University of KwaZulu-Natal

THE NATURE AND EXTENT OF NON-FINANCIAL DISCLOSURE IN THE SOUTH AFRICAN MINING INDUSTRY

By

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Declaration

I Kibra Fitwi Adagish declare that

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Abstract

Non-financial disclosures are of considerable interest and importance to the reporting world and decision making. However, many companies fail to disclose adequate information on their non-financial matters. The lack of internationally accepted requirements for the presentation of non-financial disclosures is one reason for inadequate reporting of non-financial matters and the reporting differences among companies.

The aim of this dissertation was to explore the nature and extent of non-financial disclosure in South African mining companies listed on the JSE Securities Exchange. This sector was chosen because of its high risky nature and its significant role in the South African economy. The data were collected from 22 South African mining companies‘ websites and related to the 2004, 2005 and 2006 annual reports.

A disclosure index was developed to investigate the extent and nature of non-financial disclosure in the South African mining companies with regards to environmental, social, corporate governance, forward-looking information and Management Discussion and Analysis (MD&A), and the extent of non-financial disclosure with the JSE Securities Exchange reporting requirements; that is, the King II and the JSE SRI Index. Thereafter, a content analysis of the companies‘ annual reports was carried out using the disclosure index developed for this study.

The study found that the non-financial disclosure for all 22 mining companies showed an increasing trend over the years studied. Mining companies were disclosing environmental issues more than any of the other non-financial disclosure items. However, more than half of the companies did not provide information with regard to their non-compliance issues. Generally this means that, although the mining companies face obvious risks, they are better at disclosing positive rather than negative information. The main reason for the increase in the companies‘ adoption of Global Reporting Initiative (GRI) as a non-financial reporting guideline is King II. The study demonstrates that there was not 100% compliance level of adherence with the reporting requirements of the JSE Securities Exchange on corporate governance and integrated sustainability reporting.

Keywords: Non-financial disclosures, mining companies, South Africa, JSE Securities Exchange, environmental, social, corporate governance, forward-looking, MD&A.

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CHAPTER ONE

Introduction

1.1 Background to the study

In the present-day free-market economy, information is the key element through which decision-makers are able to attain their goals. Decision-makers should be able to invest their capital where it can be most productive and able to contribute to economic growth. Therefore, information is the basis of this productive investment, i.e., decision-makers cannot identify the most productive companies unless there is adequate information that reflects how value is being created by companies. Considering the effect of the quantity and quality of information on economic decision-making, companies should be able to provide the information that stakeholders need to make good decisions. Annual report disclosure is the main communication channel through which companies disseminate information to their stakeholders. This disclosure comprises financial and non-financial parts with much emphasis being given to the financial part by many companies. Stakeholders are those parties (e.g. investors, creditors, potential employees, financial analysts, regulators and local communities) who are directly or indirectly involved in a company‘s activities and make use of annual reports in their various decisions.

Many researchers (Eccles, Herz, Keegan and Phillips, 2001; Luft and Shields, 2001 Yongvanich and Guthrie, 2005:104) have discussed the usefulness of non-financial disclosures. Nowadays, more and more investors are recognizing the importance of non-financial disclosure. Ignoring non-financial information may lead stakeholders into decisions that are not good for the company (The Economist, 2004a). Good corporate disclosure practices create value for shareholders. Although financial controls and reporting have, to date, captured the lion's share of attention, effective corporate reporting involves much more than simply getting the figures right. Hence, non-financial disclosures are equally significant (Gordon Institute of Business Science, 2006).

In the early days, companies' social and environmental reporting was not given much importance by the public. According to The Economist (2004b), in the 1990s, Non-Governmental Organizations (NGOs) started criticizing big companies for their selfish and reckless operations which had negative effects of the environment and their employees. Companies contemplated that a slight positive report about their employment practices and carbon dioxide emissions might help dampen the NGOs' fury. This gave rise to non-financial reporting. Today, most companies‘ intention is to report not only on their financial performance but also on their non-financial matters. However, companies are still failing to provide adequate non-financial disclosures to their stakeholders. This lack of information leads to users not allocating capital effectively.

The Economist (2004a) reports that Global Reporting Initiative (GRI), which provides reporting guidance, is the most important device for regulating the non-financial disclosure. Companies use the GRI guidelines voluntarily on reporting the consequences of their activities, products and services under the categories of the economic, social and environmental disclosures (Global Reporting Initiative, 2002). Regulators and standard setters have recently recommended that a framework be developed to incorporate non-financial measures into the financial reporting system (American Institute of Certified Public Accountants (AICPA) Special Committee on Financial Reporting, 1994; Financial Accounting Standards Board (FASB), 2001; Security and Exchange Commission (SEC), 2001). Since there are no internationally set standards for non-financial disclosures, companies have been free to disclose only what they wish. As a result some investors follow Standard and Poor‘s (S&P) in their evaluation of a company's risk profile which acknowledges the significance of non-financial disclosures (The Economist, 2004a). Therefore, companies should exert more effort in demonstrating the value of their companies by making their annual reports more accessible and understandable to gain the trust of their stakeholders. Responding to stakeholder and societal needs in maintaining a long-term reputation and sustainability has become a serious issue on the corporate agenda. As a result, the ability of financial statements to represent and report information that is useful in assessing the value and management performance of a company has come under a great

deal of scrutiny in recent years. Therefore, it is argued that financial information by itself is not adequate to serve the needs of the market (Dunwoody, 2004).

Disclosure of non-financial information addresses the information need of stakeholders (Yongvanich and Guthrie, 2005). It builds stakeholder confidence, improves company profitability and provides forward-looking information that the traditional financial statements cannot provide (Jackson, 2004). Such disclosures include environmental and social responsibilities, worker relations, corporate governance, managements' view, and forward-looking information. Companies that are more transparent in their non-financial disclosures, in addition to their financial reporting, have a competitive advantage. Such disclosures assist stakeholders in knowing the complete picture of an organisation's merit and assist investors and creditors to better estimate the future profitability and relative risk involved in the company (Ferré, 2002).

The mining sector represents a significant portion of the South African economy (Davies, Bruin, Deysel and Strydom, 2002). The industry, due to its nature, has an exceptionally high risk (Frik, 2002) with regard to ethical, social and environmental issues. Therefore, stakeholders give due attention to its environmental, social and governance performance. Jenkins and Yakovleva (2006:272) state that there is an increased demand for the disclosure of managerial, social and environmental information by the individual mining companies as a means of legitimizing their existence and documenting their performance. However, most companies still fail in disclosing adequate information on their opportunities, financial risks and material strategies related to the economic, social and environmental impacts defined by the triple bottom line principle (Gordon Institute of Business Science, 2006). In order to realize the need for economical, social and environmental excellence and to be transparent and accountable to their stakeholders, the South African mining industry has to prove its capability of addressing the needs of its stakeholders through adequate disclosure in applying the triple bottom line principle. Therefore, due to the importance of non-financial disclosures, this study evaluates the extent and nature of the non-financial disclosures of South African mining companies for the years 2004-2006.

1.2 Problem statement

King II (2002) "acknowledges that there is a move away from the single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities. King II further notes that companies in the 21st century must put greater emphasis on the sustainability or non-financial aspects of their performance." Lack of internationally accepted requirements for the presentation of companies' non-financial disclosures leads to the style and content varying greatly from company to company and even among firms in the same industry thus, creating problems for users. Some companies spend much time and effort in presenting their annual reports and others spend less time and effort and give out uncertain information. Failure to disclose adequate non-financial aspects of a company results in difficulties in decision-making for stakeholders. This in turn affects a company's value creation and the trust of their stakeholders.

There is a problem of transparency by companies in providing useful information to their stakeholders as the disclosure of non-financial information is voluntary. Such information includes: potential threats of economic, social and environmental aspects that may substantially affect shareholder value in the short and long term, forward-looking information, accountability to stakeholders, internal control and risk mitigation systems, and other useful decision-making information. Therefore, this study explores the nature and extent of non-financial disclosures in the South African mining industry.

1.3 Research objectives

The objectives of this study are to:

- Determine what non-financial reporting disclosures are required in the annual reports of mining companies;
- Determine the importance and development stage of the establishment of a non-financial reporting framework;
- Examine if the South African mining companies' non-financial disclosures comply with the relevant South African reporting requirements;

- Examine to what extent are the South African mining companies implementing the GRI guidelines in their non-financial disclosures; and
- Critically evaluate the extent and nature of voluntary non-financial reporting in the annual reports of the South African mining companies against a disclosure index developed for the purpose of this study.

1.4 Research questions

The research questions of the study are:

- What non-financial disclosures need to be presented in the annual reports of the South African mining companies?
- What progress has been made in the establishment of the non-financial reporting framework?
- Do the South African mining companies' disclosure practices comply with the relevant South Africa reporting requirement?
- Do the South African mining companies' non-financial disclosures conform to the GRI guidelines?
- How do the South African mining companies rate when their non-financial disclosures are compared to a checklist?

1.5 Significance of the study

The field of non-financial disclosure is a new initiative and, therefore, research conducted on South African mining companies is very limited in this area. The results of this research are useful to academics, individual companies in the industry, and in promoting future research in this under-studied area. In addition, it contributes to the knowledge of standard setters as it examines the non-financial disclosure practices of South African mining companies from different perspectives, i.e., the JSE Securities Exchange, the GRI's non-financial reporting guidelines, the S&P checklist and the SEC's guidelines.

1.6 Organization of the study

This study is made up of six chapters.

Chapter one provides information on the background, problem area and research objectives and questions. The significance of the study is also considered.

Chapter two discusses on the importance of non-financial disclosures, transparency and accountability issues of stakeholders, types of non-financial disclosures and the non-financial reporting framework and the organizations working towards the development of a non-financial reporting framework.

Chapter three covers the literature on the non-financial disclosures of mining companies in general, the South African mining industry and empirical studies on non-financial disclosures in the mining industry.

Chapter four describes the research methodology of the study and the basic assumptions and limitations of the study.

Chapter five presents the interpretation and analysis of the results.

Chapter six is the conclusion to the study.

CHAPTER TWO

Non-financial disclosures and the reporting environment

2.1 Introduction

Chapter one provided a general overview of the increasing importance of non-financial disclosures in the present day economic system. It also indicated why the South African mining industry was selected for the purpose of this study and defined the problem and objectives of the study and significance of the study. This chapter provides a literature review on non-financial disclosures and the non-financial reporting framework.

Disclosure means the release of any kind of information that is thought to have relevance for users in their decision-making (Investorwords, 2008). This information could be either financial or non-financial information disclosed by companies in their annual reports to their stakeholders. Disclosure thus includes information that companies need to make public, i.e., either required by authorities or voluntarily for competitive purposes (Standard and Poor‘s, Sustainability and United Nations Environment Program (UNEP), 2004:9). Nolan (2005:5) explains that disclosure by itself does not solve all problems but may help as a means of checking corporate performance and corporate culture towards the implementation of social and environmental values.

Many stakeholders have started to understand that financial reporting by itself no longer satisfies their information needs about companies‘ overall performance. This has become more evident especially with the collapse of Enron and WorldCom which has put the issue of financial reporting alone in a dilemma (Ernst and Young, 2006:21). This is because financial reporting, although crucial for decision-making, does not by itself provide complete information. Reporting by companies needs to expand to include information beyond the traditional financial reporting that mostly emphasizes historical values in order to meet the information needs of the stakeholders, customers, employees and communities in which they operate. There is a general consensus by many researchers, (White, 2005:8; Bollen, 2004:8; Coram and Monroe, 2004:21-23; Robb,

Singleb and Zarzeski, 2001:79-80; and Palenberg, Reinicke and Witte, 2006:34) that there is a real need for the disclosure of non-financial information.

Non-financial disclosure is a comparatively new trend (Palenberg, *et al.* 2006:18) that enables a company to communicate in an open and transparent way with its stakeholders. Valletta (2005:1) defines transparency as disclosing information that plays an important role in providing useful information for the purpose of informed decision-making. This means information in addition to the generally accepted accounting principles (GAAP) and statutory requirements. As West-Jones (2007) indicates, the more transparent a company is in its business dealings the more it can become a good corporate citizen, i.e., providing non-financial information could strengthen the reputation of a company (Bollen, 2004:8). Non-financial disclosure also helps in building trust by stakeholders towards the affiliated company (Moody-Struart, 2003) as it restores the confidence of stakeholders in the markets, promotes efficiency, acts as a management tool in responding to risks and opportunities and assures the legitimacy of corporate reporting by reacting towards the stakeholders�s interest. As information is a powerful tool, non-financial disclosure, if communicated properly, can also provide a competitive advantage in the market (Cavicchio, 2005).

Non-financial disclosure continues to gain importance because it gives stakeholders different information that financial reporting alone fails to provide (White, 2005:8). As the World Commission on Business in Society (2005) illustrates, companies mostly develop their own non-financial reporting frameworks designed in a way to enable managers to measure the contribution of their business strategies in the creation of wealth for their companies that will ensure their stakeholders perceive them as good corporate citizens. This dissertation assumes stakeholders are those groups who are positively or negatively affected by the social, environmental and economic operations of a company and as a result have an interest in the company. These groups include investors, suppliers, customers, employees, financial analysts, government regulators and members of communities where the company operates or that are affected by corporate activity.

Disclosure practices can play an important role in the appreciation or negative effect of a firm's value (Cormier and Magnan, 2006:3). Complete disclosure plays an important role in the efficient allocation of capital resources, directing capital to credible long-term value-creating opportunities and in the leveling of efficient market operations (White, 2007:1). In the remainder of this chapter, the types of non-financial disclosures and an overview of the framework for non-financial disclosures are discussed.

2.2 The importance of non-financial disclosures

A common observation from many studies is that traditional financial reporting alone does not provide enough information for decision-making. This is because financial statements are mostly viewed as information of the past and not the future, and therefore do not provide information that can help users in the assessment of long-term corporate value. Financial reporting does not sufficiently meet the information needs of diversified stakeholders and as a result, a number of calls from different individuals and groups for more non-financial disclosure by companies have been made (Coram and Monroe, 2004:5).

Traditionally, the main focus of corporate reporting was on financial issues to attract investors because of the emphasis on profit maximization (Anderson, Herring and Pawlicki, 2005:1). However, today, with the emergence of different organizations working for the protection of the environment and society at large, and investor and financial market awareness towards the importance of non-financial disclosures, the motive behind value creation of a company has been changed. Hence, many other stakeholders besides investors in a company's normal operations have been identified (Palenberg, *et al.* 2006:21-23). All these stakeholders require information about a company's activities, thus there is a need for non-financial disclosure.

Today companies are obliged to modify their administrative policies to incorporate diversified stakeholders' interests in their operational decision-makings (Schacter, 2005). This has led to a growing pressure for disclosure on social and environmental issues. Companies have already begun to respond by providing social and

environmental information in addition to the obligatory disclosures on financial performance. As Schacter (2004:11-12) indicates, reporting on the triple bottom line by a few companies in the 1990s has led to an increased demand for more and better information disclosure from those already reporting and intensified callings to those who were not reporting this information.

As pressure is increasing towards the disclosure of non-financial information, not reporting non-financial information may annoy Non-Governmental Organizations (NGOs) and create a bad image of a company (Henkes, 2007). This is because NGOs and corporate social responsibility (CSR) experts are usually devoted to helping companies to improve their corporate social responsibilities and challenging them to decrease their impact on society and the environment (Dawkins, 2004:3-4). As a result they expect high non-financial disclosures from companies compared to other stakeholders. Disclosure is made based on the right and need of stakeholders for information about a company‘s overall condition regardless of its situation (Standard and Poor‘s, *et al*. 2004:9). Reporting on these issues benefits both the company and its stakeholders since it enhances a company‘s status, employees‘ confidence and helps with the profit maximization of the company (ICC, 2005). Companies could also use such reporting practices to transmit and create a better image of their contributions towards the communities‘ economic, environmental and social aspects, by providing information on the products and services they produce, job opportunities they open, technological advancements they make and most importantly, contributing towards the Gross Domestic Product (GDP) of the country (Commission on Business in Society, 2005).

Why do companies report on non-financial matters? What other factors, besides regulatory mandates, are driving companies‘ efforts to disclose non-financial information? According to Schacter (2004:4-5), the factors that contribute towards this transformation include globalization, loss of trust, civil society activism and institutional investor interest in CSR. Therefore, the convergence of these different factors are obliging companies to demonstrate their understanding of the broader meaning of reporting non-financial matters to stakeholders beyond only the company‘s

shareholders through the disclosure of non-financial matters. Other factors driving the increase in non-financial reporting include protecting corporate reputation and promoting competitive advantage with the aim of securing a good relationship with stakeholders through information sharing and promoting transparency to increase corporate value (Nolan, 2005:4). Globalization, corporate scandals, civil society advocators and investors as drivers of non-financial disclosures are discussed next.

2.2.1 Globalization

Increased globalization has drawn attention toward the impact of companies‘ operations on the social and environmental aspects of the surrounding community (Schacter, 2004:4-5). This awareness has led companies to take responsibility for their social and environmental actions and demonstrate it to their stakeholders through non-financial disclosures. The increase in the inter-reliance of international financial markets and heightened mobility of investments has led to a greater demand for a best practice in disclosure and transparency matters (UNCTAD, 2004). With globalization and cross border investments, stakeholders may want to know more about the overall operations of a foreign company because globalization involves unexpected opportunities and risks that arise from the interaction of various social, political, economic and environmental consequences (McCorquodale and Fairbrother, 1999). On the other hand, companies need to follow what other companies in different countries are doing in order to attract foreign capital for a competitive advantage. As a result, some organizations like the International Accounting Standard Board (IASB), FASB and AICPA have started working on the development of international non-financial disclosure standards aimed at stakeholder protection.

2.2.2 Corporate scandals

Recent corporate scandals are also driving the demand for more non-financial disclosures. The loss of trust in companies and company leaders due to corporate financial frauds has led to a deepened need by stakeholders for information about companies‘ overall impact on society, economy and the environment (Schacter, 2004:4-5). Such scandals include Enron, WorldCom and Hollinger and, in relation to social and

environmental irresponsibility, Shell‘s alleged involvement in political repression in Nigeria, Exxon‘s oil leak in Prince William Sound in Alaska and Nike‘s link with the inhuman treatment of employees in developing countries and inquiries about Nestlé‘s policy in marketing baby formula in developing countries. These corporate scandals have impacted on public trust in capital markets and have led to a greater demand for improved corporate transparency, and re-emphasized the importance of good corporate disclosure practices (Borgia, 2005:7). Companies and regulators have been challenged to reform the process of disclosure practices to include non-financial information in order to enhance corporate efficiency, investors‘ confidence and to protect stakeholders‘ interests. Investors have also demanded an increased accountability from those in charge of companies‘ operations.

2.2.3 Civil society advocators

Civil society advocators often comprise organizations such as registered charities, development non-governmental organizations, community groups, women's organizations, faith-based organizations, professional associations, trade unions, self-help groups, social movements, business associations, coalitions and advocacy groups (Wikipedia®, 2007). These groups are pressurising companies to be accountable for their actions.

According to White (2007:1), in the modern global economy, markets cannot operate effectively without credible public disclosures and companies may suffer a loss of confidence by civil society advocators. As a result, companies are being forced to take CSR seriously (Schacter, 2004:4-5). As the World Business Council for Sustainability development (WBCSD) (2004:21) also indicates, the ongoing NGO pressures has led to an ever increasing demand for non-financial disclosures from companies, because some well known NGOs help companies in their decision-making and management of labour forces, human rights, environmental protection and the overall community interactions.

2.2.4 Investors

Studies show more and more investors are recognizing the importance of non-financial disclosures (Yongvanich and Guthrie, 2005). The idea of ethical investing was among the factors that influenced the increase in corporate responsibility reporting (Nolan, 2005:4). Hence, with the introduction of socially responsible investing (SRI), a demand for more accountability and commitment by companies in CSR has intensified (Schacter, 2004:4-5). Companies should demonstrate this with their non-financial disclosures as investors are of the opinion that improved reporting will help evaluate a company‘s risks and competitive advantages, when information goes beyond traditional financial analysis (Barger, 2006). Because investors are demanding more non-financial information, companies should work hard to increase their non-financial disclosures in order to attract capital. Investors want to know more than a company‘s past results as their decision-making also depends on the company‘s future prospects and relationship with its overall surroundings.

2.3 Transparency and accountability to stakeholders

Transparency refers to the –degree to which the information provided enables a user to reliably assess and understand the real overall status of a company‘s operations, whereas accountability means the responsibility for the overall actions of a company to the stakeholders” (CICA, 2004:1). The loss of trust by different stakeholders, regulatory bodies and local communities in companies is accelerating the need to establish and maintain high standards of information disclosure on the overall corporate operations and internal governance systems (NCVO, 2007). In addition, stakeholders‘ awareness of their rights to know about the growing influence of companies in driving economic, environmental and social changes has also contributed towards companies‘ efforts to ensure the highest level of transparency and accountability (The Allen Consulting Group, 2002).

Medvedeva and Timofeyev (2000:2) indicate that the present practice of disclosing information to meet the growing needs of major stakeholders is leading to a revision of the existing legislation in Russia in order to avoid contradictions and to meet the target

for reliability and relevance in disclosure. According to Ferré (2002:10), in the early days regulators were more interested in building efficient and transparent markets but now the interest is towards investor protection by assuring the companies‘ transparency in order to avoid investor decision-making risks.

The notion of non-financial disclosure and transparency is somewhat related (Ferré, 2002:20) in that transparency in disclosure means putting into effect the accountability of the company to those who have the right to know about the company‘s overall operations (GRI, 2002:24). Therefore, transparency in disclosure is one method of showing accountability for stakeholders by companies (Luo, 2005:33). Corporate accountability focuses on how much a company is transparent in its corporate activities and its disclosures to its stakeholders. In order to show accountability a company is required to be transparent in its strategic decisions as well as with its overall operations. The disclosure and availability of relevant, reliable and accurate information is crucial to corporate accountability issues (CICA, 2004:7).

A company must be open to its stakeholders and at the same time place greater emphasis on the disclosure of the non-financial aspects of its performance in addition to its financial reporting. King II (2002:2) indicates that management‘s obligation is to apply a test of accountability and transparency on overall operations so as not only to be liable to the company but also to be receptive of and responsive to the company‘s identified stakeholders. The issue behind corporate accountability is the improvement in a company‘s transparency (Luo, 2005:39). That is, stakeholders would strive to have high valued and comprehensively prepared information that is comparable under common reporting principles. This has to be a full disclosure of information that embodies the economic reality associated with a reasonable explanation of risks that result from good corporate governance and which also should be audited.

Triple bottom line reporting is initiated with the idea that companies are not only accountable to shareholders but also are to stakeholders who contribute towards a sustainable development. At the same time by recognizing the legitimacy of

stakeholders, companies are obliged to be transparent about their operations far beyond their financial performance (The Allen Consulting Group, 2002). Since transparency is central to business reporting, it is an exercise in accountability which is good for business integrity (GRI, 2002:24). Patel, Balic and Bwakira (2002:326) note that transparency and disclosure are basic to the practice of good corporate governance because they enhance communication between the company and its stakeholders and help the company's status to be more highly perceived. An investor's decision-making risks can also be reduced if a company applies international reporting standards to increase transparency and information reliability (Luo, 2005:25). Companies must continuously focus in order to deliver the level of openness and transparency required by their stakeholders. Since, openness and transparency are also ethical values of a company, companies should demonstrate these values through their policies and disclosures in order to keep a sound relationship with their stakeholders.

Globalization from intensified market competition makes company's transparency and accountability extremely vital in the minds of all stakeholders including at the board and executive levels (Luo, 2005:30). Transparency also plays an important role in the investment decisions of emerging markets because investing in these markets has potential for substantial return but also involves greater risk than investing in developed markets. The lack of transparency is often blamed for any financial crisis that occurs in those markets (Gelos and Wei, 2002:2). With increased global market competition, non-financial disclosure promotes corporate accountability (Luo, 2005:33). The need for more transparency by individual stakeholders can be satisfied by improving information disclosure adequacy. According to Gelos and Wei (2002:2), when a company is said to have low transparency, normally it does not mean that stakeholders know nothing about the company. Rather, lower transparency means less information is openly accessible, which in turn describes a gap of knowledge between those who seek information and those who provide it.

Evaluating the effect of reporting on stakeholder satisfaction is not simple (AA1000 SERIES, 2006), as companies struggle to identify and disclose the right information while at the same time develop approaches on reporting to stakeholders that satisfy their

information needs. According to Luo (2005:33), accountability goes beyond corporate reporting. Companies can improve their accountability by combining their sustainability and financial information in all areas (GRI, 2002:24, 72). As a result, international accounting standards need to ensure that shareholders are provided with basic financial and non-financial information that shows the level of transparency by reporting companies. Sustainability reporting is important to improve performance reporting within companies and at the same time helps to fulfill accountability requirements to external stakeholders (Mitchell, 2003:7). In his study, Luo (2005:33) lists the areas in which the management of a company should exercise accountability and transparency when presenting their annual reports to their stakeholders. Such areas are ownership structure, voting rights, human resource management, employee relations, environmental concerns, health policies, safety issues, anti-corruption measures, integrity programs and transparency standards.

2.4 Types of non-financial disclosure

Non-financial disclosure means reporting on a company‘s social, environmental, corporate governance, management discussion and analysis (MD&A) and forward-looking information in addition to financial matters that help in maximizing the value of a company (Cavicchio, 2005). The non-financial disclosures of a company, like financial disclosures, should be accomplished with the values of materiality, relevance and verifiability (Frik, 2002:27). According to Nolan (2005:19), in creating wealth, companies should recognize that success is when all financial and non-financial factors that influence a company‘s overall operation are viewed together. This includes a company‘s relationship with its shareholders, employees, suppliers, customers, financial analysts, regulators, community and other individuals or group that are affected by the normal operations of a company.

2.4.1 Sustainability reporting

Sustainability reporting means a reliable performance reporting towards transparency and stakeholder accountability (Visser, 2002:79). Companies are now expected to be transparent and to respond to all concerned stakeholders and not only the shareholders.

Thus, they are expected to adhere to the broad requirements set by regulators and the capital markets in which they are established to identify and react to stakeholder and communal needs (Ernst and Young, 2004:1). Recently, reporting on performance in relation to companies' environmental and social issues have become important to attract stakeholders. This is embraced in the idea of triple bottom line reporting (Jones, *et al*. 2005:3).

According to King II (2002:14), sustainability means incorporating together the economic, social and environmental aspects of a company for the purpose of achieving real balanced performance. As a result, as Yongvanich and Guthrie (2005:104) state, the lack of traditional financial statements in providing a complete set of data about a company's performance has led to the emergence of new ideas on sustainability development and may have increased accounting scandals. However, the demand for different areas of information by diverse groups has resulted in inconsistencies in reporting by companies (GRI, 2002:4).

Sustainability reporting helps companies assure their stakeholders that management can meet the challenges faced by modern business, i.e., it can indicate management efficiency and effectiveness in constructing stakeholder relationships and even more importantly, a way to manage risks inherent in business challenges. Sustainability reporting requires companies to report on their management policies and practices regarding the nature and extent of the social and environmental aspects in addition to the financial aspects of the company in their annual reports. A study conducted by Visser (2002:78) on the top South African companies shows that the most disclosure issues are on corporate governance, codes of conduct, ethics, employment equity, training and education, while a minimal information is being included on black economic empowerment, fraud prevention and HIV. Moneva, Archel and Correa (2006:121) indicate the reason for ignoring reporting on environmental and social issues by the management in their study was because it was thought to have no major financial impact.

The mining industry involves specific features that should be taken into consideration when implementing general sustainability development concepts to enhance company performance while meeting stakeholder accountability (Mitchell, 2003:1). As in any other industry, the emergence of the information age has led to the demand for more socio-environmental information to supplement traditional financial statements for a better prediction of companies' performance. Ernst and Young (2004:1-5) suggest that mining companies must ensure that they have sound socio-environmental policies and management, and rehabilitation programmes that can respond to potential natural threats that may significantly affect stakeholder value, both in the short and long run. The industry is associated with adverse environmental and social effects such as environmental degradation, pollution and social disruption. Hence, the industry is expected to play an important role in improving the welfare of the societies in which it operates and to understand and address the interest of a broader group of stakeholders. In addition, it is expected to operate with greater transparency in its reporting of performances, operational strategies and policy decisions with regard to its sustainability programs.

2.4.1.1 Environmental reporting

Environmental reporting first began as companies' communication process to strengthen the connection between companies and their external stakeholders. It has now emerged as a managing tool for external pressure groups, which are most often environmental groups (Perrini, 2005:612). As Repetto (2005:1-5) indicates, the demand for environmental disclosure has increased as stakeholders began to see companies' prospective performances through the factors that drive performance and risks. Hence, stock market regulators are alarmed about the economic risks that may result from companies' environmental exposures and are challenging companies to provide more disclosures in this area.

There is a strong link between environmental disclosures and a company's profitability (Pleva and Gilbertson, 2003). How much environmental information a company discloses can have a serious effect on its present and potential investors. Many

stakeholders require companies to disclose how responsive and competitive they are to pressures arising from environmental factors. In general, environmental disclosures may incorporate disclosures in relation to the natural environment surrounding a company, efforts towards environmental protection and the efficiency of resources used by the company. McKenzie (2005:8) notes that environmental disclosures may also include the material effects on investment expenditures, income and economic opportunities as a result of a compliance with environmental regulations by companies.

The disclosure of environmental information differs from country to country in that developing countries are at more risk in the environmental area because of a lesser challenge from the community in these countries (de Villiers and van Staden, 2006:5). Therefore, companies operating in developing countries may see environmental reporting as a waste as compared to companies operating in more developed countries. With cross-border investment and globalization, domestic companies are obliged to follow what other foreign companies are adopting as their environmental disclosure policy in order to be able to compete and attract investments. The Alciatore and Dee (2006:49) study shows that there is a variation of environmental disclosure in relation to differences in firm size and financial strength. According to Antonites and de Villiers (2003:8-9), the lack of standards and legal requirements on environmental reporting may lead some companies to not disclose detailed and sometimes sensitive information which could also have an adverse effect on their corporate image. On the other hand, companies may use the opportunity of disclosing environmental information in order to influence stakeholder perception (Deegan, 2004:94). Because companies are free to choose the type, style and degree of information to disclose, this unregulated environmental reporting may affect the comparison of disclosures across companies.

Generally, stakeholders are demanding more information on environmental risks and the efforts of companies to prevent those risks. More importantly, investors are asking whether this may pose an economic threat (Ernst and Young, 2004:3). Jenkins and Yakovleva (2005) stated that legitimacy theory is leading companies to disclose environmental and social issues. According to Suchman (1995) cited by Tilling (2004:2), ―**Legitimacy** is a generalized perception or assumption that the actions of an

entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." Hence, companies are working for legitimacy to reflect the companies' idea in attempting to put up with the societies' expectations. Currently legitimacy theory is growing as the most important hypothesis for social and environmental disclosures of a company (Tilling, 2004:2).

Environmental disclosure has turned out to be the main issue of corporate reporting in different industrial sectors, e.g., the mining industry is characterised by a complex regulatory and reporting environment which is complicated further by its geopolitical, environmental and safety concerns (Jenkins and Yakovleva, 2006:272). Environmentally sensitive companies, such as mining companies, are more likely to disclose environmental information in an effort to show accountability than less environmentally sensitive companies. As Ernst and Young (2004:1-6) indicate, mining companies have an observable impact on the natural environment. Therefore, the industry is always under public and environmental groups' inquiry. According to Ernst and Young (2004:1-6) and GRI (2002: 48-51), environmental disclosures by companies among others include:

- Environmental policy of the companies;
- Policies for assessing the eco-efficiency and sustainability attributes of products;
- Disclosure on energy material, water use, and recycling and reuse of water;
- Greenhouse gas and emissions of ozone-depleting substances;
- Sewage and waste from production;
- Accounting policies for the recording of environmental liabilities, environmental segment, and environmental clean up costs;
- Incidence of and fines for non-compliance and financial reporting of environmental remediation;
- Encourage the development and diffusion of environmentally friendly technologies; and
- Other environmental objectives, programs, and targets for protecting and restoring native environments anticipating and responding to their concerns about potential hazards and impacts of operations, products, wastes or services, including those of global significance.

2.4.1.2 Social reporting

Social reporting is becoming one of the key essentials of non-financial reporting by companies (Perrini, 2005:611). This is due to the pressures faced by both security markets and regulators for non-financial information in order to satisfy stakeholders demand for a more rounded and longer-term picture of companies' activities and performance (GRI, 2002). Corporate social disclosure is considered an assurance of a company's policy towards its social responsibility. A company's disclosure about its relations with the public, employees and expressions of commitment toward the ethical practice of the society at large is regarded as corporate social disclosure (Jenkins and Yakovleva, 2006:272). Companies should consider the potential consequences of not reporting on their social aspects (Yaron, 2005:1, 9) because adequate and timely disclosure of important social aspects of a company is essential for the effective and efficient function of financial markets in order to enable responsible business decision-making.

Normally, companies disclose their positive performance while the negative is concealed. In their study, Jones, Frost, Loftus and van der Laan (2005:1&19) found that the majority of the companies that provide some social disclosures within their annual reports are in the form of policy statements and that there is diversity in the extent and reporting practices. They also observed companies reporting mostly on their positive dealings with society while negative information is being covered by the positive information. Similarly the study conducted by (Antonites and de Villiers, 2003:4) on the legitimacy of companies', found that companies are cautious in disclosing negative information about them that could be damaging to their broad objectives. This is as a result of the lack of standards and reporting frameworks through which companies could have been guided and controlled.

Mining companies often operate within communties (Jenkins and Yakovleva, 2006:275). Therefore, companies need to address their delicate relationship with society by recognizing their social accountability (Antonites and de Villiers, 2003:3). To improve society's trust, a company should inform the society about the positive and negative impact of its activities on the community at all times. While disseminating

information to the society, a company may protect its image in order to increase stakeholders' value. According to Frik (2002:19), over the past decade mining companies in Africa have made significant modifications and have become more cognizant of public relations. Traditionally, these African mining companies were viewed as companies whose motive is only to mine, create earnings for their investors, and comply with the obligations of environmental, safety and tax regulations. However, the present attitude has changed towards an increased awareness of the benefits obtained from positive community relations in the achievement of companies' ultimate objectives (Yongvanich and Guthrie, 2005:104-108).

Reporting on the social issues in the annual reports of the mining industry is important (Smit and Mokgoatlheng, 2003) because the annual report is the most important document through which a company may demonstrate its social accountability to its stakeholders. Disclosure of a firm's social risks not only affects its reputation, brand and stakeholder values, but could also affect its attraction and retention of the best employees because employees prefer to work for a company with clear cut objectives towards the protection of the society in which it operates (Ernst and Young, 2004:2).

Companies should proceed with the disclosure of highly valued information by their stakeholders. Social reporting should be presented to show a connection to their business activities in order to assure approval from their stakeholders. The SEC (2001:3,7) suggested that better disclosures should not be established by more regulation but by creating a favourable climate that makes it easier for companies to disclose more information outside the traditional financial statements. GIBS (2006) indicated that most companies are unsuccessful in identifying significant strategic opportunities and financial risks coupled by the social impacts. Consequently, stakeholders that want to make use of the companies' disclosures on the relationship between social indicators and financial performances as a technique for evaluating and choosing stocks are at a disadvantage because of this information irregularity (Yaron, 2005:2).

As different studies and guidelines suggest, corporate social reporting by companies should at least include (GRI, 2002:36; Ernst and Young, 2004:1-3 and Yongvanich and Guthrie, 2005:113):

- A description of policies, guidelines, corporate structure and procedures;
- Aspects of human rights, i.e. strategies towards non-discrimination, child labour, forced and obligatory labour;
- Disciplinary and security practices;
- Conservation of native rights of society;
- Information about bribery and corruption, political donations, pricing;
- Fundamental rights at work, i.e. adequate income with adequate social protection, opportunity for work with full access to income-earnings, equitable and honest employee relations, fair wages and healthy and safe working conditions; and
- Commitment to community development, and ethical aspects such as the disclosure of its open and clear business setting between and among competitors, suppliers, partners, customers, investors, employees and the society in which it operates at large.

2.4.2 Corporate governance reporting

Over the past years corporate governance has gained increased attention. There is currently no universally consistent definition of the term corporate governance (Claessens, 2003:4-5) resulting in differences in disclosures by companies. The Austrian Working Group on Corporate Governance (2002:11-13) defines corporate governance as a company‘s self-regulating objective that is planned to ensure the confidence of stakeholders by introducing a high level of reporting transparency to improve the communication channel between supervisory board, management board and all stakeholders for an improved and better company performance. The reporting proposed by this group requires companies to regularly report on the policies, procedures and the systems in place to all their stakeholders and therefore, to scrutinize and confirm its compliance with respect to its board and management structure and other aspects of non-financial performance. The credibility of the rules of corporate governance of a company is judged by the amount of how transparent the company is in

the market (Ho and Wong, 2001:142). Hence, a company‘s openness in the disclosure of the set of rules through which it is governed plays an important role in the awareness of the values of the corporate governance of a company by its stakeholders.

Corporate governance is also viewed as a system by which companies are regulated and controlled. It is a test for the effectiveness of the actions and application of powers by management. King II (2002:2) describes the requisite for good corporate governance as: ―...successful governance in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Boards must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company but also responsive and responsible towards the company‘s identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company."

Today, companies are becoming the center of capital formation in the society in addition to providing jobs (Flanagan, Little and Watts, 2005:271). However, investors are concerned about companies‘ moral values and top-level management behaviours. Ho and Wong (2001:139) indicate that the reason for revising and improving the East Asian companies‘ regulatory frameworks of corporate governance was as the result of the Asian crisis. This crisis was caused by the lack of effective and efficient disclosure on corporate governance in many Asian financial markets. This disclosure is vital as some problems between a company‘s management and stakeholders can be examined by some mechanisms of corporate governance (Gul and Leung, 2004:354).

The disclosure of a comprehensive corporate governance structure helps stakeholders in understanding and getting a more complete picture of company‘s specifics and internal mechanisms for the overall activities of the company. As Flanagan, *et al.* (2005:271) suggest, when drafting a company‘s corporate governance policy, the procedure should include major participants such as investors, suppliers, customers, employees and the

society at large. Such an approach incorporates ethics in the mainstream of company‘s activity. A study conducted by Green and Graham (2005:167) on Canadian companies also shows the perception of corporate governance as an ethical reaction to accounting scandals and its influence on the confidence of stakeholders. This disclosure is often used as an opportunity for companies to promote themselves as being compliant and having effective management.

High levels of transparency and adequate disclosure on corporate governance enhances the communication channel between a company‘s management and its stakeholders (Patel *et al*., 2002:326). Improvement in the corporate governance structure and its disclosure is a necessary measure to protect stakeholders because ensuring stakeholder protection is important to the survival of companies in this highly competitive free market economy (Eng and Mak, 2003:327). The International Finance Corporation (IFC) (2006:1) suggests that advancing good corporate governance is worthwhile because it makes a company more attractive to investors and lenders and in turn may result in high returns. Furthermore, good corporate governance needs a well defined organizational structure, authority of board of directors, votes and rights of shareholders, strict internal control policies, and a high level of transparency and disclosure.

Patel *et al*. (2002:326-327) makes several suggestions on how companies could ease their corporate governance problems. These include, appointing a vigilant board of directors, timely and adequate disclosure of financial and non-financial information, and a clear ownership structure which allows the participation of the majority of stakeholders in the management of the company. Luo (2005:21) also indicates that corporate governance serves and plays an important part in ensuring that reliable information is provided to stakeholders by examining managements‘ effort on maximizing firm value instead of tracking their objectives. Corporate governance not only focuses on the establishment of good management structure and the board of directors, but it also addresses the issue on the triple bottom line of corporate reporting. King II also incorporates integrated sustainability reporting to emphasize integrated economic, social and environmental performances (King II, 2002:2).

There are different policies and codes of corporate governance around the world. Some codes are intended to increase the extent of disclosure or transparency for all stakeholders (Austrian Working Group on Corporate Governance, 2002:6). This could be a requirement for companies whose stocks are listed on the stock exchange in which the codes apply. It is possible that some companies may feel burdened by this compliance but comply since it enhances the levels of disclosure they provide (Solomon, Solomon, Norton and Joseph, 2000:464). Cheng and Courtenay (2006:273) reported that government-owned companies may disclose more information on their corporate governance structure than privately owned companies to reflect the government‘s efforts towards transparency and transformation. Research conducted on Spanish firms listed on the Madrid Stock Exchange indicated that firm size affects the voluntary disclosure of information by companies along with some corporate governance mechanisms of the board, appointment of the audit committee, shareholding by directors and the stock option plans (Arcay and Vázquez, 2005:299).

Mining companies, due to their unique nature, are affected by environmental, political, and societal and community safety policy matters that further complicate their regulatory and reporting systems (PricewaterhouseCoopers, 2006c). Furthermore, the growing interest of the public, government and investors on how mining companies are regulated and controlled in all aspects of financial administration is causing companies to implement effective corporate governance that can help to protect their corporate name and product picture. Such effort may result in a positive effect in the protection of stakeholder value and customer trust. Therefore, mining companies should work hard to create and maintain a well-regulated and intellectually driven corporate governance structure. Mining companies, due to their labour-intensive nature (Haskins, 2008), should provide information about the equitable distribution of rights for making decisions and sharing duties among companies‘ employees and disclose all the rules and procedures for making decisions on the companies‘ activities.

The mining sector, because of its global prominence and reliance on goodwill (Frik, 2002:29) needs to be closely watched in relation to its application of corporate governance principles and the adequacy of disclosure. Stakeholders are interested in knowing the corporate governance structure of the companies in which they have an

interest, because good corporate governance helps companies attract investments and, in addition, keeps companies safe from trouble. Reporting on corporate governance by mining companies may help regulators and governments monitor the extent of compliance. Corporate governance may also serve as a checking and balancing system (Saleh, Iskandar and Rahmat, 2005:85) for the information needs of diversified stakeholders and as an explanation of a company‘s managerial structure to the society.

In today‘s competitive world, it is important for companies to disclose information so that investors and other stakeholders from places across the world can easily analyze the company through its annual report disclosures. The corporate governance disclosures of a company should be relevant to all groups of stakeholders that are affected by a company‘s operations. Generally corporate governance disclosure includes disclosure with regard to the board of directors, risk management and internal audit or internal control.

2.4.2.1 Report on the board of directors

The board is the crucial part of the corporate governance structure because it is accountable and responsible for the overall company‘s activities and eventual results (King II, 2002:3). The core function of the board should be to assure governance protection to stakeholders. Disclosures about the board of directors may provide greater transparency to stakeholders and enable stakeholders to better foresee future performance.

According to Bernardi, Bean and Weippert (2005:1019), disclosing information about board members in the financial markets has become a serious issue with the fall of Enron and WorldCom as a result of corruption and mismanagement. Cheng and Courtenay (2006:265-267) note that companies with higher levels of voluntary disclosure are observed to have a high composition of independent directors on the board and as a result higher transparency and lower information irregularity. Although the main emphasis of the board is in controlling financial reporting, an efficient board should produce higher levels of disclosure with regard to management and non-financial

aspects of a company. Gul and Leung (2004:356) indicate that boards with dual chief executive officers are less active in scrutinizing management and hence have lower levels of voluntary disclosure, which leads to lower levels of transparency. Such opportunities help to cover up fraud and incompetence. This is because if the roles of the chairperson and chief executive officer are not separated, the power is in one person which erodes boards' ability to exercise effective control.

According to Bernardi *et al*. (2005:1020), the inclusion of board members' pictures in annual reports could enhance the participation of diversified racial minorities and females in the representation of the boards of directors. This may demonstrate to stakeholders that there is a diverse leadership in the board of directors. Since annual reports are the most usual way through which companies communicate, it shows their application of corporate social responsibility.

As there are different codes of corporate governance from country to country, it is obvious that the disclosure requirements of the board members and their structure also differ from country to country. According to King II (2002:3-8) and Standard and Poor's (2002:20-21), disclosure requirements regarding the board of directors of a company among others include:

- List of board members together with their CVs;
- Charter setting out about board members' responsibilities;
- Details about the roles of the chairperson and chief executive officer;
- Classification of directors as executive, non-executive or independent directors;
- A list of Board Committees;
- The specifics of director remuneration; and
- The number of board and committee meetings held in the year.

2.4.2.2 Report on risk mitigation systems

Risk management is a course of action for identifying and evaluating exposures to actual and potential categories of risks and determining mechanisms on how best to handle such exposures (King II, 2002:9). Annual report disclosures are intended to

present information to stakeholders on the overall operational activities and performance of a company. Therefore, companies should disclose both good and bad business performance and associated business risks that could have an effect on the present and future firm value. Linsleya and Shrives (2006:3) categorize risks of a company as financial, operational, empowerment, technological, integrity and strategic risks. Risk management of a company uses internal control as a means to minimize and control risk by the process of elimination, recognition or mitigation of each risk (King II, 2002:9).

Corporate stakeholders wish to find more detailed disclosure on the potential and present risks of a company and management‘s risk assessment and mitigation systems. These increased risk disclosures could be helpful in stakeholders‘ decision-making and especially to investors in their portfolio diversification decision. As Solomon *et al*. (2000:448, 459) state, stakeholders‘ demand for risk disclosures depends on the significance of the risk to their particular decision-making. Furthermore, institutional stakeholders would value any process that promotes extra risk information disclosures.

Analysis of the disclosure of risk management should not only be focused from its negative viewpoint, because there is also an opportunity to turn it into a competitive advantage for a company (King II, 2002:11). Hence companies must ensure that they are being transparent with the subject in relation to risk management to their stakeholders. According to Solomon *et al*. (2000:450), improved risk disclosures enable investors to decide on diversifying their investment risks. Moreover, information disclosure on unsystematic risk is also important for investors in order to broaden their picture of the risks surrounding a company and the going concern potentiality of a company.

Risk disclosure practices may differ from country to country as well as among companies in the same country as a result of differences in the application of different accounting practices, corporate governance, codes of company law, and risk perception

and assessment methods. Disclosure on risk management and mitigation systems, according to King II, (2002:11) should, among others, include:

- Risks involved in the normal operation of the company, e.g., physical, operational, human resource, technology, business continuity and disaster recovery, credit, market and compliance risks;
- A general statement on how the company has dealt with risk and control;
- A statement saying that the board is accountable for the process of risk management and the system of internal control;
- The ongoing process on identifying, evaluating and managing significant risks; and
- Adequacy of the system of internal control in place in mitigating the significant risks faced by the company to an acceptable level.

2.4.2.3 Report on the internal control system

According to Mattie, Hanley and Cassidy (2005:6) the Committee of Sponsoring Organizations (COSO) known as the Treadway Commission, developed a common definition of internal controls as ‗a process effected by an entity‘s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations" that provides a standard against which all companies can assess their controls. Internal control is a process formed and placed by management in meeting the ultimate goals of a company while reducing risks. According to COSO (2006), internal control is a system that enables a company to keep its goals parallel with its mission by ensuring management is able to cope with the present rapidly changing global economy, competitive markets and diversified customer demands. An internal control system is viewed as a solution to a range of possible corporate problems, hence companies are working on the development of better internal control systems and their disclosures.

The audit committee as defined by King II (2002:9, 12) is an independent body that evaluates and monitors a company‘s overall operations for assuring and giving advice

on a company‘s value creation. A company‘s internal control system, through the establishment of an audit committee, protects against risks inherent in a company and establishes mitigation systems. Disclosure on internal control systems may create confidence in stakeholders as they strive to understand the ability of their companies to prevent and control present and potential risks. Therefore, the internal control system of a company may have a considerable effect on investors‘ decision-making.

The Turnbull Report (1999) cited by Solomon *et al*. (2000:451, 455,471) formulated a framework for a corporate internal control system that includes the identification, estimation, development, implementation, evaluation, internal feedback and disclosure stages. Such information disclosure is very useful for external users of corporate annual reports who base their decision-making on the extent of the efficiency of the internal control system of a company. Many stakeholders find that an increased level of risk disclosure can enlighten them on the efforts in ascertaining and encouraging better internal control systems. Information disclosure with respect to the internal control system of a company, according to King II (2002:12, 19) should include information about:

- The assurance of the presence of an effective internal control process and system;
- The boards‘ accountability in the effectiveness of the internal control system; and
- The function of the internal control system.

2.4.3 Report on forward-looking information

Forward looking information is any data in an annual report with a predictive value that helps users to make future projections and shows the opinion of management about the future operations of a company. It incorporates information on opportunities and risks that a company may face in the future and management‘s projections of performance (Celik, Ecer and Karabacak, 2006:200). Companies try to disclose more meaningful forward-looking information to their stakeholders in order to provide relevant information for the understanding of their business. According to Bochner (2000), a

company is valued and measured by the information it provides in its forecasted information. Beattie, McInnes and Fearnley (2004:206) suggest that there is a need for information disclosure that is future oriented in nature and it could be quantifiable or non-quantifiable.

Bigger corporate and multi-national companies focus in disclosing a higher level of forward-looking information in their annual reports (Celik *et al.* 2006:197, 205). Celik *et al.* also note that the levels of information disclosed regarding potential operations could be important in the understandability of future performance and forecasting, and evaluating the cash flow and value of a company. In today‘s global market, with rapid changes in economic situations, the potential drawback of historical data has become more visible. To understand and forecast a company‘s future operations and value creation, present and forward-looking information should be incorporated with the presentation of the historical information. Disclosure of present and forward-looking information of a company would, therefore, complement the financial information.

Forward-looking disclosure is presented in both the financial and non-financial parts of an annual report. Such information is useful for the overall decision-making of corporate stakeholders and especially stockholders in their investment decisions (Eaton and Stanga, 2000:245). Disclosure of forward-looking information could differ from company to company according to disclosure practices. According to Robb *et al.* (2001:81-82) some forward-looking non-financial disclosure items that should be included in annual reports are:

- Major goals, strategy and factors that are critical to successfully implementing strategies;
- Ability of new companies to enter the industry;
- Goals on return on assets, equity and capitalization ratio;
- Ability of substitute products and services to displace those of reporting company;
- Estimated amounts and timing of capital expenditures; and
- Estimates of production and operations or financial performance.

2.4.4 Disclosure on management's view

This is the disclosure of the analysis of the overall performance of a company through the eyes of management. It usually covers general trends and factors that drive the overall performance and the opportunities and risks that will likely affect the future performances. This is important because it helps investors and other users of the annual report to understand how management views the company which will contribute towards their decision-making.

This part of the annual report has been named differently by different accounting standard boards. It is known as Management Commentary (MC) in the case of the International Accounting Standards Board (IASB), Operating and Financial Review (OFR) by the United Kingdom (UK) Accounting Standards Board (ASB) and Management Discussion and Analysis (MD&A) by the FASB (IASB, 2007).

2.4.4.1 Report on Management Discussion and Analysis

The MD&A is one part of an annual report that enhances the usefulness of financial statements and enables shareholders and other interested stakeholders to scrutinize a company through the position of management (Beller, 2002), i.e., it provides the context through which the financial information can be analyzed. Yaron (2005:2, 22) suggests that disclosure must be adequate to meet the information needs of all stakeholders and especially in the protection of investors. The MD&A should be presented in a way that ensures investor confidence towards the financial stability of companies, capital markets and the overall situation of the economic environment. The MD&A is management‘s chance to elaborate on the overall value and possible inconsistency of a company‘s earnings and cash flow in relation to financial reports, and may help investors assess the extent to which past performance is predictive of future performance (SEC, 2003:2-3).

The MD&A can also be seen as a complementary disclosure to Generally Accepted Accounting Principles (GAAP) when further explanation is needed for an unusual or a

material impact of activities (Glassman, 2003). Therefore, financial statements, together with their narrative explanation (MD&A), make a good basis for business reporting. If read together, they can enhance the understandability of investors in analyzing the performance and prospects of a company. However, care must be taken in using this information as the section is unaudited (Investopedia, 2007).

The MD&A should also disclose any unusual events with regard to the social and environmental issues that could have a serious effect on the operating income of a company (Yaron, 2005:7, 12). As indicated by Glassman (2003), the MD&A should be presented in a comprehensive and candid approach as management‘s story of the company‘s finances and operations. At the same time, management should be very careful not to provide unnecessary and voluminous information that could confuse investors who may be potential capital drivers. As the SEC (2003:7) explains, the MD&A is a very crucial section through which management can communicate with investors in a lucid and clear-cut manner.

Although many companies provide a MD&A in their annual reports, this could differ in content and presentation. The inclusion of this non-financial information may help stakeholders in grasping the complete picture of a company and how it is managed. The MD&A information may be related to the specifics of the company‘s or industry‘s business environments or broader economic concepts as a whole. The SEC (2003) has provided the following list of examples that companies should consider disclosing in the MD&A section of their annual reports in addition to the financial analysis:

- Macro-economic matters: the country‘s overall economic situation;
- Interest rate: the change in interest rate charges by financial companies that may have an effect on both debt-based and capital-based financed companies;
- Sources of a company‘s revenues and income;
- How the company generates income (shows the company‘s ability in processing with lower costs and obtaining good market prices for their products);
- Location of operation: the company‘s location in relation to the suppliers of raw materials, targeted customers and its environment;

- Principal products and services: product quality, marketability and product obsolescence;
- Material opportunities: easy accessibility to raw materials;
- Opportunities, challenges and risks for the short and long term;
- Action taken to deal with these challenges and risks: the company‘s ability in mitigating the risks involved;
- Industrial specific factors: the company‘s performance in its industry and the factors that could affect the company as a result of industrial factors;
- Innovation: technological advancement; and
- Competitive advantages and disadvantages.

2.4.4.2 Management Commentary

According to the IASB (2007b), the MC refers to the narrative explanation mostly disclosed by management in the front pages of annual reports in relation to the enterprise‘s financial condition, changes in financial condition, future operating results and the causes of the main changes in the operations. It is management‘s self assessment which is presented outside the proper financial statements. In this section, management tries to see the company‘s performance not only from the financial, but also from customer, business process and learning-and-growth (innovation) perspective.

2.4.4.3 Operating and Financial Review

According to the ASB (2005:6, 9, 12), the OFR is defined as ―a narrative explanation, provided in the annual report, of the main trends and factors underlying the development, performance and position of an entity during the financial year covered by the financial statements, and those which are likely to affect the entity‘s future development, performance and position.” The OFR is complementary and supplementary to the financial statements and increases the usefulness of corporate disclosure. It should also be complete, clear and comparable through time. As indicated in the Reporting Standard 1 (RS 1), the OFR should include information with regard to a company‘s environmental matters, its employees, social and community issues,

investments from, and return to, shareholders and other supplemental information that management thinks is important.

Considering the importance of the disclosure on non-financial matters, the remainder of the chapter considers the importance and lack of a non-financial reporting framework as well as the organizations working on the development of a conceptual framework for the preparation and presentation of non-financial matters.

2.5 Non-financial reporting framework

The IASB issued a conceptual framework for the preparation and presentation of financial statements in 1989 with the purpose of simplifying the information presented in financial statements for external users (Accounting Web, 2005). According to Deloitte (2007a) the most important users of financial statements are present and potential investors, employees, lenders, suppliers and other trade creditors, customers, the general public, governmental and non-profit organizations. The purpose of these financial statements is to help these users in their economic decision-making.

The IASB conceptual framework notes that all information that is needed by these users to make economic decisions is not satisfied by financial statements (Deloitte, 2007a). This is because financial statements focus mostly on historical values while users want to know about future performance of the companies. Furthermore, the framework does not require information on non-financial reporting that can be crucial in decision-making by users. Consequently, there is a need to develop a framework for the presentation and disclosure of non-financial information.

With regard to mining companies, the IASB issued International Financial Reporting Standard (IFRS) 6, Exploration for and Evaluation of Mineral Resources, in 2004. This relates to the expenditures incurred by a company in relation with the activities of

mineral resources exploration (Deloitte, 2005:1, 3). The standard requires entities to disclose:

- The entity's accounting policies for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets; and
- The assets, liabilities, income, expense, operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

However, the standard does not have any guidance with regard to the requirement or framework of non-financial reporting by these companies.

It is unlikely that the IASB�///s conceptual framework is able to incorporate non-financial reporting issues that may serve as a guide to management in their non-financial disclosures. Because non-financial reporting is at an early stage, much work is still required before a framework could be developed. Developing and regulating a framework on the disclosure of non-financial information is of particular concern to all regulators, users and adopters.

2.5.1 Defining the concept of a non-financial reporting framework

The development of a non-financial reporting framework may provide structure and consistency to the non-financial reporting system just as the IASB‘s conceptual framework provided structure and consistency to the financial reporting system. A framework facilitates understanding of the disclosure needs of different stakeholders by management and the board of directors, and in the assurance of capital market efficiency by regulators (Anderson *et al.* 2005:2). A framework assists companies in deciding what information must be included and may also highlight the disclosure of items that might not seem very important but could help stakeholders in their assessment of risks and opportunities. Adopting a standardized reporting framework for social and environmental information may increase the comprehension and comparability of disclosures (Yaron, 2005:19). Developing a non-financial reporting framework may also help promote transparency, accountability and consistency in the best practice of business reporting (European Commission, 2001:18, 25).

2.5.2 The lack of a non-financial reporting framework

Unlike financial reporting, there is no framework for non-financial reporting. This could be due to the recent emergence of this area in corporate reporting. Present reporting practices differs from country to country because each country‘s reporting regulations and practices result from the complex interaction of its social, economic and institutional factors (Saudagaran, 2001:3). There could even be reporting differences between companies in the same country because companies may be influenced by particular reporting requirements of the stock exchanges in which each company‘s stocks are traded.

Most countries have their own disclosure requirements and guidelines. These could be either voluntary or mandatory. The United Nations Environmental Program (UNEP) and KPMG (2006) suggest that synchronizing different voluntary guidelines and mandatory regulations in different countries could lead to the establishment of a valuable non-financial reporting framework. Presently, many different guidelines developed by some of the world‘s most well-known organizations exist for the purpose of voluntary reporting by companies which, in turn, has increased the transparency for and accountability towards stakeholders. One such global guideline for voluntary use by companies in their sustainability reporting is the Global Reporting Initiative (GRI) which has been one of the most important drivers of non-financial reporting since 1997 (Standard and Poor‘s *et al.* 2004:7).

As a result, there is a need for an international non-financial reporting framework to be developed by extracting the best principles from the existing different guidelines and regulations around the world. However, as Yaron (2005:18) notes, enforcing the existing guidelines and standards are not a solution for developing a realistic non-financial reporting framework. While the GRI could be applicable for disclosure on social and environmental issues, since there are other different reporting guidelines and regulations across different countries, additional different matters still need to be addressed (Noll and Weygandt, 1997). For example, in assessing a South African company listed on the JSE Securities Exchange, the King II report on corporate governance, the JSE Securities Exchange‘s Social Responsible Investments Index and

the company‘s own code of business conduct must be taken into consideration in addition to global guidelines. These different regulatory requirements across different countries, such as the Sarbanes-Oxley Act in the United States (US), the European Union‘s (EU) Accounts Modernization Directive, reforms of capital markets in South America and the recent approval of J-SOX (Japanese version of Sarbanes-Oxley) are the products of investor reaction against companies‘ reporting systems (O‘Rourke, 2007). Encouraging companies to comply with these existing different regulations and guidelines of non-financial reporting practices would benefit capital markets, restore public trust and enhance stakeholder confidence (Yaron, 2005:18).

2.5.3 Reasons for the need to develop a non-financial reporting framework

To make better decisions, stakeholders need to be well informed about the key fundamentals of a company‘s operating activities, that is, the basis of its performance. Information on these key elements includes financial and non-financial information. Non-financial information requires qualitative assessments by reasoning out on the effects of business opportunities, environmental risks, strategic plans and social involvements, that may have on the evaluation of the quality, sustainability and variability of a company‘s cash flow and earnings. This framework provides the structure within which the non-financial section of an annual report may allow users to clearly understand the current state of a company‘s social and environmental status, its business strategies and assist in predicting performance. The information disclosed in this section of the annual report, such as the environmental, social and the corporate governance categories, may contribute towards a better understanding of the overall business operations of the enterprise. Accordingly, with a framework, companies could identify which aspects of the non-financial information are the most significant to meet the information needs of its present and potential stakeholders.

A framework must be established to help identify ways of reporting in a more effective way. If knowingly or unknowingly important information is not disclosed, this could be damaging and even misleading. As a result, incorporating a framework in the disclosure process may assist in ensuring the materiality of the information given out or a better understanding by a rational stakeholder (EBR 360°, 2004). The need for a reporting

framework has evolved over time with the increase in cross-border investments, the development of capital markets and corporate scandals which led to the need for information by various stakeholders for better decision-making (Sinha, 2004:4). Therefore, a reporting framework has to be developed to cope with the rapidly changing global market and to effectively provide the non-financial information required by stakeholders and companies.

2.5.3.1 Differences in reporting practices

The lack of a non-financial reporting framework may lead the style and content of non-financial reports to significantly differ from country to country creating problems even for the most sophisticated users. According to PricewaterhouseCoopers (2006b) a broader set of non-financial information is needed by investors to assess future shareholder values. However, as different countries have established their own disclosure requirements, reporting practices have become fragmented. Therefore, standard setters and regulators should be tasked with developing a non-financial reporting framework.

The AICPA's Special Committee on Enhanced Business Reporting (SCEBR) noted that the best way to develop a framework is through collaborative work by involving all stakeholders internationally (Anderson, *et al.* 2005:4). Developing an international non-financial reporting framework is crucial in order to standardize the different reporting practices across the globe and to ensure the consistency of reports (Palenberg, *et al.* 2006:25). In developing a non-financial reporting framework, the quality must be improved to capture changes, identify advancement and narrow gaps in evaluating actual disclosures.

2.5.3.2 Development of capital markets

The level of globalization of a country's capital market (Choi and Mueller, 1992:83) and years of increasingly complex reporting requirements (PricewaterhouseCoopers, 2006a) are creating difficulties in understanding accounting information. In addition,

since market developments, cross-border investment activities and varied investor needs have increased, voluntary non-financial reporting may result in inadequate information that may affect users' decision-making (Noll and Weygandt, 1997).

According to Palenberg *et al.* (2006:18-25) non-financial reporting has gained wide acceptance among corporate social responsibility practitioners and capital market researchers. In their study, Palenberg *et al.* (2006:18-25) documented the opinions of three groups according to the importance of non-financial disclosure in a voluntary reporting framework. The opinion of the first group was that non-financial reporting will have no value without a mandatory framework but will be especially important to companies with a severe and very obvious environmental or social impact, e.g. the mining industry. According to the second group's opinion, as the practice of non-financial reporting is still emerging, a mandatory framework may not allow for a continuous modification and improvement of items. Finally, the third group's view was that because companies may exploit non-financial reporting as a means of public relations, there is a recurrent poor quality of reporting.

2.5.3.3 Corporate scandals

The corporate scandals at Enron, Worldcom, Parmalat and Livedoor have also contributed toward the demand for a strict corporate reporting framework by investors (O'Rourke, 2007). PricewaterhouseCoopers (2006b) suggested that the reason why stakeholders are insisting on the establishment of a framework that shows the real overall picture of a company's operations is because the information given out to stakeholders and the information used by management inside a company are different.

2.5.3.4 Equivalence to the financial reporting framework

Another important issue with respect to disclosure is comparability (GRI, 2005:39). Setting a framework alone may not be enough because the use of simple terminology and a clear presentation of the overall format of the framework is also required. EBR 360^0 (2004) proposes that a framework must be able to reveal the complexities of a

modern business, and should be occasionally evaluated to verify its continuing usefulness by checking whether the information is still needed or should be changed to improve its effectiveness. As a result of the regulators' and issuers' lack of interest in establishing a non-financial reporting framework the GRI issued sustainability reporting guidelines in 2002. This is emerging as the internationally recognized reporting framework (Yaron, 2005:16).

As the GRI (2005:39-40) specifies, although the GRI is committed to increasing information comparability and flexibility in reporting practices, it still needs to address the reporting differences that could exist between different industries. Thus, the GRI is developing a number of sector-specific indicators to reflect the characteristics of industries (Azapagic, 2004:647). For instance, the mining industry is a prime example of the need for developing a sector-wise framework because it has important impacts on the social and environmental aspects of local people's lives. Consequently, the mining industry needs a specific reporting framework that can appropriately disclose all its activities and contribute towards the dissemination of information that shows its accountability and transparency.

The American Institute of Certified Public Accountants' (AICPA) (1996) special committee on financial reporting, the Jenkins Committee, also concluded that there is a real need for improving non-financial disclosures. As a result, they proposed an inclusive reporting framework that focuses mainly on the operating data and forward-looking information of a company (Noll and Weygandt, 1997). As Anderson *et al.* (2005:3) suggest, the reporting framework can be simplified by standard setters and regulators as the goal is to increase transparency by motivating companies to provide quality information rather than increase the quantity.

The next section discusses the various organizations working towards the development of a non-financial reporting framework.

2.6 Organizations working towards the development of a non-financial reporting framework

There are many different organizations across the world working to establish guidelines, standards and regulations with regard to non-financial reporting. These organizations include the IASB, the FASB, the AICPA and the ASB. Some of these guidelines have been adopted by companies and are being used as global referencing frameworks for non-financial reporting purposes. Others are still in the development stage. These different guidelines, standards and regulations could be used as a foundation for the development of one international non-financial reporting framework. Ultimately, companies that adopt a non-financial reporting framework may provide information to their stakeholders for a better decision making. However, establishing a non-financial reporting framework is not enough, but requires ongoing follow-up to ensure its continued usefulness. Some of the organizations working for the development of a reporting framework are discussed next.

2.6.1 The International Accounting Standards Board (IASB)

The IASB is one of the organizations working on the improvement of non-financial reporting practices of companies. On 27 October 2005 it published a discussion paper, Management Commentary (MC), that reviews the task the IASB could do in developing a framework to improve the disclosure of management discussion. Many financial analysts regard MC as an important part of a company's annual report because it enhances the usefulness of the financial statements. Many jurisdictions are developing requirements for the disclosure of this MC. These requirements of the IASB will contribute to the advancement of non-financial reporting (IASB, 2005).

According to Deloitte (2007b), the objective of the MC is to help investors for a better understanding and analysis of financial statements through the perspectives of the

managements and to identify issues viewed as the most important by management. i.e., by considering the environmental condition of the company it helps in assessing the scope and the strategies adopted by the company. Deloitte (2007b) further discuses about MC as "it is not appropriate to specify the precise information that must be disclosed within the MC, or how it is presented, rather, any requirements on a MC should set out the principles and qualitative characteristics, as well as the essential areas of the MC necessary to make the information useful to investors. It is up to management to decide what information is necessary to meet these requirements, and how the information is presented. It is also appropriate to consider ways to limit the amount of information that management discloses, to help ensure that only relevant information is presented to investors." Presently, it can be noted that the IASB is emphasizing the development of disclosure matters in the MC and has not started with other non-financial issues of corporate governance, and the social and environmental aspects of a company's operations.

2.6.2 The Financial Accounting Standards Board (FASB)

The Financial Accounting Standards Board (FASB) is an organization that was set up in 1973 for the initiation of standards in the presentation and reporting of financial accounting in the private sector (FASB, 2007). In 2001, as a response to calls for greater disclosure (Coram and Monroe, 2004:4) the Board produced a second section of an extensive study, i.e., Business Reporting Research Project. The aim of this second report was to identify information that companies are providing in addition to the financial statements (FASB, 2007).

According to Coram and Monroe (2004:4), the report, Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, did not specify whether non-financial performance measures should be disclosed. It encouraged companies to report on their non-financial issues, and after the release of this report, a steering committee was formed to examine the academic research that dealt with non-financial reporting. It concluded that non-financial information is very crucial in evaluating a company's value creation.

The FASB (2001:5-13) indicated that voluntary disclosure in this report refers to the disclosure mostly outside financial statements which are not a requirement of GAAP or SEC rules. The steering committee from the FASB developed a fundamental framework to help companies identify information that is helpful to investors and decide what to voluntarily disclose. Such voluntary disclosures are about business data, management‘s analysis of business, information about management and data, forward-looking information, shareholders, background about the company and information about intangible assets that have not been recognized in the financial statements. However, the disclosure of MD&A on financial conditions and results of operations is a requirement of the SEC.

2.6.3 The AICPA's Special Committee on Enhanced Business Reporting

The Enhanced Business Reporting Consortium (EBRC) is working on the development of a reporting framework for better communication between companies and their respective stakeholders (Walker, 2006:1). According to EBR 360° (2004) this association‘s leading effort is to develop the value, reliability and simplicity of information disclosed by companies in a cost-effective and time-efficient manner for decision-making purposes. A global disclosure framework is being developed by the members as a voluntary leading company reporting guidance. This framework will help companies in the disclosure of non-financial information by providing structure in the presentation and facilitates the effectiveness of non-financial information disclosure based on industrial aspect.

The EBR 360° (2006) further indicates that the framework developed by this consortium will provide disclosure on the performance measures of the business enterprises for better-informed decision-making by different key stakeholders. Its objective is for an enhanced understanding and measuring of the business opportunities and risks that explains the complications of the business environment. Disclosing this type of non-financial information in its annual report will enable a company to clearly disseminate its present conditions, business strategy and prospects for the future. The inclusion of Industrial-specific key performance indicators in the framework is also

expected to enhance the reliability of the non-financial disclosure framework. The framework will also provide structure for the MD&A section of the annual report (narrative by nature) that allows the use of XBRL arrangements (EBR 360°, 2005).

The AICPA is working on improving the business reporting process. This work was omitted from the Jenkins and Elliott Committees (AICPA, 2006). Although the focus by both is on financial and non-financial issues, non-financial issues mainly focus on qualitative information of management strategies, opportunities and risks that help in the understanding of the present and future performances of a company in its broader view. This organization is also focusing mainly on the development of a reporting framework for MD&A and forward-looking information and has not yet begun working on issues of environmental and social aspects of a company.

2.6.4 The UK Accounting Standards Board (ASB)

The UK ASB was established in 1990 to develop, issue, and establish accounting standards with the broad objective of "establishing and improving standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information" (BNET, 2007). Security regulations in different countries have been competing with the establishment of new systems and policies to improve the timelines, reliability and simplicity of disclosures by companies to their investors. As a result, in 2005 the UK ASB passed a requirement on the disclosure of OFR for listed companies (Robert, 2005).

According to Robert (2005), the OFR is a report that should be provided in a company's annual report describing the major tendencies and factors affecting their overall performance and those that might affect their future performance. In 2005, the UK ASB issued a new standard governing the OFR requirement, Reporting Standard 1 (RS1):OFR. Continuity Central (2005) indicated that the standard is set to assure that the OFR of any company will help to reveal on how the directors view the company and how the strategies and potentials can be incorporated in the decision-making of investors. The information in the OFR is also directed towards the usefulness to a wide

range of other users. In addition, the OFR provides a framework to help directors to measure, analyse, and report on the major risks happened in their companies and the actions taken for managing and controlling those risks involved.

2.6.5 The Global Reporting Initiative

The Global Reporting Initiative (GRI) is formed by a large group of multi-stakeholders that consists of thousands of experts, who assist to the authorities of the organization and GRI‘s working groups. These stakeholders are those who utilize the GRI guidelines for reporting, accessing information and give feedback towards the improvement of the framework in different countries around the world (GRI, 2007). The main objective of the organization is to encourage transparency, accountability and sustainable developments. The GRI has been a leading organization in the non-financial reporting field in developing countries and distributed a globally harmonized sustainability reporting framework (Palenberg, *et al.* 2006:5). According to the GRI (2005:5, 6), the GRI group ―accomplishes this vision by developing, continuously improving and building capacity around the use of a sustainability reporting framework". This guideline or framework helps stakeholders understand the contributions of companies in sustainability development. As a result, the framework is given away as free public goods in the form of principles and indicators for voluntary use by reporting companies.

The goal of the GRI is also to promote companies‘ reporting practices on the triple bottom line items so that to make them as regular and comparable as the reporting of financial performance. Constantly the GRI is modified through an extensive involvement of multi-stakeholders in order to confirm the highest degree of quality, reliability and importance of the non-financial reporting framework, (GRI, 2007). The GRI (2005:6) indicated that the framework is relevant to all companies of all sizes and found in any environment. It has been already implemented by many companies around the world as the basis of their sustainability reporting. This allows companies to disclose their sustainability performance in a meaningful, credible and comparable way.

2.6.7 United Nations Global Compact

In 2000, the United Nations (UN) initiated the Global Compact's operational segment at the UN Headquarters in New York. The aim of the programme is to encourage companies to work towards the safety of the environment and social ethics by being closer to UN agencies (United Nations Global Compact, 2006). The Global Compact promotes the idea of collective accomplishment in order to cope with the challenges of present day globalization. It believes in supporting responsible corporate citizenship for better achievement and in this way can be assured a more sustainable and comprehensive worldwide market. AngloGold Ashanti (2006) indicated that the Global Compact is purely a voluntary programme. Therefore, the principles of the Global Compact are developed based on the principles of public accountability, transparency and on the free-thinking of companies and the civil society. Today, companies from around the globe including international labour and civil society organizations are engaging with the Global Compact, in order to work towards the advancement of the ten universal principles in the areas of human rights, labour, the environment and anti-corruption. This initiative can provide a balanced framework among stakeholders and companies. According to the United Nations Global Compact (2006), the ten principles are to:

Support and respect the protection of internationally proclaimed human rights;

- Ensure that they are not complicit in human rights abuses;
- Uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Eliminate all forms of forced and compulsory labour;
- Effectively abolition child labour;
- Eliminate discrimination in respect of employment and occupation;
- Support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility;
- Encourage the development and diffusion of environmentally friendly technologies; and
- Work against corruption in all its forms, including extortion and bribery.

2.6.8 PricewaterhouseCoopers

PricewaterhouseCoopers (2006b) has previously predicted widespread emphasis on greater transparency and reporting of non-financial information. According to PricewaterhouseCoopers, the main purpose of a company is to know how optimum value can be created while incorporating the needs of those who make critical investment decisions, i.e., to be conscious of the information provided by management and the information needed by users. As a result, a research program on the development of non-financial reporting started in 1997. PricewaterhouseCoopers uses the term, ―narrative reporting", to indicate the contents of the MD&A or OFR that is commonly located in the front section of corporate annual reports.

PricewaterhouseCoopers (2006a) comment that there is no one answer to what and how an individual company should report. According to PricewaterhouseCoopers, it is not possible to prescribe a standard that will result in companies reporting all the information that investors need. It is important to note that the information required by investors differs depending on different situations in addition to industry perspectives, e.g., the external climate, the specific strategies implemented by the company and its ability to deliver the promised outcomes.

PricewaterhouseCoopers (2006b) has developed different corporate reporting frameworks for different industries. These frameworks are practical in that they can be used as guidelines in deciding what information should be disclosed and also to assist in presenting the narrative report on corporate performance in a structured and comprehensive manner. Thus, companies can adopt a modified version of their particular industries' corporate reporting frameworks. Although most emphasis has been given to the development of a reporting framework on the MD&A portion of the annual report, PWC has developed other portions of non-financial disclosures in its industry-based frameworks.

2.6.9 International Council on Mining and Metals (ICMM)

The ICMM was established in 2001 to represent the international mining and metals companies (ICMM, 2006a). Their mission is to create a safe and practical mining, minerals and metals industry since, in most countries, the industry is viewed as very crucial in contributing towards Gross Domestic Product (GDP), and to ensure sustainable development. According to the ICMM, by showing superior business practices, a company may gain special access to land, capital and markets, and in turn high profitability and job opportunities. The ICMM (2006b) notes that the organization established a sustainable development framework particularly for the mining, minerals and metals industry. Consequently, the implementation of the ICMM sustainable development framework is required by all the member companies and they are needed to comply with the policy commitments made by the ICMM council. Implementing this framework will allow comparisons of reporting company's performance within and across countries.

2.6.10 King Committee on Corporate Governance

The King Committee on Corporate Governance was established in 1993 by the Institute of Directors in South Africa (IOD, 2006). The King Committee presented the first King Report in 1994, long before the collapse of Enron and WorldCom (Baue and Sinclair, 2003). The first King Report was acknowledged internationally as the most influential and integrated work on corporate governance (IOD, 2006). King II was launched in 2002 directly after these overseas collapses, and some unexpected governance failures in South African companies such as Leisurenet, Regal Bank, and the Retail Apparel Group (Baue and Sinclair, 2003). According to King II (2002:2), the report was established with the idea of initiating the highest standards of corporate governance in South Africa by incorporating the economic, social and environmental features of a company and directing companies along the way of accountability, responsibility and transparency towards their stakeholders.

2.6.11 South African Mineral Resource Committee (SAMREC)

The SAMREC was established in 1998 and developed a code for reporting on mineral resources and mineral reserves based on the Australian Code for Reporting of Mineral Resources and Ore Reserves known as the Joint Ore Reserve Committee (JORC Code) (SAMREC, 2000:5). According to the committee, the code has produced transparency, materiality and competence. Transparency involves the presentation of adequate, lucid and explicit information to the public while materiality means the usefulness of the information presented to the public for the purpose of a reasonable decision-making. The code has been included in the JSE rules regarding listing and other requirements. The code is applicable to all mineral companies and is required by the JSE while reporting to the public on issues of exploration results, mineral resources and mineral reserves. In the code, public reports refer to a company's annual reports, quarterly reports and other reports to the JSE or those required by law.

2.7 Summary

Non-financial disclosure is gaining importance. As a result, a number of calls from different individuals and groups for more non-financial disclosures by companies have been made. The forces that contributed toward the rise of non-financial disclosure are globalization, corporate scandals, civil society, advocators and investors. The types of non-financial disclosure that need to be disclosed by companies are sustainability reporting with regard to environmental and social disclosures, corporate governance with regard to reporting on the board of directors, risk mitigation systems and internal control systems, report on forward-looking information and disclosure of management's view. More than ever before there is a need for the development of an international non-financial reporting framework. The reasons behind this need are differences in reporting practices, the development of capital markets, corporate scandals and the need to make it comparable to the financial reporting framework. Hence, a number of organizations are working toward the development of a non-financial reporting framework. In the following chapter, Chapter three, non-financial disclosures and empirical studies conducted in mining companies are discussed.

CHAPTER THREE

Non-financial disclosures in the mining industry

3.1 Introduction

Chapter two focused on the importance of non-financial disclosures as traditional financial reporting alone does not provide enough information for decision making. It also discussed the driving forces of non-financial reporting, the types of non-financial disclosures and organizations working on the development of a non-financial disclosure framework. This chapter outlines the nature of mining companies and their non-financial disclosures. Empirical studies on non-financial disclosure in the mining industry are summarized to provide the context for the research methodology used in this dissertation. The literature review presented in this chapter provides a general idea of the non-financial disclosures of South African mining companies.

According to Wikipedia® (2006) mining is defined as *"the extraction of valuable minerals or other geological materials from the earth, usually (but not always) from an ore body, vein, or (coal) seam. The extracted materials in mining include bauxite, coal, diamonds, iron, precious metals, lead, limestone, molybdenum, nickel, phosphate, rock salt, tin and uranium. In a wider sense mining also includes the extraction of petroleum, natural gas and even water"*. Mining companies due to their distinctive nature are directly affected by sustainability programs (Mitchell, 2003:1). Mining operations are causing a number of very serious environmental effects in that they are impacting on the water and land around the places where they extract and process. The worst consequence is air pollution which affects the earth's vegetation (CGER, 1999). Whyte (1995:107) indicates that the industry can also cause a severe impact on the mine employees and local communities. Hence special care must be taken when determining how mining companies should interpret and put into practice the general sustainability development guidelines. According to Mitchell (2003:1), John Strongman from the World Bank suggests that effective corporate governance and good community relations are crucial in the financial, environmental and social performance of mining companies.

Due to the problematic nature of the mining industry, stakeholders generally want to know even more about the company‘s overall operations. Donnelly and Raff (2002:2) indicate that recognizing the vast social and environmental impacts of mining companies and stakeholder awareness, a number of companies have started to provide voluntary disclosures through their annual reports and other publications although the information provided does not satisfy the needs of all stakeholders.

3.2 Overview of non-financial disclosures in the mining industry

The need for environmental and social disclosures by stakeholders is growing in the mining industry more than in any other industry (Jenkins and Yakovleva, 2006:271). The mining industry, due to its labour-intensive nature and closer links with society and the environment, by reporting on its social and environmental aspects will show its accountability towards the overall impacts of its operations. Burritt (1997:3-6) remarks that companies can get approval by stakeholders based on the amount of disclosure they provide on their environmental aspects. Accordingly, as a means of demonstrating stakeholder concern, companies provide more information on their positive environmental information while providing less on their negative aspects. Solomon and Lewis (2002:166) suggest that the possible reasons for low or non-disclosure of corporate environmental information could be a lack of desire to report on sensitive issues, lack of legal obligations and suspicion that competitors may benefit from the information released.

Normally when companies decide on what to disclose and what not to disclose, they are very careful not to damage their social image in order to increase the stakeholder value (Antonites and de Villiers, 2003:4). On the other hand, stakeholders agree that there are advantages of corporate disclosure as providing information on some negative aspects may lead to trust being developed between companies and their stakeholders. Thus, companies that report candidly to the global capital markets are expected to attract more present and potential investors in return for their transparency and honesty (Donnelly and Raff, 2002:33).

Mining companies have many and widely varied groups of stakeholders, which makes it impossible to meet the requirements for information of each individual group involved. Nonetheless, as the industry operates in association with the government and the local people, it should, therefore, show its accountability and how responsible it is, so that its investments will be successful (Frik, 2002:13-14). Burritt (1997:1) indicates that annual reports are sources of information that act as a safeguard for shareholders and other stakeholders, who have an interest in corporate activity. Hence stakeholder groups, who are conscious of the impact of mining companies on the environment and humankind, are pushing governments and regulators to require mining companies to disclose information about their environmental and social performances. According to Frik (2002:14-15), the focus was firstly only on the physical environment but later it developed to the social environment which resulted in the issuance of environmental legislation in different countries. As a result companies were obliged to disclose information about their overall activities in order to minimize damage. This turned the mining companies into a controlled industry.

It is argued that mining companies should develop their own framework on the disclosure of environmental, social and other aspects of accountability when there is a lack of or weak disclosure regulations (Warhurst, 1998:3). Generally there is a consensus on the type of key performance indicators and information needs by various stakeholders in the mining industry (Donnelly and Raff, 2002:33). Therefore, mining companies should report on the issues that are perceived to be of importance to their stakeholders by taking into consideration the method of operation, their overall internal control information, social surroundings, environmental aspects, risk involvements, employees, business ethical values, risk mitigation systems, ownership and management structure and also about their forward looking strategies. All these efforts are used to seek approval from their stakeholders. The companies should learn to report consistently on those matters because inconsistency in the way they report about their performances may put off stakeholders. As Burritt, (1997:2) further remarks, all kinds of information reaching the public realm indicate the company‘s accountability to its overall operational activities.

3.3 The South African Mining Industry

With regards to the variety and quantity of minerals produced, South Africa stands as one of Africa‘s and the world‘s most important mining countries. It has the world‘s largest reserves of chrome, gold, vanadium, manganese and PGMs (Platinum-group metals). South Africa accounts for nearly all of Africa‘s metals and minerals production aside from some minerals (Burger, 2006:39). According to Whyte (1995:107) the mineral extraction and processing industry is the most dominant industry of the South African economy in that it contributes a substantial amount to the export earnings and opens great employment opportunities that are crucial to South African economic and social concerns.

Davies, de Bruin, Deysel and Strydom (2002:26) indicate that the South African mining industry‘s workers are extremely vulnerable to HIV/AIDS because mostly they come from remote areas and are far away from their families. Hence the effect of this disease on the labour force may cause a considerable impact on the South African economy. In addition, mining companies, due to their impact on the natural environment, are always under a close watch by environmental groups and society at large in which they operate. This leads to an inquiry on the objectives and operating procedures of the mining companies (De Villiers and Barnard, 2000:17). As a result, companies have to communicate properly with society and in particular with their stakeholders for a better understanding of their accountability.

Recently, the low level of disclosure on HIV/AIDS by companies in relation to its impact in the companies‘ economic risks and operations as a whole has resulted in serious condemnation (GIBS, 2006). Stakeholders need to know the extent of the virus and its effect on the future value creation of the companies. Due to the seriousness of the effect of HIV/AIDS on the operations of South African mining companies, Davies *et al.* (2002:25, 41) suggest that annual financial statements should include disclosures on HIV/AIDS and the related contingent liabilities. Although South African mining companies have established a risk management process and have initiated disclosure of HIV/AIDS information, the disclosure is still far from sufficient. This kind of

information is useful to the users of the annual report and avoiding the disclosure of such information can affect the fair presentation of the annual financial statements.

Environmental reporting in South Africa is voluntary (Mitchell and Quinn, 2005:20). The lack of regulatory environmental disclosure requirements may lead to little or no disclosure as the companies themselves decide on the quality and quantity of information they disclose. A survey by De Villiers and Barnard (2000:21) shows a reduction in the percentage of South African mining companies reporting on specific types of environmental disclosure aspects. Possible reasons for this could be fear of highlighting possible contingent liabilities and legal actions by stakeholders as a result of the environmental impact that has had an effect on communities. According to Antonites and de Villiers (2003:7), there are specific accounting policies (rehabilitation liabilities) that are particularly aimed at mining companies. These policies which require strict adherence by companies are anticipated to guide companies on their environmental disclosure issues. There are differences in the environmental reporting between industries as well as among the mining companies in South Africa (de Villiers and Barnard, 2000:21).

Smit and Mokgoatlheng (2003) in their international survey of mining companies, which included the South African mining industry, reported that the disclosure systems of mining companies do not focus on providing enough information on financial and non-financial business performance. In addition the irregularity in disclosure systems negatively affects investors‘ and other stakeholders‘ decision-making. A study conducted by De Villiers and Barnard (2000:16, 21) indicates that a company will not be able to progress economically unless its objectives and techniques are in line with that of society. Thus, South African mining companies have a responsibility to show accountability for their operations by incorporating environmental and social disclosures in their annual reports.

Currently there are many mining companies from emerging countries looking to Western stock markets for the purpose of finding markets for their stocks (Smit and

Mokgoatlheng, 2003). Since the South African mining industry is in an emerging country, it needs to improve its non-financial disclosures in order to compete globally and meet the expectations of potential investors. King II regards reporting on environmental and social aspects as an essential component of corporate responsibility (Antonites and de Villiers, 2003:2). Thus, sustainability reporting should be incorporated in the disclosure systems of the mining companies. Mitchell (2003:5-6) indicates that transparency with regard to mining companies' revenue system is the best way to gain stakeholders' confidence. This is because mining companies are well known for corruption which is used for the protection of powers at the official levels. Thus in order for mining companies to be taken seriously as benefit makers for the communities, they should report on their sustainability developments. Mining companies can be perceived as essential to the world's economic development and in creating a sustainable world through transparency.

3.4 Empirical studies on non-financial disclosures in the mining industry

Most studies in this area focus on one particular type of disclosure rather than on the overall non-financial disclosures. That is, they mostly focus on the policies and regulations of environmental disclosure and on the extent of environmental disclosure being provided by mining companies. In the following section studies which were conducted on mining companies in different countries and in South Africa are discussed.

3.4.1 The Burritt (1997) study

Burritt (1997:1, 6-15) studied environmental disclosures in annual reports of Australian gold and copper mining companies with activities in Papua New Guinea (PNG) and/or Indonesia. He investigated the importance of annual report disclosures, the development of a framework on the annual report disclosures, and used content analysis to investigate the environmental disclosures of a sample of mining companies. He conducted a content analysis of 53 annual reports of listed Australian gold/copper mining companies with interests in PNG and/or Indonesia from 1994-1996.

For his sample selection, the following four conditions were taken into consideration.

- The company had to have an interest in PNG or Indonesia;
- The company had to be listed on the Australian Stock Exchange;
- The company had to be interested in gold or copper; and
- Annual reports had to be accessible for two of the three years, 1994–1996.

The analysis involved the examination of trends and the differences in annual report disclosures between the PNG and Indonesian companies. The analysis was made with regard to four topics namely; form of disclosure, volume of disclosure, type of news and themes. The details within each topic were as follows:

1) Form of disclosure
    - Qualitative
    - Physical
    - Financial
    - Total
2) Volume of disclosure
    - Words
    - Lines
    - Sentences
    - Theme topic
3) Type of news
    - Positive
    - Neutral
    - Negative
4) Themes (Environmental policy, Environmental management, Environmental risk management, Environmental audit).

Burritt (1997) found that disclosure with regard to the environmental financial matters is greater in the mining companies than in other industries, but is far from being rated as excellent. He suggested that mining companies' public environmental disclosure may be improved through the adherence of the industrial code for environmental management.

3.4.2 The Yongvanich and Guthrie (2005) study

A study by Yongvanich and Guthrie (2005:103, 105, 110-116) on the extended performance reporting of the Australian mining industry was made to find out the extent of voluntary disclosures made on intellectual capital and non-economic performance. Annual reports of 17 selected Australian mining companies were drawn from the top 100 ASX listed companies by market capitalization for the 2002 financial year. The study examined intellectual capital reporting in annual reports, stakeholder theory and other issues related to the industry's activities.

The research methodology followed by Yongvanich and Guthrie (2005:109-110) was content analysis. The companies were selected based on previous corporate non-financial disclosure research and a theoretical sampling approach. An analysis was conducted using descriptive statistics for the extended performance reporting and frequency (EPRF) of disclosure of each reporting element. The following three tables summarize their results.

Table 3.1 Number of reporting elements in each component of the EPRF

Reporting elements	Number of elements reported
External capital	
Customer relations	14
Environmental performance indicators	10
Social performance indicators	16
Internal structure	
Information technology	4
Internal work processes	3
Innovative processes	7
Corporate governance structure	7
Human capital	
Capacity and willingness to act	5
Quality of workplace	7
Total number of reporting elements in the framework	73

Source: Yongvanich and Guthrie (2005)

The Yongvanich and Guthrie (2005: 111) study indicated that the extent of extended performance reporting varied greatly. The average number of elements reported per company was approximately 35 elements. The highest number of elements reported by

a company was 44 while the lowest was 25 elements. The study indicated that the most reported sub-categories were internal work processes, the quality of the work place and corporate governance structure. The least reported sub-categories were social performance indicators, capacity and willingness to act, and innovative processes.

They concluded that ―Australian mining companies disclosed only a narrow group of reporting elements from the environmental performance indicators, social performance indicators, information technology, innovative processes, and capacity and willingness to act sub-categories. Disclosure of the majority of reporting elements from the social performance indicators sub-category was less frequent. In general, the results show that the sample companies tended to place greater emphases on intellectual capital information than non-economic performance information."

Table 3.2 Descriptive statistics for extended performance reporting

Performance reporting elements	Number of elements
Number of sample companies	17
Average number of elements reported per company	35
Minimum number of elements reported for any one company	25
Maximum number of elements reported for any one company	44
Number of companies that reported at least 50% of total reporting elements	8

Source: Yongvanich and Guthrie (2005)

Table 3.3 Number of reporting elements in each component of the EPRF

Categories/Sub-categories	Number of reporting elements	Incidences (%)
External capital		
Customer relations	141	59.24
Society relations		
Environmental performance indicators	69	40.59
Social performance indicators	57	20.96
Total external capital disclosure	267	39.26
Internal structure		
Information technology	26	38.24
Internal work processes	51	100
Innovative processes	36	30.25
Corporate governance structure	93	78.15
Total internal structure disclosure	206	57.70
Human capital		
Capacity and willingness to act	25	29.41
Quality of work	97	81.51
Total human capital disclosure	122	59.80

Source: Yongvanich and Guthrie (2005)

3.4.3 The Jenkins and Yakovleva (2006) study

The Jenkins and Yakovleva (2006:271, 276-283) study investigated recent trends in social and environmental disclosures in the global mining industry. The study presented an insight on the specifics of the development of social and environmental disclosures in the mining industry, and the factors that drive the development of such disclosures. The study included the world‘s 10 largest mining companies by market capitalization. The study discussed what corporate social responsibility means, the development of media for social and environmental disclosures, factors that drive the social and environmental disclosures in the mining industry and recent trends in social and environmental disclosures of the sample companies.

The purpose of the Jenkins and Yakovleva (2006:276) study was to determine the nature, content and style of the mining companies‘ annual reports and whether the mining companies‘ annual reports are constantly developing. Data was collected using content analysis of the annual reports and separately prepared social and environmental

reports from 1999-2003. In addition an analysis was also made to see whether the companies were reporting in accordance with the GRI guidelines.

Jenkins and Yakovleva (2006:278) based their findings on the development of social and environmental disclosures in the following types of reports:

- Annual report;
- Environmental;
- Health, safety and environment;
- Environment and community;
- Health, safety, environment and community/society;
- Sustainability;
- Corporate social responsibility;
- Externally audited reports; and
- GRI.

The study also explored the procedures that the mining companies have adopted and disclosed in their social and environmental disclosures. Through time the method of reporting has led to the growth of sophistication of company‘s policies that determines the overall consequence of the operations of the mining companies. The policy of social and environmental disclosures in which the study was based were: health and safety, employee well-being, environment, social/community relations, ethics, indigenous people, sustainability and CSR.

Jenkins and Yakovleva (2006:279) discussed their results based on the reporting types and the style of reporting. The general trend was an increasing sophistication in the presentation of the mining companies‘ annual reports. However, there was great variability in the reporting types among the sample companies. As a result, based on how complicated they perceived the companies‘ annual report preparation to be, they grouped the sample mining companies into three types. These groups were the mature reporters, the adolescent reporters and the infant reporters.

According to Jenkins and Yakovleva (2006:281) the mature reporters are those who have been providing social and environmental disclosures from long time and provide a complicated nature and style of annual report disclosure. These companies have already employed social and environmental policies, codes of business conduct and indicated that they are reporting in accordance with the GRI guidelines. These companies have also practiced external verification of the social and environmental disclosures since long time. The adolescent reporters on the other hand, are those companies who have been reporting on their social and environmental aspects since 1999. The companies are slower in developing stand-alone reports and show a steady improvement in the disclosure of social and environmental information. Not all of the companies indicated that they are reporting according to the GRI guidelines and are slower in external verification of their social and environmental reports. These companies use the word CSR more often in their reports because their reporting process is growing as CSR is becoming the main subject of business operation. The infants are those who have not yet developed stand-alone reports because they lag behind in the development of their social and environmental policies and disclosures. These companies neither have adopted the GRI guidelines nor external verification of their social and environmental disclosures. Like the adolescents, these companies use the word CSR more often in their annual reports than sustainability development.

Jenkins and Yakovleva (2006:282) concluded that –mining companies show variability in their reporting processes in terms of sophistication of reporting, policy development and the types of performance measurements used. This means that the social and environmental performance of one company cannot be compared against another. Thus, there is no real measure of overall corporate social responsibility performance and progress towards sustainability of the global mining industry. It is also not known whether policy statements are applied in practice. One of the reasons that might have led to a lack of reporting uniformity by the mining companies is limited collective work between the mining companies towards the development of reporting practices." Therefore, Jenkins and Yakovleva (2006:282) suggest that –the top reporting companies, who have the resources and long term expertise in developing reporting strategies, should support the infant and adolescent reporters into maturity stage."

3.4.4 The KPMG (2006) study

The global mining reporting survey in 2006 by KPMG (2006:64-87, 93) on 44 companies covered the traditional mining bases and the emerging mining nations of Brazil, Russia, India, Chile and China (BRICs). The objective of the survey was to determine the quantity and quality of information provided to stakeholders, i.e., the survey highlighted some of the significant changes in the content and quality of non-financial reporting by the world's major mining companies.

KPMG (2006:66) indicated that many of the mining companies have more than two stock exchange listings. Thus, a number of the companies apply more than two corporate governance codes. According to KPMG (2006), –one of the challenges for global mining companies is to reconcile the governance requirements across many jurisdictions where there may be differences in principle, culture and geography. Unlike the convergence for IFRS, companies are unlikely to see a uniform, globally accepted governance code because of the differences in issues and chemistries within board of directors vary widely. However, companies may have key principles that are applied worldwide in order to restore investor confidence and trust in capital markets. Further, reporting should develop to provide the investor with a clear picture of how governance performance is being achieved across jurisdictions and identify areas where international harmonization does not exist."

Disclosures outside the normal financial statements provide a good insight to a company's overall operating performance. Some of the disclosure examples provided by KPMG (2006:76) include: mining methods, mine development activities, production volumes and cash productions costs. The analysis of the non-financial reporting was made based on the sustainability sections showing trends in this area. Reserve and resource are reported outside the financial statements in the annual reports of companies.

KPMG (2006:81) indicated that CSR, as sustainability reporting, has become a normal practice particularly in the mining industry. Therefore, the study explores whether the mining companies have provided detailed or basic sustainability disclosures.

The level and detail of sustainability disclosure by the mining companies in the different countries according to KPMG (2006:82) is presented in Table 3.4. KPMG (2006:82) reported that 91% of the mining companies surveyed included information on sustainability performance in their annual reports (Table 3.4). Some of the companies disclosed only basic information, i.e., recognizing the effects of the company‘s activities and the responsibility to undertake it, while others provided detailed information such as data on performance and achievement against sustainability targets. The data presented in Table 3.4 shows that 60% of the companies provided a detailed report in their annual reports while 40% of the companies provided only basic sustainability reports. This indicates the importance towards the inclusion of sustainability reporting in the annual reports. According to KPMG (2006: 83), –the highest score in detailed reporting by Australia could be due to the introduction of the enduring value framework for sustainability development by the Minerals Council of Australia. The framework requires members to report on their sustainability performance and that they obtain independent assurance on this information."

Table 3.4 Level of sustainability disclosure by mining companies in different countries

Country	**Detailed**	**Basic**
South Africa	50%	50%
Canada	25%	42%
United kingdom	57%	43%
Australia	100%	0%
United States	86%	14%
BRICs	43%	57%
Total	**60%**	**40%**

Source: KPMG (2006)

The results of the study revealed variability in the areas of sustainability reporting. The areas of sustainability reporting included are: environmental, social and community, health and safety, ethics and integrity, product stewardship, economy, supply chain and security. More than 80% of the companies provided sustainability information on environmental, social and community, and health and safety disclosures. KPMG (2006: 83) stated that assurance by senior management towards the effort of sustainability development increases the integrity of company‘s sustainability reporting. The effective way to do this is to include the importance of sustainability reporting in the MD&A. The findings of the study show that 73% of the companies included sustainability information in the MD&A section of the annual report, which indicates greater attention by senior management in the issues of sustainability development to their companies. KPMG (2006: 87) concluded that ―the significant increase in references to external codes, among those companies studied, indicates the increase in the interest of mining companies to implement a recognized framework while disclosing their sustainability issues."

The main findings of this research were (KPMG, 2006:83- 87):

- Out of the 25 separate sustainability reports produced, 52% were independently verified.
- 84% of the sustainability reports included information on companies‘ business principles, or codes of conduct.
- Out of the 84%, 96% of companies referred to external codes, such as ISO 14001, GRI, JSE reporting index and ICMM Sustainability Development Principles.
- An increased reporting of issues such as climate change and greenhouse gas emission, stakeholder engagement and discussion, business benefits of sustainability development and sustainability reporting, mine closure and HIV/AIDS.
- All of the Australian, United Kingdom and South Africa companies but less than 50% of Canadian, United States and the BRICs companies disclosed information on the subject of climate change or greenhouse gas emissions.
- In consistency with the increase in sustainability reporting, 55% of the companies disclosed their engagement with their stakeholders.

- 43% of the companies disclosed information on the business benefits of sustainability development and sustainability reporting.
- 61% of the companies discussed the impact of mine closures with 100% of Australian companies indicating this as the main issue in their sustainability reporting.
- Disclosure on HIV/AIDS was provided by all of the companies in South Africa and 71% of the United Kingdom companies.

3.4.5 The De Villiers and Barnard (2000) study

De Villiers and Barnard (2000:17-23) examined environmental reporting in South Africa from 1994-1999 to determine whether mining companies report more than large non-mining companies on their environmental issues. The study took the annual reports of all mining companies listed on the JSE Security Exchange from 1994 to 1999 and compared them to the annual reports of the Financial Mail (FM) Top 100 industrial companies listed on the JSE Security Exchange for the same years. They reported that legitimacy theory was the reason for an increase in the environmental reporting of the mining companies.

Lindblom (1994) cited by De Villiers and Barnard (2000:16) identified the following four strategies on how a company can use social and environmental reporting for legitimacy purposes:

1. Report to educate and inform (the company changes and reports the fact).

2. Report to change perceptions (the company does not change, but reports what it does).

3. Report to manipulate perceptions (positive news is emphasized and negative news is ignored).

4. Report to change external perceptions (expectations are seen as unfair)."

The De Villiers and Barnard (2000:17) study was based on the assumption that bigger companies disclose more environmental information than smaller companies. Thus, if mining companies disclosed more environmental information than big non-mining companies, then they could conclude that mining companies disclose more environmental information than non-mining companies. The methodology followed by De Villiers and Barnard (2000:17) was a questionnaire structured on the eleven minimum requirements for corporate environmental reporting set by De Villiers (1996). Out of the eleven environmental reporting requirements, five were used in the survey. De Villiers and Barnard (2000:17) reported the following results.

Table 3.5 Is mention made of the environmental impacts and risks of the business?

	1994	**1995**	**1996**	**1997**	**1998**	**1999**
Financial Mail Top 100 Industrials	14%	10%	14%	27%	21%	24%
Mining companies	13%	13%	42%	39%	28%	48%

Source: De Villiers and Barnard (2000)

The results in Table 3.5 show that mining companies disclosed more environmental impacts and risks than the top industrial companies. There was an increasing trend in the disclosure of environmental impacts for all years except the years 1997 and 1998.

Table 3.6 Does the corporate policy or mission statement mention a policy or mission regarding the environment?

	1994	**1995**	**1996**	**1997**	**1998**	**1999**
Financial Mail Top 100 Industrials	19%	21%	18%	22%	22%	31%
Mining companies	9%	8%	10%	11%	32%	52%

Source: De Villiers and Barnard (2000)

The results in Table 3.6 indicate that top industrial companies disclosed more environmental policy or mission statements than mining companies for the years 1994 to 1997. However, in 1998 and 1999 more disclosure was provided by mining

companies. This shows mining companies were less environmentally conscious in the earlier years.

Table 3.7 Do the companies set measurable standards, enabling environmental performance achieved to be compared with the objectives?

	1994	**1995**	**1996**	**1997**	**1998**	**1999**
Financial Mail Top 100 Industrials	18%	14%	24%	16%	10%	11%
Mining companies	23%	27%	46%	63%	25%	29%

Source: De Villiers and Barnard (2000)

Table 3.7 shows that mining companies disclosed more environmental measurable targets than the top industrial companies in all the years under study.

Table 3.8 Has the company disclosed whether it has achieved its objectives in respect of the environment?

	1994	**1995**	**1996**	**1997**	**1998**	**1999**
Financial Mail Top 100 Industrials	17%	17%	18%	20%	22%	22%
Mining companies	17%	29%	33%	68%	28%	42%

Source: De Villiers and Barnard (2000)

Here table 3.8 also shows that mining companies disclosed more than the top industrial companies on whether they met their environmental targets in all the years under study except for the year 1994.

Table 3.9 Are the accounting policy notes regarding environmental accounting disclosed?

	1994	**1995**	**1996**	**1997**	**1998**	**1999**
Financial Mail Top 100 Industrials	4%	5%	5%	7%	5%	5%
Mining companies	12%	20%	36%	52%	57%	60%

Source: De Villiers and Barnard (2000)

Table 3.9 shows that a greater percentage of mining companies disclose accounting policy notes on environmental accounting in their annual reports than the top industrial companies. This is because mining companies are required to provide information with regard to their rehabilitation liabilities (De Villiers and Barnard, 2000: 21).

De Villiers and Barnard (2000:21) concluded that –there were industrial differences in the environmental disclosure in South Africa. In general, a greater proportion of the mining companies disclosed each type of information in each annual report included in the survey than do the FM Top 100 industrial companies, except for the impacts and risks, and policy." Therefore, they concluded that –listed mining companies in South Africa disclose more environmental information in their annual reports than other large listed companies. This is consistent with the idea of legitimacy theory. This means mining companies have obvious adverse impact on the environment hence they are expected and need to disclose more environmental information than the other large companies."

3.4.6 The Davies, Bruin, Deysel and Strydom (2002) study

The Davies *et al.* (2002:25, 27, 33-39, 42) study on the South African mining industry examined the effect that HIV/AIDS will have on the mining sector and on the South African economy. The study explored the extent of HIV/AIDS, companies' current and future plans to examine the effect of the disease on their business, and what aspects of companies' plans and the costs related to the disease are disclosed. Disclosure with regard to the HIV/AIDS diseases enhances the fair presentation of financial statements

and usefulness of information to users. A sample of seven leading South African mining companies was used in the study. The financial statements from 1996 onwards were examined to determine whether mining companies manage this risk properly and whether it is reasonably accounted for and disclosed in their financial statements.

The research methodology followed by Davies *et al.* (2002:27) was a structured questionnaire to examine the opinion of mining workers on the possible future effect of the diseases and the possible future plans to protect the company and staff from the projected risks. The questionnaire was administered to a sample of mining companies that are listed on the South African JSE. Gold, platinum and diamond were selected as the basis of the population for the sample. The selection of the individual mining companies was based on a magazine, which calculates and publishes the ranking of various companies.

Davies *et al.* (2002:35) prepared a checklist for the purpose of establishing standard criteria through which disclosure data was collected from the annual reports of the mining companies. The criterion was also to determine whether the mining companies disclose any information on HIV/AIDS and if disclosed, what type of information do they disclose. Davies *et al.* (2002:35) identified the following questions which were included in the checklist:

- Any disclosure with regard to the HIV/AIDS?
- How many sentences does the disclosure contain?
- In which section of the annual report is the disclosure located?
- Does the information provided comprise data and amounts or terminology only?
- Does the company have a strategy to control the disease?
- Are the details of the strategy disclosed?
- What additional relevant information is disclosed?

The results of the analysis of financial statements revealed that disclosure on HIV/AIDS was provided by two of the selected companies in 1996, and increased to five in 1999.

This increase in companies providing disclosure with regard to the HIV/AIDS was because of the increase in society's awareness of the disease and the impact of the disease could no longer be ignored by the companies (Davies *et al*., 2002: 36). The study also showed that there was a massive increase in the extent of detailed disclosure from 1999-2000.

Davies *et al.* (2002:37) indicated that the section of an annual report in which a disclosure item is being provided determines the level of importance given by the company to the item disclosed. In 1996, the disclosures were provided in a small subsection of the financial statements but later the companies included them in the reports of the top executives which showed the increased significance of the HIV/AIDS disclosures. Mining companies no longer only disclose that they have plans but also started to give out the details of the plan and also risks involved with the disease (Davies *et al.,* 2002:38). Davies *et al.* (2002:42) concluded that ―mining companies in general have plans with regard to the HIV/AIDS disease and some disclosed an overview of their plans. However, the disclosure of the direct and indirect specific costs is still lagging behind which affects the fair presentation of the financial statements. One of the ways to minimize HIV/AIDS is through the disclosure of all relevant information."

They recommended, based on the data collected using questionnaires, that the mining companies should include the following points in their annual reports. These are:

- The direct and indirect costs involved with the HIV/AIDS disease,
- The effect of the HIV/AIDS separately in the financial statements and related non-financial matters,
- The disclosure of infection rates and financial information,
- Provision held with regard to the HIV/AIDS disease, and
- Details concerning contingent liabilities and expected future financial effects.

Davies *et al.* (2002:41) also argued that ―harmonization of world standards is obviously the goal of standard setters across the world, but each country should be given the autonomy to make country-specific amendments to the International Accounting

Standards. At present, as a result of the high infection rates in South Africa, it is apparent that this country or region represents a specific issue. It is, therefore, reasonable to assume that South Africa should be permitted to require disclosure on this matter."

3.4.7 The Antonites and De Villiers (2003) study

A study by Antonites and De Villiers (2003:1, 4-9) examined the extent of environmental disclosure in South African companies and how it has changed over time. The contents of the annual reports of listed mining companies as well as the Top 100 industrial companies in South Africa were analyzed. The study indicated that there was an increase in the number of companies that disclose environmental information on their annual reports over the years.

The study used the same checklist as the De Villiers and Barnard (2000) study used to collect data from annual reports. In their study Antonites and De Villiers (2003:5) indicated that a sixth question was added to the checklist in an attempt to explain the reason for the significant decrease in the disclosure of environmental policy by companies. As the study shows, in 2001 there was a dramatic decrease in the disclosure of corporate policies and environmental information. With respect to the data collected from the annual reports, Antonites and De Villiers (2003:5) summarized the results using the following six questions.

Table 3.10 Is mention made of the environmental impacts and risks of the business?

	De Villiers and Barnard (2000)			**Current study**	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	14%	21%	24%	14%	25%
Mining	13%	28%	48%	34%	36%

Source: Antonites and De Villiers (2003)

With regard to the disclosure of environmental risk and impacts both mining and the top industrial companies' disclosures decreased in 2000 and increased in 2001.

Table 3.11 Does the corporate policy or mission statement mention a policy or mission regarding the environment?

	De Villiers and Barnard (2000)			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	19%	22%	31%	31%	12%
Mining	9%	32%	52%	54%	23%

Source: Antonites and De Villiers (2003)

With regard to the corporate policy and mission statement disclosure there was a significant decrease in the percentage of companies disclosing in 2001. Hence question six was set to investigate this remarkable decline in disclosure. This decline is in contrary with the over all trend of increased disclosure shown by the De Villiers and Barnard (2000) study.

Table 3.12 Do the companies set measurable standards, enabling environmental performance achieved to be compared with the objectives?

	De Villiers and Barnard (2000)			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	18%	10%	11%	2%	6%
Mining	23%	25%	29%	10%	9%

Source: Antonites and De Villiers (2003)

With regard to the disclosure of environmental measurable standards, the percentages showed a significant decrease in the years 2000 and 2001 both for the top industrial and mining companies.

Table 3.13 Has the company disclosed whether it has achieved its objectives in respect of the environment?

	De Villiers and Barnard (2000)			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	17%	22%	22%	5%	3%
Mining	17%	28%	42%	14%	11%

Source: Antonites and De Villiers (2003)

With regard to the disclosure of achievement of environmental objectives, Table 3.13 showed a significant decrease in the years 2000 and 2001 for both the top industrial and mining companies.

Table 3.14 Are the accounting policy notes regarding environmental accounting disclosed?

	De Villiers and Barnard (2000)			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	4%	5%	5%	6%	4%
Mining	12%	57%	60%	66%	64%

Source: Antonites and De Villiers (2003)

Disclosure with regard to the environmental accounting policy showed an almost consistent percentage over the years of 1998 to 2001 as compared to the percentages in the other disclosure questions.

Table 3.15 Is there a separate environmental policy disclosure?

	De Villiers and Barnard (2000)			**Current study**	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	N/a	13%	15%	2%	20%
Mining	N/a	19%	23%	8%	34%

Source: Antonites and De Villiers (2003)

Disclosure with regard to a separate environmental policy by companies showed a significant increase in the year 2001 which explains the decrease in the disclosure of corporate policy or mission statement that includes the environment.

Antonites and De Villiers (2003:7) state that ―disclosure of environmental information is greater in mining companies than in the top industrial companies. This result is applicable to all the questions in the checklist included in the study. The overall results show a decreasing trend in the disclosure of specific environmental information which became apparent in 1998 and continued to 2001. The disclosure of general environmental information, such as impacts, risks and mission statements, appear to have increased until 1999, only to stabilize at that level until 2001. The possible explanation given for this decrease by Antonites and De Villiers (2003:9) is lack of a legal requirement and the sensitivity of the information.” Antonites and De Villiers (2003:9) further concluded: ―The findings are consistent with legitimacy theory, which states that companies do not wish to disclose information that could be damaging to the image of the company.”

3.4.8 The April, Bosma and Deglon (2003) study

April, Bosma and Deglon (2003) examined intellectual capital measurement, reporting and management in the South African mining industry. The study focused on intellectual capital because this could be a competitive advantage for companies who quantify, analyze and report their intellectual capital. Hence the study focused on

establishing new procedures and disclosure methods that may help in documenting and reporting of intellectual capital.

The methodology used by April *et al*. (2003) was both content analysis of the annual reports and interviews of senior individuals in South Africa mining companies which was conducted in conjunction with questionnaires. The study was conducted on the annual reports of the 20 largest South African companies by market capitalisation listed on the JSE. Seven of the largest companies were mining companies and telecommunication companies which were considered to have good intellectual capital management practices. Content analysis was used to investigate the intellectual capital reporting practice of the South African companies. The content analysis was conducted by examining the annual reports using a selected framework of intellectual capital disclosures that consisted of 24 indicators grouped in three categories of internal, external and human capital.

April *et al*. (2003) discuss the findings from the content analysis of the annual reports by first focusing on individual intellectual capital attribute reporting and then reporting per intellectual capital category. Two of the seven mining companies managed to score above the overall average for all 20 companies (De Beers and Implats). When compared to the other companies, this shows that either mining companies are less conscious about intellectual capital, or have lower inclination of intellectual capital disclosure. Hence, April *et al*. (2003) concluded –mining companies either have a lower awareness of intellectual capital, or have a lower tendency to report on intellectual capital relative to other companies. In addition the findings indicate that the 20 companies tend to report more on external capital than on their internal or human capital. This could be due to globalization pressures and the increasing need for companies to focus on external factors such as distribution channels, value chains and customer relationships."

3.5 Summary

Mining operations by their nature have a great impact on the natural environment. Therefore, stakeholders want information on their operations. Mining companies have a diversified group of stakeholders who require relevant information. Generally the empirical studies discussed in this chapter signify that, although non-financial disclosures are growing among mining companies, they should still work hard to satisfy the need for more information and prove their accountability to stakeholders. Some of the empirical studies conducted on the South African mining industry also show that there is a need for more non-financial disclosure as the present disclosure is far from adequate. The studies also indicated that low levels of non-financial disclosures, in relation to the impact of mining companies‘ economic risks and operations as a whole, may result in criticism by stakeholders. In the following chapter the research methodology for the collection and analysis of data for this current study is discussed.

CHAPTER FOUR

Research Methodology

4.1 Introduction

The previous chapter examined relevant empirical studies on the non-financial disclosures of mining companies in South Africa and certain overseas countries. The literature review and analysis of the empirical studies presented in chapter three revealed that the South African non-financial disclosure studies were limited to various non-financial disclosures, such as environmental, social and intellectual capital.

This chapter presents the methodology that was used to achieve the objectives of this study, that is, to determine the extent of the non-financial disclosures by the South African mining companies. The study's research objectives were stated in chapter one. The research objectives are addressed by empirical analysis. The research methodology that is discussed in this chapter is presented in subsections that provide the specific measures necessary to achieve the research objectives of this study.

4.2 Determining the importance and development stage of non-financial reporting practices and the framework

Relevant literature was reviewed to assess what items of non-financial reporting disclosures are currently required for companies to disclose on their annual reports. In addition, the level of accountability and transparency required by companies towards their stakeholders was investigated. An overview of the general mining industry and its disclosure status was also assessed. The different non-financial disclosure items reviewed were used in developing a disclosure index. This disclosure index was then used for analysing the annual reports of the companies.

The relevant literature in previous empirical studies of the mining companies was used to assess the non-financial reporting practices followed by South African mining companies and some overseas mining companies. Published literature by organizations

working on the development of non-financial reporting framework and the stages they have reached was reviewed as well. This literature review contributed to an understanding of the stage of development of an internationally set non-financial reporting framework.

4.2.1 Critically evaluating the extent and trend of the South African mining companies' non-financial disclosures against a disclosure index, developed from different guidelines and requirements

Different guidelines and requirements that include the GRI (GRI 2002), Standard and Poor's Transparency and Disclosure Checklist, the United Nations Global Compact, the King II reporting requirements on corporate governance and the JSE SRI Index were used to develop a disclosure index. The disclosure index was used as a basis to analyze the extent and trend of the non-financial disclosures of the South African mining companies listed on the JSE Securities Exchange. Percentages were used to measure to what extent each company discloses information with respect to each category of non-financial information in its annual report. Based on the percentages of their disclosure levels, a trend analysis was made for the three years under review. The analysis was segregated into five categories, and the results were presented using descriptive statistics with relative emphasis placed on each category. Those companies which reported the highest and lowest elements were also identified. In addition the most commonly reported disclosure elements were identified and whether the South African mining companies in this study were reporting according to the GRI was examined. The five categories of the disclosure index which were specifically assessed for the purpose of the analysis were:

- Disclosures on environmental reporting,
- Disclosures on social reporting,
- Disclosures on the corporate governance reporting,
- Disclosures on MD&A reporting, and
- Disclosures on forward-looking information.

4.2.2 Examining if the South African mining companies' non-financial disclosures listed on the JSE comply with the JSE Securities Exchange South Africa reporting requirements

The annual reports of the mining companies were assessed by cross checking the extent and trend of their disclosure levels with the JSE reporting requirements. This includes compliance with the King II code of corporate governance and the JSE SRI index. The JSE SRI index was developed based on the triple bottom line and corporate governance practices to help in evaluating the responsibilities of companies in contributing towards sustainable development (Baue, 2003). Since compliance with the King II code, which also requires the use of GRI, and the JSE SRI index are requirements of the JSE listings requirements, the mining companies listed on the JSE need to meet the requirements of King II and the JSE SRI index. The JSE SRI Index was launched on May 2004 as a system to classify those companies listed on the JSE that incorporated the principles of the triple bottom line on their reporting systems and places corporate governance as the basis by which the principles of the triple bottom line are initiated (JSE, 2005). For the purpose of this study the reporting criteria set in the SRI Index was only taken into consideration to evaluate the level of compliance of the mining companies‘ disclosure. Percentages were used to establish the degree of compliance with regard to the corporate governance reporting and integrated sustainability reporting of the South African mining companies. The compliance level by the mining companies was also calculated according to the mining companies‘ product category.

4.3 Research technique

To evaluate the trend, extent and compliance level of the non-financial disclosure of the South African mining companies listed on the JSE, the most appropriate research technique used was content analysis of the annual reports of the companies. The research technique was designed to obtain sufficient information to draw conclusions. Content analysis is a systematic research technique for performing a duplicated and applicable implication from many terms of a text into fewer content categories (Berelson, 1952; Krippendorff, 1980; and Weber, 1990 as cited by Stemler, 2001) by involving precise rules of codifying qualitative and quantified information through already systematized grouping for examining the extent and trends of presenting and

reporting of annual reports (April, Bosma and Deglon, 2003). This approach is consistent with that used by Jenkins and Yakovleva (2006), who studied the corporate social and environmental disclosure of the world‘s ten largest mining companies, Burritt (1997), April *et al*. (2003) and Yongvanich and Guthrie (2005), who also studied on mining companies. Other major studies of different industries on environmental and corporate social reporting have also exclusively used content analysis (Halme and Huse, 1997; Tilt, 1998; Haniffa and Cooke, 2005; Ernst and Young, 2006).

Although the application of content analysis is related with several limitations, (Yongvanich and Guthrie, 2005:110), -the technique is particularly useful for extracting information, which is not explicitly presented in a quantified and structured format, but is implicit in the information" (April, *et al*. 2003). Some of the limitations of content analysis as discussed by Tilt (1998:18) include:

- Content analysis by itself is not sufficient because it doesn‘t show the underlying cause for the observed pattern.
- Content analysis is affected by personal judgment or personal bias, i.e. subjectivity. This means the same document can have different meaning to two different users.
- Content analysis is limited with the availability of material. It does not consider if there are other sources of data.

According to Stemler (2001) the two important things that must be taken care of when using content analysis are faulty definitions of categories and non-mutually exclusive and exhaustive categories. Bos and Tarnai (1999:667) indicated that the most methodological question when using content analysis is reliability or consistency and validity of the data. Content analysis is very useful for providing comparative situation and for analyzing historical material, especially for documenting trends over time (Yongvanich and Guthrie, 2005:110).

The content analysis in this study involved reviewing of the annual reports of each company and extracting the information contained therein, in accordance with the disclosure index developed for the purpose of this study. Data with regard to the

companies' extent of non-financial disclosure, trend of disclosure and compliance of disclosure was gathered accordingly. The analysis was made based on the examination of the annual reports by classifying the information into different categories according to the areas covered under the non-financial disclosure literature.

The disclosure index developed for the purpose of this study is shown in the Appendix. The disclosure index had two parts: a checklist on the categories of non-financial disclosure developed from different sources (GRI 2002, GRI 2005, United Nations Global Compact, Standard and Poor's, (Robb, *et al*. 2001), (De Villiers and Barnard, 2000), (Yaron, 2005), SEC 2003 and Ernst and Young 2004) and the checklist developed from the King II and the JSE SRI Index. A summary of it is as follows:

Table 4.1 Disclosure index

Categories of non-financial disclosure	**Number of reporting elements**
Environmental	22
Social	21
Corporate governance	18
Forward-looking information	19
MD&A	20
Total number of reporting elements	**100**
Checklist developed from the King II and JSE SRI Index	
Corporate governance	**39**
- Board of directors	20
- Risk management	6
- Internal control	5
- Additional disclosure on corporate governance	8
Integrated sustainability reporting	**29**

4.3.1 Sample of the study

All South African mining companies listed on the JSE Securities Exchange in 2006 were included in this study. Mining companies were selected because the JSE Securities Exchange trade shares of broadly different industries, while the mining industry possesses the largest portion of market capitalization (ADVFN, 2007). Hence the financial influence of the mining industry on the South African economy is substantial. In addition, this study examines companies in the mining industry because due to their unique nature, they are highly expected to be subjected to public inquiry on matters involving the community and may have more disclosure to be done about their overall non-financial matters.

4.3.2 Data gathering techniques

The annual reports of the South African mining companies listed on the JSE were downloaded from the websites of these companies. The annual reports analyzed were for the years of 2004, 2005 and 2006. Information collection can be classified into primary and secondary types. Primary data comes from the original sources while secondary data is collected from studies conducted by other researchers for their own purposes.

Primary data collection is more reliable. As such primary data gathering is considered the most appropriate method for the purpose of this study. Annual reports are useful sources of information, as companies usually highlight the main facts in the report (April, *et al*. 2003 and Burritt, 1997:2).

4.3.3 Data analysis

The results of the content analysis of each company‘s annual report were tabulated in spreadsheet format using the Excel package. The extent of disclosure, trend analysis and compliance level of the companies‘ non-financial disclosure were captured by graphs for further interpretation and analysis. These results are presented in Chapter five.

4.4 Basic assumptions and limitations

This study was based on the assumptions that mining companies listed on the JSE like other companies from different industries are obliged to comply with the King II reporting requirements on corporate governance; that the JSE SRI Index, in which the King II requirements are incorporated, is sufficient to identify the companies' compliance with the JSE reporting requirements; that the disclosure index developed from different international and local guidelines and requirements for the purpose of this study is adequate to generalize the extent of non-financial reporting status of the South African mining industry; that South African mining companies listed on the JSE represent the South African mining industry; and that all the information that should be disclosed by companies is presented on the annual reports of the companies.

The limitations that are encountered in this study were that the study addressed only the South African mining companies listed on the JSE. That is, those that are not listed but may have a significant effect on the industry are not included in the study. Furthermore, only the annual reports of the companies were reviewed. Therefore, there might be other important reports that were not examined by this study. The limitations inherent in content analysis were also not supplemented by other research methods, such as interviews or questionnaires due to the scope and time limitations of this research project. Finally, as subjective analysis of the annual reports is involved, the assessment is subject to a human error as the conclusions are based on personal judgment.

4.5 Summary

Content analysis is a systematic research technique used for extracting information from the annual reports of each company. This research technique was used for data gathering and analysis of the companies' extent of non-financial disclosure, trend of disclosure and compliance of disclosure. A disclosure index developed was used as a basis to analyze the non-financial disclosures of the South African mining companies. All the South African mining companies listed on the JSE Securities Exchange South Africa in the year 2006 were included in this study and the data gathered was tabulated in spreadsheet format using the Excel package and was captured by graphs for further interpretation and analysis. In the following chapter the results and discussion of the findings of the data analysis are presented.

CHAPTER FIVE

Presentation and Analysis of the Research Findings

5.1 Introduction

In the previous chapters the increase in non-financial disclosures, types of non-financial disclosures, issues in developing a non-financial disclosure framework and the organizations working on it were described. In addition, non-financial disclosures in the mining industry and previous empirical studies in mining companies were discussed. This chapter presents the results and analyses the data derived from the annual reports of 22 South African mining companies that were listed on the JSE Securities Exchange in 2006. The data was analyzed using content analysis.

The chapter focuses on the analysis and discussion of the results on the extent and trend of mining companies‘ non-financial disclosures based on the disclosure index developed for the purpose of this study. The disclosure index had two parts. The first part explored the extent of non-financial disclosures of the South African mining companies with regard to the disclosure of items in environmental, social, corporate governance, forward looking information and the MD&A. The second part showed the extent of the South African mining companies‘ compliance with the JSE Securities Exchange reporting requirements; that is, the disclosure requirements of King II and the JSE SRI Index.

5.2 Extent and trend of non-financial disclosures

To explore the extent and trend of the companies‘ non-financial disclosures in the years 2004, 2005 and 2006, the results were segregated into five categories. The five categories include environmental, social, corporate governance, forward-looking information and MD&A. The results are presented in descriptive statistics, based on the study made by Yongvanich and Guthrie (2005:109-110), with relative emphasis placed on each category. The five categories were analyzed and presented separately. The numbers of reporting elements on each category are presented in Table 5.1.

Table 5.1 Reporting elements

Categories of disclosure	Number of reporting elements
Environmental	22
Social	21
Corporate governance	18
Forward-looking information	19
MD&A	20
Total number of reporting elements	**100**

5.2.1 Environmental disclosure by companies

The extent of environmental disclosure in most of the companies increased from 2004 to 2006 (Table 5.2; Figure 5.1). The total number of elements disclosed for the 22 mining companies showed an increase of 7% from 2004 to 2005 and 30% from 2005 to 2006. Three (14%) of the companies showed a decrease in their number of reported elements from 2004 to 2006. The average numbers of elements reported per company were approximately 8, 9 and 11 elements, or 36%, 41% and 50% of the total number of reporting elements on 2004, 2005 and 2006, respectively. This indicates that considerable improvement in the extent of environmental disclosure was made by the South African mining companies. This is consistent with the idea of legitimacy theory as indicated in the study by De Villiers and Barnard, (2000:21), who indicated that listed mining companies in South Africa disclose more environmental information in their annual reports than other large listed companies. The analysis on environmental disclosure in this study is also in line with the Antonites and De Villiers (2003:1, 4-9) study on the extent of environmental disclosure by the South African listed mining companies as well as the top 100 industrial companies which indicated that there was an increase in the number of companies that disclosed environmental information in their annual reports over the years.

The highest and lowest numbers of elements reported (Table 5.2) suggest that great variation exists between the companies on environmental disclosure. In some cases,

however, this was derived by the very low number of disclosures by some companies in their environmental disclosure. Such companies which reported less than five elements include, Metorex Ltd, Mvelaphanda Resources Ltd, Palabora Mining Co Ltd, Sallies Ltd, Scharrig Mining Ltd and Trans Hex Group Ltd in 2004; African Rainbow Minerals Ltd, Eland Platinum Holdings Ltd, Implats, Metorex Ltd, Mvelaphanda Resources Ltd, Palabora Mining Co Ltd, Sallies Ltd, Scharrig Mining Ltd and Trans Hex Group Ltd in 2005; and African Rainbow Minerals Ltd, Eland Platinum Holdings Ltd, Mvelaphanda Resources Ltd, Sallies Ltd, Scharrig Mining Ltd and Trans Hex Group Ltd in 2006 (Table 5.2; Figure 5.1). The highest/lowest scores in environmental disclosure among the companies were 22/0, 22/0 and 22/1 for the years 2004, 2005 and 2006, respectively. Anglo Platinum Ltd was the only company, which provided all the elements presented in the environmental disclosure index and scored the highest disclosure level for the three years.

The most commonly reported environmental disclosure element found in the annual reports of these companies in all the three years were: accounting policies for the recording of liabilities, provisions, contingent liabilities and catastrophe reserves. This element was disclosed by 77% of the companies.

Table 5.2 Number of environmental disclosure elements disclosed by companies

Company	Number of disclosed elements*		
	2004	**2005**	**2006**
African Rainbow Minerals Ltd	6	3	4
Anglo American Plc	5	5	8
AngloGold Ashanti	9	10	11
Anglo Platinum Ltd	22	22	22
BHP Billiton Plc	6	8	15
DRDGold Ltd	8	8	6
Eland Platinum Holdings Ltd	-	1	2
Gold Fields Ltd	15	17	20
Harmony	14	18	20
Implats	6	3	11
Kumba Iron Ore	12	12	17
Lonmin Plc	17	18	20
Metorex Ltd	0	0	1
Mittal Steel SA Ltd	12	13	18
Mvelaphanda Resources Ltd	1	0	1
Northam Platinum Ltd	12	15	10
Palabora Mining Co Ltd	0	1	15
Sallies Ltd	1	1	1
Sasol	14	15	17
Scharrig Mining Ltd	0	0	2
Trans Hex Group Ltd	4	4	4
Western Areas Ltd	10	12	16
Total	**174**	**186**	**241**

*22 disclosure elements are presented in the disclosure index on environmental disclosures

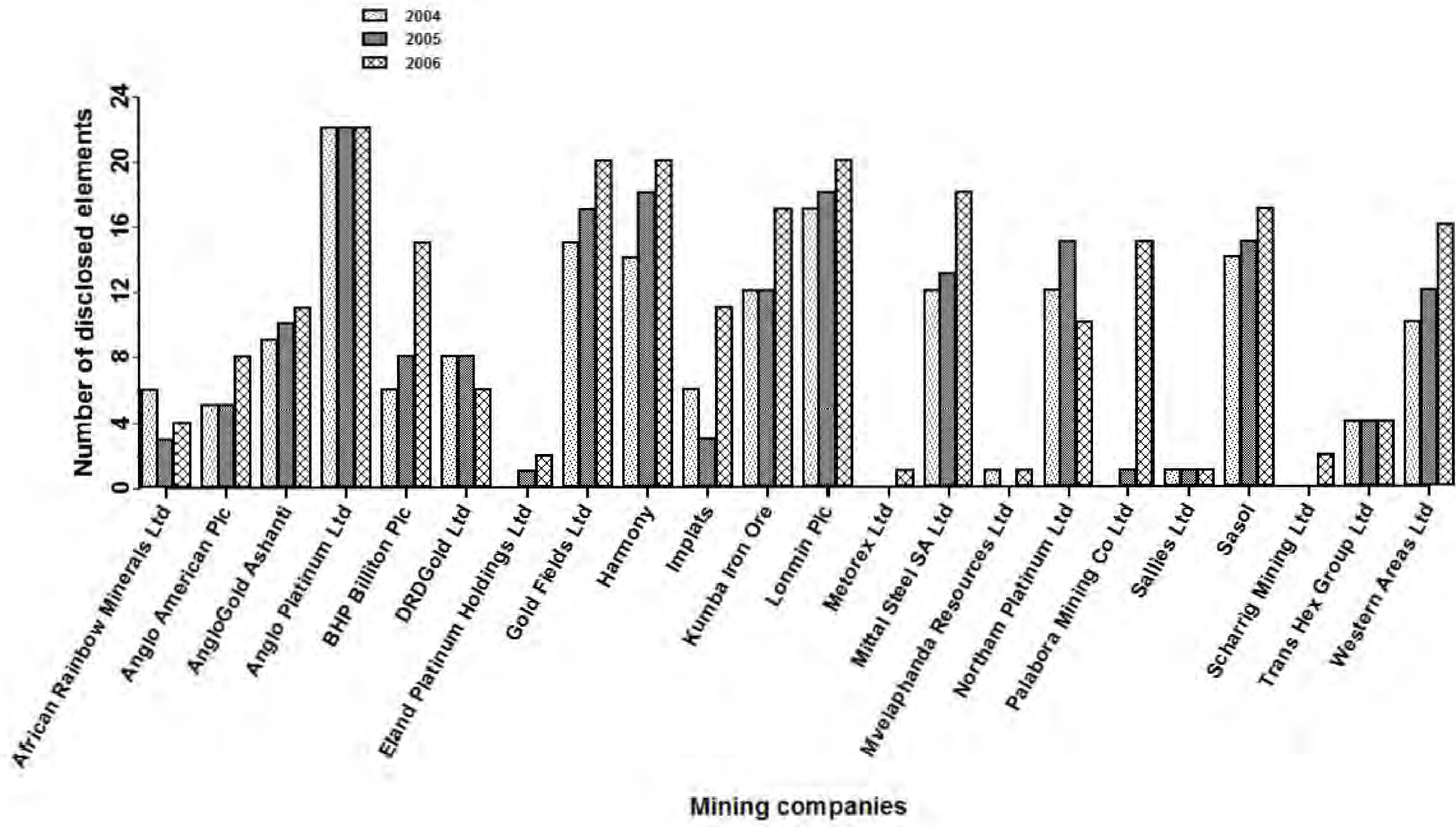

Figure 5.1 Score of environmental disclosure by companies

5.2.2 Social disclosure by companies

There was a fluctuation in the extent of social disclosure by companies over the three years. In some companies there was an increase in the elements disclosed every year from 2004 to 2006 while for others it decreased every year from 2004 to 2006. However, the total number of elements disclosed for all the 22 mining companies showed an increase of 15% and 6% from 2004 to 2005 and 2005 to 2006, respectively. This indicates that there was a general increase in the extent of social disclosure by the companies in 2006.

The highest and lowest number of elements (Table 5.3) indicates that the extent of social reporting varied greatly among the companies. The highest/lowest scores in the extent of social disclosure among the companies were 20/0, 19/0 and 19/2 for 2004, 2005 and 2006, respectively. Five (24%) of the companies showed a decrease in their number of elements disclosed from 2004 to 2006. The average numbers of elements reported per company were approximately 7, 8 and 9 elements, or 33%, 38% and 43% of the total number of reporting elements for 2004, 2005 and 2006, respectively. Companies which disclosed less than five elements of social disclosure were: African Rainbow Minerals Ltd, Meterox Ltd, Mvelaphanda Resources Ltd, Sallies Ltd and Scharrig Mining Ltd in 2004; Eland Platinum Holdings Ltd, Metorex Ltd, Mvelaphanda Resources Ltd, Sallies Ltd and Scharrig Mining Ltd in 2005; and Eland Platinum Holdings Ltd, Metorex Ltd and Sallies Ltd in 2006. Anglo Platinum Ltd disclosed the highest number of elements in social disclosure in each of the three years assessed.

The most commonly reported social disclosure elements in the annual reports of the companies in all the three years were: number of injuries, occupational diseases, lost days, number of work related fatalities, description of policies or programs on HIV/AIDS, training of employee and community economic development planning processes. These elements were disclosed by 77% of the companies. Similarly, Davies *et al*. (2002) reported that there was a massive increase in the extent of detailed HIV/AIDS disclosure from 1999-2000 by the South African mining industry. The disclosure with regard to the HIV/AIDS increased through the

years because of the increase in the society's awareness of the disease and the impact of the disease could no longer be ignored by the companies (Davies *et al*., 2002: 36). Another observation is that similarly to the study by Jones *et al*. (2005: 19) the companies reported mostly on their positive dealings with society while negative information was covered by the positive information.

Table 5.3 Number of social disclosure elements disclosed by companies

	Number of disclosed elements*		
Company	**2004**	**2005**	**2006**
African Rainbow Minerals Ltd	4	7	6
Anglo American Plc	8	9	10
AngloGold Ashanti	7	9	7
Anglo Platinum Ltd	20	19	19
BHP Billiton Plc	7	6	7
DRDGold Ltd	6	8	9
Eland Platinum Holdings Ltd	-	0	4
Gold Fields Ltd	10	12	12
Harmony	11	14	14
Implats	8	6	8
Kumba Iron Ore	13	16	9
Lonmin Plc	10	14	14
Metorex Ltd	2	2	4
Mittal Steel SA Ltd	11	10	12
Mvelaphanda Resources Ltd	1	4	6
Northam Platinum Ltd	9	14	13
Palabora Mining Co Ltd	6	6	9
Sallies Ltd	2	2	2
Sasol	12	11	11
Scharrig Mining Ltd	0	4	5
Trans Hex Group Ltd	6	6	9
Western Areas Ltd	9	8	9
Total	**162**	**187**	**199**

*21 disclosure elements are presented in the disclosure index on environmental disclosures

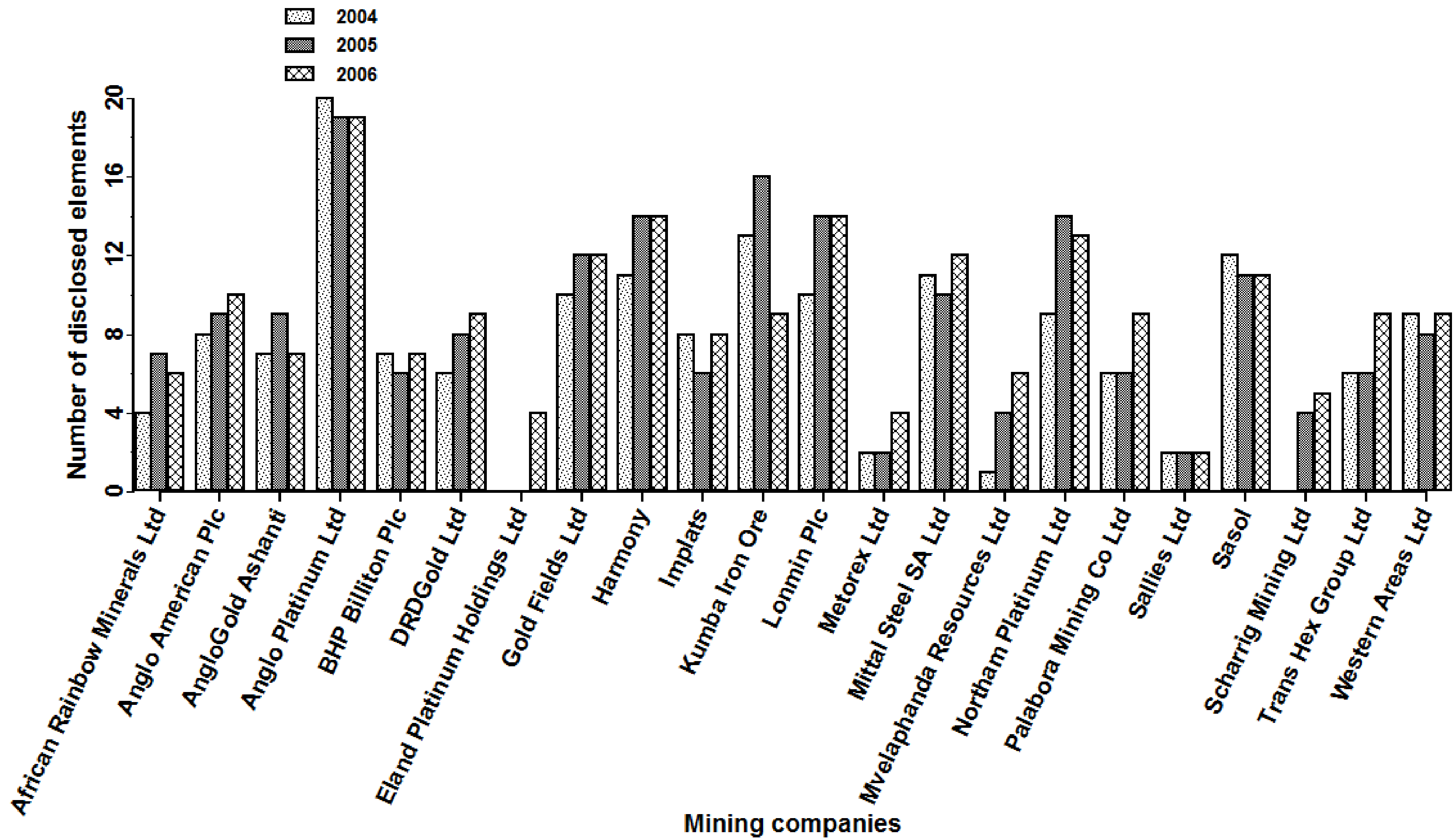

Figure 5.2 Score of social disclosure by companies

5.2.3 Disclosure on corporate governance by companies

Corporate governance disclosure in 63% of the companies increased from 2004 to 2006 (Table 5.4; Figure 5.3). Although this shows there was a general increase in the extent of corporate governance disclosure, 18% of the companies showed a decrease in their corporate governance disclosure from 2004 to 2006. The total number of elements disclosed for the 22 mining companies showed an increase of 11% from 2004 to 2005, and an increase of 2% from 2005 to 2006. This shows that there was a greater increase in the extent of corporate governance disclosure in the year 2005 than 2006.

The highest and lowest number of elements reported (Table 5.4; Figure 5.3) shows that the variation on the extent of corporate governance disclosure among companies decreased from 2004 to 2006 (Table 5.4). That is, the highest/lowest number of corporate governance disclosure elements among the companies were 16/2, 16/8 and 17/10 for the years 2004, 2005 and 2006, respectively. The average numbers of elements reported per company were approximately 12 (67%), 13(59%) and 13(59%) for the years 2004, 2005 and 2006, respectively. With the exception of Scharrig Mining Ltd, which disclosed only two elements in 2004, none of the other 21 mining companies disclosed less than five elements in corporate governance. In contrast, Harmony and Implats were the two companies which disclosed the highest number of elements in corporate governance (17 elements) in 2006.

The most commonly reported corporate governance disclosure elements found in the annual reports of the companies in all three years include: governance structure of the company; the board of directors that are independent, non-executive directors; detail about directors; details about the role of the board of directors; list of board committees; list of board meetings; number of shares in the company held by directors; and decision-making process of directors‘ pay and specifics of directors‘ salary. These elements were disclosed by 77% of the companies.

Table 5.4 Number of corporate governance disclosure elements disclosed by companies

Company	Number of disclosed elements*		
	2004	**2005**	**2006**
African Rainbow Minerals Ltd	10	13	13
Anglo American Plc	12	13	13
AngloGold Ashanti	14	15	15
Anglo Platinum Ltd	14	14	14
BHP Billiton Plc	13	13	14
DRDGold Ltd	15	15	16
Eland Platinum Holdings Ltd	-	10	13
Gold Fields Ltd	12	12	14
Harmony	9	13	17
Implats	14	16	17
Kumba Iron Ore	15	14	14
Lonmin Plc	13	14	14
Metorex Ltd	11	11	10
Mittal Steel SA Ltd	14	13	13
Mvelaphanda Resources Ltd	8	10	11
Northam Platinum Ltd	16	16	16
Palabora Mining Co Ltd	12	13	14
Sallies Ltd	10	9	10
Sasol	14	14	14
Scharrig Mining Ltd	2	8	13
Trans Hex Group Ltd	15	15	16
Western Areas Ltd	14	14	14
Total	**257**	**285**	**291**

*18 disclosure elements are presented in the disclosure index on corporate governance disclosures

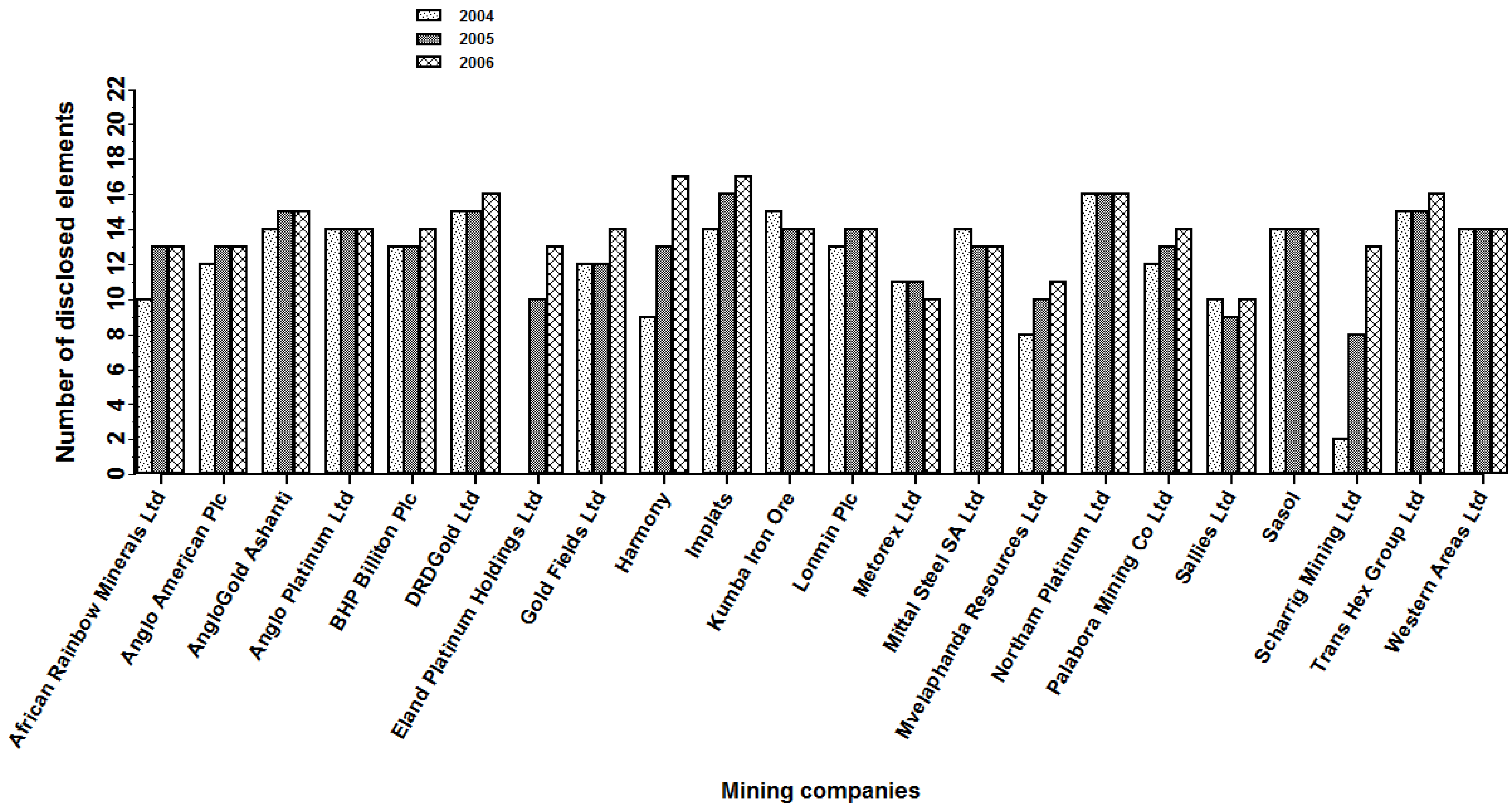

Figure 5.3 Number of corporate governance disclosure elements disclosed by companies

5.2.4 Forward-looking disclosure by companies

Seventy three percent of the mining companies showed an increase in their extent of forward-looking disclosures from 2004 to 2006 (Table 5.5; Figure 5.4). Only 9% of the companies did not make any change in their level of disclosure from 2004 to 2006. Companies, which disclosed more than 50% of the elements from the disclosure index were 43%, 64% and 77% in 2004, 2005 and 2006, respectively. The total number of elements disclosed for all of the 22 mining companies showed a 17% increase both from 2004 to 2005 and from 2005 to 2006. The average numbers of elements reported per company were approximately 8(42%), 10(53%) and 11(58%) for the years 2004, 2005 and 2006, respectively. This shows there was a steady increase in the extent of forward-looking disclosures in the mining companies.

The highest and lowest number of elements reported (Table 5.5; Figure 5.4) shows that the variation between the highest and lowest scores in the extent of forward-looking disclosures between companies decreased from 2004 to 2005, but increased from 2005 to 2006. That is, the highest/lowest numbers of forward-looking disclosure elements disclosed by the mining companies were 16/0, 14/2 and 18/2 for the years 2004, 2005 and 2006, respectively. Companies that disclosed less than five elements on forward-looking disclosure include: Palabora Mining Co Ltd and Scharrig Mining Ltd in 2004; Eland Platinum Holdings Ltd, Palabora Mining Co Ltd and Sallies Ltd in 2005; and Palabora Mining Co Ltd, Sallies Ltd and Scharrig Mining Ltd in 2006. Sasol disclosed the highest number of elements on forward-looking disclosure for all three years assessed. Implats disclosed the same number of elements as Sasol in 2005.

The most commonly reported forward-looking disclosure elements found in the annual reports of the companies in all the three years include: mission, broad objectives and strategy to achieve broad objectives; information concerning possible or assumed future results of operations, including descriptions of business strategy; projected major goals and factors that are critical to successfully implementing strategies; anticipated changes in financial position

and why; and forecast information about the economy, company's industry and the company itself. These elements were disclosed by 77% of the companies in the three years studied.

Table 5.5 Number of forward-looking disclosure elements disclosed by companies

	Number of disclosed elements*		
Company	**2004**	**2005**	**2006**
African Rainbow Minerals Ltd	6	11	12
Anglo American Plc	12	12	14
AngloGold Ashanti	13	13	13
Anglo Platinum Ltd	13	13	14
BHP Billiton Plc	8	11	13
DRDGold Ltd	6	8	13
Eland Platinum Holdings Ltd	-	3	9
Gold Fields Ltd	10	11	14
Harmony	7	12	12
Implats	12	14	12
Kumba Iron Ore	12	12	11
Lonmin Plc	5	5	14
Metorex Ltd	6	6	6
Mittal Steel SA Ltd	12	12	17
Mvelaphanda Resources Ltd	9	10	10
Northam Platinum Ltd	8	12	11
Palabora Mining Co Ltd	1	2	2
Sallies Ltd	6	4	4
Sasol	16	14	18
Scharrig Mining Ltd	0	6	4
Trans Hex Group Ltd	9	11	11
Western Areas Ltd	10	9	12
Total	**181**	**211**	**246**

*19 disclosure elements are presented in the disclosure index on forward-looking disclosures

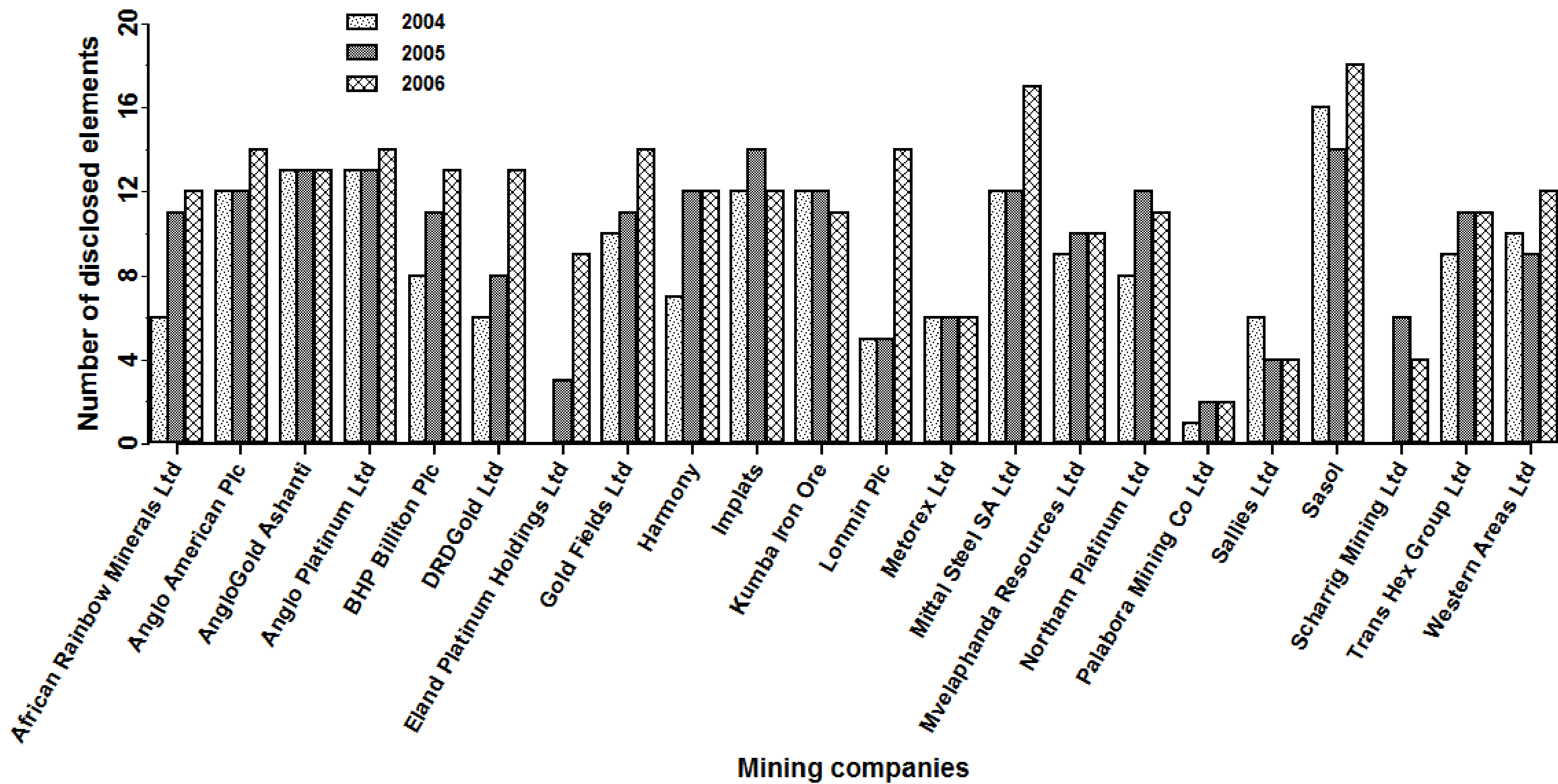

Figure 5.4 Score of forward-looking disclosure by companies

5.2.5 Disclosure on management discussion and analysis (MD&A)

Disclosure on MD&A increased in 77% of the companies from 2004 to 2006 (Table 5.6; Figure 5.5). However, 5% of the companies showed a decrease in the extent of MD&A disclosure from 2004 to 2006. The total number of elements disclosed for all 22 mining companies increased by 11% and 7% from 2004 to 2005 and 2005 to 2006, respectively. The average numbers of elements reported per company were approximately 15(75%), 16(80%) and 17(85%) for 2004, 2005 and 2006, respectively. Almost all the companies disclosed more than 50% of the elements in the disclosure index. Companies which reported more than 90% of the elements from the disclosure index were 38%, 41% and 59% in 2004, 2005 and 2006, respectively. This clearly indicates the high level of disclosure and general increase in the extent of MD&A disclosure in the mining companies.

The number of elements reported in the MD&A disclosure by the different companies (Table 5.6) shows a variation in the non-financial disclosures within the South African mining companies. The lowest and highest numbers of MD&A disclosure elements reported by the companies were 0 and 19, 10 and 20 and 12 and 20 for the years 2004, 2005 and 2006 respectively. Scharrig Mining Ltd was the only company which disclosed less than five elements in the MD&A disclosure in 2004. Companies which provided all the elements presented in the MD&A disclosure index were Implats and Mittal Steel SA Ltd in 2005, and Anglo American Plc, Gold Fields Ltd and Mittal Steel SA Ltd in 2006.

The most commonly reported MD&A disclosure elements found in the annual reports of the companies, that is elements disclosed by 77% of the companies in all the three years include: the core businesses of the company; its long-term vision and the company‘s strategy for growth and shareholder value creation; the resources, financial and non-financial, that are required to execute strategy and achieve desired results; present company‘s performance and the underlying reasons for it; opportunities and challenges for the short long and term; the principal business risks and how the company identifies and manages them; non-financial measures, in addition to financial factors, in analyzing the business; information about the

quality and potential variability of the company's earnings and cash flow; revenue recognition practices that involve the most sensitive judgments and material consequences; risks or uncertainties necessary for an understanding of the financial condition; macro-economic matters in relation to the operations of the company; effect of interest rate changes; location of the company; principal products and services and industrial specific factors.

Table 5.6 Number of MD&A elements disclosed by companies

	Number of disclosed elements*		
Company	**2004**	**2005**	**2006**
African Rainbow Minerals Ltd	14	18	18
Anglo American Plc	18	18	20
AngloGold Ashanti	18	18	18
Anglo Platinum Ltd	19	18	19
BHP Billiton Plc	18	18	19
DRDGold Ltd	17	17	18
Eland Platinum Holdings Ltd	-	10	15
Gold Fields Ltd	16	18	20
Harmony	15	16	19
Implats	18	20	19
Kumba Iron Ore	19	19	16
Lonmin Plc	11	12	15
Metorex Ltd	13	13	15
Mittal Steel SA Ltd	19	20	20
Mvelaphanda Resources Ltd	14	16	16
Northam Platinum Ltd	15	15	16
Palabora Mining Co Ltd	14	15	16
Sallies Ltd	13	14	15
Sasol	19	17	19
Scharrig Mining Ltd	0	11	12
Trans Hex Group Ltd	16	16	19
Western Areas Ltd	16	17	18
Total	**322**	**356**	**382**

*20 disclosure elements are presented in the disclosure index on MD&A disclosures

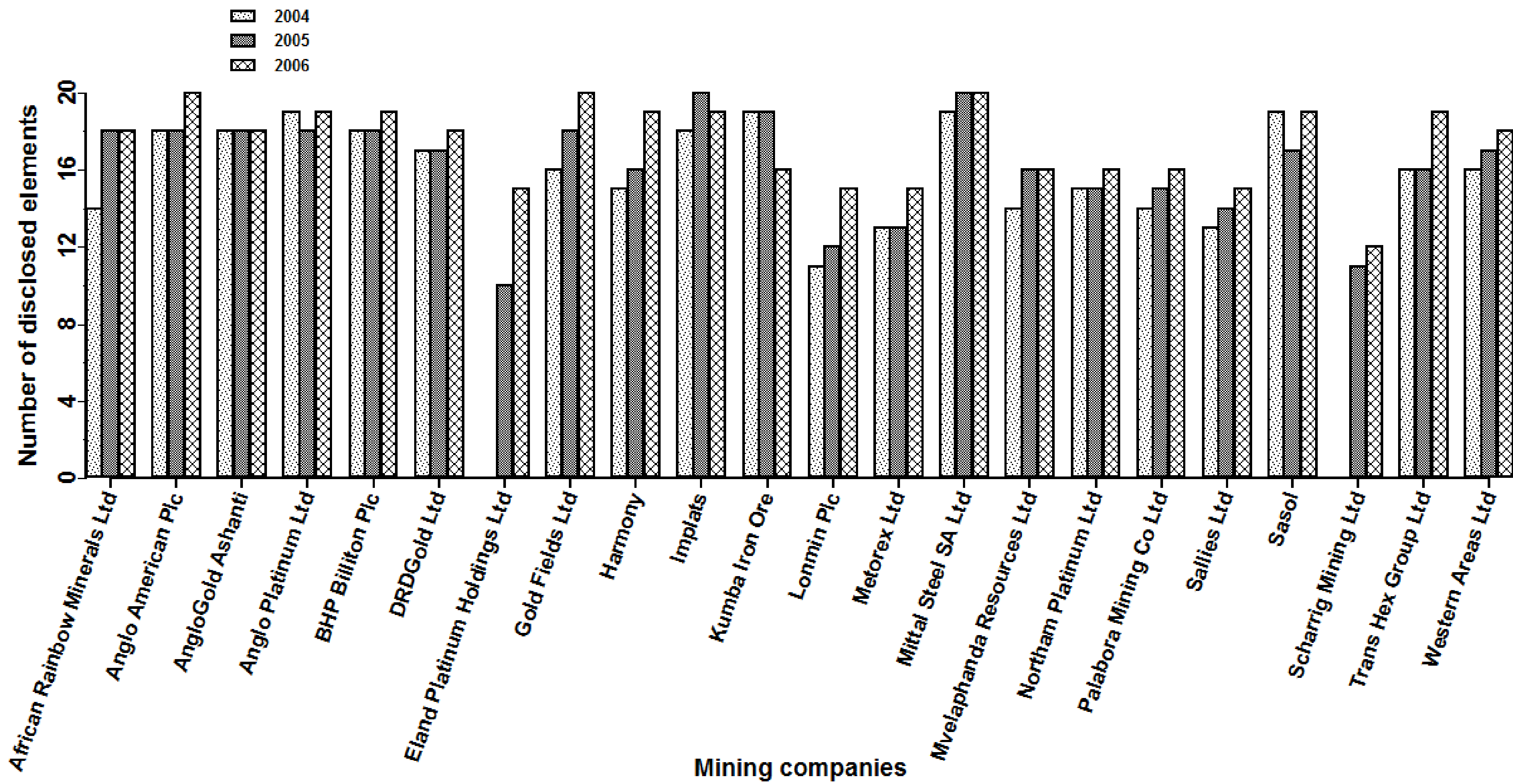

Figure 5.5 Score of MD&A disclosure by companies

5.3 Adoption of the Global Reporting Initiative (GRI)

Whether the South African mining companies in this study were reporting according to the GRI was also assesed from their annual reports. Of the 22 mining companies studied, 45%, 45% and 59% referred to the GRI as a framework for their non-financial reporting in 2004, 2005 and 2006, respectively (Table 5.7). The number of companies reported according to the GRI increased by 30% in 2006 as compared to 2004 or 2005 (Table 5.7). Some of the companies provided the GRI disclosure index for their non-financial reporting which made it easy to follow their extent of non-financial disclosures. One reason for the mining companies to adopt GRI as the basis of their sustainability reporting could be King II. King II is a listing requirement in the JSE Securities Exchange and King II in turn requires companies to improve their disclosure practices by reporting according to the principles of the GRI. Similarly, a study was conducted by Jenkins and Yakovleva (2006:281) to determine whether the world's 10 top mining companies report in accordance with the GRI guidelines. They grouped the mining companies into three (the mature, the adolescent and the infant reporters) according to their reporting types and style. All the mature reporters adopted GRI guidelines. On the other hand, some of the adolescent reporters but none of the infant reporters adopted GRI guidelines at all.

Table 5.7 Number of companies reporting according to the GRI

Year	Number of companies	
2004	10	45%
2005	10	45%
2006	12	55%

5.3.1 Adoption of the Global Reporting Initiative (GRI) according to the different mining categories

The South African mining industry is involved in different mining activities. The 22 mining companies are grouped under five mining categories. These categories are coal, diamond, gold, platinum and diversified mining. The number of mining companies reporting individually according to the GRI is presented in Table 5.7. The following analysis provides an insight on the different categories of mining companies reporting according to GRI for the years under study. Of the 22 mining companies, nine are involved

in a diversified mining, five in gold, another four in platinum, three in coal and one in diamond mining activity.

Table 5.8 shows the number and percentage of the mining companies in the different categories that have adopted GRI as the basis of their sustainability reporting. According to the proportion of mining companies, those in the platinum category scored the highest percentage (75%) in both 2004 and 2005, while the coal category scored the highest percentage (67%) in 2006. The number of mining companies in the coal category which adopted GRI remained the same throughout the years studied. The mining company in the diamond category did not adopt GRI as the basis of its sustainability reporting for the three years under study. Generally, the percentages of the proportion of the companies in each category that adopted GRI showed a fluctuating trend. There was no steady increase or decrease in the adoption of GRI nor did it show any relationship between the different mining companies' category and the adoption of GRI from which a conclusion can be drawn.

Table 5.8 Number and percent of companies in categories reporting according to GRI

Categories	Number of companies				Percent of companies		
	2004	**2005**	**2006**	**Total**	**2004**	**2005**	**2006**
Diversified mining	3	2	5	9	33	22	55
Gold	2	3	3	5	40	60	60
Platinum	3	3	3	4	75	75	50
Coal	2	2	2	3	67	67	67
Diamond	0	0	0	1	0	0	0

5.4 Extent of compliance with the JSE Securities Exchange reporting requirements

Companies listed on the JSE Securities Exchange are required to report according to the King II and the JSE SRI index. Hence the following non-financial disclosure analysis of the companies' compliance is presented based on a disclosure index developed from King II and the JSE SRI Index. The analysis has two parts, compliance with regard to the corporate governance and integrated sustainability reporting.

5.4.1 Compliance with corporate governance reporting

The disclosure index on corporate governance reporting has three sections. These are: disclosure with regard to the board of directors, risk management and internal control. The numbers of reporting elements on each section are presented in Table 5.8.

Table 5.9 Reporting elements

Sections of corporate governance disclosure	Number of reporting elements
Board of directors	20
Risk management	6
Internal control	5
Total	**31**

Table 5.10 contains the score and percentage of compliance by each of the companies in their corporate governance disclosure based on each section for the years 2004, 2005 and 2006. None of the mining companies studied showed 100% compliance with the reporting requirements of the JSE Securities Exchange on corporate governance disclosure. Instead, there was a variation in the level of compliance in corporate governance disclosure by the mining companies over the three years (Table 5.10; Figure 5.6). Six mining companies showed an increase in their compliance every year from 2004 to 2006. On the contrary, three companies showed a decrease in their compliance and two companies did not show any change. Compliance by the remaining 11 companies fluctuated over the three years (Table 5.10; Figure 5.6). Companies which scored more than a 90% compliance level include: Anglo Platinum Ltd, BHP Billiton Plc, Northam Platinum Ltd and Sasol in 2004; BHP Billiton Plc, Gold Fields Ltd and Sasol in 2005 and AngloGold Ashanti, Anglo Platinum Ltd, BHP Billiton Plc, DRDGold Ltd, Gold Fields Ltd, Implats, Kumba Iron Ore and Lonmin Plc in 2006.

The highest and lowest compliance percentages (Table 5.10; Figure 5.6) show that there was great variation among the companies in adhering to the disclosure requirements by JSE Securities Exchange in corporate governance disclosure. The highest/lowest compliance percentages for the three years were, 94/6, 94/48 and 97/6 for 2004, 2005 and 2006, respectively.

Table 5.10 Score and compliance in corporate governance disclosure

Company	Board of directors*			Risk management*			Internal control*			Compliance (%)		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
African Rainbow Minerals Ltd	16	18	19	5	5	5	3	1	2	77	77	84
Anglo American Plc	18	18	18	6	6	6	3	2	3	87	84	87
AngloGold Ashanti	19	19	19	6	6	6	2	3	4	87	90	94
Anglo Platinum Ltd	20	19	19	6	6	6	3	3	4	94	90	94
BHP Billiton Plc	20	20	20	6	6	6	3	3	3	94	94	94
DRDGold Ltd	17	19	20	5	6	6	3	3	3	81	90	94
Eland Platinum Holdings Ltd	-	14	19	-	0	2	-	2	2	-	52	74
Gold Fields Ltd	19	20	20	6	6	6	3	3	3	90	94	94
Harmony	16	19	20	6	6	6	3	3	2	81	90	90
Implats	20	20	20	5	5	6	3	3	3	90	90	94
Kumba Iron ore	15	16	20	6	6	6	4	4	3	81	84	94
Lonmin Plc	19	20	20	6	5	6	3	3	4	90	90	97
Metorex Ltd	15	17	15	5	5	6	3	3	3	74	81	77
Mittal Steel SA Ltd	16	16	16	6	6	6	3	3	3	81	81	81
Mvelaphanda Resources Ltd	15	19	19	0	6	6	2	3	3	55	90	90
Northam Platinum Ltd	20	19	19	6	6	6	3	3	3	94	90	90
Palabora Mining Co Ltd	11	11	12	6	6	6	3	3	3	65	65	68
Sallies Ltd	13	15	15	5	5	5	3	3	3	68	74	74
Sasol	20	20	20	6	6	6	3	3	2	94	94	90
Scharrig Mining Ltd	2	7	19	0	6	6	0	2	2	6	48	87
Trans Hex Group Ltd	17	17	17	6	5	5	4	4	3	87	84	81
Western Areas Ltd	19	20	20	3	3	5	2	2	3	77	81	90

*20 disclosure elements are presented in the disclosure index on the board of directors‘ disclosures

*6 disclosure elements are presented in the disclosure index on risk management disclosures

*5 disclosure elements are presented in the disclosure index on internal control disclosures

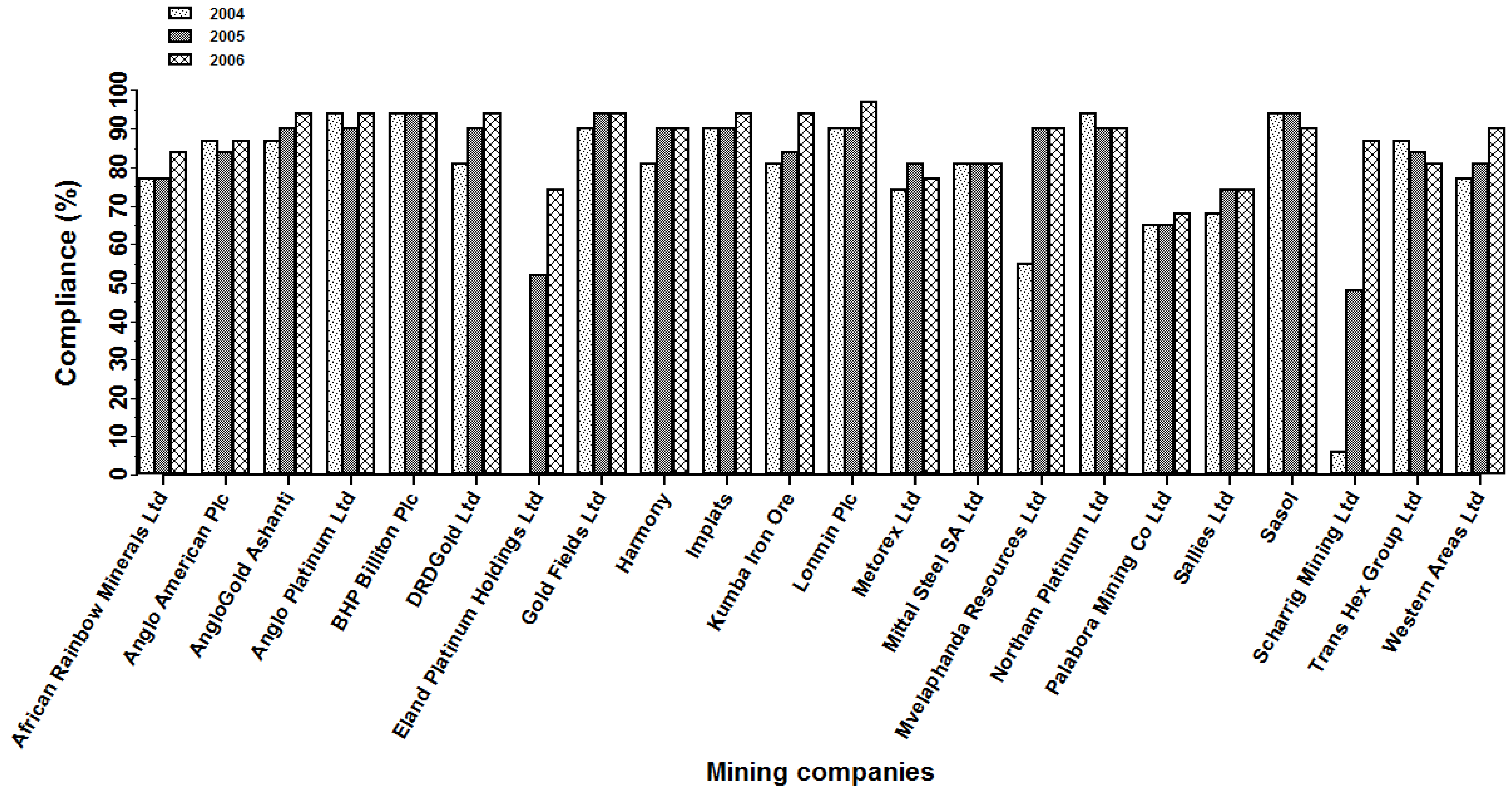

Figure 5.6 Compliance (%) with corporate governance disclosure

In general, this shows that there was an improvement by the companies in their corporate governance disclosure compliance level. Scharrig Mining Ltd was the only company, which recorded a below 50% compliance in 2004 and 2005. The highest compliance level (97%) was achieved by Lonmin Plc in 2006. The average percentages of compliance by the 22 mining companies were 75%, 79% and 87% on 2004, 2005 and 2006, respectively. Although the trend shows an increase in the average percentage of compliance, the companies still need to make effort in their corporate governance disclosure to achieve maximum compliance with the JSE Securities Exchange reporting requirements.

From the three sections of the corporate governance disclosure, maximum compliance by the companies was observed in the risk management disclosure section. That is, 100% compliance in the risk management disclosure was achieved by 13, 14 and 17 companies on 2004, 2005 and 2006, respectively. None of the companies fully complied in the internal control disclosure section over the three years studied. On the other hand, 5, 6 and 9 of the companies showed 100% compliance in the board of directors‘ disclosure section on 2004, 2005 and 2006, respectively.

5.4.1.1 Compliance with board of directors reporting

The results of the companies‘ score on the compliance with the board of directors‘ disclosures during the three years studied are presented in Table 5.10. In this section 20 elements were presented in the disclosure index on the board of directors‘ disclosure. The companies differ considerably in their level of disclosure. This can be seen by the difference in the number of elements disclosed by the companies from 2004 to 2006 (Table 5.10; Figure 5.6). The highest/lowest elements disclosed by the companies were 20/2, 20/7 and 20/12 in 2004, 2005 and 2006, respectively. This shows that the variation between the highest and lowest scores in the compliance of board of directors disclosure between companies decreased from the year 2004 to the year 2005 and then to the year 2006. Companies which disclosed more than 90% compliance in the board of directors‘ disclosure were 9, 12 and 16 on 2004, 2005 and 2006, respectively. Full or 100% compliance increased by 20% from 2004 to 2005 and by 50% from 2005 to 2006.This shows that the companies‘ compliance with the board of directors‘ disclosures showed substantial improvement from 2004 to 2006.

5.4.1.2 Compliance with risk management reporting

The results of the compliance with risk management reporting disclosures for the three years studied are presented in Table 5.10. Based on the six disclosure elements, presented in the disclosure index on the risk management disclosure section, the variation between the highest and lowest number of elements reported remained the same between the years 2004 and 2005, where the highest is 100% compliance and the lowest is 0% compliance. In 2006 the highest and lowest compliance levels were 100% and 33% respectively. Companies that scored 90% and above levels of compliance were 18, 20 and 21 for the years 2004, 2005 and 2006. The 100% compliance level of companies increased by 8% from the year 2004 to the year 2005 and then by 21% from the year 2005 to the year 2006. Though the lowest compliance level in this section of the corporate governance disclosure is 0%, this section is where the highest number of companies scored 100% of compliance in their risk management reporting.

5.4.1.3 Compliance with internal control reporting

Five disclosure elements were presented in the disclosure index with regard to the internal control disclosure section. Of the 22 mining companies studied, those that scored 80% of internal control disclosure compliance were 2, 2, and 3 companies in 2004, 2005 and 2006, respectively. While the lowest compliance levels reported in Table 5.9 are 0, 1 and 2 for the years 2004, 2005 and 2006 respectively, the highest is 4 for the three years. There was no company that fully complied in the internal control disclosure section of corporate governance. More than 50% of the companies scored a 60% compliance level for the three years.

5.4.2 Compliance with corporate governance reporting by mining companies according to their product category

In Section 5.4.1 the compliance level and extent of disclosure on corporate governance by each of the mining companies was discussed. In Table 5.11, the extent and compliance proportion level of corporate governance disclosure according to the mining companies‘ product category is presented.

The percentages suggest that variation exists between categories in the compliance level of corporate governance disclosures. The level of compliance increased for all the mining categories except for the diamond category, which decreased from 2004 to 2006. The diamond category comprised only one mining company. It scored the highest compliance level in 2004 while the gold category scored the highest compliance level in both 2005 and 2006.

The percentages in the board of directors section of the corporate governance disclosure indicates that there is an increasing trend in the disclosure level by the different mining categories except for the diamond category, which remained the same from 2004 through 2006. The gold category scored the highest board of directors' disclosure level for the three years under study.

With regard to the risk management disclosure level, an increasing trend was shown by the diversified mining, gold and coal categories while there was a fluctuating and decreasing trend by the platinum and diamond categories, respectively. The highest score (100%) was achieved by the diamond category in 2004 and the coal category in both 2005 and 2006.

The lowest percentage of disclosure level was observed in the internal control section of the corporate governance disclosure. The internal control disclosure level showed an increasing trend for the gold and platinum categories but fluctuated for both the diversified mining and coal categories. There was a decreasing trend for the diamond category. The highest disclosure level (80%) was scored by the diamond category for both 2004 and 2005. Platinum scored the highest (65%) level for the year 2006.

Table 5.11 Compliance proportion on corporate governance disclosure by mining companies according to their product category

Company	Board of directors (%)			Risk management (%)			Internal control (%)			Compliance (%)		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
Diversified mining	80	85	85	83	94	96	58	53	58	77	82	83
Gold	90	97	99	87	90	97	52	56	60	83	89	92
Platinum	74	91	98	71	67	83	45	55	65	69	81	90
Coal	62	72	98	67	100	100	47	60	47	60	75	90
Diamond	85	85	85	100	83	83	80	80	60	87	84	81

5.4.3 Compliance with integrated sustainability reporting

The disclosure index on integrated sustainability reporting had 29 disclosure elements that the companies must comply with. This disclosure index was developed from a combination of King II and the JSE SRI Index. Because both King II and the JSE SRI Index are reporting requirements for those companies listed on the JSE Securities Exchange, high compliance with the disclosure index of the integrated sustainability reporting was expected from the companies.

In general there was an increase in the level of integrated sustainability reporting disclosure provided by companies every year from 2004 to 2006 (Table 5.12; Figure 5.7). Fifty percent of the companies showed an increasing trend in their integrated sustainability reporting while 41% of the companies showed a fluctuating trend among the three years. Only 9% of the companies showed constant trend in their integrated sustainability reporting disclosure among the three years.

The extent of integrated sustainability reporting varied greatly among the companies. This can be seen from the lowest/highest number of elements reported by the companies over the three years (Table 5.12; Figure 5.7). These were 0/27 (0/93%), 0/26 (0/90%) and 5/26 (17/90%) for 2004, 2005 and 2006, respectively. The average numbers of elements reported per company were approximately 17, 17 and 19 elements, or 59%, 60% and 67% in 2004, 2005 and 2006, respectively. Companies that scored less than 5 elements in the integrated sustainability reporting disclosure were Metorex Ltd, Mvelaphanda Resources Ltd and Scharrig Mining Ltd in 2004; Eland Platinum Holdings Ltd in 2005; but no company had less than five reporting elements in 2006. Companies which scored below 50% compliance level were: African Rainbow Minerals Ltd, Metorex Ltd, Mvelaphanda Resources Ltd, Palabora mining Co Ltd, Sallies Ltd and Scharrig Mining Ltd in 2004; Eland Platinum Holdings Ltd, Metorex Ltd, Mvelaphanda Resources Ltd, Sallies Ltd and Scharrig Mining Ltd in 2005; and Eland Platinum Holdings Ltd, Metorex Ltd, Mvelaphanda Resources Ltd, Sallies Ltd and Scharrig Mining Ltd in 2006. Anglo Platinum Ltd was the only company which disclosed the highest number of reporting elements, 27 (93%), in 2004 but decreased to 90% in 2005 and 2006. Nevertheless, none of the 22

companies studied provided all the disclosing elements in the disclosure index on integrated sustainability reporting. In other words, none of the companies fully (100%) complied with the reporting requirements of the JSE Securities Exchange on integrated sustainability reporting. Although the mining companies improved their level of disclosures over the three year period studied they still need to make an effort to maximize their degree of compliance with the JSE Securities Exchange reporting requirements.

The most commonly reported integrated sustainability reporting elements found in the annual reports of the companies that is, reported by 77% of the companies over the three years include: nature and extent of social, transformation, ethical, safety, health and environmental management policies and practices; implementation of corporate social responsibility strategies which are aligned to the companies overall business strategy and which reflect on going commitment from the company; documented targets, initiatives or programs relating to corporate social investment, capacity building, local procurement programs and job creation opportunities; development of human capital, employee up liftment; achievement of targets relating to black economic empowerment, employment equity, procurement and skills development; demonstrated commitment to set objectives relating to equal opportunities, non-discrimination and empowerment; the HIV/Aids strategy plan and policies the company has in place to address and manage the potential impact of HIV/Aids on the company; charitable donations, active community relations; whether it has developed and implemented a definitive set of standards and practices in the company based on a clearly articulated code of ethics; demonstrated its commitment to its code of ethics (adherence); efforts made to reduce work place accidents, fatalities and occupational health, and their safety incidents; and demonstrated as part of their objectives the integration of safety, health and environment issues into their sustainability policies and procedures.

Table 5.12 Compliance with integrated sustainability reporting

Company	Number of disclosed elements*			Compliance (%)		
	2004	2005	2006	2004	2005	2006
African Rainbow Minerlas Ltd	11	18	20	38	62	69
Anglo American Plc	19	18	20	66	62	69
AngloGold Ashanti	20	22	21	69	76	72
Anglo Platinum Ltd	27	26	26	93	90	90
BHP Billiton Plc	19	19	21	66	66	72
DRDGold Ltd	18	19	18	62	66	62
Eland Platinum Holdings Ltd	-	0	11	-	0	38
Gold Fields Ltd	25	25	24	86	86	83
Harmony	20	24	25	69	83	86
Implats	19	17	21	66	59	72
Kumba Iron Ore	25	25	24	86	86	83
Lonmin Plc	21	24	25	72	83	86
Metorex Ltd	4	5	9	14	17	31
Mittal Steel SA Ltd	23	24	25	79	83	86
Mvelaphanda Resources Ltd	2	5	13	7	17	45
Northam Platinum Ltd	20	22	23	69	76	79
Palabora Mining Co Ltd	14	15	23	48	52	79
Sallies Ltd	9	5	5	31	17	17
Sasol	22	21	22	76	72	76
Scharrig Mining Ltd	0	9	11	0	31	38
Trans Hex Group Ltd	19	19	19	66	66	66
Western Areas Ltd	20	20	20	69	69	69
Total	357	382	426			

*29 disclosure elements are presented in the disclosure index on integrated sustainability reporting disclosures

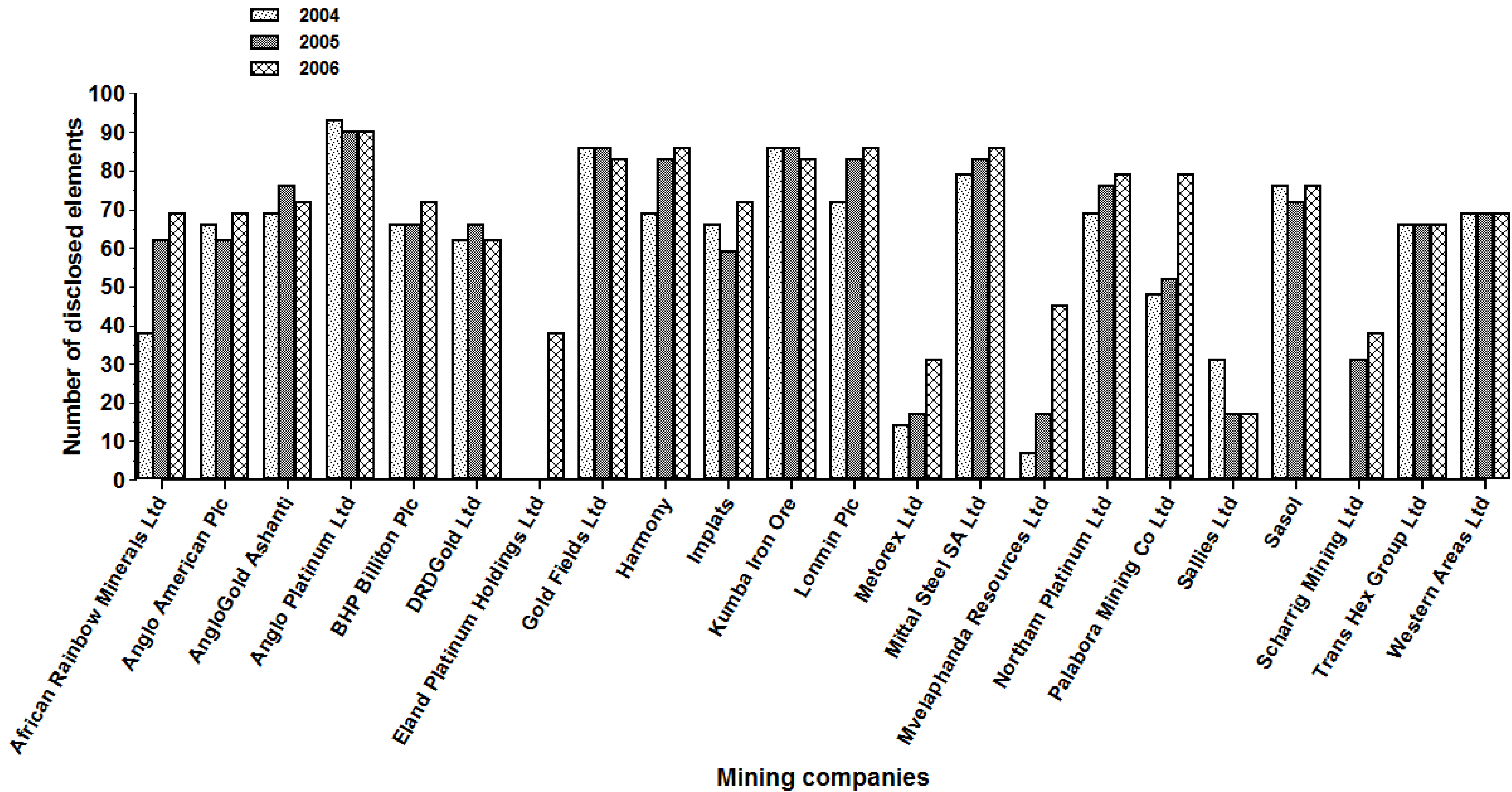

Figure 5.7 Percentage of compliance with integrated sustainability reporting

5.4.4 Compliance with integrated sustainability reporting by mining companies according to their product category

The extent and compliance percentage level of integrated sustainability reporting according to the mining companies' product category is presented in Table 5.13. The total numbers of integrated sustainability reporting elements that should be disclosed by the different categories of mining companies (diversified mining, gold, platinum, coal and diamond) are 261, 145, 116, 87 and 29, respectively. The extent of integrated sustainability reporting increased for all the mining categories from 2004 to 2006, except for the diamond category, which remained the same throughout the years. The compliance percentages show the variation between the mining categories in their compliance level of integrated sustainability reporting. The highest compliance level was scored by the gold category in all three years. That is, the gold category scored 71%, 76% and 74% for the years of 2004, 2005 and 2006, respectively.

Table 5.13 Compliance proportion with integrated sustainability reporting by mining companies according to their product category

Category	Number of disclosed elements				Compliance (%)		
	2004	2005	2006	Total elements	2004	2005	2006
Diversified mining	121	131	159	261	46	50	61
Gold	103	110	108	145	71	76	74
Platinum	67	67	83	116	58	58	72
Coal	47	55	57	87	54	63	66
Diamond	19	19	19	29	66	66	66
Total (see Table 5.12)	357	382	426				

5.5 Relationship between compliance with corporate governance disclosure and environmental, social, forward-looking information and MD&A disclosures

Corporate governance is viewed as a company's self-regulating objective that is planned to ensure the confidence of stakeholders by introducing a high level of reporting transparency, and improve the communication channel between supervisory board,

management board and all stakeholders for an improved and better company performance (The Austrian Working Group on Corporate Governance, 2002:11-13). Therefore, where there is a high degree of compliance with regard to the corporate governance disclosure of a company, this study assumes a high level of disclosure of the other non-financial disclosure categories by the companies. Table 5.14 shows the companies which scored more than 90% compliance level on their corporate governance disclosures. To see if there is a direct relationship between the compliance level of corporate governance disclosure and the extent of disclosure in the other non-financial disclosure categories, the first five companies which scored the highest level of disclosure in each of the other categories of the non-financial disclosure were compared with those groups of companies which scored more than 90% compliance level on their corporate governance disclosures.

The number of companies, which scored more than 90% compliance level on their corporate governance disclosures in 2004, 2005 and 2006 were four, three and eight, respectively (Table 5.14). In 2004, out of the four companies, two scored in the highest five companies for their environmental, social and forward-looking disclosures while three companies scored in the highest five companies for their MD&A disclosures. In 2005, out of these three companies, two companies scored in the highest five companies for their environmental and MD&A disclosures while none and one companies scored in the highest five companies for their social and forward-looking disclosures, respectively. In 2006, out of these eight companies, three companies scored in the highest five companies for their environmental, social, and forward looking disclosures, while four companies scored in the highest five companies for their MD&A disclosures (Table 5.15).

There was a fluctuation in the number of companies which are in the groups of the highest five companies and at the same time which scored more than a 90% compliance level in their corporate governance disclosures. As observed, there was no discernible relationship between the level of compliance in corporate governance disclosures of these mining companies and their extent of disclosure in the other non-financial disclosure categories. However, it is can be said that a number of companies which scored more than 90% compliance level in their corporate governance disclosures, were also from the highest five companies in their other non-financial disclosures categories.

Table 5.14 Companies which scored more than 90% compliance level with corporate governance disclosures

2004	2005	2006
Anglo Platinum Ltd	BHP Billiton Plc	AngloGold Ashanti
BHP Billiton Plc	Gold Fields Ltd	Anglo Platinum Ltd
Northam Platinum Ltd	Sasol	BHP Billiton Plc
Sasol		DRDGold Ltd
		Gold Fields Ltd
		Implats
		Kumba Iron Ore
		Lonmin Plc

Table 5.15 Number of companies which scored more than 90% compliance level in corporate governance and whether they were in the five highest companies with regards to the non-financial disclosure categories

Non-financial disclosure categories	Number of companies		
	2004	2005	2006
Environmental disclosure	2	2	3
Social disclosure	2	0	3
Forward-looking information	2	1	3
MD&A disclosure	3	2	4

An overall summary of the findings is provided in Table 5.16.

Table 5.16 Overall summary of non-financial disclosure categories

Non-financial disclosure categories	Number of reported elements		
	2004	**2005**	**2006**
Environmental disclosure (Table 5.2)	174	186	241
Social disclosure (Table 5.3)	162	187	199
Corporate governance (Table 5.4)	257	285	291
Forward-looking information (Table 5.5)	181	211	246
MD&A disclosure (Table 5.6)	322	356	382
Total	1 096	1 225	1 359

5.6 Summary

The extent of non-financial disclosure by the 22 mining companies over the three years, presented in this study, indicates that there was an increasing trend in non-financial disclosure in many of the companies although the disclosure level of some of the companies decreased or remained unchanged (Table 5.16). With regard to the categories of non-financial disclosure, the highest increase in the trend of extent of non-financial disclosure was observed in the forward-looking disclosure (2004-2005) (see Table 5.5) and environmental disclosure (2005-2006) (see Table 5.2). In general, there was a greater increase in the non-financial disclosure from 2004 to 2005 (11.8%) than from 2005 to 2006 (10.9%) (see Table 5.16).

Individually, Anglo Platinum Ltd was ranked the top company in both the environmental and social disclosure for the three years. Based on corporate governance disclosure level for the year 2006, Harmony and Implats were the highest. Sasol disclosed the most elements in forward-looking disclosure for all three years while Implats disclosed the same level as Sasol in 2005 only. With respect to MD&A disclosure, Implats and Mittal Steel SA Ltd in 2005 and Anglo American Plc, Gold Fields Ltd and Mittal Steel SA Ltd in 2006 were the companies which provided all the elements in the disclosure index. Companies which reported according to GRI showed an increasing trend towards the year 2006. However, none of the mining companies studied fully complied with the reporting requirements of the JSE Securities Exchange on corporate governance and integrated sustainability reporting based on disclosure index developed for this study.

CHAPTER SIX

Summary and Conclusions

6.1 Contribution of the research study

The non-financial disclosures that companies ought to report are vast. This disclosure emanates from regulators, policy-makers, professional accountancy bodies, academics, and various other interested groups and individuals. However there has been little documentation regarding what the South African mining companies actually report. This research study conducted on the South African mining companies is limited to certain aspects of the non-financial disclosure categories. This research is intended to fill a little of this void in literature. It extends sustainability reporting and corporate governance disclosures to include other non-financial disclosure categories and provides a comprehensive analysis of the extent and trend of non-financial disclosures in South African mining companies. The findings are intended to provide input to the general overview of the non-financial disclosures of South African mining companies.

6.2 Summary of findings

The amount of non-financial disclosures varies among the mining companies. In terms of the main topic coverage, the overall non-financial disclosure for all 22 mining companies showed an increasing trend over the years studied. However, there was a fluctuation in the trend of the non-financial disclosures when individual mining companies were considered. There was a greater increase in the extent of non-financial disclosures from 2004 to 2005 than from 2005 to 2006. The highest increase in non-financial disclosures was observed in the categories of forward-looking disclosure and environmental disclosure from 2004-2005 and from 2005-2006, respectively. Some mining companies made few disclosures in a significant proportion of the non-financial disclosure categories, while others made a high level of disclosure in all the categories. Taking each main topic in turn:

- The average percentages of environmental elements reported per company (36%, 41% and 50% for 2004, 2005 and 2006) indicated an improvement in the extent of environmental disclosure. Five percent of the environmental reporting elements

were the most commonly reported items by 20 companies (accounting policies for the recording of liabilities, provisions, contingent liabilities and catastrophe reserves) for the three years. One company (Anglo Platinum Ltd) disclosed all the elements and scored the highest disclosure level for the three years. Twenty-three percent (23%) (2004), 32% (2005) and 41% (2006) of the companies provided information on their environmental incidents and fines. Although this suggests that there is an improvement on companies disclosing their negative issues, more than half of the companies make no disclosures about the negative impact of their activities.

- Twenty-four percent (24%) of the companies showed a decreasing trend (2004-2006) in the extent of their social disclosures. Disclosure with regard to the description of policies or programs on HIV/AIDS is one of the most commonly reported items in the social category, 82% (2004), 86% (2005) and 91% (2006). Anglo Platinum Limited scored the highest social disclosure level for the three years. There were minimal disclosures on description of policies and guidelines, 14% (2004), 18% (2005) and 14% (2006), and incidents of violations involving the rights of indigenous people, 5% (2004), 0% (2005 and 2006). Fourteen percent (14%) (2004) and 5% (2005 and 2006) of the companies disclosed occurrences and fines for non-compliance with laws and regulations. This shows that the companies focus mostly on the disclosure of their affirmative societal policies and dealings.

- Disclosures on the board of directors are fundamental to the corporate governance statements. Forty-four percent (44%) of the corporate governance disclosure items related to the board of directors which was the most commonly reported item by the companies (77%). This suggests that information on the board of directors' composition is widely provided by the companies. Only one company (Implats) disclosed information on the number of shares held by the senior managers and managers' salaries for the three years studied. This demonstrates that the companies are not transparent with regard to the senior managers' compensation. Unlike in the other non-financial disclosure categories, only one company (Scharrig Mining Ltd) disclosed less than 5 elements in 2004.

- Seventy-three percent (73%) of the companies showed an increasing trend in their extent of forward-looking disclosures from 2004 to 2006. With the exception of Scharrig Mining Ltd in 2004, all the companies disclosed information with regard to their mission, broad objectives and strategy to achieve broad objectives. Disclosure with regard to the anticipated goals on return on assets, equity, and capitalization ratio was provided by only two companies (Mittal Steel SA Ltd and Sasol) in 2006. There was minimal disclosure with regard to the business plans on research and development, the possibility of substitute products or services to displace the products of the company, expected competitors and their standing within the industry and the anticipated growth or shrinkage in market share. It is observed that the companies are hesitant in disclosing information relating to future possible risks and competition.

- The highest increase (77%) in the trend analysis of the non-financial disclosure categories was observed in the MD&A under the years studied (2004-2006). Only one company (Scharrig Mining Ltd) provided information which was less than 25% of the MD&A disclosure items in 2004. Otherwise, all the mining companies disclosed most of the MD&A disclosure items presented in the disclosure index. This implies that the companies‘ managements are using this opportunity to elaborate their ideas on the overall quality, potential opportunities and variability of operations in the annual report of the companies.

- Less than 50% (2004 and 2005) and 59% (2006) of the companies referred to the GRI in their annual reports as the basis of their sustainability reporting. No correlation was observed between the categories of mining companies and the adoption of GRI.

- None of the mining companies studied showed 100% compliance with the reporting requirements of the JSE Securities Exchange on corporate governance disclosure in the years studied. The highest compliance level (97%) was achieved by Lonmin Plc in 2006.

- The other main topic relating to corporate governance disclosure is board of directors reporting. This accounted for 65% of all corporate governance disclosures, including risk management (19%) and internal control (16%). Among the three sections, maximum compliance (100%) by the companies was observed in the risk management disclosures followed by the board of directors disclosures (85%). This illustrates that companies focus on providing information with regard to their risk management.

- The compliance level of corporate governance disclosure varies greatly among the categories of mining companies. The diamond category scored the highest compliance level in 2004 while the gold category scored the highest compliance level in both 2005 and 2006. The lowest percentage of disclosure level was observed in the internal control section of the corporate governance disclosure.

- The highest compliance level, (93% (2004), 90% (2005) and 90% (2006)), with integrated sustainability reporting was scored by Anglo Platinum Limited for the three years under study. Forty-one percent (41%) of the disclosure elements presented in the disclosure index of integrated sustainability reporting are the most commonly reported elements and all are associated with confirmatory social disclosures. Among the most commonly reported elements is achievement of targets relating to black economic empowerment, which is a policy that mainly belongs to the companies operating in South Africa. In the analysis, it was observed that very few companies appeared to have provided disclosures with regard to major non-compliance, fines, and prosecution incidents relating to the social sustainability issues.

- The Gold category scored the highest compliance level in the integrated sustainability reporting section for the three years studied.

- No relationship can be inferred between the compliance level of corporate governance disclosures and the extent of disclosure in the other non-financial disclosure categories by the mining companies.

6.3 Conclusion

On the basis of the findings presented in this study, South African mining companies have succeeded in applying the triple bottom line (a requirement of King II) in their disclosure practices. A number of the mining companies stood out with an excellent non-financial disclosure level. There was a general increase in the extent of non-financial disclosure. However these disclosures varied greatly among the companies. The results of this study corroborate the Ernst and Young (2004:1-6) study that mining companies are disclosing environmental issues more now than any other time. Environmental disclosures showed the highest increasing trend (2005-2006) among the non-financial disclosure categories. This is because the industry is always under public and environmental groups' inquiry. The other increasing trend (2004-2006) was shown in the forward-looking disclosure category as the demand for future oriented information is growing by investors.

The study also provides some preliminary evidence on the nature of disclosures presented by the mining companies. More than half of the companies did not provide information with regard to their non-compliance issues. This situation may validate legitimacy theory in that companies hide sensitive information that could be damaging to their broad objectives (Antonites and de Villiers, 2003:4). Another observation is also that HIV/AIDS is one of the most commonly reported items because low levels of disclosure on HIV/AIDS by companies has previously resulted in serious condemnation (GIBS, 2006) and due to the seriousness of the effect of HIV/AIDS on the operations of South African mining companies (Davies *et al.,* 2002:25, 41).

Increased corporate governance disclosure carries with it potential benefits for companies, such as a reduction in the cost of capital. Hence, the South African mining companies have moved towards a comprehensive model of corporate governance reporting such as King II. The companies provided more disclosure with regard to the board of directors, and this is acknowledged by the study as the board is the most crucial part of the corporate governance system and is ultimately accountable and responsible for the performance and affairs of a company. Forward-looking disclosures by the South African mining companies mostly emphasized foreseeable business opportunities and not threats or risks. This finding is consistent with the study by Bochner (2000) that a company is valued and measured by the forecasted information it provides. The highest increasing trend (2004-2006) with

regard to the MD&A disclosure by the mining companies implies that the managements of the companies are using MD&A as a complementary disclosure to GAAP.

The reason for the increase in companies adopting the GRI as a non-financial reporting guideline is King II. Nevertheless several of the mining companies are still far behind the implementation of GRI as their non-financial reporting framework. No correlation was observed between the different mining companies‘ product categories and the adoption of GRI.

The results demonstrate that there was not a 100% compliance level of adherence with the reporting requirements of the JSE Securities Exchange on corporate governance and integrated sustainability reporting. In other words the mining companies did not fully comply with King II and the JSE SRI index. Among the sections of corporate governance disclosure, the maximum compliance level was observed in the risk management disclosure section. The reason for this might be the recognition that risk management disclosures could be a competitive advantage for a company, according to King II (2002:11). Although there was an increase in the average percentage of compliance on corporate governance disclosure by the mining companies, they are still far behind the maximum adherence to the corporate governance disclosures. Correspondingly, no mining company fully complied with the integrated sustainability reporting practices of the JSE Securities Exchange.

Generally, although the mining companies face obvious risks, they are better at disclosing positive rather than negative information. The reason for this is probably that they simply want to deal with the issues in a contained way rather than publicity to protect their image. There also exists variability among the reporting processes of the mining companies. Consequently, the mining companies are not compelled to fully disclose non-financial information. One common observation of all the mining companies was reporting on the issue that is most important to their specific nature of operations (environmental).

This study suggests that the usefulness of mining companies' annual reports will likely improve with better non-financial reporting. One solution to increase the non-financial disclosures by the South African mining companies is to make it mandatory through specific regulations. Another solution is to persuade companies to compare themselves with other companies within the same sector, for benchmarking reasons. By designating one company as a good example of non-financial reporting, a movement towards a good non-financial reporting system may be created. On the other hand, companies should also be allowed to experiment and be creative in order to ensure that innovative practices which may prove to be better in the future are not stifled.

6.4 Further study

The analyses and results reported here are based on observations for companies in one industry for three years. Hence, the results may not be representative of other industries and/or other time periods. An alternative future study would be to use the non-financial index and extend the research to compare the findings to other industries and time periods and would offer a more comprehensive analysis of the non-financial disclosure level. In general this research is an important contribution for assessing the degree of non-financial reporting by the South African mining companies for the years under study. Further study, therefore could be conducted by expanding the study to other industries, time periods and countries.

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Ethical Clearance Letter

RESEARCH OFFICE (GOVAN MBEKI CENTRE)
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14 NOVEMBER 2008

MRS. KF ADAGISH (206524686)
ACCOUNTING

Dear Mrs. Adagish

ETHICAL CLEARANCE APPROVAL NUMBER: HSS/0705/08M

I wish to confirm that ethical clearance has been approved for the following project:

"The nature and extent of non-financial disclosure in the South African Mining Industry"

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Yours faithfully

MS. PHUMELELE XIMBA

cc. Supervisor (Prof. LJ Stainbank)
cc. Mrs. C Haddon

Founding Campuses: Edgewood Howard College Medical School Pietermaritzburg Westville

Appendixes

Non-Financial Disclosure Index

This disclosure index is developed from the combination of the following sources:

- Global Reporting Initiative (GRI), 2002. Sustainability Reporting Guidelines.
- Global Reporting Initiative (GRI), 2005. GRI mining and metals sector supplement.
- United Nations Global Compact.
- Standard and Poor's, Transparency and Disclosure.
- Checklist used by Robb, *et al*. 2001.
- Checklist used by De Villiers and Barnard, 2000.
- Securities and Exchange Commission (SEC), 2003.
- Ernst and Young, 2004.
- Examples of forward-looking disclosures listed by the Talisman Energy Inc in their 2005 annual report.
- Checklist developed by Yaron, T. G., 2005.

This disclosure index was used to critically evaluate the extent, trend and compliance level of non-financial disclosures of the South African mining companies listed on the JSE Securities Exchange South Africa.

A. Checklist on the categories of non-financial disclosures

1. Disclosure on sustainability reporting		
A.	**Environmental Disclosure**	**Sources**
1	Environmental policy of the organization.	De Villiers and Barnard, 2000
2	Measurable targets in physical	De Villiers and Barnard, 2000

	units and rand amounts, where applicable, based on the environmental policy.	
3	Policies for assessing the eco-efficiency and sustainability attributes of products (e.g., recyclables, material use, energy use, toxicity, etc.).	GRI 2005
4	Energy uses.	GRI 2002 and 2005
5	Initiatives to use renewable energy sources and to increase energy efficiency.	GRI 2002 and 2005
6	Water uses.	GRI 2002 and 2005
7	Water sources and related ecosystems/habitats significantly affected by use of water.	GRI 2002 and 2005
8	Recycling and reuse of water.	GRI 2002 and 2005
9	Impacts on biodiversity associated with activities or/and products and services.	GRI 2002 and 2005
10	Changes to natural habitats resulting from activities and operations.	GRI 2002 and 2005
11	Objectives, programs, and targets for protecting and restoring native environments and species in degraded areas.	GRI 2002 and 2005
12	Green house gas emission.	GRI 2002 and 2005
13	Use and emissions of ozone-depleting substances.	GRI 2002 and 2005

14	Wastes from production, transportation and other activities.	GRI 2002 and 2005
15	Case studies where significant local emissions occur.	GRI 2005
16	Spills of chemicals, oils, and fuels.	GRI 2002 and 2005
17	Significant environmental impacts of principal products and services.	GRI 2002 and 2005
18	Incidence of and fines for non-compliance with all applicable regulations associated with environmental issues.	GRI 2002 and 2005
19	Accounting policies for the recording of liabilities, provisions, contingent liabilities and catastrophe reserves.	De Villiers and Barnard, 2000
20	Demonstrate its precautionary approach to environmental challenges.	United Nations Global Compact
21	Encourage the development and diffusion of environmentally friendly technologies.	United Nations Global Compact
22	Independent third party attestation of all environmental reporting.	De Villiers and Barnard, 2000
B	**Social Disclosure**	**Sources**
1	Total workforce by employment type, employment contract, and region.	GRI 2002 and 2005
2	Number of injury, occupational diseases, lost days, number of work related fatalities.	GRI 2002 and 2005

3	Description of policies or programs (for the workplace and beyond) on HIV/AIDS.	GRI 2002 and 2005
4	Training of employee.	GRI 2002 and 2005
5	Employee training on policies and practices concerning all aspects of human rights relevant to operations.	GRI 2002 and 2005
6	Policies preventing all forms of discriminations in operations.	GRI 2002 and 2005, and United Nations Global Compact
7	Description of policies on child labor.	GRI 2002 and 2005, and United Nations Global Compact
8	Description of policy to prevent forced and compulsory labor.	GRI 2002 and 2005, and United Nations Global Compact
9	Human rights training for security personnel.	GRI 2002 and 2005
10	Description of policies, guidelines, and procedures to address the needs of indigenous people.	GRI 2002 and 2005
11	Incidents of violations involving rights of indigenous people and actions taken.	GRI 2005
12	Community economic development planning processes.	GRI 2005
13	Programs for training workforce drawn from local communities.	GRI 2005
14	Policy on management systems, and compliance mechanisms for organizations and employees addressing bribery and corruption.	GRI 2002 and 2005, and United Nations Global Compact

15	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	GRI 2002 and 2005
16	Policy for preserving customer health and safety during use of products and services.	GRI 2002 and 2005
17	Number and type of instances of noncompliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches.	GRI 2002 and 2005
18	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	GRI 2002 and 2005
19	Significant incidents affecting communities during the reporting period.	GRI 2005
20	Resettlement policies and activities.	GRI 2005
21	Cases of occupational disease by type and programs to prevent occupational disease.	GRI 2005

	2. Disclosure on corporate governance	Sources
1	Governance structure of the organization, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organization.	GRI 2002 and 2005
2	The board of directors that are independent, non-executive directors.	GRI 2002 and 2005
3	Detail about directors.	Standard and Poor's
4	Detail about a chair man.	Standard and Poor's
5	Details about the role of the board of directors.	Standard and Poor's
6	List of board committees.	Standard and Poor's
7	List of board meetings.	Standard and Poor's
8	Number of shares in the company held by directors.	Standard and Poor's
9	Decision-making process of directors' pay.	Standard and Poor's
10	Specifics of directors' salary.	Standard and Poor's
11	Mission and values statements, internally developed codes of conduct or principles, and polices relevant to economic, environmental, and social performance and the status of	GRI 2002 and 2005

	implementation.	
12	Mechanisms for shareholders to provide recommendations or direction to the board of directors.	GRI 2002 and 2005
13	List of senior managers not on the board of directors.	Standard and Poor's
14	Back grounds of senior managers.	Standard and Poor's
15	Number of shares held by the senior managers.	Standard and Poor's
16	Manager's salaries disclosed.	Standard and Poor's
17	Details of the CEO's contract.	Standard and Poor's
18	Information generated by stakeholder consultations.	GRI 2002 and 2005

	3. Disclosure of forward-looking information	**Sources**
1	Mission, broad objectives and strategy to achieve broad objectives.	Robb, *et al*. 2001
2	Information concerning possible or assumed future results of operations, including descriptions of business strategy.	Robb, *et al*. 2001
3	Projected major goals and factors that are critical to successfully implementing strategies.	Robb, *et al*. 2001
4	The estimated amounts and timing of capital expenditures.	Talisman Energy Inc., 2005
5	Estimates of production and operations or financial performance.	Talisman Energy Inc., 2005
6	Anticipated goals on return on assets, equity, and capitalization ratio.	Robb, *et al*. 2001
7	Anticipated changes in financial position and why.	Robb, *et al*. 2001
8	Anticipated company's financial flexibility. I.e. Liquidity.	Robb, *et al*. 2001
9	Business plans on research and development.	Robb, *et al*. 2001
10	Possibility of substitute products or services to displace the products of the company.	Robb, *et al*. 2001

11	Expected competitors and their stand within the industry.	Robb, *et al*. 2001
12	Projected change in markets, competition or in technology.	Robb, *et al*. 2001
13	Anticipated competitive advantages and disadvantages.	Robb, *et al*. 2001
14	Anticipated growth or shrinkage in market share.	Robb, *et al*. 2001
15	Forecast information about the economy, company's industry and the company itself.	Robb, *et al*. 2001
16	Estimated intensity of competition in the industry.	Robb, *et al*. 2001
17	The likely of new regulations and legislation affecting segments.	Robb, *et al*. 2001
18	Plans for social and community development programs, including anticipated amounts of contributions.	Talisman Energy Inc., 2005
19	The merits or anticipated outcome of pending litigation.	Talisman Energy Inc., 2005

	4. Disclosure on management discussion and analysis	Sources
1	The core businesses of the company.	Yaron, 2005
2	Its long-term vision and the company's strategy for growth and shareholder value creation.	Yaron, 2005
3	The resources, financial and non-financial, that are required to execute strategy and achieve desired results.	Yaron, 2005
4	Present company's performance and the underlying reasons for it.	Yaron, 2005
5	Opportunities and challenges for the short long and term.	SEC 2003
6	The principal business risks and how the company identifies and manages them.	SEC 2003 and Yaron 2005
7	Non-financial measures, in addition to financial factors, in analyzing the business.	SEC 2003 and Yaron 2005
8	Detailed discussion of the events and decisions that gave rise to restructuring plans, and the reasonably likely material effects of management's plans on financial position, future operating results and liquidity.	SEC 2003
9	Information about the quality and potential variability of the company's earnings and cash flow.	SEC 2003
10	Revenue recognition practices that involve the most sensitive judgments and material consequences.	SEC 2003

11	Company's critical accounting policies. i.e. most difficult and judgmental estimates, their most important and pervasive accounting policies and those areas most sensitive to material change from external factors.	SEC 2003
12	Risks or uncertainties necessary for an understanding of the financial condition, changes therein, or results of operations.	Yaron, 2005
13	Significant projects that have not started generating operating revenues, which explicitly include land use or political or environmental issues.	Yaron, 2005
14	Macro-economic matters in relation to the operations of the company.	SEC 2003
15	Effect of interest rate changes.	SEC 2003
16	Location of the company in relation to accessibility of raw materials, customers…etc	SEC 2003
17	Principal products and services.	SEC 2003
18	Industrial specific factors.	SEC 2003
19	Innovation and technological advancement.	SEC 2003
20	Competitive advantages and disadvantages.	SEC 2003

B. Checklist of companies' non-financial disclosures developed from King II and JSE SRI Index

The following check list was used to find out the compliance level of the South African mining companies, listed on the JSE, with the JSE Securities Exchange South Africa reporting requirements.

1. Disclosure on corporate governance reporting		
A	**Disclosure with regard to the Boards and Directors**	**Sources**
1	Board members' names.	King II
2	List of board members - including current position, previous position, the date the director joined the board. I.e. along with their CV.	King II
3	Charter setting out about board member's responsibilities- including about strategic plans, policies and director selection and evaluation.	King II
4	Details about the roles of the chairperson and chief executive officer and justification if their roles are combined.	King II
5	Classification of directors as Executive, non-executive or independent directors.	King II
6	A list of Board Committees.	King II
7	The existence of an audit committee.	King II
8	The names of and a brief description of the audit committee's responsibilities.	King II

9	The number of meetings held by the audit committee.	King II
10	The existence of a nomination committee.	King II
11	The names of and a brief description of the nomination committee’s responsibilities.	King II
12	The number of meetings held by the nomination committee.	King II
13	The existence of a remuneration/compensation committee.	King II
14	The names of and a brief description of the remuneration /compensation committee’s responsibilities.	King II
15	The number of meetings held by the remuneration/compensation committee.	King II
16	The specifics of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and all other benefits.	King II
17	The remuneration disclosure on an individual basis should apply to all share schemes and any other incentive schemes proposed by management.	King II
18	A statement of remuneration philosophy on the development of policy on executive and director remuneration.	King II
19	The number of board and committee meetings held in the year.	King II

20	Details of attendance of each director in the meetings.	King II
B	**Disclosure with regard to the risk management**	**Sources**
1	A statement on risk management that should address the company's exposure to at least: physical and operations, human resource, technology, business continuity and disaster recovery, credit, and market and compliance risks.	King II
2	General statement on how the company has dealt with risk and control.	King II
3	The board is accountable for the process of risk management and the system of internal control.	King II
4	The ongoing process on identifying, evaluating and managing the significant risks.	King II
5	Adequacy of the system of internal control in place in mitigating the significant risks faced to an acceptable level.	King II
6	A documented and tested process in place that will allow the company to continue its critical business process in the event of a disastrous incident impacting on its activities.	King II
C	**Disclosure with regard to internal audit or internal control**	**Sources**

1	The terms of reference of the audit committee and its compliance with its terms of reference.	King II
2	The number of times an internal audit being conducted in a year.	King II
3	Confirmation on the effectiveness of the established internal control systems.	King II
4	Name of the company's external auditing firm and a reproduction of their report.	King II
5	Details when non-financial aspects of reporting are subject to external validation.	King II

2. Disclosure on integrated sustainability reporting		
1	Nature and extent of social, transformation, ethical, safety, health and environmental management policies and practices.	King II
2	About the environment in which the company operates.	King II and JSE SRI Index
3	Quantitative comparable data on major environmental issues relevant to the company.	JSE SRI Index
4	Demonstrate commitment to set objectives and targets for the management of the company's direct environmental impacts.	JSE SRI Index
5	Demonstrate commitment in applying resource-efficiency targets, programs appropriate to the company's size, business and geographic spread.	JSE SRI Index
6	Commitment to promote innovative research, training and technology cooperation in the search environmentally-friendly solutions for the company's environmental impact.	JSE SRI Index
7	Major environmental violations or non-compliance prosecution, fines and accidents.	JSE SRI Index
8	Implementation of corporate social responsibility strategies which are aligned to the companies overall business strategy and which reflect on going commitment from the company.	JSE SRI Index

9	Documented targets, initiatives or programs relating to corporate social investment, capacity building, local procurement programs and job creation opportunities.	JSE SRI Index
10	Demonstrate commitment to stakeholder involvement on social sustainability issue.	JSE SRI Index
11	Quantitative comparable data on major social sustainability issues relevant to the company.	JSE SRI Index
12	Development of human capital, employee upliftment.	King II
13	Human capital development based on the number of staffs details on demographics, age, corporate training initiatives, employee development etc.	King II
14	Systems in place to achieve resolutions of disciplinary or grievance issues evidencing a clear ability to deal with dishonesty, corruption or unethical behavior by employees or people related to the company.	JSE SRI Index
15	Providing, monitoring and auditing safe systems for reporting of unethical or risky behavior.	King II
16	Achievement of targets relating to black economic empowerment, employment equity, procurement and skills development.	King II and JSE SRI Index
17	Demonstrate commitment to set objectives relating to equal	King II and JSE SRI Index

	opportunities, non-discrimination and empowerment.	
18	The company's formal procurement policies that take into account black economic empowerment.	King II and JSE SRI Index
19	The HIV/Aids strategy plan and policies the company has in place to address and manage the potential impact of HIV/Aids on the company.	King II and JSE SRI Index
20	Charitable donations, active community relations.	JSE SRI Index
21	Ensuring that core labor standards are met, such as the avoidance of child or slave labor.	JSE SRI Index
22	Whether it has developed and implemented a definitive set of standards and practices in the company based on a clearly articulated code of ethics.	King II
23	Demonstrate its commitment to its code of ethics (adherence).	King II
24	A statement by the directors on the extent that the ethical standards are being met.	King II
25	Efforts made to reduce work place accidents, fatalities and occupational health, and their safety incidents.	JSE SRI Index
26	Demonstrate as part of their objectives the integration of safety, health and Environment issues into their sustainability policies and procedures.	King II

27	Major non-compliance, fines, prosecution incidents relating to the social sustainability issues.	JSE SRI Index
28	Disclosure of non-financial should be governed by the principles of reliability, relevance, clarity, comparability, timeliness and verifiability with reference to the Global Reporting initiative.	King II