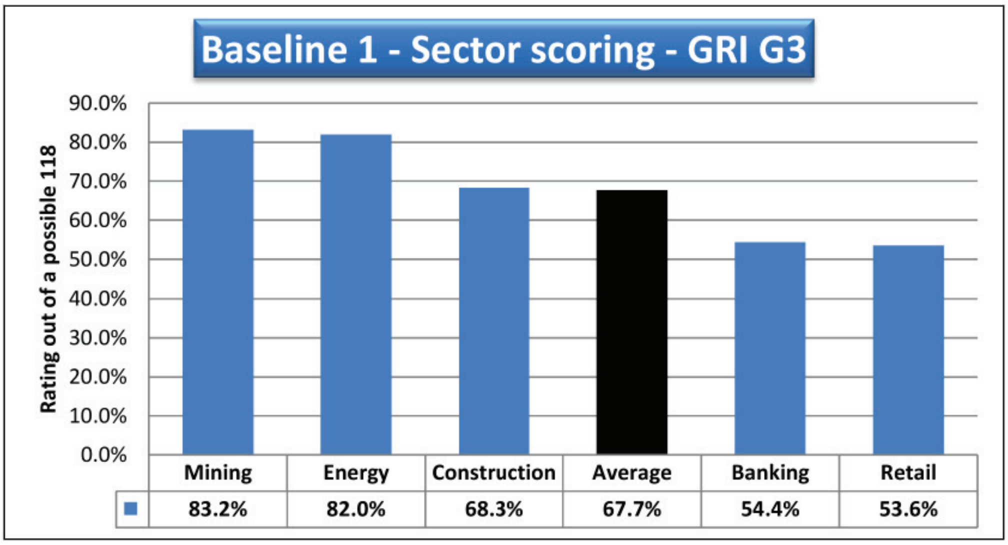
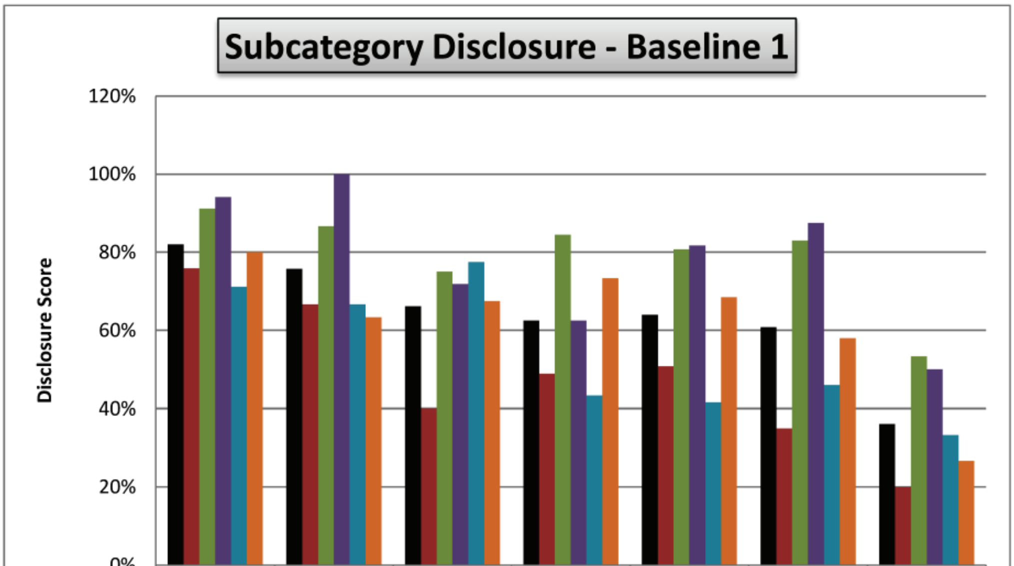


Figure 2: Baseline 1: Sector scoring percentage

Within the strategy disclosure Baseline 1 categories, only two of the seven strategy disclosure categories achieved a 'good' or higher disclosure rating on the aggregate level, namely organisational profile and external initiative (see Figure 3). Organisational profile consists of fairly general strategy-related disclosure items covering aspects such as primary products and/or services; the degree of outsourcing; organisational structure; location of headquarters; number of countries in which the organisation operates; nature of ownership and legal form; markets served; number of employees; net sales; total capitalisation; total assets; significant changes during the reporting period regarding size, structure or ownership; and awards received in the reporting period. External initiatives cover report parameters such as commitment to Article 15 of the Rio Principle, as reflected in risk management; externally developed economic, environmental and social charters, principles or other initiatives that the organisation subscribes to or endorses; and membership of associations (such as industry associations) and/or national/international advocacy organisations that the organisation supports.



	BL1 C Org Profile	BL1 E External Activities	BL1 F Stakeholder Engagement	BL1 G Economic Performance	BL1 A Strat Analysis	BL1 B Key Impacts, Risks, Opp	BL1 D Report scope
AGG	82%	76%	66%	63%	64%	61%	36%
Retail	76%	67%	40%	49%	51%	35%	20%
Mining	91%	87%	75%	84%	81%	83%	53%
Energy	94%	100%	72%	63%	82%	88%	50%
Banking	71%	67%	78%	43%	42%	46%	33%
Construction	80%	63%	68%	73%	68%	58%	27%

Figure 3: Baseline 1: Category performance

Report scope – which includes aspects such as determining materiality, prioritising topics within the report and identifying the stakeholders likely to use the report – scored 36%. This category significantly under-performs compared with the next-lowest category score of 61%, namely the Baseline 1 reporting parameter of key impacts, risks and opportunities. This under-performance on report scope is largely a result of eight of the 24 (33%) companies not disclosing anything in this category. Reporting scope is clearly an area for improved strategy disclosure. These findings are depicted in Figure 3.

Baseline 2: Strategic architecture

On this strategy disclosure baseline, Mining and Metals, and Energy were the only two sectors that scored above the average of the five sectors assessed. Energy obtained a 'good' disclosure score of 77%, and Mining and Metals an 'above average' score of 61%. The aggregate average among the five sectors was 57%, which is classified as 'average disclosure'. The Banking and Retail sectors obtained 'average' disclosure scores of 52% and 50% respectively. Construction and Materials was found to have the worst disclosure on strategic architecture elements, obtaining a 'below average' disclosure score of 48%. These results are graphically displayed in Figure 4.

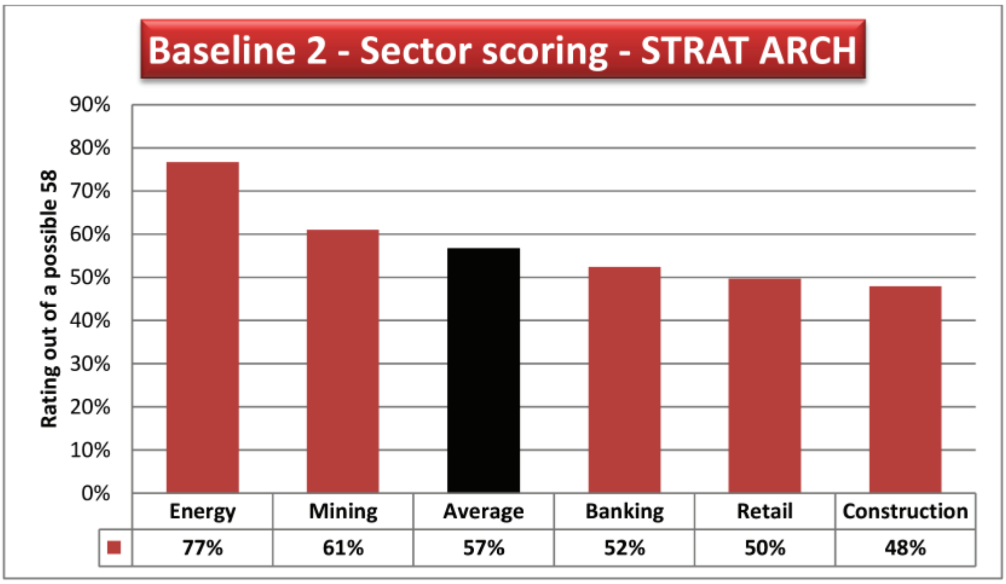
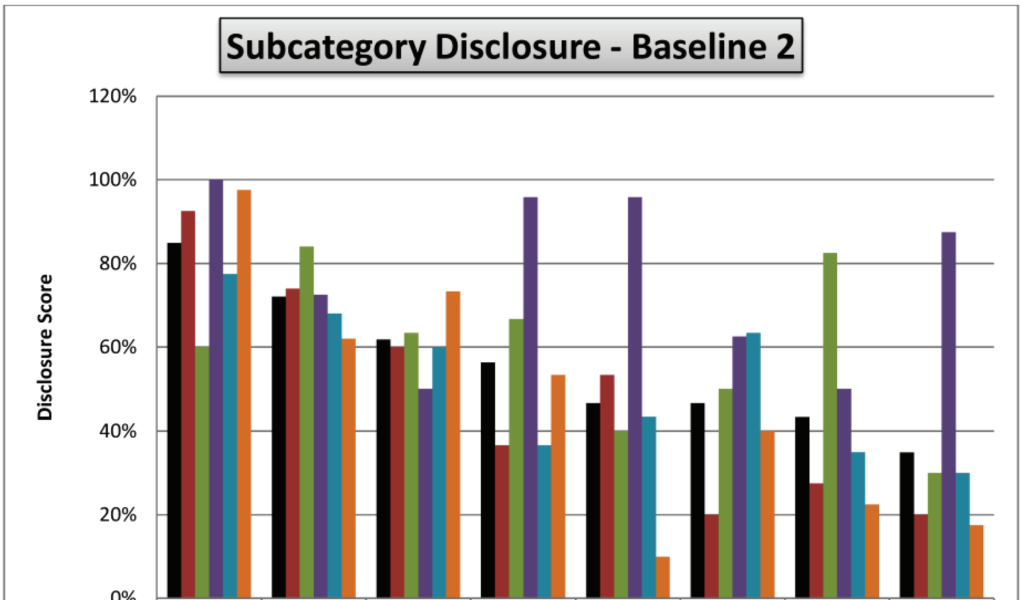


Figure 4: Baseline 2: Sector scoring percentage

From Figure 5, it is clear that the participation strategy element of the strategic architecture baseline obtained the highest average disclosure score at an aggregate of 85%. The Energy and Natural Resources sector once again led with a score of 100%, and all sectors achieved an ‘above average’ score of at least 60%. Ten of the 24 companies assessed achieved this ‘excellent’ disclosure mark of 100% on the participative strategy reporting element as part of Baseline 2.

‘Good’ and higher reporting disclosure levels were obtained for the profit strategy elements and Natural Resources in the strategic architecture baseline by the Mining and Metals, Retail, and Energy and Natural Resources sectors, while the other sectors achieved an average rating on this disclosure element.



	BL2 B Participative	BL2 E Profit	BL2 A Aspirations	BL2 G Strat Scanning	BL2 F Strat Execution	BL2 H Strat Dialogue	BL2 C Resource	BL2 D Competitive
AGG	85%	72%	62%	56%	47%	47%	43%	35%
Retail	93%	74%	60%	37%	53%	20%	28%	20%
Mining	60%	84%	63%	67%	40%	50%	83%	30%
Energy	100%	73%	50%	96%	96%	63%	50%	88%
Banking	78%	68%	60%	37%	43%	63%	35%	30%
Construction	98%	62%	73%	53%	10%	40%	23%	18%

Figure 5: Baseline 2: Category performance

The competitive strategy component in the strategic architecture baseline showed the lowest average score of 35% at sector level. Competitive strategy elements include strategic descriptions about aspects such as core competitive advantage choice, value proposition, strategic control points and activity system. It is clear that these aspects lack disclosure in general, as 16 of the 24 companies achieved scores below 40%. However, there remain those that led this category, with three companies achieving 'excellent' disclosure scores on the competitive elements of their strategy.

Other strategic aspects that also show below-average disclosure levels are resource strategies (43%), strategic dialogue activities in support of the strategy (47%) and information about strategy execution practices (47%).

Baseline 3: Business model elements

On the baseline of business model disclosure, the Energy and Natural Resources sector led with a score of 93%. It was also the only sector to score above the average baseline aggregate of 66%. The sector average of 66% equalled that of the Retail sector, with Mining and Metals, and Construction and Materials also obtaining 'above average' disclosure scores. Banking was the laggard on this baseline, with an 'average' level of disclosure at 53% (see Figure 6).

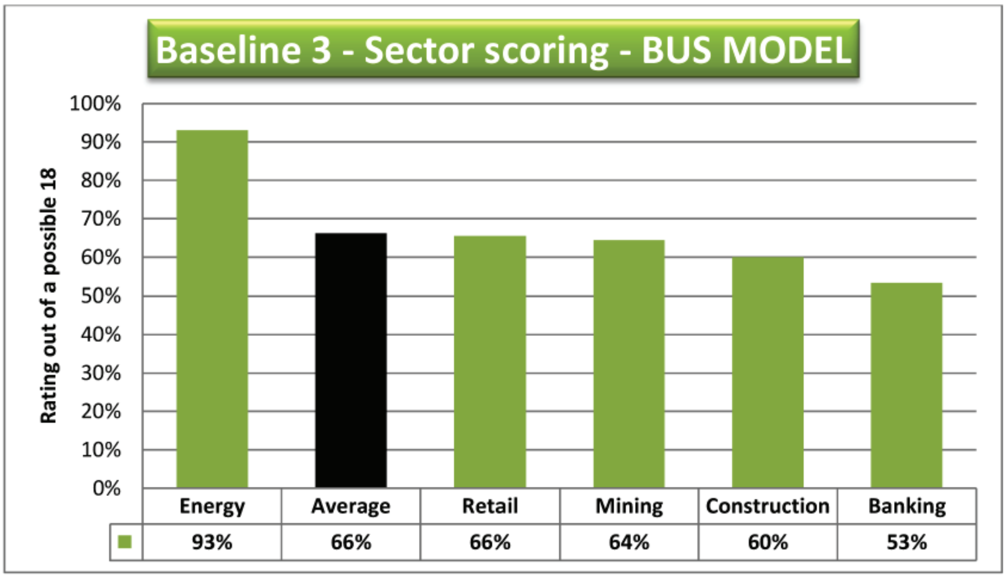
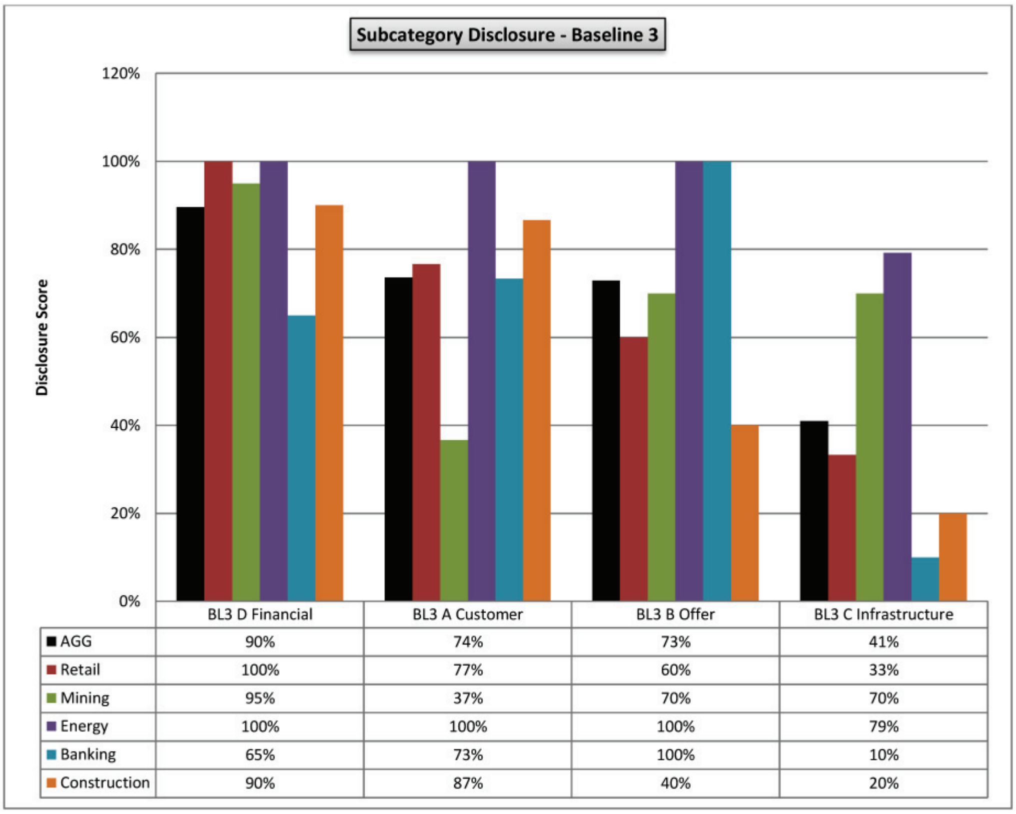


Figure 6: Baseline 3: Sector scoring percentage

Figure 7 indicates that three categories in this baseline achieved an aggregate of above 70%, ranking them all as 'good' disclosure levels per sector. The disclosure on financial elements of the business model achieved an aggregate of 90%, which was far above the next element of customer which obtained a score of 74%, while offer was ranked third at 73%.

The under-reported element of this baseline is related to infrastructure elements of the business model, which scored a close to 'lacking' disclosure level of 41%. Infrastructure (see Table 4) in this context refers to activity configuration, core competency and partner network, all of which were disclosed at below-average levels. One company in the Mining and Metals sector and one in the Energy and Natural Resources sector, however, were able to obtain an impressive score of 100% on infrastructure reporting. The laggards in this category were again Banking, with two of the five companies scoring 0% and the other three scoring 17%, resulting in an overall aggregate of 10% for Banking. The Construction and Materials, and Retail sectors achieved reasonable scores of 20% and 33% respectively.



	BL3 D Financial	BL3 A Customer	BL3 B Offer	BL3 C Infrastructure
AGG	90%	74%	73%	41%
Retail	100%	77%	60%	33%
Mining	95%	37%	70%	70%
Energy	100%	100%	100%	79%
Banking	65%	73%	100%	10%
Construction	90%	87%	40%	20%

Figure 7: Baseline 3: Category performance

Overall sector and company disclosure perspective

In this section, the results from a sector and company perspective (vertical ranking) are shown. Sector and company performance are ranked by taking all three baselines into account. Ranking from an overall disclosure category perspective is also assessed.

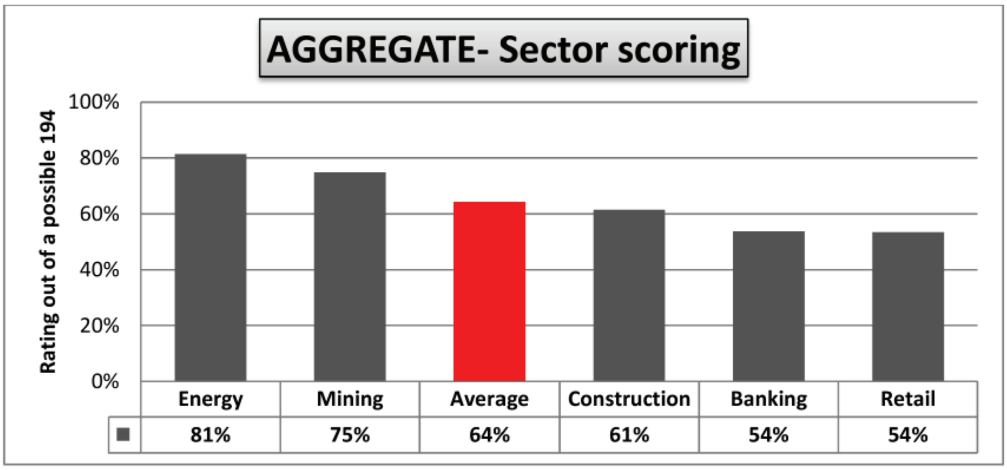
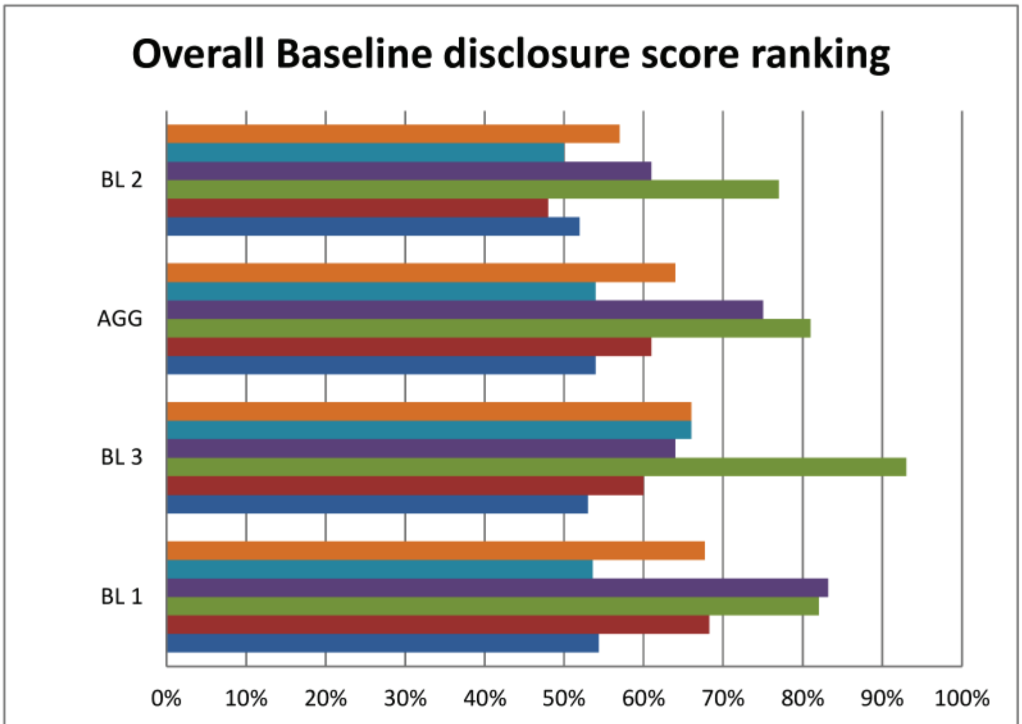


Figure 8: Overall sector disclosure percentage on all three baselines

From an overall perspective, Figure 8 indicates that the Energy and Natural Resources sector achieved the highest aggregate strategy disclosure level on all three baselines combined, with a score of 81%, followed by the Mining and Metals sector with 75%. The Energy and Natural Resources sector obtained an 'excellent' level of disclosure, and the Mining and Metals sector a 'good' disclosure rating on strategy matters. The combined weighted average on the three disclosure baselines for all sectors in the study sample was 64%, representing an 'above-average' strategy disclosure level. The Banking and Retail sectors both achieved an 'average' aggregate rating of 54%.

Overall category and baseline disclosure perspective

In this section, the overall horizontal ranking of baselines and category results is displayed and discussed. Figure 9 shows that Baseline 1, the GRI G3 Guidelines elements, achieved the highest disclosure score of 68% compared to the combined average baseline score of 64%. Baseline 3, which assessed elements of the business model, scored just above the combined aggregate with 66%. Baseline 2, which contains strategic architecture elements, was in third place with a score of 57%. No baseline obtained 'good' or better disclosure scores, but no baseline scored 'below average' disclosure scores either.



	BL 1	BL 3	AGG	BL 2
Aggregate	68%	66%	64%	57%
Retail	54%	66%	54%	50%
Mining	83%	64%	75%	61%
Energy	82%	93%	81%	77%
Construction	68%	60%	61%	48%
Banking	54%	53%	54%	52%

Figure 9: Overall baseline disclosure ranking

Summary, conclusions and recommendations

Results related to RQ1: Sector and strategy disclosure levels

The Energy and Natural Resources, and Mining and Metals and sectors, with aggregate disclosure levels of 81% and 75% respectively (Figure 8), led the other industries with respect to disclosure levels, while the Retail (54%) and Banking

(54%) sectors were lagging by quite a margin. The relatively lower levels of strategy disclosure by the Retail and Banking sectors and high disclosure by the Energy and Natural Resources sector confirm trends identified by Rea (2010: 20–21).

It seems as if the sectors that are more directly under scrutiny for their environmental and sustainability practices are reporting in a more transparent way about their strategies, but sectors such as Retail and Banking were not yet under the same level of pressure from stakeholders in 2010. It would be interesting to see if this pattern will change over time given the role of banks in the global financial turbulence of 2009 as well as the Libor (London Interbank Offered Rate) rate-rigging scandal uncovered in 2012.

Results related to RQ2: Strategy disclosure levels per baseline

The results of this study indicate that Baseline 1 recorded the highest average disclosure level of 68%, compared to Baselines 2 and 3 with 57% and 66% respectively. The highest difference in disclosure levels is between Baselines 1 and 2. This might be due to the fact that Baseline 1 consists of GRI G3 parameters that are well known to the authors of integrated reports, while the indicators associated with Baseline 2 were not available to the reporting community at the time of compiling the reports. Another reason for this difference could be that Baseline 2 covers a wide spectrum of strategic aspects such as competitive strategy elements, which are currently not disclosed by the companies in this study in order not to endanger their interest. This need for a delicate balance between disclosure expectations of stakeholders is in line with the findings of Dubbink et al. (2008: 393), Kolk (2010: 368) and Santema and Van de Rijt (2001: 107).

Results related to RQ3: Under-reported strategy aspects

The aspect in Baseline 1 that needs much more attention to improve disclosure is related to the report scope component of the GRI G3 Guidelines on which companies in this study scored 36% (Figure 3). Reporting scope includes important strategic indicators such as determining materiality, prioritising topics within the report, and identifying the stakeholders expected to use the report. The concept of materiality and the aspects associated with the impact related to material issues are at the centre of aspects that need to be reported on (IIRC 2011; KPMG 2010; PwC 2007). It is clear that this aspect is a developing area for corporate report authors.

On Baseline 2, competitive strategy is the most under-disclosed category at a poor 35% (Figure 5). These results indicate that, in general, companies still refrain from disclosing competitive strategy elements such as their core competitive position choice, value proposition features and strategic control points. This tendency to under-disclose on strategic competitive aspects supports the conclusions of Higgins and Diffenbach (1989: 134) as well as Santema and Van de Rijt (2001: 107).

Reporting aspects that can be improved upon in Baseline 3 relate to infrastructure strategy indicators with a 'below average' disclosure level of 41% (Figure 7). Infrastructure refers to activity configuration, core competency and partner networks, which represent important parts of the strategy that should be subject to greater disclosure. Again, these aspects touch on the competitive strategy elements of a firm, and this lack of disclosure re-confirms the sensitivity report as authors currently do not have to divulge any information with the potential to affect future competitiveness within an industry.

From the cross-sectional summary of disclosure performance per sector and per baseline (Figure 9), it is clear that disclosure levels related to the strategic architecture of a firm, as represented in Baseline 2, are still at an 'average' disclosure level of 57%, and the strategic indicators associated here (see Table 3) are currently under-reported and need more consideration and attention from companies. Baseline 2 in this study represents a broad view of the array of strategic aspects that contribute to future strategic progress and prospects. These aspects are not necessarily well known in the corporate reporting community and could indicate a current knowledge-development need.

Results related to RQ4: Difference between total GRI G3 disclosure levels and specific GRI G3 strategy-related disclosure levels as used in this study

In Table 7, the results for the studies of Rea (2010; 2011) are compared with the results for Baseline 1 of this study. The disclosure levels on strategy-related aspects of the GRI G3 Guidelines, in comparison with disclosure performance on all GRI G3 parameters, seem to be higher only for the Construction and Materials, and Mining and Metals sectors, with more or less similar results for the other industries. This indicates that the total GRI G3 score for a company could possibly be a reasonable proxy for the strategy disclosure level, but this aspect needs to be investigated with follow-up studies.

Table 7: Comparison of studies on disclosure in South Africa

Sectors	Rea (2010) GRI G3 % average score	Rea (2011) GRI G3 % average score	Baseline 1: GRI G3 strategy disclosure indicators % average score
Banking	53	56	54
Construction & Materials	52	51	68
Energy & Natural Resources	69	83	82
Mining & Metals	73	68	83
Retail	53	61	54
Total average	60	64	68
# of companies in sample	86	100	24

Contributions and limitations of the study

This study provides a 2010 benchmark for strategy disclosure in five sectors of the South African economy. The results of this study can be used by other players in the sectors described as well as other companies in non-related industries to benchmark their own reporting practices on strategy and to identify areas for improvement. The lesson for South African managers is that strategy disclosure is not about ticking boxes in order to comply with the recommendations of various committees, but rather about satisfying the needs of stakeholders.

This study also contributes to developing a methodology for measuring strategy disclosure by specifying three possible strategy disclosure baselines. It is too early to develop a view on which baseline is the best or the most appropriate.

The findings of this study support the conclusions of Padia and Yasseen (2011: 27) that in general South African companies listed on the JSE disclose a fair amount of information about their strategy.

This study represents a status at a particular point in time. To develop a view over time, it would be necessary to repeat this study by using reporting data from 2011 and later for the 24 companies. This would enable researchers to see how stable the three baselines are and would provide an indication of changes between reporting periods. It would be valuable to see if there is progress on identified low strategy disclosure indicators within each baseline, such as report scope (BL1), competitive strategy (BL2) and infrastructure (BL3). It would also be of value to see if the achievers in each strategy disclosure element keep on performing at the same level of reporting on elements such as organisation profile (BL1), participative strategy (BL2) and the financial elements (BL3), where good to excellent scores were achieved in the current study. This study could also be repeated in different countries to create regional benchmarks.

It should be noted that the selected target group of companies used in this study is positively skewed in the sense that the selected companies represent the best GRI G3 reporting performers in each industry based on the results of the study by Rea (2010). This means that the results of this study on an aggregate level (averages per industry and for all baselines together) can be seen as inflated and represent the best possible performance on strategy disclosure for the selected industries in South Africa.

This study does not interrogate the content or appropriateness of the strategies of the selected companies, as the purpose of the investigation was to investigate disclosure levels; neither does this study make any inference about the relationship between the level of strategy disclosure and business or sector performance. These are all options to be explored in future research.

The question about the optimum level of disclosure (if such level exists) remains unanswered. In a world where the values of (as well as the value of) transparency, honesty and engagement of diverse stakeholders are a high priority on societal and corporate agendas, increasing pressure on companies to disclose more strategic information seems inevitable. To investigate the level of strategy disclosure is just the beginning of a journey to assist companies to find a balance between information that is essential for stakeholders while maintaining the competitive advantage of the firm.

Acknowledgements

The contributions to the execution of this study of the following MBA researchers from the University of Stellenbosch Business School are acknowledged: Kooi Botha, Ryan Coldman, Servaas Hofmeyr, Shaun Meyer, Deny Mpande and Yusuf Goga.

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