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Higgins, Colin, Stubbs, Wendy and Milne, Markus 2012, Sustainability reporting and non-reporters: understanding why companies do not produce sustainability reports, CPA Australia, Melbourne, Vic.

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Global Research Perspectives

Sustainability Reporting and non-reporters: Understanding why companies do not produce sustainability reports

Report prepared by:
Dr Colin Higgins, Dr Wendy Stubbs & Professor Markus Milne
March 2012
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First published
CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank Vic 3006
Australia

ISBN: 978-1-921742-31-6

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<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the Authors</td>
<td>2</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>2</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>Background and Literature Review</td>
<td>6</td>
</tr>
<tr>
<td>Research Approach and Methods</td>
<td>8</td>
</tr>
<tr>
<td>Results and Discussion</td>
<td>9</td>
</tr>
<tr>
<td>Lack of external stakeholder pressure</td>
<td>9</td>
</tr>
<tr>
<td>No perceived benefits</td>
<td>12</td>
</tr>
<tr>
<td>Sustainability reporting is a nice-to-do, not must-do</td>
<td>12</td>
</tr>
<tr>
<td>Compliance culture</td>
<td>13</td>
</tr>
<tr>
<td>Structure and/or culture does not encourage reporting</td>
<td>13</td>
</tr>
<tr>
<td>Summary</td>
<td>15</td>
</tr>
<tr>
<td>Conclusions</td>
<td>16</td>
</tr>
<tr>
<td>Recommendations</td>
<td>17</td>
</tr>
<tr>
<td>References</td>
<td>18</td>
</tr>
<tr>
<td>Appendix 1 – List of Participants</td>
<td>21</td>
</tr>
<tr>
<td>Appendix 2 – Interview Guide</td>
<td>22</td>
</tr>
<tr>
<td>Appendix 3 – Summary of Codes</td>
<td>23</td>
</tr>
</tbody>
</table>
About the Authors

Dr Colin Higgins
Dr Colin Higgins is a Senior Lecturer in the School of Management and Information Systems, Victoria University, Melbourne, Australia. His research focuses on the role of social and environmental reporting in shaping the broader social understandings and acceptability of responsible and sustainable business.

Dr Wendy Stubbs
Dr Wendy Stubbs is a Senior Lecturer at Monash University. Her research interests include corporate sustainability, corporate social responsibility, sustainability reporting, industrial ecosystems and education for sustainability.

Professor Markus Milne
Professor Markus J. Milne is Professor of Accounting in the Department of Accounting, Finance and Information Systems, College of Business and Economics, University of Canterbury, Christchurch, New Zealand. His research over the past 15 years focuses on corporate social and environmental reporting, and most recently on critiquing corporate attempts to address the triple bottom line and (un)sustainability.

Acknowledgements

We would like to acknowledge the work of the three research assistants who all made valuable contributions to the project at various stages: Lalitha Nair, Erin Castellas and Shalini Samuel.
This report explores the social and organisational factors that might assist to explain why some ASX 200 listed firms, in selected industries, do not provide detailed and comprehensive stand alone sustainability reports. The purpose of this study was largely exploratory – few studies have considered non-reporting. We attempt to sharpen the extant theoretical base of sustainability reporting by providing the non-reporters perspective, and also inform CPA Australia, interest groups and industry associations about why their attempts to encourage extensive sustainability reporting may not always be effective.

Twenty-three interviews were conducted with managers responsible for sustainability and/or the environment in firms across Australia. While all of our participating companies disclose some social/environmental information to their stakeholders (using a variety of means), they do not undertake extended, voluntary sustainability reporting for the following reasons:

- ASX200 firms do not experience stakeholder pressure or interest for sustainability information
- There are few perceived organisational benefits of preparing and communicating sustainability information
- Sustainability reporting is a ‘nice-to-do’, not a ‘must-do’
- Extensive regulatory requirements create a compliance, rather than a learning, culture
- Organisation culture and structures render sustainability reporting difficult.

A very weak, and largely business-centred, understanding of sustainability prevails amongst most of our non-reporting firms. While this doesn’t differ substantially from many firms that do undertake sustainability reporting, there is quite a different managerial mindset amongst non-reporters. Amongst our sample of firms this is particularly related to being able to ‘fly under the radar’ of external scrutiny or because mandatory compliance reporting limits opportunities for the development of managerial consciousness.

One particularly important finding for business associations is that the managerial mindset is not easily influenced by standard business-case arguments. That sustainability reporting might deliver business benefits is not in and of itself convincing for non-reporters.

We recommend that CPA Australia and others consider the appropriateness of their arguments and methods of influence for organisations that fall outside the very largest firms. It is also necessary to consider broadening business exposure to some of the different ways in which business can (and should) contribute to the transition towards a sustainable economy. Sustainability reporting is largely misunderstood or considered irrelevant – because its connections to the broader discourse of business and sustainability are lacking.
Introduction

Sustainability Reporting (SR) involves the identification, collection and dissemination of performance targets and data, by business organisations, relating to their social/environmental impacts. Many consider it a valuable way to manage social and environmental performance (Elkington, 1997), and a number of business, community and environmental benefits are attributed to its practice. For academics, its roots lie in a movement to improve the accountability businesses should discharge to the community (Gray, Owen, & Adams, 1996). Over the past few years, sustainability reporting has attracted the attention of stakeholders, regulators and researchers (Gray, Javad, Power, & Sinclair, 2001), particularly as sustainability has become more widespread (Bebbington, 2001).

Sustainability reports are common in the UK, Australia, Japan, Europe (Adams, 2004; Gray, 2001; Mathews, 1997, 2002) and amongst some of the world’s largest companies (KPMG, 2011) – but doubt persists about whether it is becoming a mainstream business practice. While more and more business firms are starting to report, the overall proportion of companies that produce a sustainability report remains quite small. For instance, of the estimated 60,000 multinational companies that operate around the world only about 2,000 produce detailed accounts of their social and environmental performance (Milne & Gray, 2007), and the incidence of reporting in different countries and within most industries remains patchy. In Australia, while 57% of the ASX100 firms report in this way (KPMG, 2011), the rate drops considerably when assessing the ASX200 – about 53% (Australian Council of Super Investors, 2011). Further, according to a 2008 study of Australian businesses, only 126 business organisations, spread across a considerable range of industries, undertake sustainability reporting (Higgins, Milne, & van Gramberg, 2011).

The academic literature has mostly focused on those organisations (often listed companies) that report, and most insights have been generated from analyses of company report content (Parker, 2005). Numerous perspectives about why companies report have been developed. The theoretical understanding of reporting practice, however, has almost completely ignored why companies do not report (although see Martin & Hadley, 2008). Understanding non-reporting is important as the existence of non-reporting firms cast doubt on prevailing theories for reporting, and non-reporters can provide new insights into how firms manage sustainability issues other than by reporting. In this study, we are particularly interested in understanding why and how non-reporting firms, exposed to similar legitimacy challenges and stakeholder pressures as reporting firms, manage these factors.

This exploratory study involved interviews with managers from 23 non-reporting companies to identify and understand the societal and organisational factors that might explain non-reporting. We sought to examine prevailing reporting insights and also consider new directions in sustainability management that may sharpen our understanding of this contemporary organisational practice. We provide insights about how and under what circumstances sustainability reporting practice is most appropriate, and how it can be encouraged and supported.

Our findings suggest that an absence of reporting does not necessarily mean an organisation is not interested in, aware of, or inactive with regard to sustainability or corporate responsibility. In most cases, however, and perhaps not surprising, the understanding of sustainability is linked to a ‘business case’ and relatively ‘weak’ (Laine, 2005; Milne, Tregidga, & Walton, 2009). Organisations we examined limit their understanding of sustainability to eco-efficiency and risk management. None of our interviewees acknowledged

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1 Sustainability reporting is a term increasingly used to describe organisations’ reporting of their social, environmental and economic impacts, often along with traditional financial information. Sustainability in this sense, then, has become synonymous with the triple bottom line, the Global Reporting Initiative and, arguably, the sustaining of economic organisations. The term “sustainability”, however, for others means something rather different. It means the sustaining of the Earth’s ecology such that both human and other species can continue to exist into the very long term. There is no necessary connection between these two usages. Indeed, on the evidence to date, there seems little to believe the former is contributing to the latter. Sustainability is this report, unless otherwise noted, is used in the sense business organisations have adopted and adapted it. See Gray (2002) for a more detailed discussion of these different usages.
that business organisations should discharge accountability for their impacts, beyond current mandatory arrangements. Even where a more sophisticated understanding of sustainability was apparent, there were mixed feelings regarding the contribution that reporting can make to an organisation’s overall approach to sustainable development. Sustainability, in the sense it was understood by our interviewees, remains under management control.

We make four main recommendations that will assist the CPA Australia and others to consider the appropriateness of their arguments and methods of influence for organisations.

1. Greater effort needs to be made to increase the level of understanding that the wider business community has of business and sustainability more generally. The connection between sustainability reporting and a sustainable community is not well recognised amongst non-reporting firms.

2. The role and value of sustainability information needs to be a much larger part of industry-level discussions – and these discussions need to extend to influential stakeholders (including the many levels of government, institutional investors, and industry associations). Business organisations do have information to disclose that is useful – the stakeholders need to ask for it.

3. Regulators need to consider reporting regimes that also engage the corporate and strategic levels of the organisation – to ensure that monitoring and reporting of important social and environmental issues engage managers in the role that business plays in sustainable development.

4. CPA Australia should continue to engage and be vigilant about how accountants, company secretaries, finance personnel and company directors are educated about sustainability. The challenge about business and sustainability rests on raising consciousness about sustainability – and the sociological, political and philosophical dimensions of it. Doing so will create opportunities for managers to consider more carefully their disclosure and reporting obligations.

This report is structured as follows. The next section provides a brief review of the extant literature on sustainability reporting to illustrate the limited understanding we have about the drivers and motivations of this evolving business activity. We then discuss the approach taken to complete this research, before presenting our key findings. We conclude this report with a summary of our conclusions and some recommendations for CPA Australia, business interest groups (eg GRI), and industry associations interested in sustainability.
Sustainability Reporting (SR) is a form of extended voluntary disclosure by business that has evolved over the past thirty years. Early forms of SR involved supplementary disclosures in the traditional annual report (Deegan & Gordon, 1996; Ernst & Ernst, 1978; Gray, Kouhy, & Lavers, 1995; Guthrie & Parker, 1990; Hackston & Milne, 1996; Patten, 1992), but it now usually takes the form of a stand-alone report, often published online (Jose, 2007; Morhardt, 2010). In the early 1990s these reports focused mainly on environmental disclosures, but by the late 1990s some organisations were releasing social and environment information in ‘health, safety and environment’ reports. Following Elkington (1997), these were later referred to as ‘triple bottom line’ reports, and by shortly after 2000, following the set up and development of the Global Reporting Initiative (GRI) and its guidelines (GRI, 2000, 2006), they are now often titled ‘sustainable development’ reports, ‘sustainability reports’ or ‘corporate social responsibility’ reports. Some organisations have moved through all these stages of reporting, but others have jumped in with the latest development at the time they initiated reporting.

The uptake of SR by the business community seems impressive. According to Wheeler & Elkington (2001) it “has moved from a fringe activity pioneered by socially conscious but non-mainstream companies into a credible and serious practice embraced by a number of major corporations” (p. 5). In less than a decade, UNEP/SustainAbility (2004) reveal a 600% increase in sustainability reporting across the world (totalling about 600 reporters in 2003) with as many as 1,300 reporting electronically. Likewise Kolk (2003) observed that 50% of the 1998 Fortune Global 250 companies were undertaking some form of sustainability reporting in 2001 – with high levels of reporting in the UK, Japan and Germany (in contrast to the USA). The triennial surveys of SR reporting by KPMG show the extent of reporting uptake – rising from 50% of the world’s largest companies in 2005 to 79% in 2008 and now 95% in 2011 (KPMG, 2011).

From a public policy perspective, sustainability reporting is a non-regulatory form of organisational control (Goldberg, 2001) that relies on market incentives to direct business behaviour (Australian Government Parliamentary Joint Committee on Corporations and Financial Services, 2006). Voluntary mechanisms of this nature have been favoured by most Western Governments seeking to encourage sustainable business behaviour (Albareda, Lozano, Tencati, Midttun, & Perrini, 2008), including Australia. SR is credited with facilitating a number of important outcomes. Practitioner organisations in particular, such as the ‘Big Four’ accounting firms, sustainability consultancies, and business associations (such as the WBCSD) suggest SR “helps to mitigate risks, protect corporate brand and secure a competitive position” (WBCSD, 2002, p. 4). Among the 10 expected benefits the WBCSD details, firms can, additionally, raise staff awareness about sustainability, attract long-term capital and secure favourable financing conditions.

As a vehicle for social and organisational change, both the academic community and the progressive business reform communities (eg organisations like AccountAbility, SustainAbility, Forum for the Future) have seized on the potential of sustainability reporting to extend the accountability business organisations should discharge to financial and wider communities. Gray et al. (1996) argue that disclosing more information about an organisation’s impacts is a matter of principle – not simply one tied to decision-usefulness or business benefit. Extended accountability can provide a different picture of the business and society relationship, than is generated by financial disclosure alone (see also Gray, 2006). Greater accountability and disclosure can drive organisational and social change. More information about an organisation’s impacts has the potential to raise management consciousness, and thus stimulate changes in organisational practices (Gray & Bebbington, 2000). Greater disclosure and accountability also enables stakeholders (including shareholders) to bring about change on a business organisation through their employment, investment and purchasing choices.

Despite the promised benefits of sustainability reporting, its practice remains patchy in most countries and within most industries. Globally, only about 2,000 of the (estimated) 60,000 multinationals operating worldwide produce social/ environmental reports (Milne & Gray, 2007). Amongst

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2 A recent and upcoming development, not discussed in this report, is that of Integrated Reporting (IR). With integrated reporting organisations seek to produce a single report in which they combine their financial, social, environmental, and now ‘governance’ reporting. See the International Integrated Reporting Committee (IIRC) website for details (www.iirc.org).
the largest companies in most countries, the uptake of this practice lags that of the largest global multinationals (KPMG, 2008, 2011). Within industries, while a few firms are consistent reporters, the uptake, quality and structure of sustainability reporting lacks consistency (Kolk, 2010; Morhardt, 2009, 2010).

The academic literature has devoted considerable attention to understanding why firms report, and it has focused largely on analyses of report content (Parker, 2005). Early studies found that reporting was motivated more by securing organisational legitimacy, than accountability or organisational change. SR had been found to be mostly undertaken by large organisations in prominent industries, and these firms report more content and more often (Deegan & Gordon, 1996; Ernst & Ernst, 1978; Guthrie & Parker, 1990) Some studies have tied the disclosure patterns of these firms to accidents and other events that involve legitimacy threats (Lindblom, 1993) and stakeholder pressure (Roberts, 1992) including those that might be exacerbated by news media (Brown & Deegan, 1999; Patten, 1992). The implication is that firms subject to stakeholder and media pressure will initiate SR in order to shape the expectations of the community. Of significance, however, is that many firms experience similar legitimacy and stakeholder pressures, but yet they do not undertake sustainability reporting.

More recent accounts of sustainability reporting show that reporting is spreading to firms that do not face obvious legitimacy challenges (eg legal practice firms) – casting further doubt on legitimacy as an explanation for sustainability reporting. These firms, it seems, report because of a complex ‘assemblage’ of (often) situationally-specific internal and external factors (Adams, 2002; Adams & McNicholas, 2007; Bebbington, Higgins, & Frame, 2009; Buhr, 2002; Larrinaga-Gonzalez & Bebbington, 2001; O’Dwyer, 2002), possibly reflecting proactive (rather than reactive) business and reputation drivers. These factors include risk reduction, competitive advantage, visibility of regulators, employee retention, and the presence of pressure groups (Morhardt, 2010). These factors are issues for most business organisations, but they do not seem to induce sustainability reporting activity in all firms. While the academic literature has generated important insights into the factors that make up the assemblages, we do not fully understand how and under what circumstances they combine to induce reporting activity (or not).

Recently institutional theorists have offered an alternative perspective about the uptake of sustainability reporting. Institutional theory downplays organisational activities (eg sustainability reporting) as something managers purposely initiate to achieve carefully considered outcomes, and focuses instead on the shaping effects of the social and organisational context (DiMaggio & Powell, 1983; Scott, 1995). According to this view, organisations basically mimic each other when new organisational practices become accepted as ‘normal’ in the contexts (fields) where they operate (Hoffman, 1999). Thus SR, rather than being initiated to strategically secure legitimacy or to influence stakeholders, may be undertaken mostly because peers are doing so, and because it has come to be seen as the obvious thing to do (Milne & Patten, 2002). There is growing evidence that institutionalisation is occurring in some industries – largely on account that many struggle to outline a convincing rationale for doing so (Bebbington et al., 2009; Daub, 2007; Martin & Hadley, 2008) and few measure whether the so-called benefits are actually achieved (Avidsson, 2010). SR is also becoming an institutionalised practice amongst the world’s largest companies – it is common irrespective of industry (Kolk, 2011; KPMG, 2011) Growing evidence also suggests it is taken for granted as a symbol for firms pursuing a sustainability or values-based strategy (Bebbington et al., 2009; Higgins et al., 2011). The implications for non-reporting are that SR may simply not be a legitimate practice in the contexts where non-reporting firms operate. It is not something seen as ‘normal’. Sustainability reporting and non-reporting may rest more on institutional factors than rational organisational decision-making.

This study is motivated by a need to supplement the prevailing (and substantial) literature on why business organisations initiate SR with an understanding of the influences that sit behind why some business organisations do not. Few studies have considered why firms do not report (although see Martin and Hadley (2008), but the existence of non-reporters casts doubt on prevailing theoretical insights for reporting. It remains to be understood why firms that face similar legitimacy and stakeholder pressures do not report, and further work is required to understand whether the many factors that drive reporting are institutionally-specific.
Research Approach and Methods

As reporting practice has developed and evolved, firms now report aspects of their social/environmental or sustainability performance in a variety of ways. While it is relatively easy to identify those that do not produce a dedicated, comprehensive, stand-alone social/environmental report, it is more difficult to assess non-reporting firms amongst those that provide some social/environmental information on their website, in a section of their annual report, or because of compliance with licence or permit regulations.

We identified non-reporters by defining a ‘reporting’ company. While almost all companies disclose some social/environmental information, not all firms detail their performance in the context of a sustainability or corporate responsibility strategy, link it to the organisation’s core business, include targets, and describe how they undertook their reporting process. It was firms that did not report according to these criteria that we included in our sample.

To identify specific non-reporters, we searched the websites of ASX200 listed firms for those that fit our criteria. We found a total of 89 non-reporting firms as at July 2011, and we limited our sample to mining, energy, financial services, consumer staples/retail, transport, logistics, and gaming – industries where there are differing levels of pressures to report, patchy reporting coverage, but also degrees of legitimacy and stakeholder pressure. Mining, energy, and financial services firms in the ASX100 have a relatively high penetration of sustainability reporting (84%, 70% and 61% respectively) (KPMG 2011).

Our sample firms were spread across Australia with most being located in Victoria, New South Wales and Western Australia. We searched the websites of these firms for a contact who may be able to discuss the organisation’s position on sustainability and/or reporting and disclosure. In many cases it was necessary to contact the organisation directly to identify the relevant contact. Few had dedicated sustainability personnel. We ended up with a wide cross section of personnel who agreed to be interviewed. The respondents, their industry sector, and the position of the interviewee in the firm are detailed in Appendix 1.

Because we were interested in uncovering the social and organisational factors relating to non-reporting – a phenomenon for which relatively little is known, our data collection strategy involved semi-structured, face-to-face interviews. Question themes were drawn from the extant reporting theories, but left open to enable other themes to emerge, and combinations of issues to surface. Thus, we canvassed issues associated with legitimacy, stakeholder pressure and institutional drivers – and how these firms experience or resist pressures emanating from these perspectives. The interview questions are provided in Appendix 2.

The interviews were taped and transcribed (with permission) to aid the analysis process. We first coded and refined the interview data into categories to draw out key themes (Strauss & Corbin, 1998). A provisional “start list” of codes was drawn from the sustainability literature to assist the coding process (Miles & Huberman, 1994). Bansal and Roth’s (2000) research into the motivations for organisations to adopt sustainability programs was also used to identify codes that could be used to understand why some companies do not undertake sustainability reporting (see Appendix 3 for a summary of the codes). These codes were then grouped into themes to explain why companies do not report when many of their peers do. These themes are discussed in the results section.
Despite classifying our participating firms as ‘non reporters’, all engage in some communication with stakeholders about social/environmental issues. For most, the communication is a requirement of licence or permit conditions (and this disclosure is not always easily accessible to the general public) or it involves narrative information about a ‘commitment to sustainability’ in the annual report and/or their website. In some cases, it involves direct contact with interested parties. In almost all of the firms interviewed, there was a basic understanding of sustainability and an awareness of general community concern about social and environmental responsibility. In one or two cases, there was a relatively sophisticated understanding of sustainability.

Most argued that the absence of a dedicated sustainability report did not mean an absence of social and environmental responsibility or a lack of concern about sustainability. Communication about corporate responsibility and sustainability can take a variety of forms. One mining company suggested for example that:

"We’ve done things like mine tours… we’ve had fairly large responses, just people curious to get on a mine site and see what goes on … To not communicate what you’re doing or not give them an opportunity to have a look, by failing to do that, in my experience, if there’s misinformation out there, it just gets an opportunity to perpetuate itself. One of the ways of combating that is to get people to site and explain to them well this is what we do, this is how it’s done, this is how we monitor it, this is how we report it and it gives them an opportunity to actually see it live rather than relying on potentially misinformation.” (M10)

A consumer staples firm outlined a range of other reporting and disclosure practices that they’re involved in. For instance:

"I’m all for open transparency, which is why we report through CDP, the Dow Jones Sustainability Index and CDP Water for the first time this year. So our information is out there in the public domain but we don’t go to the trouble and expense of putting it in a fancy brochure… We already put all of our action plans through Australian Packaging Covenant and Responsible Round Table on Sustainable Palm Oil… I don’t think that reporting is the be all and end all. I think it’s more important that businesses are taking action. I think if they’re sharing it with their supply chain, if they’re sharing it with their customers, I think they’re doing a good job.” (C1)

Actions rather than words is a recurring theme throughout the interviews. As reported in the background and literature review to this study, however, ‘words’ do matter. A dedicated, targeted sustainability report has been seen as important, and it has the potential to deliver important benefits. What is more, the benefits of reporting have been found to drive much reporting activity amongst a wide range of firms. The following themes capture the social and organisational factors that emerged from our interviews that relate specifically to why a firm does not produce a comprehensive and publicly available report of their social/environmental performance.

The five key themes, discussed below, are: a lack of external, stakeholder pressure; no perceived benefits and thus little motivation to report; sustainability reporting is a nice-to-do, not must-do; a compliance culture towards sustainability; and the organisational structure and/or culture does not encourage reporting.

**Lack of external stakeholder pressure**

Despite all of our participating firms being in industries for which there is some broad social and/or environmental concern, none of our companies experience stakeholder pressure for detailed disclosure of their social/environmental performance or commitment to sustainability. Additionally, none suggested that any extension to prevailing accountability norms or requirements was necessary.

The only exception was some new interest in social and environmental performance by institutional investors. One retailer (R3), for example, had been approached by “a few investment groups” about ethical sourcing risk – but the interest of this group was by no means widespread or extensive. Some participants acknowledged that there may be some value in sustainability reporting if investors ask for it – in order to assess risk. One participant from an energy company suggested:

"It’s important if an institutional investor is going to look at [company] for the first time, that they can get something like this and actually, you know, you’ve plotted out all the risks and how you’re mitigating those risk and identified why you’re better than your competitor.” (E1)
A concern for institutional investors, while an acknowledgement of organisational accountability to owners (or potential owners), does not represent any substantial shift in organisational thinking from traditional business concerns. Our non-reporting firms are, for the most part, characterised by a traditional view of business and society that privileges shareholder interests. Indeed, several participants made it fairly clear that management priorities lie with shareholders:

“We have got a very high standard of environmental sustainability...haven’t really published too much in the market and the reason for that is we’re in ramp-up at the moment and our shareholders … we are very much focused on when are we going to achieve profitability, and when is this going to be a sustainable operation” (M7).

From a legitimacy perspective, our non-reporting firms only consider legitimacy in terms of traditional business outcomes – business growth, profitability and return on investment – and this model of business and society is not challenged by any alternative demands on business practice. Legitimacy challenges associated with social and environmental performance appears to be of concern only to yet larger organisations (ie the ASX100 companies). According to our non-reporters, larger and more visible companies would have more stakeholder pressure (consumers; local communities; NGOs; investment community; shareholders) to produce sustainability reports. One miner explained:

“Look, I think as you become a bigger company and you have, I guess, a bigger impact on community and your brand is more recognisable, then you get more targeted … or you are open more to be targeted by these pressure groups; that then holds you more accountable for your sustainability commitments.” (M7)

By this reckoning, the drivers for sustainability reporting differ for the very largest firms. According to our interview participants, larger firms would see SR contributing to reputation, corporate image and credibility – some want to be listed on the sustainability indices such as the DJSI – as well as competitive pressures/advantage. Non-reporters also suggest that the bigger companies have more (dedicated) resources to produce SRs, as one miner described:

“I would suspect that the companies that are producing those documents are in the larger echelon of a company in terms of size and profitability; so I suspect that they’ve got the capacity… I would suspect that a lot of those operations would potentially have individual groups specifically tasked with sustainability and sustainability reporting; whereas a lot of the smaller players, that sort of technical input is being resourced by existing staff under existing environmental teams.” (M10)

Size appears to matter regarding the reputational and community issues associated with mining and energy company impacts – thus warranting the dedication of resources to manage the ‘licence to operate’. Clearly, however, irrespective of size and visibility, like organisations would generate similar types of impacts. Mining companies, for example, whether large or small, use toxic substances, generate toxic by-products, and mine non-renewable resources (Campbell & Mollica, 2009). Non-reporters, however, and remember we are talking to ASX 200 listed companies, feel they are able to ‘fly under the radar’. They do not recognise responsibility or accountability beyond that which is necessary for compliance. This large (ASX 200) very large (ASX 100) distinction is not something that might appear obvious to external stakeholders, and may also explain why in the UK in proved impossible to introduce mandatory CSR reporting, even amongst the largest FTSE 350 listed companies.

The non-reporting companies generally express a very weak and instrumental view of sustainability and corporate responsibility (Milne et al., 2009). This view emphasises ‘business as usual’ and assumes that the environment is something to be ‘managed’ rather than a fundamental business imperative (Gladwin, 1993). While this view is not a lot different from those that do produce sustainability reports (Milne et al., 2009; Spence, 2007) many non-reporters do not even recognise the basic business outcomes that can accrue from even a very basic commitment to sustainability (see below). For many, there is little awareness of the broader business and sustainability agenda.
From an institutional theory perspective, organisational activities are subject to the conditioning effects of the fields\(^3\) in which firms participate. Of particular significance within fields are industry associations, which are seen as key actors in developing and spreading new organisational norms and activities (DiMaggio & Powell, 1983). For many non-reporters, there is little engagement with industry associations, sustainability networks and other interest groups where sustainability is discussed and debated. The non-reporting mining companies do not think they are "big enough" to participate in the industry associations, they do not see any benefit in being involved, or sustainability is either not discussed or it is not perceived as being much value. One mining company representative suggested, for example, that:

"I have been many times in the past [to industry groups] and you know I see that the repeat of the issues and it’s great for collegiate support I guess but it is not something that I seek too much. But I’ve certainly supported my people going and learning from others but I don’t find too many matters of substance" (M1)

The institutional theory literature is, however, ambiguous about the specific nature and level of the fields that influence organisational activity (Dillard, Rigsby, & Goodman, 2004). Fields are not always industry based – sometimes fields form around issues that are important to organisations in a variety of industries (Hoffman, 1999). In the case of SR, there may be an issues-based field forming around sustainability, of which reporting is a legitimised practice. We found three firms – one mining firm, a retailer and an energy company – that currently do not report, but are in the process of developing their first report. The managers in each of these firms have become recent participants in sustainability interest groups that span different industries. Their decision to start reporting reflects the discourse developed and put forward by these sustainability interest groups. For example, an energy company representative suggested:

Well fundamentally I think that report will just enable us, moving forward, to really get a visual on what sustainability, what it encompasses. It’s probably got a lot of value internally, more internally, so people within the company can say oh maybe we need to focus… For example, our waste figures, we realise well we can’t, our system of tracking waste wasn’t advanced enough to allow us to include our 2010 data, so that sort of makes you go oh, maybe we should take a look at that. And certain things came to light in pulling the report together that makes you realise while we are performing in certain areas, I mean our community health, community development, all of that is great but there’s certain aspects of our operations for example that we may need to improve on. Without doing it, sort of working through that GRI process of, you know you tend to just focus on what you know you’re doing and then when you’re forced to look at things that you probably wouldn’t have thought of otherwise, you go ‘actually...’ (E2)

Regardless of whether firms are influenced by industry or issues-based fields (most likely a combination of both), SR is either only in the very early stages of institutionalisation or the field(s) exert relatively weak institutional pressure. Two of our non-reporting companies – a consumer staples firm (C1) and a financial services firm (FS1) – are active participants in their industry associations and within sustainability interest groups. They also both understand and are aware of sustainability reporting arguments, and both play leadership roles in these organisations. Despite this, they have consciously and purposely rejected sustainability reporting as appropriate for their organisations.

While the type of pressure exerted within fields by institutions differ, organisations will typically copy the practices of their peers when new activities reach a degree of acceptability or are seen to deliver important business benefits. Where early adopters of new activities tend to desire a leadership position (Bansal, 2005), later adopters copy only when activities reach a stage of taken-for-grantedness (or become institutionalised). Most of the non-reporters in our sample, do not want to be seen as leaders in sustainability, but four did suggest they would increase their reporting if they saw their competitors doing more. There is thus some evidence of isomorphic pressure in relation to reporting amongst competitors.

\(^3\) Fields in institutional theory relate to the social context of which business organisations are a part. Sometimes considered analogous to industry, they can also form around geographical locations, strategies, and issues. They are groups in which various participants interact regularly, participants view themselves as peers, and connected in some common area of organisational life.
No perceived benefits

While our interviewees generally acknowledged that sustainability could provide a competitive advantage, none were interested in positioning their organisations in this way. Accordingly, few saw any benefit in voluntarily extending the reporting they do. Five non-reporters (transport, mining, consumer staples, financial services) actually regarded sustainability reporting as a waste of time, a distraction to core business, and something that offered few real business outcomes. One representative of a transport firm described the view of the company’s management:

“It’s seen to be a waste of time... just see it as a distraction to making money... They [managers] can’t see necessarily the value-add in the process.” (T2)

The consumer staples representative described the production of a SR as an inefficient use of resources:

“Personal opinion, what is a sustainability report other than a PR brochure? Would it not be better to spend your $100K, $200K of production money on actual efficiency projects? So that’s my personal opinion.” (C1)

While five non-reporters state that they need to understand their social and environmental risks, as these can negatively impact profits, they don’t believe sustainability reporting offers much of a contribution to doing so – and the costs would outweigh the benefits:

“We don’t feel it’s cost-justifiable. The cost of producing that would be, for our small company, it would mean an extra person to collect the information and manage that; it would mean an auditing job or some kind of auditing function to audit it. It would be too expensive.” (T1)

Some perceived that greater disclosure raised more risks than benefits. Two interviewees believed that disclosing too much information is risky as it may draw unwanted attention to the company (M5, R2):

“...sometimes I think you can disclose too much. [So is there a risk aspect to that?] Well I’d have to look to see more closely as to what’s contained in those reports as to what I view as sensitive and inappropriate for the public to be aware of. Risk covers both sides of the coin; you can take on risk by doing nothing or you can take on risk by doing something” (M5)

The only exceptions to the few potential benefits related to employees – but the views of the non-reporters were quite mixed. Four maintained that their employees were not interested in or expected SR, but one or two considered that it could have some benefits in terms of employee retention and morale. One retailer is issuing its first SR for its employees only:

“We’ve never had a Sustainability Report. It’s not going to be public, it’s going to be an internal report, and we’re going to use it for team member engagement and education for the first year and see how it goes.” (R3)

For this ‘recent adopter’, however, a standalone external sustainability report was seen as secondary.

“And the report is going to be geared towards our team members... I see it primarily as an engagement tool this year... it will still be a spread in the Annual Report, so I’m more than happy with that... I don’t think that the business is ready yet for it to go external and have it separate. I don’t think we’re advanced enough in our framework to have a separate report.” (R3)

While a business case is widely advocated as a key driver for sustainability reporting, especially amongst practitioner and interest groups, these benefits are not convincing for all business firms. Several studies point out that management attitudes shape the way an organisation identifies and manages sustainability expectations (see (Bansal & Roth, 2000; Gunningham, Kagan, & Thornton, 2003). For some non-reporters, managers simply do not believe that SR is important for achieving the business outcomes being pursued. In terms of encouraging further SR practice, simple appeals to the business case may not always be effective.

Sustainability reporting is a nice-to-do, not must-do

Given the little pressure firms experience for information about their social/environmental performance and that firms appear able to easily move in and out of the influence exerted by their industries/fields, sustainability reporting is completely at the discretion of organisational managers. It is thus organisational imperatives, rather than social or accountability drivers that influence SR decisions.

For most, SR is seen as a luxury and not an obligation. Seven of the non-reporters expressed the view that, despite being ASX 200 listed firms, they are small companies with
few resources and thus they don’t have the resources to devote to SR, as one transport interviewee explained:

“In reporting we don’t have the luxury of being able to devote one or two people to sustainability and reporting so it’s just like a lot of the things we do, we wear multiple hats. So I guess we’re less focused on reporting and more focused on actually doing things that make a difference in the community.” (T1)

In fifteen of the non-reporters firms, there are no people dedicated to sustainability. Any reporting sits within the compliance area.

While three interviewees said that when they have the resources, they intend to start sustainability reporting, non-reporting couched in terms of ‘resources’ and ‘luxury’, disguises the lack of recognition about accountability and the prioritising of economic over social and environmental impacts. Reporting is discretionary, and the choice to undertake it is not made. There is little felt need or value in doing so. Firms, however, can and do find resources when pressures threaten legitimacy or survival or when behaviour or activities are seen as a key part of strategic positioning.

Compliance culture
Several non-reporters view SR as not even a ‘nice to have’ – but actually as unnecessary. For these firms, a different logic prevails. Those viewing it as unnecessary tend to be subject to extensive reporting requirements set down by regulatory bodies. The mandatory requirements are extensive and involve detailed social and/or environmental compliance reports that run to several hundred pages. These reports typically provide base-line benchmarks of existing social/heritage/environmental features, an analysis of sensitive flora and fauna, and include detailed remedial plans. The extensiveness of reporting requirements results in the employment of dedicated environmental specialists, trained in environmental science.

Mandatory reporting is often seen as desirable within the social/environmental accounting and reporting literature – but for our non-reporting firms it encourages a compliance culture and structural arrangements that separate operational sustainability from corporate strategy and decision-making. For some of the environmental/sustainability managers interviewed, there was little awareness of how sustainability related to the organisation’s governance and strategy arrangements. An insular, operational focus prevailed. One miner stated the situation thus:

“We have a sustainability report that has to be out every year and that report is part of our licence requirements, but it isn’t really for external consumption, other than the environmental agency it goes to.” (M7)

A compliance culture contributes to a weak, instrumental understanding of sustainability. For six firms, there was no real sense that non-reporters needed to go beyond compliance reporting, they did not see any value in “mimicking” the ASX100 companies who issue sustainability reports, and there was a sense that any expansion of reporting and disclosure would most likely come from regulators. There was an expectation that if it was necessary it would be required. Five non-reporters are experiencing increasing pressure to report from regulators, because they have reached threshold limits that require them to report under the National Greenhouse and Energy Reporting Scheme (NGERS) and Energy Efficiency Opportunities (EEO) legislation, as one miner described:

“I certainly think that the trend is going towards more significant reporting. The impost of the EEO and NGERS, I guess just from my experience, those two regulatory requirements in itself have required additional reporting on our part… and [our] capacity … is becoming quite problematic just from a perspective of having to maintain current regulatory reporting requirements.” (M10)

Non-reporting firms are thus sensitive to mandatory reporting requirements – and this influences structural and operational decisions regarding organisational responses to sustainability. Compliance reporting, while extensive and arguably effective for delivering substantial organisational activity regarding impacts and remedies, limits organisational consideration and learning about how business must transform for a sustainable economy.

Structure and/or culture does not encourage reporting
For the non-reporters not subject to extensive regulatory requirements to report, organisational characteristics play a large part in how SR is viewed and understood. Four of our non-reporting firms believe that sustainability is part of the way they do business – it is part of their culture – but
the cultural norms do not extend to disclosure. One energy company interviewee pointed out:

“I don’t think it’s within the company’s culture to ignore [sustainability]… the focus is almost always on doing the right thing, whatever that might be; and so ignoring it isn’t really ever an option … And I think the company, because it has been committed to the various components of sustainability for so long, it didn’t necessarily see the need [to do SR]. They were like well we’re doing it anyway, why do we need to tell the world about it. It should be enough just to be doing it and investing our resources in the actual doing as opposed to those companies that spend the millions telling people what they do without actually doing it on the ground.” (E2)

Another interviewee suggested the reporting and monitoring culture within their organisation prevented moves to introduce some kind of centralised sustainability reporting:

“We’d only do things if it had a pure commercial focus otherwise we couldn’t afford to do it, let alone interested in doing it culturally… you have a culture where divisions feel threatened in that someone from outside their business wants to get data on them and measure them and report on them, they can find it quite threatening… GRI [Global Reporting Initiative] requires I think quite a leap of faith in management feeling comfortable with putting up information about yourself and some bold statements from senior management about their commitment; so we’ll just have to see how culturally we go with that in the short term.” (T2)

A financial services interviewee explained that the organisational structure is simply not in place to facilitate SR:

“It’s not been a deliberate thing not to, it’s just that we haven’t had the structure to engender an approach that’s actually allowed us to do that.” (FS2)

Another two interviewees pointed out boundary issues in terms of how their organisation fitted together. These two operated according to a franchise model where sustainability issues occurred within the franchises, but the franchisees was not interested in initiatives to reduce impacts (such as energy efficiency and waste reduction programs).

This not only inhibited sustainability-related innovations, it also made meaningful organisation-wide reporting difficult. In essence, the franchisees are interested in financial sustainability only:

“As a property owner, their object is to get the most return out of their buildings and creating investment and waiting for pay-back reduces that return. I think that’s the key driver.” (R2)

Internal characteristics have been identified within the literature as important for shaping sustainability reporting and disclosure (Adams, 2002; Bebbington et al., 2009). We found evidence of the significance of the CEO or senior management to decisions about sustainability reporting – not so in terms of SR being prevented, but that explicit instructions would need to be made at the top of the organisation in order for it to happen:

“The executives of the company would have to make it clear it was a priority and it was something that they wish for us to do. It’s like any organisation; if there’s no compelling reason, there’s no push to do it, then get on with something else that there is a reason to do. That’s my attitude. I would like to see us do it personally, and I would be responsible, but I’m not going to rush off and do something that doesn’t have the backing of the Board”. (R2)

In a similar vein, gaming and transport interviewees mentioned that a new Chairman or CEO could drive cultural change and support sustainability reporting:

“With the new CEO coming from [company], if you look at their sustainability record, it’s very impressive. It’s a utopia of where I’d want to be in a company, and so we’ll see where that goes over the years because he’s only just arrived and it’ll take time for him to influence… a new chairman came in and basically said: I want a sustainability report.” (T2)

Management support is critical for encouraging sustainability reporting, and it seems that management behaviour needs to be proactive, rather than something left to chance.
**Summary**

In summary, the interview data revealed five main themes for why non-reporters do not issue sustainability reports: lack of pressure; no perceived benefits; it’s a nice-to-do; there is no reason or benefit for going beyond compliance; and the organisational structure and culture don’t support it. These combine to reinforce a very weak understanding of sustainability that actually inhibits organisational learning, management consciousness, and innovation around sustainability.

However, more than half of the non-reporters believe that the requirements for sustainability reporting will increase in the future, primarily driven by increasing regulation and a gradual ‘mainstreaming’ of sustainability into business decision-making. As one financial services interviewee explained,

“I think the whole market is going through an adjustment phase around how ESG [environment, social and governance] enters and then embeds itself within the mainstream funds management process. I would say that there’s evidence of momentum that’s building, but depending on who you talk to in the broader industry, you probably get different views as to how quickly or not that uptake is actually occurring. I think there’s a strong recognition that it will only become increasingly important.” (FS1)

However, one transport company representative was of the opinion that sustainability information should be disclosed in a separate report.

“Yeah I think annual reports are all too dry and the amount of information you might want to potentially communicate is just too much to put in an annual report. So I’m not too sure these things live well in annual reports. You might want to just put your headline information and I think a standalone document is much better.” (T2)

In terms of future prospects for SR, views were mixed regarding the evolving integrated reporting, or the continuation of stand-alone reporting. The majority of non-reporters say that, in the future, they would go down the path of integrated reporting (sustainability performance integrated into the Annual Report) rather than standalone sustainability reporting, as it is the “next big thing”:

“I don’t think that’s (standalone reporting) the trend. I think the trend, and we’re taking our lead now from advice we’ve received about the work that’s coming out of Europe at the moment, is to take an integrated approach to reporting so that it’s not a standalone document which could be interpreted as standing in its own silo or operating in its own silo outside of the other risks and opportunities that the business is trying to manage.” (R1)

In the next section we draw these themes together and offer some key conclusions that shape the recommendations that follow.
The social and organisational factors revealed through this analysis give rise to four major conclusions of this study.

1. Sustainability is acknowledged by non-reporting firms, but the connection between sustainability and sustainability reporting is poorly understood, limited and largely unrecognised.
   a. Sustainability reporting is viewed from the perspective of decision-usefulness in that it is about disclosure of material matters to stakeholders. Because few stakeholders or decision-makers request it, SR is seen as largely unnecessary.
   b. Sustainability reporting is also viewed as a reputation or legitimacy seeking exercise. Mostly, however, because our non-reporting firms ‘fly under the radar’ and experience very little stakeholder scrutiny, SR is rendered largely unnecessary.
   c. Non-reporting firms lack any recognition of, or interest in, broader, societal-centred understandings about sustainability and the role of business in achieving a transition towards a sustainable economy. Non-reporting firms are either unaware of, or do not accept, arguments that there should be an obligation to discharge accountability for social/environmental impacts, irrespective of business benefit or decision-usefulness.

2. Non-reporters lack exposure to networks in which sustainability, sustainable development and sustainability reporting is discussed and debated.
   a. Given the lack of exposure of so many in some industries to sustainability, it is possible that sustainability is becoming institutionalised within an issues-based field of sustainability rather than an industry-based field (eg mining).
   b. If sustainability reporting is becoming institutionalised within a sustainability issues-based field, then it appears to be either in the early stages of being institutionalised, or the field exerts relatively weak institutional pressure for conformance.

3. Regulatory reporting requirements in the mining and energy sectors demand substantial social and environmental monitoring and performance – arguably more effective than what could be expected from voluntary sustainability reporting.
   a. Mandatory requirements, however, tend to encourage a compliance culture and the establishment of structural arrangements that limit broader organisational learning and consciousness about sustainability. In many cases, social and environmental matters are outsourced or dealt with by specialists with little connection to corporate governance, strategy and decision-making.

4. Management attitudes are important for accepting and believing the business case, and also to explicitly mandate sustainability reporting. The business case in and of itself may not be sufficient for convincing managers to embrace sustainability or to initiate sustainability reporting. Managers may be pre-disposed to understanding the value of sustainability before the arguments are even accepted as being valid.
Recommendations

A sustainability report is one way of communicating to stakeholders, encouraging stakeholder inclusiveness and demonstrating how sustainability is integrated into business decision-making. But, the role of role of sustainability reporting in delivering these outcomes is not widely recognised or accepted by non-reporting firms. We recommend CPA Australia consider the following:

1. Greater effort needs to be afforded to increasing the level of understanding amongst the business community about its role in a transition towards a sustainable economy. The bigger issue is sustainability and integrating it in to the business and decision-making, rather than sustainability reporting per se. To this end, CPA Australia and other interested groups can:
   a. Expand professional development opportunities and requirements, communications to its members, and educational resources about sustainability more generally. To ensure a broader consideration of business and its role in a sustainable economy is generated, CPA Australia should seek to engage widely with interdisciplinary groups about sustainability. These may include environmental scientists, environmental interest groups, social agencies and other professional groups (such as engineering, infrastructure, and mining associations).
   b. Seeing as firms recognise decision-usefulness of their reporting and communication efforts, CPA Australia and other interested parties should seek to encourage key stakeholder groups (eg Govt, Industry associations, Institutional investors) to exert pressure for better and more detailed disclosure. Similarly, CPA Australia and others could engage more widely to understand the sorts of information that is desired by groups and stakeholders seeking to influence business activity.
   c. CPA Australia and sustainability interest groups (eg GRI) need to consider focusing on how and why sustainability is important, and SR is relevant to ‘second tier’ organisations. Most attention, case studies and examples draw from the very large firms. Our analysis reveals that even firms listed in the ASX200 find the arguments and drivers, for these firms, irrelevant.

2. Sustainability, and the contribution of reporting and disclosure, needs to become a much bigger part of industry-level discussions – and industry associations need to engage more broadly with sustainability interest groups. Given that there is growing evidence that sustainability reporting may be more institutionally based, than a rational strategic activity, much more work needs to go in to understanding how and why firms seek input and expertise into new challenges in the way they do. More research should be conducted into how firms ‘move between’ institutional fields (either from industry to issues-based fields or from ‘local to global’ fields). These processes will give rise to understanding the circumstances in which firms are influenced, and how this encourages and shapes organisational activities.

3. Regulators need to be engaged to improve disclosure regimes for all firms – not just for selected industries. Non-reporting firms respond to regulatory requirements. Regulation, however, needs to be carefully designed to deliver corporate rather than just operational outcomes. This would suggest changes to accounting standards, financial reporting requirements, and the regulations surrounding the content and form of the annual report. These changes would assist to shift management thinking more than extensive and detailed operational monitoring.

4. The formation of management attitudes is complex – but much rests on the norms developed through formal education. CPA Australia should remain vigilant and seek to engage business schools in not just the business case for sustainability, but the broader sociological, philosophical and political dimensions of a sustainable community. Evidence suggests that managers who recognise the moral imperative of sustainability and the broader interconnections between economic, social and environmental outcomes are more motivated to consider the role and impacts of business. Simple appeals to the business case are not convincing for non-reporting firms. The broader context, or the imperatives within which the business case sits, need to be engendered amongst managers.


Miles, M. B., & Huberman, A. M. 1994. *Qualitative data...*


List of interview participants’ roles and industries

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Appendix 2 – Interview Guide

1. **Background**
   1.1 Can you tell us a little about yourself? Job title, role, responsibility

2. **Sustainability**
   2.1 What do you think are the most significant social and environmental issues facing your industry?
   2.2 How significant are these, in terms of level of impact?
   2.3 Where are the issues coming from?
      - Who applies these pressures? Why?
   2.4 Is there any pressure from industry groups or associations (events, workshops, newsletters)?
   2.5 What do these pressures mean for your company?
      - How do they impact you?
   2.6 How are you responding?
      - Examples?
   2.7 Do you think these pressures (will) impact on your profitability? How?

3. **Reporting (peers/competitors)**
   3.1 Since there is no legal requirement for SER, why do you think some your peers do it?
   3.2 What do you think they get out of it?

4. **No SR**
   4.1 Have you considered reporting?
      - Probe into organisational story.
      - Any pressures?
      - From whom?
      - What is your response?
      - Has there been any scrutiny from anyone because you aren’t reporting?
   4.2 To what extent do you think you need to do something about the environmental & social issues you talked about earlier?
   4.3 Do you think there is any value to communicating this?
      - Why/why not?
      - To whom?
      - Are you communicating this information in other ways?

5. **Big picture/trends**
   5.1 There appears to be a broader movement to SER, as suggested by KPMG’s surveys and the voluntary standards bodies such as GRI. Do you think SER is a growing trend?
   5.2 Where do you think it might be heading?
   5.3 How might that impact you?

6. **Anything else you would like to add?**
## Appendix 3 – Summary of Codes

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Ints = Number of interviews;  
Refs = Total number of mentions