Strategy disclosure reporting trends in South Africa: A 2010–2011 comparative analysis for six industry clusters

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ABSTRACT

Strategy disclosure through integrated reporting relates to a firm's transparency and accountability in dealing with stakeholders. This study is a follow-up study on the 2010 strategy disclosure findings reported by Ungerer (2013), and the study aims to create comparative views and to further evaluate the feasibility of measuring strategy disclosure levels using multiple baseline perspectives. A comparative analysis for six industry clusters in South Africa is presented. Strategy disclosures for 2010 and 2011 are measured against three baselines, namely the third generation Global Reporting Initiative (GRI G3) Guidelines (Baseline 1), a strategic architecture framework (Baseline 2) and a business model framework (Baseline 3). The six industries, each consisting of five JSE-listed companies, are banking, construction, energy, insurance, mining and retail.

Strategy disclosure, in aggregate, improved from 65% to 73% between 2010 and 2011. Given variances in disclosure for the various industries and against different strategic element sub-scales, different priorities can be identified for improving disclosure through integrated reporting. When disclosure against different baselines is compared, it becomes apparent that disclosure of forward-looking strategic themes and those related to the competitive strategy sub-scale represent the major themes for improvement in strategy disclosure practices. On balance, however, there are positive trends towards greater transparency and improved accountability to stakeholders. This coincides with the introduction of the King III compliance regime for integrated reporting, as well as meaningful organisational learning and capacity building towards GRI G3 disclosure.

Key words: business model, integrated reporting, Global Reporting Initiative, King III, stakeholders, strategic architecture, strategy disclosure, transparency

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Introduction

A new era of transparency and accountability in corporate reporting in South Africa was introduced by South Africa's third King Report on Corporate Governance (King III). King III shifted the focus from a shareholder-centred approach to a stakeholder-inclusive approach. King III recommends the use of the Global Reporting Initiative (GRI) G3 Guidelines as a generic sustainability-reporting framework (Ungerer 2013: 32).

Corporate commitment to integrated reporting and inclusive stakeholder engagement assumes interdependence between performance, risk management, sustainability and forward-looking strategy disclosure. Santema, Hoekert, Van de Rijt and Van Oijen (2005: 354) define strategy disclosure as the "revelation of information an organization decides to share with its stakeholders on the strategy it is pursuing and going to pursue in the future". Disclosing only financial performance and short-term results does not empower stakeholders to keep a firm accountable in the long run, nor does it reflect the potential for value creation as well as business performance in the wider sense of the word. Stakeholders are "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Mitchell, Agle & Wood 1997: 869). This implies that shareholders, creditors, interest groups, regulators, employees and management all have different reasons to be interested in the firm's broader strategic architecture. Transparent disclosure of all aspects related to sustainability, including risks and future strategy, is thus indicative.

In South Africa, the Johannesburg Securities Exchange (JSE) requires all listed companies to disclose certain strategic information in their annual or integrated annual reports, in the absence of which they have to state reasons why the information was not provided (RSA 2011: chapter 4 paragraph 54). King III came into effect on 1 March 2010, and henceforth, JSE-listed companies are required to submit integrated reports. Many companies transitioned to a new reporting regime in 2010, but essentially 2011 was the first year in which companies had to publish King III-compliant integrated reports. This comparative study covers strategy disclosure trends between 2010 and 2011.

Due to the forward-looking nature of strategy, it is more difficult to measure its disclosure when compared, for example, to the disclosure of historical financial data. Therefore, three strategy disclosure baselines are used in the empirical analysis, namely (i) the third generation Global Reporting Initiatives (GRI G3) Guidelines (GRI 2013) (Baseline 1), (ii) the strategic architecture elements described by Ungerer, Pretorius and Herholdt (2011) (Baseline 2), and (iii) the business model elements described by Osterwalder and Pigneur (2010) (Baseline 3).

In assessing the strategy disclosure of JSE-listed companies against these three baselines, this comparative study involved six industry clusters, namely banking, construction, energy, insurance, mining and retail.

This study is a follow-up on the 2010 strategy disclosure findings reported by Ungerer (2013), and the study aims to create comparative views and to further evaluate the feasibility of measuring strategy disclosure levels using multiple baseline perspectives. Comparative views in the context of this study refer to comparing both the strategy disclosure results from selected industries over a time difference (2010 compared with 2011) as well as the strategy disclosure results using different measurement baselines. The main objective was to measure how transparently firms in the six industries are disclosing strategy in their communication with stakeholders, particularly in their annual integrated reports and, if published separately, their sustainability reports. Furthermore, the study considered how levels of disclosure against the three baselines changed between 2010 and 2011, and whether there were variances in strategy disclosure for different industry clusters and against different strategy sub-scales.

Literature review

Strategy disclosure and transparency

The global financial crises, as well as an emerging view that the prevailing economic model is socially and environmentally unsustainable, has created new pressure for corporate reporting to effectively communicate the impact of business on stakeholders and the triple bottom-line (Enderle 2004; Eccles & Krzus 2010; KPMG 2010; Stiglitz 2009, cited in Spitzeck & Hansen 2010: 379; IRC 2011: 1).

South Africa has a young but well-established reporting regime with clear disclosure requirements and transparency benchmarks for financial information. The Companies Act (No. 71 of 2008, as amended in 2011) prescribes the International Financial Reporting Standards (IFRS), which are internationally recognised as a benchmark (RSA 2011: chapter 4, paragraph 54). However, a similarly explicated international benchmark for comprehensive disclosure of company strategy does not exist. The closest is the GRI G3 Guidelines, which include strategy as one of the requirements for sustainability disclosure (GRI 2013), but these are not comprehensive.

The benefits of more open strategy disclosure relate to providing stakeholders with greater insight into risks, performance and future strategic direction. Higgins and Diffenbach (1989: 134) point out that the benefits of "communicating corporate strategy" include improved assessment of a firm's potential, and valuation of a company's share price by the financial community. In this sense, disclosure may lead to a more correct determination of intrinsic firm value, which may influence share price adjustments based on perceptions of ability to create wealth or generate future income and/or adjustments for mis-pricing (Lev 1992: 18; Lanfranconi & Robertson 1999: 62). Other benefits include articulating the corporate strategy to employees, recruiting talent with appropriate skills, strategic alignment of suppliers, improved relations with regulators and the government, discouraging regulatory intervention, advancing a particular shareholder mix and managing reputational risk (Higgins & Diffenbach 1989: 135; Lev 1992: 20; Ferreira & Rezende 2007: 164;). Client relationships, innovation and trust are all sources of competitive advantage that depend on transparency (Lazarus & McManus 2006: 925).

Strategy disclosure goes to the heart of the need for transparency. The commitment to transparency is often diluted due to the fear of losing competitive advantage if too much is disclosed.

Simultaneously, the very open strategy disclosure can arguably involve risks such as diluting competitive advantage; for example, disclosed information on strategy could be used by a company's competitors to outmanoeuvre them, or to pre-empt first-move advantage. Complete transparency leaves a company vulnerable to followers, as it removes the surprise element. It becomes easier for market followers to take decisions without the risk of uncertainty, based on the first-mover's disclosed performance and planned strategic moves (Ozbilgin & Penno 2005: 928). Furthermore, in responding to a continuously evolving external environment, agile companies that disclose detailed strategies may seem to continuously change direction, which in turn may create the impression of inconsistency and thereby cause reputational damage or credibility concerns (Higgins & Diffenbach 1989: 134). In this sense, detailed and explicit future strategy disclosure could impede agile decision-making (Ferreira & Rezende 2007: 164). Other unintended consequences of transparent strategy disclosure could reverberate in capital markets, labour negotiations and supplier/customer relationships (Lev 1992).

On balance, however, it is difficult to ignore demands from the full range of stakeholders for greater transparency. The global awareness of the imperatives for environmental, social and economic sustainability, or the triple bottom-line, has contributed to this momentum. The rise to prominence of integrated reporting in the contemporary corporate landscape underscores this momentum.

Integrated reporting, the GRI and King III

The International Integrated Reporting Council (IIRC) defines integrated reporting as "bring(ing) together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates" (IIRC 2011: 2). The two overarching principles are transparency and accountability (IRC 2011). Integrated reporting implies more than simply combining a company's financial and sustainability reports, and suggests that sustainability should be entrenched in a firm's strategy (Eccles & Krzus 2010). Integrated reporting has therefore morphed from simply reporting, to a process of strategic trade-offs that provides guidance to organisations in prioritising sustainability issues (Fava & Smith 1998; Emerson 2003; Jeyaretnam & Niblock-Siddle 2010). In addition, it enables an organisation to understand stakeholder expectations, societal pressures as well as environmental risks and challenges (Rea 2011), and provides a holistic view of an organisation's financial and non-financial performance (IoDSA 2009).

The GRI released its first version of Sustainability Reporting Guidelines in 2000. In 2002, with the support of the United Nations Environmental Programme (UNEP), the GRI released its second version and all the member countries of the United Nations (UN) were invited to embrace this framework. The GRI then released the third generation of guidelines for sustainability reporting in 2006 (GRI 2013). Simultaneously, the IIRC, a multi-stakeholder institution, advanced the notion of integrated reporting. The IIRC included 'strategic focus' as one of the five guiding principles for the preparation of integrated reports and also included elements such as organisational overview, business model, operating context, risks and opportunities, and strategic objectives and strategies as part of the key content elements required in these reports (IIRC 2011: 3). Both the GRI and IIRC recognise strategy as an important dimension of sustainability. In the GRI G3 Guidelines, strategy is the first element that requires substantial reporting.

The development of a framework for sustainability reporting in South Africa dates back to the 1990s. Judge Mervyn King formed the King Committee on Corporate Governance in 1992, which, in its first report in 1994, laid the foundation for institutionalising corporate governance in South Africa (SAICA 2008). The King III report was issued in 2009, under the auspices of the Institute of Directors in Southern Africa (IoDSA), and included a strong principled emphasis on integrated reporting and disclosure (IoDSA 2009: 48–49). These requirements were all included in the King Code of Governing Principles. King III emphasises a stakeholder-inclusive approach to corporate governance, and promotes the use of integrated reporting as one of the primary methods of stakeholder communication in meeting governance principles such as accountability and transparency (IoDSA 2009). King III furthermore recommends the use of the Global Reporting Initiative (GRI) G3 Guidelines as a generic sustainability-reporting framework (Ungerer 2013: 32).

The Companies Act requires JSE-listed companies to comply with King III, or to state reasons why the board has decided to override the recommended practices (RSA 2011: chapter 4, paragraph 54). Although King III does not indicate that companies are specifically required to comply with the GRI G3 Guidelines, it does require an integrated reporting approach to strategy, risk, performance and sustainability (IoDSA 2009: 11). The GRI G3 Guidelines were specifically created as a framework for reporting and disclosing these elements. It therefore follows that any entity that wishes or is required to comply with King III can use the GRI G3 Guidelines as a framework. Other frameworks that could also be used are those of the UN Global Compact, the guidance provided in ISO 26000 or the JSE's socially responsible investment index criteria (IRC 2011: 5).

Strategy disclosure measurement baselines

As the concept of strategy could be interpreted very widely, a comprehensive framework is required against which levels of strategy disclosure can be assessed. In this study, in addition to using the GRI G3 Guidelines as a measurement baseline, the strategic architecture framework described by Ungerer et al. (2011: 156) and a related business model framework described by Osterwalder and Pigneur (2010: 16–17) were used. These strategy disclosure indicators are the same as described and used by Ungerer (2013) to create comparable data. For the purposes of this study, a strategy disclosure indicator refers to a qualitative description of strategic information relevant to stakeholders.

Baseline 1: GRI G3 Guidelines

Baseline 1 is based on the specific strategy-related disclosures required in the GRI G3 Guidelines. The GRI is mainly concerned with sustainability reporting: however, aspects of strategy disclosure are integrated with the GRI framework (GRI 2013 [part 1]: 3). The GRI G3 strategy disclosure indicators covered in Baseline 1 are: strategy and analysis; organisational profile; report scope; commitment to external initiatives; stakeholder engagement; and economic performance (see Table 1).

Table 1: Baseline 1: GRI G3 strategy disclosure theme indicators

Reporting element/Theme	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

Baseline 2: Strategic architecture elements

Baseline 2 is based on the strategic architecture elements as defined by Ungerer et al. (2011). Ungerer et al. (2011: 144) suggest a strategic architecture framework using the internal and external environments together with the mission, vision and values to determine the participative, resource, competitive and profit strategies of a firm. These elements provide a more complete picture of a firm's strategy than the narrower 'business model' framework used in Baseline 3. Table 2 lists the 29 strategy disclosure indicators related to the strategic architecture themes of a firm that constitute Baseline 2.

Baseline 3: Business model elements

Baseline 3 is based on the business model elements described by Osterwalder and Pigneur (2010: 16–17). The nine strategy disclosure indicators can be grouped under four themes. Each of these indicators, summarised in Table 3, provides stakeholders with a particular perspective on the firm

Table 2: Baseline 2: Strategy architecture disclosure indicators

A	**Core aspirational descriptions**	**B**	**Business strategy 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 and balanced 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		

Table 3: Baseline 3: Business model themes and strategy disclosure indicators

Themes	Strategy disclosure indicator	Description
Product	1. Value proposition	Gives an overview of the firm'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 design and methodology

The empirical analysis in this study forms part of a broader research project at the University of Stellenbosch Business School (USB) that focuses on corporate governance, transparency and strategy disclosure for different industry clusters. The findings from a benchmark study for integrated reporting in 2010 have previously been published by Ungerer (2013). The findings reported in the current article are based on a follow-up study by a number of MBA researchers who analysed the annual reports, integrated annual reports and/or sustainability reports of JSE-listed companies in the identified six industry clusters (see Table 4). Each of the six industries consisted of five JSE-listed companies.

The target group of JSE-listed companies across the six industries was positively skewed in that they had previously been identified as market leaders in terms of GRI G3 reporting (Rea 2010). The aggregate results therefore do not represent the general disclosure trend for the industry cluster, but rather the most positive case for the same sample group.

Table 4: Empirical analysis for different industries

Industry	Researcher	Details
Insurance	Thule Mdledsi 2013	Analysed and compared 2010 and 2011
Retail	Bertie van Sittert 2013 Ryan Coldman 2013	Analysed and compared 2010 and 2011 Analysed 2010
Construction and materials	Gerrit Kamper 2013 Ryan Coldman 2013	Analysed 2011 Analysed 2010
Banking	Mudiwa Gwisai 2013 Ryan Coldman 2013	Analysed and compared 2010 and 2011 Analysed 2010
Metals and mining	Andrew Crafford 2013 Ryan Coldman 2013	Analysed 2010 and 2011; not compared Analysed 2010
Energy	Michelle Arnot 2013 Ryan Coldman 2013	Analysed and compared 2010 and 2011 Analysed 2011
Cross-industry	Carine Reyneke 2014	Collated and compared 2010 and 2011 for all six industries

For consistency and comparability, all the industry cluster studies listed in Table 4 used the same grading scales. Peer scoring on different aspects of strategy disclosure was used to check for anomalies. All the studies listed in Table 4 used the three baselines described above. The researchers calculated disclosure scores for the various strategic elements identified in the different baselines. Consistent with Rea (2010; 2011), scores were allocated using a scale ranging from two to zero, where:

2 = reasonable response, meaning sufficient information has been disclosed to form an understanding of the indicator.
1 = partial response, meaning some information has been disclosed, but there is information lacking.
0 = no response, meaning no information has been disclosed.

The original ratings (0, 1 or 2) were converted into a percentage score. Simple average scores were calculated for the various disclosure elements (i.e. the total score obtained across the indicators was divided by the number of indicators). For the qualitative description of disclosure, a grading scale that distinguished between disclosures as average, below average or above average was used (Table 5).

Table 5: Baseline grading scale

Level	Description
< 65%	Below average
65% – 75%	Average
> 75%	Above average

Findings

How did the levels of strategy disclosure against the baselines change between 2010 and 2011?

In aggregate, for all three baselines and all six industries combined, strategy disclosure improved from a score of 65% in 2010 to 73% in 2011 (dark shaded cells in Table 6), which conveys a positive message on the commitment of industry at large to greater transparency.

For all six industry clusters combined, disclosure improved by eight percentage points against Baselines 2 and 3, and nine percentage points against Baseline 1 (light shaded area in Table 6). In comparing the three baselines, it is also clear that disclosure against the more comprehensive strategic architecture baseline (Baseline 2) is in aggregate at a much lower level than disclosure for Baselines 1 and 3. This warrants deeper analysis, especially in order to better understand how disclosure against sub-scales of the strategic architecture baseline impact on the overall disclosure scoring. Such an analysis is presented in Tables 6 and 7, where the findings are presented baseline-by-baseline.

Table 6: Average score per baseline for 2010 and 2011

Baseline	2010 (%)	2011 (%)	Difference (%)
Baseline 1 (based on GRI G3)	68	77	+9
Baseline 2 (based on the elements of strategic architecture)	59	67	+8
Baseline 3 (based on the business model)	67	75	+8
Average	65	73	

Overall, these high level (aggregate) disclosure trends confirm improved disclosure after King III compliance came into effect. However, this general trend does not apply universally to all industry clusters, which are analysed next.

Are there variances in strategy disclosure for different industry clusters?

Not all industry clusters are committed to the same levels of disclosure. Table 7 records the average industry cluster scores against each of the baselines for 2010 and 2011.

Table 7: Average industry score for Baselines 1, 2 and 3 for 2010 and 2011

Industry/Baseline (BL)	Year	BL 1 (%)	BL 2 (%)	BL 3 (%)	Average (%)
Banking	2010	54	52	53	53
	2011	71	68	69	69
Construction	2010	68	48	60	59
	2011	75	69	88	77
Energy	2010	77	75	89	80
	2011	86	79	83	83
Insurance	2010	72	67	72	70
	2011	70	68	80	73
Mining	2010	83	61	64	69
	2011	87	59	57	68
Retail	2010	54	50	66	57
	2011	69	60	73	67
Average	2010	68	59	67	65
	2011	77	67	75	73

The energy industry cluster outscored all other industry clusters by a meaningful margin (average disclosure score of 83% in 2011). The mining industry had also come to grips with the requirements of GRI G3 reporting, and they consistently scored better against Baseline 1 than all other sectors, although the energy industry had closed the gap in 2011 (dark grey shaded areas in Table 7). Given that King III recommends reporting against the GRI guidelines, and that Baseline 1 is based on these guidelines, the mining industry's reporting clearly satisfies the legal requirements. That said, the mining industry does not seem to voluntarily disclose beyond its compliance obligations in a meaningful way when Baselines 2 and 3 are considered. The opposite is true for the energy industry which seems to have caught up with mining in GRI G3 disclosure between 2010 and 2011, and leads in beyond-compliance disclosure against Baselines 2 and 3. This is consistent with Ungerer (2013: 50) who previously noted that sectors that are under scrutiny for their environmental and sustainability practices (such as mining and energy) were disclosing higher-quality information in 2010 than industry clusters such as retail and banking.

When the results for different industry clusters for 2010 and 2011 are compared (Table 7), the most notable improvements in aggregate disclosure were in the construction (from 59% to 77%), retail (from 57% to 67%) and banking (from 53% to 69%) industries. Disclosure scores improved from 2010 to 2011 for all but three baseline-industry pairs: insurance deteriorated between 2010 and 2011 against Baseline 1, and mining against both Baselines 2 and 3 (light grey shaded areas in Table 7). Consistent with the aggregate trend observed earlier, reporting against the strategic themes of Baseline 2 lagged that for other baselines for almost all industries over both years (Baseline 2's average is six percentage points lower than the average across all baselines) (black shaded area in Table 7).

Which strategic themes have shown greatest improvements in disclosure scores between 2010 and 2011?

When the questions in each baseline are grouped together under different strategic themes for strategy disclosure, it is possible to calculate the average strategic theme scores and compare these for 2010 and 2011, as summarised in Table 8 and visualised in Figure 1.

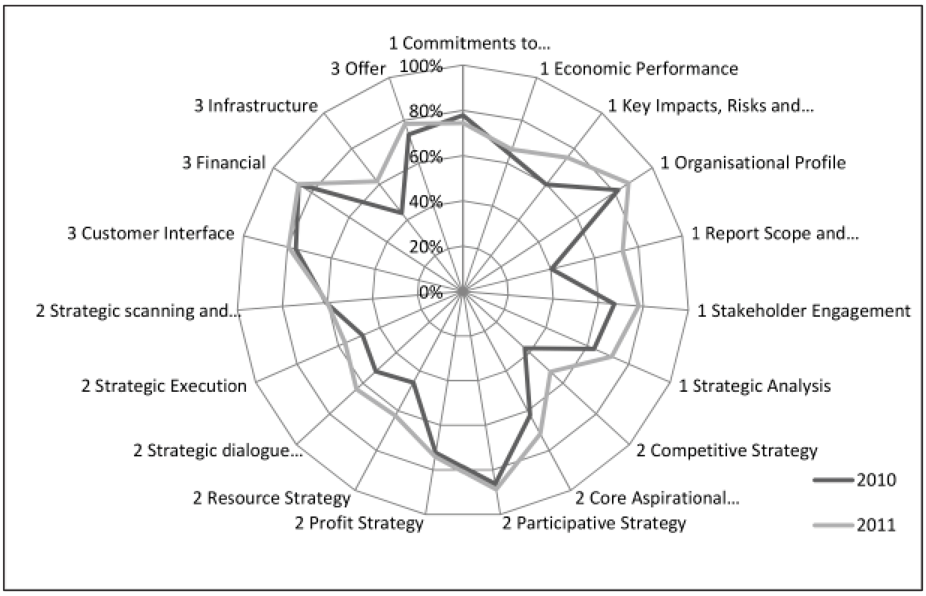

Figure 1: Average strategic indicator scores for 2010 and 2011

Table 8: Average strategic theme scores for 2010 and 2011

Strategic theme	**2010 (%)**	**2011 (%)**
Baseline 1		
Commitments to external activities	78	74
Economic performance	64	66
Key impacts, risks and opportunities	60	75
Organisational profile	82	87
Report scope and boundary	40	73
Stakeholder engagement	67	78
Strategic analysis	63	72
Baseline 2		
Competitive strategy	37	53
Core aspirational descriptions	62	72
Participative strategy	86	89
Profit strategy	72	74
Resource strategy	46	63
Strategic dialogue stimulation to support strategic execution	52	64
Strategic execution	48	57
Strategic scanning and exploration	61	60
Baseline 3		
Customer interface	76	79
Financial	87	87
Infrastructure	44	62
Offer	73	78

Figure 1 shows that reporting improved between 2010 and 2011 against 16 of the 19 strategic themes identified across the different baselines, with nine themes showing a difference of ten percentage points or more (dark grey shaded areas in Table 8). There were significant improvements (15% or more) in disclosure on a number of strategic themes, most notably Baseline 1's 'key impacts, risks and opportunities' and 'report scope and boundary' sub-themes; Baseline 2's 'competitive strategy' and 'resource strategy' themes, and Baseline 3's 'infrastructure' theme.

The average score for two strategic theme groups (Baseline 1's 'commitment to external activities' and Baseline 2's 'strategic scanning and exploration') decreased slightly between 2010 and 2011, but the drop was not significant.

Which strategic themes are reported on at an average to above average level, and for which strategic sub-themes or industries should strategy disclosure be improved?

Two broad observations would suffice for the analysis of relative disclosure levels for all six industries (combined) against the strategic themes summarised in Table 8.

Firstly, by far the majority of strategy disclosure sub-themes were reported on at an average and above average level. The six strategic themes with the highest levels of disclosure are Baseline 1's 'organisational profile' and 'stakeholder engagement', Baseline 2's 'participative strategy', and Baseline 3's 'financial', 'customer interface' and 'offer' sub-themes (light grey shaded themes in Table 8).

Secondly, the areas of strategy disclosure where significant development work is required (based on 2011 scores) are Baseline 3's 'infrastructure' theme, and Baseline 2's 'competitive strategy', 'resource strategy' and its three forward-looking strategic sub-themes (i.e. strategic dialogue, strategic execution and strategic scanning/ exploration) (black shaded themes in Table 8).

To meaningfully interrogate disclosure levels against strategic sub-themes so as to identify priorities for development of disclosure practice and capacity in different industry clusters (e.g. through awareness-raising or organisational capacity building), it is useful to graphically plot disclosure scores against baseline strategic sub-themes for the different industry clusters (meaning industry-by-industry against the strategic theme sub-scales of the three baselines). This is captured in Tables 9 to 11.

Table 9: Average of different industries measured against strategic sub-themes of Baseline 1

Strategic group / Industry	Year	Banking (%)	Construction (%)	Energy (%)	Insurance (%)	Mining (%)	Retail (%)
Commitments to external activities	2010	67	63	97	87	87	67
	2011	73	63	93	63	83	70
Economic performance	2010	43	73	60	74	84	49
	2011	66	69	73	58	77	56
Key impacts, risks and opportunities	2010	46	58	81	56	83	35
	2011	65	73	89	71	92	60
Organisational profile	2010	71	80	90	84	91	76
	2011	88	85	95	80	95	82
Report scope and boundary	2010	33	27	50	62	53	20
	2011	60	63	90	80	80	63
Stakeholder engagement	2010	78	68	68	75	75	40
	2011	73	83	90	61	85	75
Strategic analysis	2010	42	68	72	66	81	51
	2011	59	73	79	67	83	69

A number of trends and areas for development in respect of the strategic themes in Baseline 1 can be observed. When measured against Baseline 1, the mining and energy industries were the leaders in the disclosure of strategy information in both 2010 and 2011. Where there were weaknesses in 2010 (e.g. the energy industry in respect of 'economic performance', and both the energy and mining industries in respect of 'report scope and boundary), 2011 witnessed what can be described as rather dramatic improvements.

Furthermore, there was a significant improvement across all industries in respect of the strategic theme 'report scope and boundary' (the sub-theme with the worst strategy disclosure scores in 2010). Much organisational learning in terms of defining the scope of integrated reports clearly happened over the first year after the introduction of King III's integrated reporting guidelines in 2010.

In 2010, there was considerable variance between high and low scores for the different industry clusters. In 2011, industry profiles converged with less variation (with the exception of the insurance industry), also in respect of disclosure against the different strategic themes. This observation also supports the notion of significant organisational learning in respect of King III, and by implication GRI G3 reporting between 2010 and 2011. This is particularly true for the retail and banking industries, but applies generally.

Across all industries, the scores for reporting on (rather generic) 'organisational profile' were among the top scores; and reporting on 'economic performance' among the lower scores. The most significant areas for development are highlighted in the dark shaded areas in Table 9. For the banking industry, the priorities were to report on 'strategy analysis' (59%) and 'report scope and boundary' (60%). For construction, the priorities were also 'report scope and boundary' (63%) as well as 'commitments to external activities' (63%). The insurance and retail industries both have much to improve in terms of disclosure: insurance for the strategic themes of 'economic performance' (58%), 'commitments to external activities' (63%) and 'stakeholder engagement' (61%); and retail for 'economic performance' (56%), 'key impacts, risks and opportunities' (60%) and 'report scope and boundary' (63%).

The pattern for the insurance industry was slightly different from the other industries in that their disclosure performance deteriorated between 2010 and 2011 against four of the seven strategic themes. This was investigated by Reyneke (2014), who found that two particular insurance companies had distorted the aggregate score for the cluster of five companies. These two companies' disclosure deteriorated significantly, whereas the other three companies actually improved on their disclosure levels.

A tabulation of the disclosure scores by industry against the sub-scale themes for Baseline 2 reveals a number of trends and observations. Generally, against Baseline 2, the mining, insurance and energy industries showed little improvement between 2010 and 2011, while the construction industry showed vast improvements on a number of sub-themes such as resource strategy and competitive strategy.

As was the case for Baseline 1, 2010 scores for different industries showed much greater variance (Table 10). However, other than the case for Baseline 2, there was not a significant degree of convergence in 2011, nor a meaningful improvement in aggregate disclosure reporting. What is probably different in respect of Baseline 2 is that the strategic architecture themes are not explicated in a compliance regime as is the case for Baseline 1's King III and GRI G3 Guidelines, and thus did not necessarily form part of the organisational learning and capacity building after the 2010 introduction of King III.

Across all industries, reporting on 'core aspirational descriptions' and 'participative strategy' was satisfactory. For 'resource strategy', the retail industry in particular (with a 35% score) had significant room to improve, followed by banking (55%) and mining (60%).

Table 10: Industries measured on the strategic sub-themes of Baseline 2

Strategic Group/ Industry	Year	Banking (%)	Construction (%)	Energy (%)	Insurance (%)	Mining (%)	Retail (%)
Core aspirational descriptions	2010	60	73	40	77	63	60
	2011	77	80	73	77	57	67
Participative strategy	2010	78	98	100	90	60	93
	2011	93	100	95	88	65	93
Resource strategy	2010	35	23	50	58	83	28
	2011	55	78	78	68	60	38
Competitive strategy	2010	30	18	80	45	30	20
	2011	40	68	75	63	38	33
Profit strategy	2010	68	62	74	72	84	74
	2011	86	68	78	61	62	88
Strategic execution	2010	43	10	97	47	40	53
	2011	47	43	80	50	67	53
Strategic scanning and exploration	2010	37	53	97	73	67	37
	2011	70	43	83	71	60	33
Strategic dialogue stimulation to support strategic execution	2010	63	40	63	77	50	20
	2011	67	63	63	60	70	60

Almost all industries (other than energy and possibly construction) had major shortcomings in disclosure on 'competitive strategy', with retail (33%), mining (38%) and banking (40%) facing the biggest challenge to improve on disclosure scores. For 'profit strategy', mining and insurance had room for improvement on their average 2011 scores.

Consistent with earlier observations, disclosure against four strategic sub-themes was less transparent than the aggregate trend. These were the 'competitive strategy' sub-theme of the strategic architecture baseline as well as the three strongly forward-looking strategic sub-themes in Baseline 2, namely 'strategy execution', 'strategy scanning and exploration' and 'strategic dialogue'. The most significant areas for development are highlighted in the dark grey shaded areas in Table 10.

Turning to Baseline 3, the business model framework with its four sub-themes, a few salient observations would suffice.

By and large (save for the insurance industry), the disclosure against the 'financial' strategic sub-theme was above average. Disclosure for this sub-scale can probably be explained by the fact that financial disclosure requirements are already applicable to JSE-listed companies and thus not unfamiliar territory to integrated-reporting practitioners.

Despite registering the largest aggregate improvement between 2010 and 2011, the highest priority strategic sub-theme for capacity and disclosure development was 'infrastructure' (Baseline 3). This applies in particular to the banking, mining and retail industry clusters.

For the banking industry, the biggest priority was disclosure against the 'infrastructure' sub-scale (27%). In all other respects, this industry scored far above average. The construction industry scored reasonably well against all themes apart from the infrastructure sub-themes. The energy industry was clearly leading on the disclosure reporting score table, but on average deteriorated slightly between 2011 and 2010. Other than was the case for Baseline 1, mining was not in a leadership position in respect of Baseline 3, and there were significant development challenges in respect of the below-average 'customer interface' disclosure (33%) and the 'infrastructure' disclosure (57%). Finally, the retail industry scored above average on all sub-themes other than 'infrastructure' (47%). The most significant areas for development are highlighted in the dark grey shaded areas in Table 11.

Table 11: Average of different industries measured against strategic sub-themes of Baseline 3

Strategic group/ Industry	Year	Banking (%)	Construction (%)	Energy (%)	Insurance (%)	Mining (%)	Retail (%)
Customer interface	2010	73	87	93	90	37	77
	2011	90	100	80	90	33	83
Financial	2010	65	90	100	70	95	100
	2011	85	85	95	70	85	100
Infrastructure	2010	10	20	77	53	70	33
	2011	27	77	83	80	57	47
Offer	2010	100	40	90	80	70	60
	2011	100	90	70	70	70	70

Conclusions and recommendations

The study analysed data for six industries, each consisting of five JSE-listed companies. The unit of analysis, namely integrated and/or sustainability reports, are for South African JSE-listed companies, and, therefore, were drafted to comply with King III and, in most instances, the GRI G3 Guidelines.

Disclosure by each of the companies was assessed against three baselines. Baseline 1 is based on the GRI G3 Guidelines. Baseline 2 is based on the elements of a strategic architecture framework. Baseline 3 is based on a business model framework.

There was a clear improvement in reporting quality and transparency between 2010 and 2011 against all three baselines combined. In aggregate, disclosure for all industry clusters combined improved from 65% to 73% between 2010 and 2011 (Table 6).

Nevertheless, there were variances in how different industries fared against different baseline strategic sub-themes. Based on these variances, and by identifying below-average disclosure scores against baseline sub-themes, it was possible to identify priorities for disclosure/reporting development, capacity-building and awareness-raising in different industry clusters. In terms of strategic sub-themes that could be prioritised for awareness-raising and capacity-building, it is evident that disclosure for the 'infrastructure' sub-theme (Baseline 3), and the 'competitive strategy', 'resource strategy' and other forward-looking strategy sub-scales (Baseline 2) could be vastly improved. Tables 9 and 10 disaggregate these priorities for different industry clusters. Arguably the greatest priority in terms of building capacity and raising awareness is the sub-theme of competitive strategy, particularly for the retail, mining and banking industries.

As was the case in the 2010 benchmark study (Ungerer 2013), the energy and mining sectors with aggregate disclosure levels against Baseline 1 of 86% and 87% respectively fared best, while retail, insurance and banking lagged the other sectors by a significant margin (Table 7). In South Africa with its modern environmental legislation and active civil society watchdogs in the sustainability area, the mining and energy sectors, due to the nature of their physical activities, are clearly under much closer scrutiny than the services sectors, and consequently have built the capacity to report more transparently on their strategies.

Also consistent with Ungerer (2013), the aggregate score for disclosure against Baseline 2 significantly lagged disclosure against Baselines 1 and 3. Most prominently, the disclosure against Baseline 2 (67%) lagged disclosure against Baseline 1 (77%) by 10%. Baseline 1 is based on a compliance-based regime, namely the GRI G3 Guidelines, and in the integrated reporting profession it is relatively well known. Baseline 2 is based on a strategic architecture framework that incorporates the various elements of a firm's business strategy, and it is not based on a compliance regime for reporting. Moreover, the disclosure elements that make up Baseline 2 are in all probability not as well explicated and known in the sustainability divisions in the corporate sector as are those for the GRI G3 Guidelines.

Furthermore, on the 'competitive strategy' sub-scale of Baseline 2, industry clustered in aggregate score lower than they did against the strategic sub-themes for other baseline elements. Clearly, whether well founded or not, firms either still perceived elements of disclosure on competitive strategy as not being in their best interest in a competitive market environment, or they are ignorant of the imperatives for disclosure. This is consistent with the findings reported in Ungerer (2013) and points to a general misconception about the width and depth of disclosure that is required in the contemporary business environment where the market, investors, stakeholders and other strategic partners expect greater transparency and visibility of future strategic positioning rather than ad hoc strategic moves. King III clearly articulates the need for forward-looking disclosure. It could be argued that it is possible to disclose more comprehensively on the strategy elements without giving away any sources of competitive advantage, but this message has not yet hit home in all sections of corporate South Africa. These are clearly development areas where the capacity of the authors of corporate reports needs to be built, and fears about sacrificing competitiveness or disclosing too much need to be allayed.

An important contribution of this research project is the development of a replicable methodology for the measurement of strategy disclosure. In both Ungerer (2013) where the 2010 benchmark for strategy disclosure in the five sectors was established, and the subsequent research and analysis to track trends between 2010 and 2011, three baselines were used. Based on the current analysis, it is concluded that it would be sufficient to compare disclosure only for Baselines 1 and 2, which are respectively based on a compliance regime and a voluntary or beyond-compliance regime. By and large, Baseline 3 is a sub-set of Baseline 2, and the latter measures a more complete set of disclosure sub-scales than the former. Baseline 2 is comprehensive in that it captures all the business model elements of Baseline 3, but also a wider array of future-oriented strategic sub-themes (see Tables 2, 3 and 12).

Related to the methodology contribution of the research, the following refinement in the process was made. The research basis for this article involved peer scoring of exactly the same reports. This rigorous process introduced important checks and balances. The rigour and replicability could be further enhanced by using deductive coding to also provide a qualitative assessment and measurement of strategy disclosure in integrated reports. Essentially, the benchmarks to be used in coding have already been identified and are well defined in the GRI reporting guidelines (Baseline 1) and Ungerer et al. (2011) for Baseline 2. By assigning codes to integrated report text using the Atlas.ti 7 data analysis tool, peer comparison of scoring would become much easier and more transparent. Supporting qualitative data would then also become systematically accessible (e.g. when anomalies have to be resolved or when trends have to be illustrated with actual references from integrated reports).

Table 12: Content comparison between Baselines 2 and 3

Baseline 2 Strategy disclosure indicator per theme	Baseline 3 Strategy disclosure indicators
Core aspirational descriptions: 3 indicators	None
Participative strategy: 4 indicators	Target customers: 1 indicator
	Distribution channel: 1 indicator
	Relationships: 1 indicator
Resource strategy: 4 indicators	Value configuration: 1 indicator
	Core competence: 1 indicator
	Partner network: 1 indicator
Competitive strategy: 4 indicators	Value proposition: 1 indicator
Profit strategy: 5 indicators	Cost structure: 1 indicator
	Revenue model: 1 indicator
Strategy execution: 3 indicators	None
Strategic scanning: 3 indicators	None
Strategic dialogue: 3 indicators	None
Total indicators: 29	Total indicators: 9

The fourth generation of the GRI reporting guidelines (G4) was released in May 2013 and came into force in 2015. The emphasis changed from reporting on everything (G3) to reporting only on issues that really matter (G4) (GRI 2013 [part 1]: 3). The guidelines aim to assist organisations to prepare more strategically oriented, focused and credible integrated reports, moving closer to the original aim of being a strategic tool rather than an administrative burden. It would be interesting to see how corporate South Africa responds through its integrated reporting to the new GRI G4 Guidelines.

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