

An evaluation of the reporting on ethics and integrity of selected listed motor vehicle companies

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ABSTRACT

Preserving the earth for future generations is a growing concern and society has moved their focus from short-term profits to long-term sustainability. Conventional financial reporting is no longer satisfying the need for information on good corporate business operations. Investors and stakeholders require more information on non-financial activities. Due to recent scandals, society also requires more information on anti-corruption actions.

Sustainability reporting, often also referred to as governance reporting, focuses on economic, environmental and social aspects. Although not mandatory in all countries, the notion is on the increase. Various global institutions released reporting guidelines that companies can use to report on the triple bottom line aspects. Reporting according to the guidelines is recommended to ensure that stakeholders obtain the information required to make investment decisions. There is also a growing need for transparent unbiased company information, indicating areas of irregularities and indicating that there is an active fight against corruption.

This content analysis evaluates companies' sustainability reporting on sensitive aspects such as ethics, integrity and anti-corruption. A checklist was compiled and information obtained from company sustainability reports were used to complete the checklist. The researcher evaluated whether companies report on ethics, integrity and anti-corruption in a transparent manner as required by greater society.

The results of the evaluation indicate that companies understand the importance of the governance aspects such as ethics integrity and anti-corruption. Most of the companies also provide training on the relevant codes, policies and procedures to ensure that the employees are familiar with the rules and can actively take part in the aim to operate in a socially responsible manner. The disclosure on corruption-related incidents within the companies is poor and not enough information is evident from the reports.

Keywords: Sustainability, Global Reporting Initiative, ethics, integrity, anti-corruption, TBL, CSR, integrated reporting

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LIST OF ABBREVIATIONS

A4S	Accounting for Sustainability
CAA	Clean Air Act
CDP	Carbon Disclosure Project
CERES	Coalition for Environmentally Responsible Economies
CR	Corporate Responsibility
CRC	Carbon Reduction Commitment
CREP	Corporate Responsibility for Environmental Protection
CSR	Corporate Social Responsibility
CWA	Clean Water Act
DMA	Disclose on Management Approach
ELV	End of Life Vehicles
ESG	Environmental, Social and Governance
GAS	German Accounting Standards
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GSC	German Sustainability Code
G3	Third generation guidelines
G4	Fourth generation guidelines
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IIRC	International Integrated Reporting Committee
ILO	International Labour Organisation
IR	Integrated Reporting
ISO	International Standard for Organisations
KPI	Key Performance Indicator
MCS	Minister of Corporate Affairs

MNC	Multinational Corporations
NRE	New Economic Regulations Act
OECD	Organisation for Economic Co-operation and Development
PRTR	Pollutant Release and Transfer Register Law
SASB	Sustainability Accounting Standards Board
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
SR	Social Responsibility
TBL	Triple Bottom Line
TRI	Toxic Release Inventory
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNGCO	United Nations Global Compact Office
USA	United States of America
VW	Volkswagen
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Countries over the world are working towards sustainable levels in growth rates, while maintaining a healthy share of the market. Companies have to present their products in such a way that investors will consider it a valuable investment that can contribute to long-term wealth. Presenting the company information can be challenging as investors have moved their focus from short-term profitability to long-term sustainability (Hughen, Lulseged & Upton, 2014:57). Reporting is used as a tool to present information to investors. Financial reporting often focuses on short-term profitability and not on long-term issues such as the health of the community, the resources utilised and the natural environment. Issues such as sustainability have not been reflected in financial reports and have created frustration amongst modern-day society who requires more information on non-financial matters. Companies are now expected to report on sustainability issues and are experiencing pressure through regulation, as well as from shareholders (English & Schooley, 2014:26). Companies have resorted to sustainability reporting, indicating economic, social and environmental performance.

Several factors have served as motivation for companies to change the reporting format, including regulation, investor or customer expectation, internal commitment to sustainability, better risk management, increased consumer and employee loyalty, goodwill received from transparency and the desire to remain competitive (Lynch, M.F., Lynch, N. & Casten, 2014:20). In order to make informed decisions, investors also require more non-financial, unbiased and reliable information when considering potential investment opportunities. The reporting evolution has seen companies report on the financial performance over a short period of time, which was formalised by financial reporting according to global standards. Global standards tend to ensure that investors can perform more comprehensive comparisons between companies.

Transparency in reporting has become so important that shareholders expect companies to not just report, but also disclose sensitive information, including ethics, integrity and anti-corruption aspects. Sustainable reporting is sometimes referred to as environmental, social and governance reporting. It has become so significant that countries are scored on their perceived level of corruption. Any indication of corruption can be detrimental

when trying to attract foreign investors to invest in a country. This places tremendous pressure on a company that needs to portray their product and offering to the investors (Zickiene & Juozaitiene, 2013:24).

Sustainability reporting has evolved from being voluntary to becoming mandatory and is not only required by regulators, but also by stakeholders and investors (English & Schooley, 2014:26). Terms that come to the fore when reporting include triple bottom line (TBL), corporate and social responsibility (CSR) and corporate responsibility (CR) (Owen, 2013:344).

There are various organisations, frameworks and guidelines that companies can use to report and disclose information. The global reporting initiative (GRI) is a non-profit organisation that operates globally and is independent from all other organisations. It was formed in 1997 by a US-based organisation, Coalition for Environmentally Responsible Economies (CERES). The GRI is funded with donations, project grants and sponsorships (English & Schooley, 2014:27). In 1999 the GRI launched a set of guidelines to assist companies in disclosing information as required by stakeholders, investors and regulatory boards. The GRI released the G3 sustainability reporting framework in 2006 and more recently the G4 or 4th generation of guidelines (Owen, 2013:344).

One of the frameworks that is used in the United States of America (USA), is the Sustainability Accounting Standards Board (SASB). SASB was established in 2011 and is a non-profit organisation. Publicly listed companies use the SASB accounting standards to disclose sustainability information that is already highly in demand (Schooley & English, 2015:24). Another framework is the Carbon Disclosure Project (CDP) which is also a non-profit organisation. The CDP is financed through sponsorships, donations, government and partners, and their focus is on managing environmental risks. The CDP utilises information that is disclosed by companies, and attempts to put a measurement in place and manage future risks.

1.2 PROBLEM STATEMENT

Globalisation opened the market to the world and companies now compete in international markets. Considering financial scandals such as Cendant (1998), Xerox (2000), Enron (2001), AIG (2004), Lehman Brothers (2010) and more recently, the Volkswagen (VW) scandal in 2015, it is evident that an era of financial fraud has begun

and has become a matter of concern in modern-day society (Mironiuc, Chersan & Robu, 2013:475). This has created a greater need for transparency in reporting on financial and non-financial information (Mironiuc *et al.*, 2013:475).

In the motor vehicle manufacturing sector, there are growing concerns regarding noise pollution, waste disposal problems, impact on air quality and the environment (Kehbila, Ertel & Brent, 2010:454). These problem areas focus on sustainability, and therefore also the quality of disclosure in sustainability reporting (Kehbila *et al.*, 2010:454).

There are various frameworks of reporting, such as GRI, CDP and SASB. Although none of these are mandatory, there seems to be a large movement towards companies adopting these reporting initiatives and performing sustainability reporting according to the guidelines, in order to avoid fraudulent acts and reputation damage or as acts of corporate citizenship or publicity campaigns (Pandit & Rubenfield, 2016:55). The GRI states that assurance of a report can provide greater confidence in the disclosed information, although having a report validated is also not mandatory. In a study done by Pandit and Rubenfield (2016:55) on the hundred smaller S&P 500 companies, they point out that only 35% of companies disclosed information on ethical practices, compliance and governance. Although most companies in the automotive sector have their reports validated by external independent authorities, this does not always ensure ethical behaviour or the integrity of the information provided. Volkswagen provided information in a Volkswagen Sustainability report during 2014 and had it validated by PricewaterhouseCoopers and was still caught on 18 September 2015 when they admitted to introducing software aimed at cheating tests on gas emissions by their diesel vehicles.

If all companies ensure transparency of their business practices and communicate ethics, integrity and corruption as such, areas of irregularities will become clear. All wrongdoing could be eliminated, depending on the validity and integrity of the data supplied by an organisation. According to Russo-Spena, Tregua and De Chiara (2016:2–3) CSR reporting remains a dynamic and controversial domain, where authors focus on different aspects. They also urge caution towards companies who manipulate their disclosure and only present positive actions or results or provide a so-called “greenwashed” report, which directly implies that companies do not disclose all information and that areas that still need improvement are not reported.

In this study, the aim was to investigate the reports of companies listed under the motor vehicle manufacturing sector in different countries and to determine what type of reporting system these companies use, which could include annual reports, sustainability reports, a combination of the two, or their most recent integrated reports. The type of report will also link to the framework it is based on. The researcher of this study set out to determine if these companies elaborated upon aspects such as ethics, integrity and anti-corruption when producing integrated or sustainability reports, or if they only reported on the minimum criteria to comply with listing criteria.

Outcomes of the study

The outcomes of this study include a better indication on the level of reporting on important aspects such as ethics, integrity and anti-corruption, which is closely associated with governance and transparency.

- *Individual level* – The level of reporting on important aspects that can be used by the investor looking at future investments is highlighted. The comparison indicates whether companies tend to disclose sensitive information or keep this less transparent.
- *Organisation level* – The findings can be utilised as a benchmark to companies to determine whether or not the information provided is acceptable and to the satisfaction of the shareholder, investor or stakeholder, and whether the level of disclosure is what is expected.
- *Literature level* – Insight is provided into the levels of reporting on sensitive information that can either expose a company or enhance it to create a more transparent representation.

1.3 RESEARCH OBJECTIVES

1.3.1 Main objectives

The main objectives during this research was to evaluate the reporting on ethics and integrity of companies in the motor vehicle manufacturing sector, compare the reports, as well as investigate the level of reporting on the aspects such as ethics, integrity and anti-corruption.

1.3.2 Secondary objectives

Secondary objectives during this research included:

- defining the significance of sustainability reporting according to the literature;
- describing the format of reporting in the motor vehicle manufacturing sector;
- determining whether companies reported on the G4 guidelines for standard reporting on ethics and integrity; and
- determining whether companies disclosed sensitive issues such as corruption.

1.4 RESEARCH METHOD

An ethnography type of research, as well as a mix of qualitative and quantitative methods were used by the researcher in this study. According to (Creswell, 2007) an ethnographic study focuses on the behaviour of the member of a specific group, such as the members of the sector under study. The study includes fixed aspects, which lean towards the quantitative, but is also be open-ended, as the answers to the questionnaire that the researcher compiled point to other areas and information as well.

Content analysis was used as a research method, and a number of units were analysed. The analysis focused on documents and records of the selected companies, and boundaries were clearly demarcated. Data were also analysed for regularities (Welman, Kruger & Mitchell, 2005:194). Content analysis was conducted on the motor vehicle manufacturing sector, where twenty companies within the motor vehicle sector functioned as a representative sample.

A cross-sectional research approach was followed, where the cohorts were examined at a specific time. The study was not repeated over a period of time. The researcher utilised a descriptive form with the aim to decode and translate the phenomena (Welman *et al.*, 2005:88). Pre-determined criteria based on the GRI G4 guidelines are listed, and information from companies was obtained from the integrated or sustainability reports from each company. The most recent reports available was obtained.

1.4.1 Literature review

Insight was gained from previous studies to eliminate duplication. The sources that were used were secondary and were obtained from journals, articles, the internet, commercial

papers, Google Scholar, Ebscohost and guidelines from governing bodies such as the GRI, SASB, International Integrated Reporting Committee (IIRC), CDP and United Nations Global Compact. Keywords in this study include GRI, TBL, sustainability, integrated reporting, ethics, integrity, corruption, corporate social responsibility and sustainability reports.

1.4.2 Empirical research

The motor vehicle manufacturing sector functioned as the research population. Twenty motor vehicle manufacturers that are listed companies and produce integrated reports or financial and corporate social reports, were identified through random selection.

A list of pre-determined criteria based on the GRI G4 guidelines was drawn up. The G3 guidelines were not acknowledged, as ethics and integrity were not required fields for these guidelines.

Data collected from the reports were used to obtain biographical information such as the country that the parent holding company is based in, other brands that form part of the parent holding company, and which type of report is used for annual reporting. The reporting guidelines that were used to prepare reports during the reporting period were also evaluated.

The type of information that the company provided was compared to the requirements as per the checklist. Only specific aspects (ethics, integrity and anti-corruption) were selected, as the report as a whole was not analysed, and the exact data were analysed as this was the aim of the study. No assumptions were made. The pre-determined criteria ensured that the same data were analysed based on the criteria. Reporting aimed to capture the essence of the content and recurring themes, and there was no circular linkage, as the questions did not change in relation to new leads while the data were being analysed.

Ethical considerations included honesty and caution against plagiarism. Honesty is vital to create trust and transparent communication, as well as to add credibility to the research outcomes (Walliman, 2011:43). All information obtained through literature research was acknowledged. Information was conveyed honestly and scientific objectivity was maintained at all times. Caution was used not to disclose sensitive information that could be published and can cause harm to the companies. Findings of the reports were

displayed in context and individual companies were not pointed out as not conforming to the guidelines. The researcher acted with the required level of competence and was guided by a supervisor.

1.5 CHAPTER OVERVIEW

Chapter 1 – Introduction and problem statement. The introduction and background to the study is introduced in the first chapter, and the research objectives and method of obtaining the data are disclosed.

Chapter 2 – Literature review. The reason for integrated reporting or sustainability reporting as an international concept was investigated for this chapter. The researcher also aimed to gain more insight regarding whether companies disclosed vital and sensitive information.

Chapter 3 – Empirical study. For the purposes of this chapter, the focus was on the formation of the criteria that were used to compare certain aspects of the reports. Information was obtained from companies within the population and the data obtained were analysed. The results were discussed in order to answer the problem posed in the problem statement as well as to reach the proposed objectives.

Chapter 4 – Conclusion. A conclusion was formulated and recommendations were made based on information obtained during the study.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

For the purposes of this chapter, the previous literature regarding sustainability reporting and why this is important in modern-day accounting were reviewed. What sustainable reporting consists of, whom it aims to satisfy as well as the qualities of a good sustainable report were investigated. A number of frameworks available for companies to work from were reviewed and information regarding this is provided. The new concept of integrated reports, which is emerging as a form of reporting, was also reviewed and information is included on the council developed for this type of reporting. The focus is on the reporting principles in different countries and what the specific requirements in each country of the sample companies are. The chapter concludes with an emphasis on reporting on social aspects such as ethics, integrity and corruption, which is closely related to the governance.

The concept of accounting for sustainability (A4S) was set up by his Royal Highness, the Prince of Wales in 2004. One of the problems preceding the A4S project was that financial systems focused on short-term financial performance rather than the health of communities and the environment. Companies and stakeholders understand that the goal should be to work towards long-term sustainability of economic, social and environmental factors. The purpose of the A4S project was to ensure that the concept of sustainability is built into the DNA of every company and that the focus is not on what the company does today, but also in future (His Royal Highness The Prince of Wales, 2015). Consequently, triple bottom line (TBL) or sustainability reporting emerged and has since become a growing trend (Mintz, 2011:26). Companies are expected to report on the TBL and it consists of the following three areas:

- *Economic responsibility* – Company performance, profit or loss, job creation, and procurement practices.
- *Social responsibility* – Community involvement, health and safety, human rights, working conditions, and governance (ethics, integrity and anti-corruption).
- *Environmental responsibility* – Biodiversity, energy, emissions, and resources.

In Figure 2-1 the three areas and the integration between the three to create sustainability are depicted.

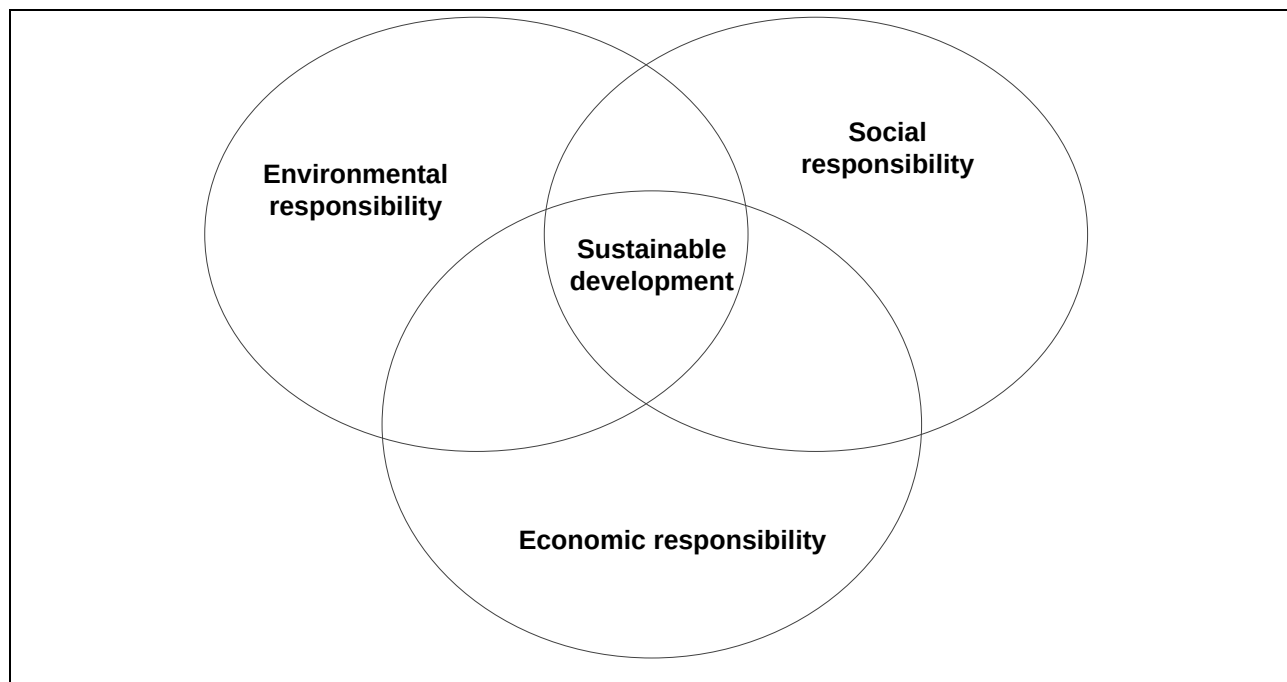


Figure 2-1: Components of the triple bottom line

Source: SRI Connect (2016)

TBL reporting portrays information to stakeholders, employees, community and investors (SRI Connect, 2016). Various frameworks were formed to enhance the reporting as variability of reports made it difficult to compare information from different companies (Mintz, 2011:26). There are also other terms for TBL reporting, such as sustainability, corporate and social responsibility, corporate responsibility and environmental, social and governance reporting (ESG) (Siew, 2015:181). For the purposes of this study, the researcher refers to it as sustainability reporting.

Many companies found that reporting on financial information only, did not satisfy the needs of the community, customers, investors and other stakeholders and there was a growing need to get more information regarding the overall performance of companies, which include financial and non-financial information (Hughen *et al.*, 2014:57).

2.2 SUSTAINABILITY REPORTING

Stakeholders and investors were shocked by the financial scandals after the Enron scandal, as well as the VW scandal, which opened the eyes of the investors, stakeholders and general public. Investors then moved their focus to financial as well as non-financial

information to make investment decisions (Hughen *et al.*, 2014:57). The term “sustainability” is widely used with the understanding that it not only places focus on growth and ensures economic welfare to all sections of society, but also protects the environment and eco-systems (Godha & Jain, 2015:63). Sukitsch, Engert and Baumgartner (2015:7) refer to sustainability as a combination of economic success, protection of the environment, and social responsibility. Companies indicate their commitment to sustainability with sustainability reports.

Corporate social responsibility (CSR) focuses on improving the workplace and community, while reducing the impact on the environment (Hughen *et al.*, 2014:57). This places emphasises on environmental issues such as climate change, natural disasters, and scarcity of natural resources. It not only emphasises the focus on environmental issues, but also social issues such as the workplace, community, and overall accountability (Junior, Best & Cotter, 2014:1).

Although sustainability reporting is still in its early stages, it is not likely to disappear soon (Tschopp & Huefner, 2015:565). It is predicted to become an integral part of future reporting frameworks, and does not aim to replace any of the existing accounting practices, but is merely used as another form of environmental reporting (Sukitsch *et al.*, 2015:11506). The definitions of sustainability reporting found in the literature are listed in Table 2-1.

Table 2-1: Definitions of sustainability reporting

Definition	Source
The communication process disclosing information on social and environmental effects and economic actions to interested groups and society at large.	(Russo-Spena <i>et al.</i> , 2016:3)
The practice of disclosing information to internal as well as external stakeholders on organisational performance aimed at sustainable development.	Global reporting initiative (GRI) (Godha & Jain, 2015:64)
Published reports providing a picture to stakeholders of the corporate position on activities on economic, environmental and social extents.	World Business Council for Sustainable Development (Godha & Jain, 2015:64)
Measuring, disclosing and being accountable for organisational performance aimed at sustainable development and portraying this to all stakeholders.	(Mintz, 2011:27)
An integration of a company's activities on economic, social and environmental aspects.	(Fifka & Drabble, 2012:457)
The evaluation and reporting of an entity's activities with regard to the impact on current stakeholders and future generations.	(Roth, 2014:63)
Sustainability reporting is used to present the organisation's governance model, strategy, values and commitment to the global sustainable economy.	(Pandit & Rubenfield, 2016:54)

Sustainability reports can be used as a tool to assist companies in setting goals, measuring their output or performance, and managing the process towards sustainability. It can also be viewed as a strong communication tool, portraying the economic, social, environmental and governance performance for both positive as well as negative actions

(Romero, Lin, Jeffers & DeGaetano, 2014:68). According to Russo-Spena *et al.* (2016:1) sustainability reporting amongst multinational corporations (MNCs) are also used as a tool to communicate their strategies. It is often viewed as a choice to justify their moral actions and indicate their commitment to sustainability. Continuous efforts are being made to produce clear and verifiable data as opposed to traditional financial statements. In the automotive industry, the sustainability issues are felt strongly. There are different stakeholders with different expectations, such as political and social groups, demanding more eco-friendly cars, and the customer and employee groups demanding salaries, labour safety and cleaner production (Sukitsch *et al.*, 2015:11505).

A definite need for sustainability reporting exists and companies are aware of this growing need. In principal, these reports are used as vessels of transparency and accountability. It indicates the company's commitment and intent to build on long-term sustainability. Companies also use this as a tool to engage stakeholders, influence investors and focus on internal procedures. However, there are also benefits to enhancing business performance and image, improving efficiency, creating new markets through differentiation, and managing with integrity (Godha & Jain, 2015:64). According to Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez (2014:56) some of the benefits are raising investor confidence, increase liquidity of shares, obtaining more funding, attracting interest and reducing the cost of capital. It also leads to integrated thinking, forcing companies to consider the long-term impact of decisions on capital (Roth, 2014:64), and the interdependencies between social, environmental and financial actions and impacts (Bouten & Hoozée, 2015:375).

More benefits, as indicated by the GRI include:

- linking financial and non-financial information;
- aiming towards long-term strategic and business plans;
- highlighting risks and opportunities;
- curbing negative impact on society and environment;
- providing ease of comparison between companies and sectors;
- benchmarking and measuring performance against laws, codes, values and norms;
- highlighting a company's true values;

- building a good reputation; and
- improving brand loyalty.

It is important to issue a report that addresses the sustainability issues in a proper manner and in order to do this, the report should have certain qualities. These qualities include transparency, completeness, truth and clarity, substance, continuity and comparability. It is also important that the report reflects relevant information, corporate governance, honesty, risk management and reputation issues (Sukitsch *et al.*, 2015:11508). Transparency refers to the complete disclosure of information to enable a stakeholder to make an informed decision. Some of the stakeholders questioned the integrity of the information published in these reports and companies responded by having their reports validated through independent external bodies to improve the organisation's credibility and reliability. Validation of reports was also encouraged by the GRI. As mentioned, previous studies by Junior *et al.* (2015:3) indicated that an independent validation of the sustainability report caused increased credibility. The credibility was even better if validation was done by a well-known accounting firm, as opposed to a specialist consultant. Validation of sustainability reports is a fairly new concept and is not regulated in most countries (Junior *et al.*, 2014:3). There is a lack of criteria for auditing firms to perform the validation (Romero *et al.*, 2014:71).

As companies move towards sustainability and sustainability reporting, it remains a challenge due to voluntary disclosure in some countries. When disclosing information, companies will have to consider the effect of the disclosure of information. Some information could result in a cost to the company and the company should consider the marginal benefit when disclosing information (Frias-Aceituno *et al.*, 2014:59). The level of reporting also differs in relation to the exact aspects reported on. Aspects such as risk and control management, brand and reputation issues and ethical dimensions are difficult to measure and consequently to report on. Sustainability reporting should not be seen as a public relations instrument, but rather as a guidance tool to the company (Sukitsch *et al.*, 2015:11509).

2.3 SUSTAINABILITY FRAMEWORKS

2.3.1 Carbon Disclosure Project

The CDP is a non-profit, independent organisation involved with companies who disclose their greenhouse gas emissions, water usage and climate change strategies. It holds one of the largest databases of information in the world. The CDP's scores assess a company's reports based on the quality and completeness of all the disclosures made in the report (Siew, 2015:183). According to Bartels, Fogelberg, Hoballah and Van Der Lugt (2016:26) the CDP is a reporting system that allows companies to disclose information risks associated with climate change, opportunities, strategies and performance and the way they use, consume and affect natural resources, which also includes water and forestry. The influence from the CDP has led to a global movement for companies to measure and disclose their greenhouse gas (GHG) emissions, climate-change risk and water strategies (Bartels *et al.*, 2016:26).

2.3.2 Greenhouse Gas Protocol

The GHG Protocol is an accounting tool for all governments and companies to understand, measure and manage their greenhouse gas emissions. It was formed in accordance and partnership with the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). A group of representatives from industries and environmental groups was convened to guide the standards development process. The first set of standards was published in 2001. An array of calculation tools, as well as extra guidance documents followed the first release, enabling companies to measure and disclose GHG emission information. The partnership is working with concerned parties all over the world to build an effective programme to address climate change risks and to encourage developing countries to adopt the GHG Protocol as the basis for climate change strategies (Greenhouse Gas Protocol, 2016).

2.3.3 Sustainability Accounting Standards Board

SASB provides a fairly new guideline, which is providing new direction in terms of sustainability reporting. SASB was established in 2011 and is a non-profit organisation, providing sustainability accounting standards. The standards allows companies to report on non-financial sustainability aspects. The SASB focuses on information that has already been required by the Security and Exchange Commission (SEC) from United

States of America listed companies, and will not be treated as additional reporting requirements. The standards are focused on industries and provide investors, stakeholders and analysts with information on the company's risks and opportunities (Schooley & English, 2015:24). The aim of SASB is to develop standards for 88 industries in 10 sectors (Lynch *et al.*, 2014:22), and their mission is to provide stakeholders with more useful information and in the process increase corporate performance with respect to environmental, social and governance aspects (Schooley & English, 2015:24). The SASB set out to develop industry-specific sustainability accounting standards (Lynch *et al.*, 2014:22).

The SASB standards are developed during a three-phase process. During phase 1, the preparation phase, the research team gathers information for an industry to determine if they have both investor impact and economic impact. A materiality map is drawn up, where materiality is based on the SEC materiality principles. During phase 2, the development phase, an industry working group is formed with representatives from different sectors. An exposure draft is compiled containing accounting metrics and technical protocols for each material sustainability aspect. During phase 3, the draft is released to the public for a period of 90 days. Feedback is worked into the draft after which it is reviewed by the SASB's Standards Council for consistency, completeness and accuracy. It is then released to the public again for a period of one year, where after the draft is updated and released as a new standard (Schooley & English, 2015:25).

2.3.4 ISO 26000

ISO 26000 is a standard providing voluntary guidelines with regard to social responsibility. The guidelines can be used by all types of companies in both the public and private sector, and focuses on socially responsible operations in order to provide society with information on how to operate responsibly. ISO has various memorandums of understanding with institutions such as the International Labour Organisation (ILO), United Nations Global Compact Office (UNGCO) and Organisation for Economic Co-operation and Development (OECD). The content of the ISO 26000 guidelines is very similar to the aspects included in the GRI reporting guidelines. The ISO 26000 can be used as a structure to align activities, which will then be reported at a later stage (GRI and ISO 26000, 2010:4).

The seven core aspects included in the ISO 26000 guidelines are organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement and development. ISO 26000 emphasises to not just continue producing products for customers without considering the impact on the environment, and aims to create a global understanding of what social responsibility entails and how to operate in such a manner (ISO 26000 Social Responsibility, 2010:5).

The type of information that ISO 26000 provides includes concepts, terms, definitions, trends and characteristics, as well as principles and practices for social responsibility (SR). ISO 26000 also provides information with regard to the implementation and promotion of SR behaviour and how to obtain community commitment. It can be used as a powerful tool, promoting best practice and helping companies move from good intentions into action (ISO 26000 Social Responsibility, 2010:9).

2.3.5 United Nations Global Compact

The UN Global Compact was launched in July 2000, and acts as a platform for sustainable corporate policies and practices. There are 10 principles falling under the headings of human rights, labour, environment and anti-corruption. The two main objectives are to achieve the 10 mainstream principles in business activities and catalyse actions to support United Nations (UN) goals. UN Global Compact is a voluntary requirement relying on the public to be accountable and disclose information transparently. It relies on financial contributions made by companies and has provided a scale with suggested contributions based on annual sales revenue.

The 10 principles set forth by the UN Global Compact encourage companies to embrace, support and endorse the values. The principle that is most applicable to this study is the tenth, which focuses on anti-corruption. This principle requires businesses to actively work to avoid corruption in all of its forms, including extortion and bribery.

The ultimate aim of the UN Global Compact is to build markets, fight corruption, safeguard the environment and ensure social inclusion, thus creating an unprecedented partnership, and ensuring transparency between businesses, governments and civil society (United Nations Global Compact, 2014:2)

2.3.6 Global Reporting Initiative

The GRI is a non-profit organisation and was founded by the Coalition for Environmentally Responsible Economies (CERES) in 1997, supported by the United Nations Environment Programme (UNEP) (Siew, 2015:182). The GRI's main objective was to create a global sustainability reporting framework that could be applied to all companies worldwide (Godha & Jain, 2015:65). This is a network-based organisation with approximately 30 000 people, including experts on CSR. Guidelines are compiled during consultation between multi-stakeholders with the focus on clarity, purpose of criteria and processing of reporting. According to Godha and Jain (2015:65) it can be viewed as the most widespread standard for sustainability reporting and is also referred to as TBL reporting. This is confirmed by Junior, Best and Cotter (2014:2), who views it as the most widely utilised guideline on sustainable reporting. Using this guideline, companies can disclose information on their environmental, social, economic and governance performance. The GRI guidelines can be used by all types of companies, across various sectors, independent of size or nature (Godha & Jain, 2015:66), and can be applied at different application levels (Tschopp & Huefner, 2015:566). It does not provide assurance or auditing services, but in order to add credibility to the reports, some companies voluntarily include validation from independent assurance organisations (Junior *et al.*, 2014:2).

Various guidelines were released of which the first version was released during 2000. The second, GRI-G2 was released in 2002, and was followed by the release of GRI-G3 in 2006, and later updated to the GRI-G3.1 in 2011. The most recently released (2013), is the G4 guidelines, which includes aspects such as anti-corruption and GHG. The G4 guidelines also places emphasis on materiality; reporting on areas material to the organisation, instead of reporting on everything (English & Schooley, 2014:29). Material aspects according to GRI (2015a:4) are issues related to a business's economic, social and environmental aspects that has an impact on sustainability as well as the decisions of the stakeholders. The G4 guidelines can be used as a guideline and is not mandatory or legally binding (Siew, 2015:182). Focus areas addressed in the reporting include vision and strategy, corporation profile, governance structure and management systems, GRI content index and performance criteria on economic, social and environmental aspects.

There are two types of standard disclosures, namely general standard disclosure and specific standard disclosure. Criteria for reporting on general standard disclosure can be divided into three sections, namely standard, core or comprehensive disclosure.

Companies can demonstrate that their report is in accordance with the GRI guidelines by reporting “in accordance”, and then has to demonstrate how the guidelines have been applied (GRI, 2015a:6). “In accordance” points to the criteria being accepted as generally applicable to most companies, including standard disclosure on all material aspects, with a minimum of one relevant indicator per aspect. Comprehensive reports should also include all standard disclosures and all indicators for aspects (English & Schooley, 2014:31). The third option, which allows for standard reporting, but not “in accordance” is specific standard disclosure and is divided into two areas, namely Management Approach (DMA) and Indicators. Under DMA, the organisation is granted the opportunity to explain how the company is managing the economic, social and environmental aspects, with the focus being on why the information is material, how it is managed and how the management thereof is measured. Indicators provide companies with information that can be compared to that of other companies and is quantitative in nature.

The process for defining reporting content under specific standard disclosure is performed in four steps. The first step is to identify the aspects and the areas of impact. The second step is to prioritise all aspects and decide on which aspects to include in the report. The third step includes the validation of identified aspects, preparing information and processes to report on aspects, and determining what information is ready and what needs to be explained during disclosure. During the fourth step information that was identified in step one is reviewed for the next reporting period. Figure 2-2 illustrates the process of defining reporting content.

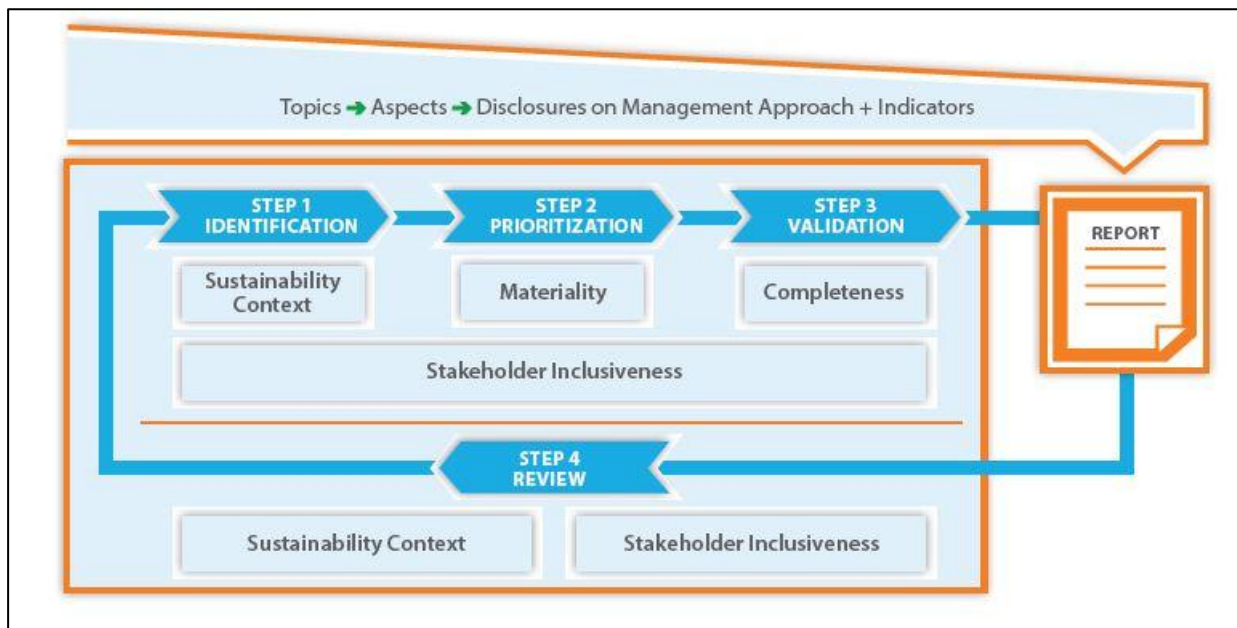


Figure 2-2: Process for defining reporting content

Source: GRI (2015b:40)

The G4 guidelines provide indicators for a wide range of aspects, including cases where a company cannot disclose information, and is then required to report the missing information clearly and provide an explanation for the omission, choosing an option from a pre-defined list. Companies that aim for full disclosure, but has not achieved full compliance, can report that the content contains GRI standard disclosures. The company must then list these disclosures and make mention of where in the report it can be viewed (GRI, 2015a:6).

Companies reporting in accordance with the GRI guidelines are on the increase. This is due to the fact that it can reduce the time taken to report on the aspects, pressure from stakeholders and outside parties. Producing a unified report eliminates time spent on individual enquiries. GRI reports are considered superior to other sustainability reports, and affects the financial performance of the organisation as the share prices of companies tend to be less volatile and better operating profit margins are achieved. This could be due to better analysis and improved forecasts because of transparency (Siew, 2015:182).

According to a study done by a GRI representative, Alyson Genovese (2016), there is a large increase in companies reporting CSR activities. Figure 2-3 illustrates the clear growth in responsibility reporting. From the segmentation it is also evident that GRI G4 guidelines are currently the most widely used guidelines for sustainability reporting.

The GRI G2 guidelines have been phased out and the GRI G3 and the use of the GRI G3.1 is declining, as more and more companies migrate to the GRI G4 guidelines. The increase in sustainability reporting is due to a growing demand by stakeholders and an increase in expectation for these companies. Society is starting to expect responsible behaviour in order to ensure little impact on them and their environment. The investment community also requires more information on future risks (Sandford, 2016)

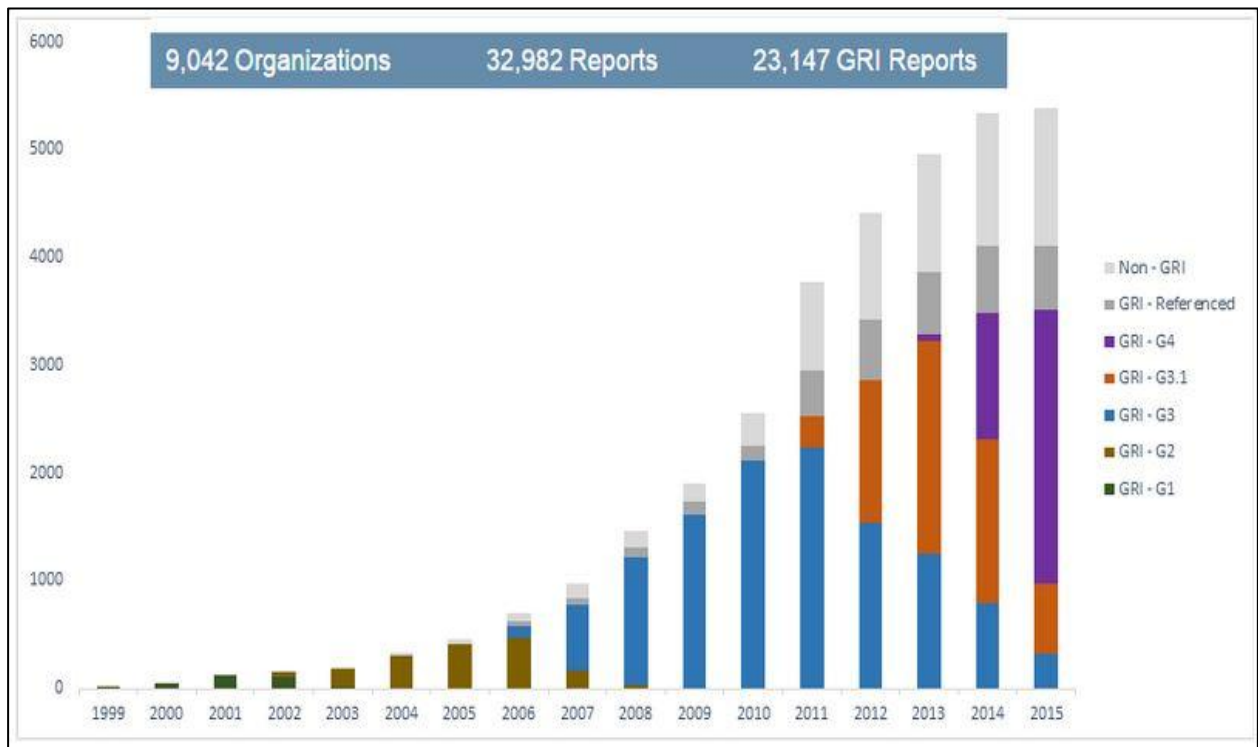


Figure 2-3: CSR/Sustainability reports from 1999 – 2015

Source: Sandford (2016)

2.4 INTEGRATED REPORTS

Companies are confronted by many interested parties in need of information and have been placed under pressure to produce said information to meet all the requirements set by the stakeholders (Busco, Frigo, Quattrone & Riccaboni, 2013:34). The array of individual reports can lead to moments of inconsistencies and conflicts, which in turn creates more questions from the interested parties. Steering away from individual reports has created the trend for combining financial as well as non-financial information in one report, referred to as an integrated report (Anderson & Varney, 2015:60). According to Owen (2013:342), integrated reporting is not a new approach and dates back as far as

1970. The Corporate Report published in 1975 questioned the shareholder information obtained from performance reports. The Corporate Report implied that the board of directors should focus on more than just the shareholders and generate published information to the greater community. Integrated reporting has evolved from The Corporate Report to CSR and is now extending towards green accounting (Owen, 2013:343).

Financial reporting lost its credibility due to the fact that it reported on the history and short-term performance of a companies. The focus has moved to long-term wealth creation, while simultaneously being environmental and socially conscious (Hughen *et al.*, 2014:60). The rationale behind integrated reporting was to enable stakeholders to view and assess the organisation's capability to create and sustain values over the short, medium, and long term, without depleting the resources of the business (Owen, 2013:343). An important condition of integrated reports is integrated thinking is conformed to. The financial performance needs to be connected to the non-financial performance, in order to indicate the relationship between these financial and non-financial variables and the manner in which it creates value for shareholders (Bouten & Hoozée, 2015). An integrated report includes all aspects of the company's performance, combine information about the company strategy, governance, performance, and how it creates value today and in the future. It provides information, while creating a clear vision of the future (Hughen *et al.*, 2014:60).

A key objective of integrated reporting is to highlight not just the use of the broad six capitals but also to understand their interdependencies. It encourages accountability with the use thereof (Busco *et al.*, 2013:35). The capitals of integrated reporting are the resources that the company use to created value over time:

- *Financial* – funds obtained from financing, equity and operations available for production.
- *Manufactured* – objects available for use in production such as manufactured goods, buildings, equipment and infrastructure.
- *Intellectual* – knowledge-based intangibles, intellectual properties, systems and reputation.
- *Human* – the competence, capabilities, experience of people as well as their capabilities to motivate and innovate.

- *Social and relationship* – relationships between institutions, communities, stakeholders and shared values, norms, behaviour and trust.
- *Natural* – environmental resources for past, current and future generations.

The value creation process is illustrated in Figure 2.4. The external environment sets the context within which the organisation operates. The mission and vision represents the entire concept of the organisation, its purpose and intention, and the business model forms the core of the business. The core of the business draws from input capital, and through business activities converts to output units, which affect capital and could influence long-term capability. Business activities include innovation, skills, planning, production, efficiencies and better use of technology, as well as minimising impact on social and environmental aspects. These outcomes can also influence capital. The external environment should consistently be monitored (Integrated reporting, 2013:13).

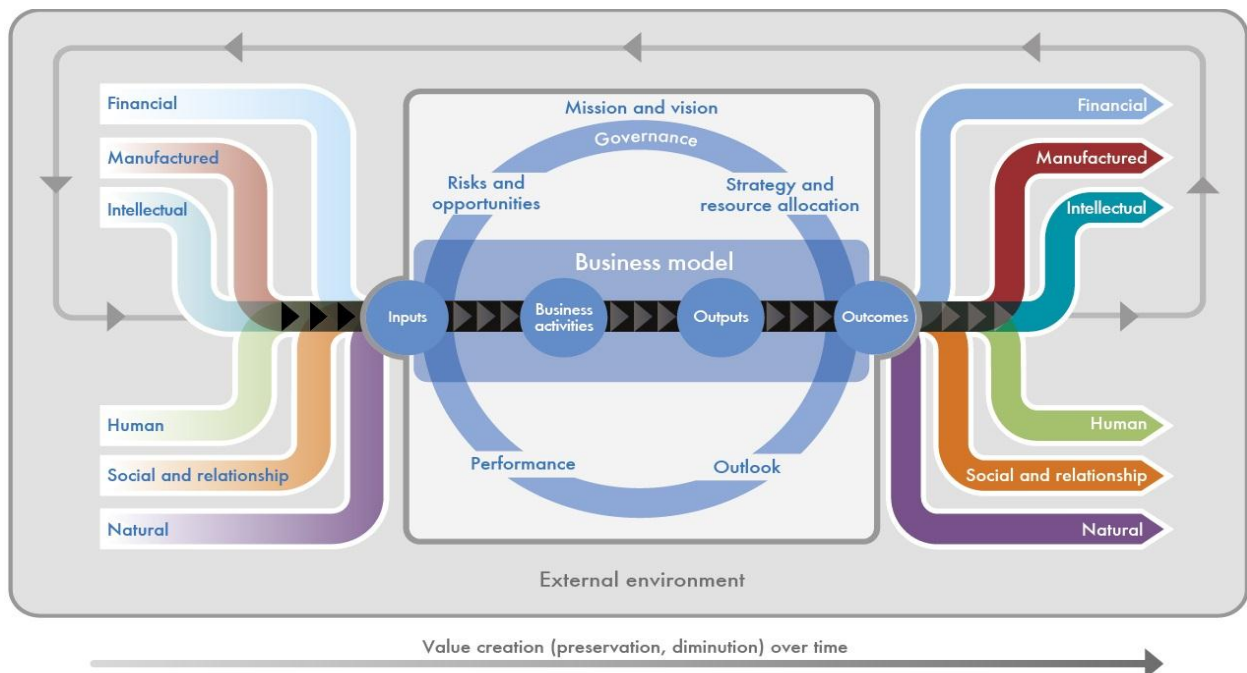


Figure 2-4: Value-creation process

Source: Busco et al., (2013:37)

Integrated reporting has received the backing from various institutions, such as the: World Business Council for Sustainable Development; World Resources Initiative; the United Nations Conference on Trade and Development (UNCTAD); GRI; International Corporate Governance Network; International Federation of Accountants (IFAC), IIRC, Federation of European Accountants; and predominant accountancy firms such as Deloitte, Ernst

and Young, KPMG and PWC (Owen, 2013:340). Companies are moving towards integrated reporting and the most common reasons for the movement is to avoid inefficiencies, to provide a more complete picture and combine existing reports (financial and sustainability) into one report (Hughen *et al.*, 2014:60).

A crucial element of sustainability is the management team that actively steers this project. Introducing a sustainability project and integrated reports does not guarantee good financial results. Only when the sustainability initiative is managed in such a way that it boosts the financial results (Hughen *et al.*, 2014:61).

2.4.1 International Integrated Reporting Council

The A4S forum members collaborated with the GRI members and UNEP and with the movement of reporting on integrated reports. This led to the establishment of a new body, the International Integrated Reporting Council in 2010 (Anderson & Varney, 2015:60). The task of the IIRC was to build on the GRI framework to develop a more comprehensive integrated report framework. Four specific objectives of integrated reporting were identified. Firstly, to improve the quality of information presented to investors to obtain capital. Secondly, to present a more interconnected report on all the activities that have an influence on the ability of the company to create value over the long-term. Thirdly to enhance accountability and stewardship for the capital base and encourage understanding of interdependencies and consequently, to develop integrated thinking with decision-making and creating value over short to long term (Anderson & Varney, 2015:60).

In 2013, a memorandum of understanding was signed between the IIRC and the GRI to work together in fostering a disclosure environment where sustainability is linked to financial reporting. To disperse a globally accepted framework and guidelines to create an integrated report. The IIRC and GRI help to address the incompatibility of sustainability reports across different countries (Lynch *et al.*, 2014:21). The IIRC has a vision of an integrated report that will indicate the inflows and outflows, the risks, and opportunities for each one of the capitals and how they affect the other capitals.

The IIRC has eight board members to oversee and coordinate interactions between the council, all working groups, the secretariat and external stakeholders. These members are representative of eight different countries. Recently, the International Accounting

Standards Board (IASB) announced an agreement with IIRC to develop a framework for integrated reports (English & Schooley, 2014:33). The IIRC also received the backing from Deloitte, remarking that companies will soon see the benefits (English & Schooley, 2014:33).

2.5 REPORTING REQUIREMENTS IN DIFFERENT COUNTRIES

2.5.1 Introduction

The twenty motor vehicle manufacturing companies that were identified for the purposes of this study are based in different countries, including Germany, France, Italy, UK, USA, India, Japan, South Korea and Sweden. France and Denmark were some of the countries that had already adopted national laws on CSR reporting. Germany has still not ordered the CSR reporting mandatory, although many of the larger companies in Germany are renowned for their CSR efforts. In 2012, the German motor vehicle manufacturer BMW was identified as the “greenest” vehicle manufacturer in seven years (Beier, 2012). Research was done by a group of partners, including UNEP, the Global Reporting Initiative, KPMG, and the Centre of Corporate Governance in Africa on sustainability reporting policies worldwide and the following mandatory and voluntary guidelines per country was obtained from their studies.

2.5.2 Germany

Germany introduced the German Sustainability Code (GSC) as voluntary guidelines, encouraging companies to report sustainability under 20 principles, which is in line with GRI, UN Global Compact, OECD guidelines for Multinational Companies, as well as the ISO 26 000 guidelines (Fogelberg, Bartels, Lemmet, Malan & Van Der Lugt, 2013:63). Other mandatory frameworks include the Bilanzrechtsreformgesetz (BilReG), the German Accounting Standard No. 20 (GAS 20). Voluntary guidelines include the German Sustainable Code.

2.5.3 France

Large companies in France are mandated to produce annual CSR reports. Main international guidelines accepted include ISO 26000, Global Compact principles, the guiding principles on human rights and business, OECD Guidelines for Multinational Enterprises, and GRI (Fogelberg *et al.*, 2013:31). Other mandatory guidelines include

mandatory CSR reports for all listed companies, the New Economic Regulations Act (NRE), with 40 indicators inspired by the GRI, General Law Article 18 for listed companies with more than 250 employees, Article 53 for companies exceeding a threshold of nett sales, Draft Article 26 for companies with 500 employees or more, Draft Article 83, including companies affiliated with parent companies. Voluntary standards include the French Agency for Environment and Energy, measuring greenhouse gas emissions in accordance with ISO 14064.

2.5.4 Italy

Non-profit companies in Italy were recommended to use the GRI guidelines when compiling sustainability reports (Fogelberg *et al.*, 2013:67). Mandatory requirements include the Ministerial Decree of 24 January 2008 and the Legislative Decree no. 150/2009. Voluntary disclosure in Italy includes the social reporting standards and social reporting in the public sector as issued by the study group for social reporting (Gruppo Bilancio Sociale – GBS).

2.5.5 United Kingdom

Companies listed on the London Stock Exchange are required to report on GHG emissions. An array of guidelines can be used to report CSR activities. Other mandatory reports include the Quoted Companies GHG Reporting, British Companies Act, UK Corporate Governance Code, Climate Change Act and the Carbon Reduction Commitment (CRC) (Fogelberg *et al.*, 2013:77). Voluntary reports required in the UK include the Environmental Reporting Guidelines based on key performance indicators (KPIs).

2.5.6 United States of America

The USA is in the process of adapting sustainability reporting and there has been a significant increase over the period of 2012 to 2013 (Fogelberg *et al.*, 2013:35). Frameworks used in the USA include the GHG, CDP, GRI, principles of UN Global Compact and new SASB. Other mandatory requirements include the Dodd-Frank Act, Presidential Executive Order 13514, Sarbanes-Oxley Act (SOX), Clean Air Act (CAA), Clean Water Act (CWA), Toxic Release Inventory (TRI), California Transparency in Supply Chains Act, and the US Environmental Protection Agency Proposed Mandatory Greenhouse Gas Reporting Rule. Other initiatives include the Commission Guidance

Regarding Disclosure Related to Climate Change and the Sustainability Accounting Standards Board.

2.5.7 India

Companies in India use the GRI guidelines to prepare reports on sustainability. The interpretation of the parameters of guidelines may vary (Fogelberg et al., 2013:32). Other reporting guidelines include the Companies Bill, Business Responsibility Reports, DPE Guidelines on CSR and Sustainability, Annual Environmental Audit, Indian Factory's Act, Corporate Responsibility for Environmental Protection (CREP), and the Quarterly Compliance Report. Voluntary requirements include the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, Guidance Note on Non-Financial Disclosure and the Consultative Paper on Corporate Governance Norms (Fogelberg et al., 2013:65).

2.5.8 Japan

Japan has placed emphasis on energy usage and GHG emissions. Reporting guidelines taken into consideration include CDP, GRI, and ISO 26000. Mandatory requirements include the Law Concerning the Promotion of Business Activities with Environmental Consideration, Pollutant Release and Transfer Register Law (PRTR), Law Concerning the Rational Use of Energy, Act on Promotion of Global Warming Countermeasures, Railway Enterprise Act and the End-of-Life Vehicles (ELV) Recycling Law. Voluntary guidelines include the Environmental Reporting Guidelines (Fogelberg et al., 2013:53).

2.5.9 South Korea

South Korea has also placed emphasis on GHG emissions and more than 500 firms were required to report on the emissions (Fogelberg et al., 2013:73). The GRI reporting guidelines were suggested by the Minister. Mandatory reporting in South Korea includes the Green Posting System, and the Social Contribution Performance Posting System. Voluntary requirements include the Environmental Reporting Guidelines and Best Management Sustainable Guidelines, all based on the GRI guidelines.

2.5.10 Sweden

CSR reporting is mandatory for state-owned companies in Sweden and it is recommended that the GRI guidelines be used. Mandatory standards in Sweden include

the Annual Accounts Act, Guidelines for External Reporting by State-owned Companies, and Sustainability Goals for State Owned Companies. Voluntary guidelines include the Guidelines on Environmental Information in the Director's Report Section of the Annual Report (Fogelberg et al., 2013:75).

2.6 REPORTING ON ETHICS, INTEGRITY AND ANTI-CORRUPTION

2.6.1 Introduction

Ethics and integrity is an integral part of business today, and adds value to the transparency of reporting on CSR issues. The connection between CSR activities and ethics and integrity is that both are issues of moral responsibility (Paharia & Singh, 2016:2). There is a strong relationship between ethics and integrity with mutual strengthening and reinforcement of each other. Although ethics can be imposed on employees, integrity cannot be imposed on individuals, but good business ethics can strongly encourage integrity. When ethics and integrity are combined in an organisation, alignment is normally the result (Czimbab & Brooks, 2006), whereas without ethics and integrity, corruption is often a result. According to Vocabulary.com (2016) corruption can be viewed as the lack of integrity or honesty, and becoming susceptible to bribery or corruption can be viewed as dishonest actions impacting people's lives or breaking their trust.

2.6.1.1 Ethics and integrity

Business ethics is an issue that concerns all entities. When companies behave ethically, it is regarded as good business practice. Companies, in their movement towards more than just compliance, introduced different actions such as codes of conduct, codes of ethics, ethics committees and even providing training to employees with regard to ethics and integrity (Tinjala, Pantea and Alexandru, 2015:64).

Integrity is more of a personal trait and is closely linked to a personal code of conduct and includes the spirit of good conduct. It is an internal system of principles, with the reward mostly being intrinsic to the employee. Integrity can also be seen as a choice and not an obligation, where a person performs the right action without anyone looking. It is founded on a set of core principles, ensuring behaviour of consistently high standards. These principles include qualities such as compassion, dependability, honesty, loyalty, respect, trust and wisdom (Czimbab & Brooks, 2006:1). These qualities are the assets people use

when performing their daily tasks. In this study the GRI guidelines on ethics and integrity as qualities required within an organisation and not on a personal level, are reviewed.

Ethics can be viewed as a code of conduct, or a set of rules for employees within a company to safeguard the company from scandals and bad reputations, which can also hurt the bottom line. Ethics are often referred to when there is an array of people representing the company and it is the appropriate tool to manage their behaviour (Shane, 2007). A code of conduct or code of ethics is also known as an instrument used to define, explain and enforce business ethics principles. Ethical codes strongly underlies any strategic plan and should communicate the moral standards and values used to guide performance at the company to the stakeholders, in order to prevent unwanted incidents. Business practice in general is guided by law, but the expectation from the greater society is that companies should move beyond this and not just respect these laws, but also share the ethical standards of the community. The reward is often not just a good reputation, but also adds to the competitive advantage and the bottom line (Tinjala *et al.*, 2015:64–65). Ethics also help to reduce disruptions from different parties, and allows for professionalism to be maintained, as well as protection of clients, employees and stakeholders to be ensured (Dawson, 2015:1).

A code of ethics is a document approved by the company's board of directors, regularly revised and facilitated to the staff on a regular basis. This document indicates the organisation's mission and values, ethical principles, standards to which employees will be held accountable, and also how professionals are supposed to approach problems. It is a summary to help management focus on ethical risk, provide guidance to employees to identify and deal with ethical issues, provide a mechanism to report unethical conduct and most importantly to foster a culture of honesty and accountability (Tinjala *et al.*, 2015:65). The code will discourage any conflict of interest, personal gain through use of company property, disclosure on confidential information, unfair dealing, or breaking of any laws.

The governance code should also include mechanisms to employees where they can expose any unethical behaviour or business practices (Tinjala *et al.*, 2015:65). The most common form of these mechanisms is a whistle-blowing programme. Any person, be it an employee, a manager, supplier or customer, who becomes aware of illegal activities taking place within a company can report this to the ethics committee or to the governing body (Investopedia, 2016). These activities include gross waste, fraud, mismanagement,

abuse of power, general wrongdoing or any matter that could hold danger for the community's health and safety. The whistle-blower receives some form of protection from retaliation from the company, which includes protection from harassment, demoting an employee, termination of service or legal action against employee for disclosing information. Some mechanisms allow for anonymous reporting. There are also mechanisms that offer rewards when disclosing information on illegal or unethical behaviour. Whistle-blowing programmes do not have to be formed from within the company only, it can also be found externally.

Ethics within any company is aimed at all involved with the organisation, from the board of directors, management team, and employees at all levels, to the suppliers and buyers who engage in business with the organisation. Numerous studies have indicated that leaders in an organisation play a pivotal role in shaping and sustaining ethical behaviour. These leaders introduce the ethical standards, they should have to live by them too, and show ethical values in all their decision-making. Ethical leadership is required to create and build on an ethical culture (Paharia & Singh, 2016:2). It is also important that management set the example of the importance of integrity, always doing the right thing. Management should lead by example. Managers should acknowledge their role in shaping the integrity culture, and those that fail to provide proper leadership should share responsibility with those who benefit from corporate offences (Paine, 1994:106). Unethical business practice is seldom done in isolation. Unethical business practice involves the cooperation of others and illustrates the behavioural patterns of the organisation. In the VW scandal, reports indicated that the CEO was aware of the "defeat devices" that was used to cheat on emission tests and that he informed the board prior to being caught (Eyewitness News, 2016a).

The ethical culture is not the company culture, but rather an independent and interrelated dimension of the company culture. An ethical culture is seen as the cornerstone of good governance. It can influence behaviour if actively maintained, can curb unethical behaviour and promote ethical decision-making. An ethical culture includes formal and informal components. Formal components consist of the rules, codes of ethics, policies and disciplinary procedures and is based on shared accountability and a clear code of conduct that is well communicated and understood (Appel & Plant, 2015). Informal components consist of company traditions and informal practices that includes aspects such as values demonstrated by role-models, norms and standards as observed in daily

behaviour, company rituals, and informal processes. The informal components are not easy to measure and it is recommended that a framework be developed. If something cannot be measured, it cannot be managed.

A code of conduct or ethics can fail due to several reasons, which may include that the code was not communicated properly or that it was not acknowledged or accepted by the company culture. Most of the time the code fails due to it not being implemented properly. Once unethical behaviour is known to the public, it can seriously damage the company's reputation, and investors will lose their interest in investing in such a company. Companies with strong ethical policies, but continued involvement in ethical controversies, also tend to be scored negatively. Information with regard to this is provided to the investors or stakeholders through media or corporate reports such as CSR reports, where companies can decide on how transparent they will be when disclosing information (Tinjala *et al.*, 2015:67). Companies should also be cautious not to rush into implementing compliance-based ethics programmes. These programmes are designed with the goal to prevent unethical behaviour and to detect, prevent and punish legal violations. They are designed to create value in the long term. Integrity strategies thus add value to the company as well as the employees, and because they are integrated into the day-to-day operations, it becomes the governing ethos of the company and is no longer seen as burdensome constraint (Paine, 1994:107).

2.6.1.2 Corruption

Corruption is the abuse of power from entrusted persons with the aim of personal gain. It not only undermines people's trust, but also breaks the relationship that was formed. The results of being corrupt and getting caught are never rewarding and often result in people losing their jobs, their freedom or their money (Transparency International, 2016:1).

Corruption starts with non-ethical actions being ignored by the company. Some even go so far as to discover the corruption and then conceal the non-ethical actions (Walcher, Stempkowski & Apflater, 2013:2). In the case of Volkswagen's emission scandal, the company even went to the extent of deceiving external monitoring bodies and concealing corrupt activities.

Corruption can be viewed as a result of an ineffective governance framework. The framework should promote transparency, integrity and accountability. Development of an effective management system should strengthen a positive corporate culture; it should raise employee satisfaction and improve policies and procedures. There is a very strong interaction between corruption and integrity, with integrity being the opposite paradigm of corruption. Companies that display a great deal of integrity achieve this by actively preventing corruption, which is made possible through the creation of appropriate frameworks for early detection of corruption through proper management systems. These systems, for instance whistle-blowing systems, should be implemented at all levels of the organisation and should include means for reporting suspicious activity. A system such as this should also address detection of corruption and the enforcement of specific sanctions against those who acted unlawfully (Walcher *et al.*, 2013).

The effects of corruption are evident in reputational, social, financial and economic results. Reputational damage is difficult to measure but is sometimes discussed in public and often result in substantial, lasting damage to the company. The community loses their trust and thus withdraw their support, leading to a decline in competitive advantage for the company, the social and economic effects of which can be devastating. In the case of Volkswagen, other countries were angry and wanted to prosecute the company for violating the sustainability concept. There were also concerns that the scandal could negatively affect the economic growth of Germany. The worst consequence was the financial implications the company had to bear. Although the Economy Minister, Sigmar Gabriel, was of opinion that it would not cause permanent damage, Germany experienced the consequences in the short term (Eyewitness News, 2016b). The recovery from corruption and scandal is often impossible.

2.7 REPORTING ACCORDING TO GRI G4 GUIDELINES ON ETHICS AND INTEGRITY

In this study the focus was on specific areas of reporting, such as ethics and integrity. Companies were reviewed to identify reporting on the Core or Comprehensive options. The guidelines is set out in Table 2.2.

Table 2.2: GRI G4 selected general standard disclosure items

Part	Purpose	Core	Comprehensive
Ethics and Integrity	Broad overview of values, standards and norms. Also mechanisms available to seek for advice on ethical behaviour as well as for reporting concerns about unethical behaviour.	(1) G4-G56	(3) G4-G56 G4-G57 G4-G58

Source: English & Schooley (2014:28)

The G3 and G3.1 guidelines do not require that companies report on ethics and integrity. This became mandatory with the launch of the fourth generation (G4) guidelines. The GRI will allow for a company to transfer to the new guidelines, and in fact required all companies to report on the G4 guidelines from 1 January 2016. The G4 guidelines offer two options to report in accordance with the guidelines. The Core option contains the essential elements of sustainability reporting and the Comprehensive option supports the Core option by requiring disclosure of the company's strategy, analysis, governance, ethics and integrity (GRI, 2015c:11). The G4 guidelines contain two different types of standard disclosure, namely general standard disclosure and specific standard disclosure. General standard disclosures are applicable to all companies producing sustainability reports. There are seven sub-sections under general standard disclosure, which include strategy and analysis, organisational profile, identified material aspects and profiles, stakeholder engagement, report profile, governance and ethics and integrity. In this study the focus was specifically on reporting ethics and integrity. Reporting ethics under the Core option requires companies to report on guideline G4-56. Companies reporting under the Comprehensive option are required to report on G4-56 as well as G4-57 and G4-58.

2.7.1 G4-56

In order to comply with the G4-56 guidelines of the Core option, the company needs to indicate the following:

- how the company's values, principles, standards and norms of behaviour developed over time;
- how it was approved and how it was implemented;
- how training was done or is being done with all stakeholders;
- whether it is required that training be read and signed off;
- whether an executive-level position was made available for someone to take the responsibility for the code; and
- whether the codes are available in different languages.

2.7.2 G4-57

In order to comply with the G4-57 guidelines in accordance with the Comprehensive option, the company needs to indicate the following:

- whether internal or external mechanisms for seeking advice on ethical and lawful behaviour is available to stakeholders;
- whether an executive-level position was made available for someone to take responsibility for advice-seeking mechanisms;
- whether all stakeholders were informed about the advice-seeking mechanisms;
- whether the mechanisms are available in different languages;
- whether requests for information are treated confidentially;
- whether the mechanisms allow for anonymous requests for information;
- the number of requests received;
- the number or percentage of successful resolved requests; and
- the level of satisfaction of stakeholders that used the mechanisms.

2.7.3 G4-58

In order to comply with the G4-58 guidelines in accordance with the Comprehensive option, the company needs to indicate the following:

- whether internal or external mechanisms exist to report unethical behaviour and other matters that relate to the integrity of the organisation;

- whether an executive-level position was made available for someone to take responsibility for the mechanisms for reporting concerns;
- whether the mechanisms are independent of the company or not;
- whether the mechanisms are available in different languages;
- whether training was provided to stakeholders;
- whether reporting concerns are treated confidentially and can be done anonymously;
- whether the organisation has a non-retaliation policy;
- the process that is used when investigating concerns;
- the number of reports received;
- the number or percentage of successful resolved reports; and
- the level of satisfaction of stakeholders that used the mechanisms.

2.8 REPORTING ACCORDING TO GRI G4 GUIDELINES ON ANTI-CORRUPTION

Not all companies are required to report on aspects under the specific standard disclosure, only companies that have assessed their business practices and found these items material to the operation thereof. In this study it was also investigated whether the companies identified during the study found corruption to be a material aspect and whether reporting on corruption was included in the CSR reports. Guidelines is set out in Table 2.3.

Table 2.3: GRI G4 specific standard disclosure items

Category	Sub-category	Aspect	Indicator
Social	Society	Anti-corruption G4-SO3 G4-SO4 G4-SO5	Assessment of operations for risk of corruption

Source: English & Schooley (2014:30)

Specific standard disclosures are organised by categories and aspects and reporting is only done on material aspects as identified by the company. Specific standard disclosures

can be divided into three categories, namely economic, environmental and social. The social category can be further divided into four sub-categories, namely labour practices and decent work, human rights, society and product responsibility. The reporting guidelines on anti-corruption is found under the heading of specific standard disclosures regarding social aspects, under the sub-category society guidelines, in G4-SO3, G4-SO4 and G4-SO5. Only material aspects are reported in the Disclosure on Management Approach (DMA) (GRI, 2015c:45). The DMA provides the opportunity to the company to explain how economic, environmental and social impacts related to material aspects, are managed.

2.8.1 G4-SO3

In order to comply with the G4-SO3 guideline under specific standard disclosure, the company needs to provide information regarding:

- the total number or percentage of operational areas assessed for corruption-related risks; and
- any significant risks identified.

In order to manage risks of incidents of corruption, the company needs to implement a system with supporting procedures. This indicator measures the implementation across the company. Risk assessments also aim to detect the potential for incidents of corruption and help the organisation to implement policies and procedures to fight against corruption. When compiling the report the company needs to identify all the areas that were assessed for risk of corruption. The assessment can be a formally focused on corruption or it can include corruption as a risk factor in the overall assessment. Information required for the compilation of the report include monitoring reports, risk registers and risk management systems (GRI, 2015b:206).

2.8.2 G4-SO4

In order to comply with the G4-SO4 guideline under specific standard disclosure, the company needs to provide the following:

- information with regard to the communication on anti-corruption policies and procedures to stakeholders; and

- information with regard to the training of anti-corruption policies and procedures with stakeholders.

Through communication and training the company can raise internal and external awareness on corruption, which creates the capacity to actively combat corruption. This indicator reveals the proportion of governance body members, employees and other stakeholders that are aware of the anti-corruption policies and procedures. Training records can be accessed during compilation of the report (GRI, 2015b:207).

2.8.3 G4-SO5

In order to comply with the G4-SO5 guideline under specific standard disclosure, the company needs to provide the following:

- information on the number of confirmed incidents of corruption;
- a report on action taken against guilty individuals or parties; and
- a report on any legal cases brought against the organisation.

The risk of corruption can cause significant damage to any company and is broadly linked to negative impacts such as poverty, damage to the environment, abuse of human rights and democracy, misallocation of investments and the undermining of the rule of law. There is an expectation that companies adhere to integrity, governance and good business practices.

This indicator demonstrates the actions taken by the organisation to limit risks related to corruption. The stakeholders have a vested interest in both the occurrence of incidents and the response to these incidents by the company. When compiling the report, the company should identify the total number of confirmed incidents individually, as well as the nature of these incidents. Information required include legal department records of cases brought against the organisation or employees or business partners, the minutes of any disciplinary actions taken, and contracts with business partners (GRI, 2015b:208).

2.9 CHAPTER CONCLUSION

The concept of sustainability is a global aspect. Companies producing annual reports on company performance, need to take sustainability in consideration and also present the non-financial information to investors. These reports should also convey information on the triple bottom line that consists of environmental, economic and social aspects. Various

organisations form reporting guidelines that can assist companies when drafting these annual reports. The most widely used guideline being the Global Reporting Initiative's fourth generation guidelines, released during May 2013.

It was indicated in the literature review that very few countries implemented mandatory sustainability reporting and is it currently still viewed as voluntary. The expectation from the greater society is, however, placing pressure on countries to conform and make sustainability reporting mandatory. Sustainability has grown in importance and modern-day society is greatly concerned about preserving resources for future generations.

It was also indicated that there are challenges when reporting sustainability due to the fact that there is not just one global standard to ensure that the same information is being compared when evaluating company reports. Due to various reporting guidelines, companies do not present the information in the same format, which can create a perception that companies are not providing transparent and complete information on all activities.

This chapter is followed by an empirical study in which the researcher evaluated company reports with regard to aspects such as ethics, integrity and corruption. The evaluation was performed for companies in the motor vehicle manufacturing sector.

CHAPTER 3

EMPIRICAL STUDY

3.1 INTRODUCTION

The previous chapter focused on literature on sustainability, various frameworks and growing expectations from greater society on reporting from companies. The literature review provided a clear indication that greater society requires more than financial information in reports. There was an expectation that the reports should be an exact representation of what was happening in the operations of each company and include financial as well as non-financial information. Another expectation was that companies should work towards enhanced ethics and integrity as well as take a solid stance against corruption. The focus in this chapter is on the various motor vehicle manufacturing companies and the application of the expectations in their annual CSR reports. Data was collected from CSR reports from the various manufacturers for the period 2015 – 2016. A checklist was compiled, based on information obtained from the GRI G4 guidelines. The focus was specifically on reporting on ethics, integrity and anti-corruption. Results will be discussed, based on findings from the checklist.

3.2 RESEARCH METHODOLOGY

The 20 motor vehicle manufacturing companies that were identified were based in nine different countries. The most recent reports were obtained from the parent holding company websites. A checklist (Annexure A) was compiled and information obtained from the reports was used to compare with the checklist.

The questions in the checklist were based on the GRI G4 guidelines, due to these being comprehensive and providing all information required for the study. The questionnaire was designed to evaluate whether companies disclosed information on sensitive aspects such as ethics, integrity and corruption according to the guidelines. The checklist consisted of different sections.

Biographical information focused on company information such as the country where the parent company was based, other motor vehicle manufacturing companies that formed part of the parent company, type of reporting used annually, reporting guidelines used by the company, the last year of reporting available to evaluate, whether the

company information was externally validated, as well as the name of the company providing the validation.

Section 1 focused on company values, principles, norms and standards of behaviour, and whether the company displayed this in a formal code of conduct or code of ethics. The checklist included questions on the availability of the code, the various languages in which it was available, as well as the manner in which it was presented to the stakeholders. The checklist also tested whether a designated employee was currently solely responsible for the management and control of the code. The checklist presented questions to which a “present” or “not present” answer was required. This was indicated by a figure 1 when an item was present in the report, while a figure 0 indicated that the information was not present in the information obtained.

Section 2 evaluated the availability of internal or external mechanisms available to stakeholders to seek advice on ethical and lawful behaviour related to company integrity. The checklist assessed whether the reporting mechanisms used by the company was available in different languages. It reviewed the sensitivity of the management of the information, and whether a designated employee was currently responsible for the management of the mechanism for seeking advice. The checklist also reviewed whether companies disclosed information on any activity on this construct.

Section 3 evaluated the availability of internal or external mechanisms available to stakeholders to report on concerns about unethical or unlawful behaviour related to company integrity. The checklist investigated whether the reporting mechanisms used by the company were available in different languages, and in which manner it was introduced to the stakeholders. It reviewed whether use of the mechanism was handled with sensitivity, and whether the company had a non-retaliation policy to protect stakeholders when using the mechanism. The checklist reviewed whether the report indicated the process that was followed once a report had been received as well as whether the report disclosed information on the activity related to the mechanism.

Section 4 evaluated whether risk assessments related to corruption were done by the company, and whether any significant risk had been identified in the report.

Section 5 evaluated to what extent stakeholders were informed and whether training in anti-corruption policies and procedures was taking place.

Section 6 evaluated whether the company disclosed information on confirmed incidents of corruption, what actions were taken against guilty parties, and whether any legal action was taken against the company during the period, as indicated in the reports.

3.3 DATA ANALYSIS AND DISCUSSION

3.3.1 Biographical information

Biographical information obtained from the sample indicates that the 20 companies are based in different countries. The data in Figure 3.1 provides a visual indication of the locality of parent holding companies. Of the 20 companies, six motor vehicle manufacturing companies are based in Japan, four companies in Germany, and two companies in Sweden, USA and South Korea respectively. The UK, France, India and Italy all have one motor vehicle manufacturing company represented in the sample.

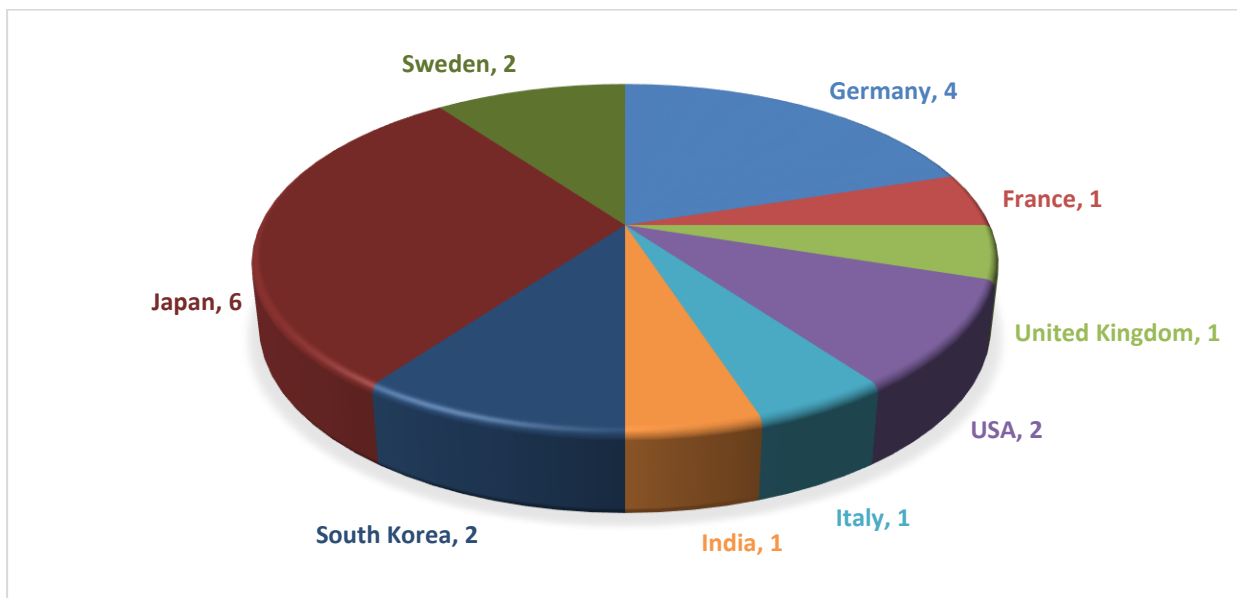


Figure 3.1: Locality of companies

Source: Researcher's own deductions.

In some of the companies, such as Volkswagen, different brands belong to the parent holding company, such as Audi, Porsche and Bentley. Due to the parent holding company being evaluated in this study, brands with exactly the same CSR report were excluded. Jaguar Land Rover is a UK-based company, but was bought over by the Indian company, Tata. The CSR report published for Jaguar Land Rover was exactly the same as for Tata, and therefore Tata was eliminated from the initial sample. Of the 20 companies

represented in the sample, 10 companies have more than one brand, namely: Audi, BMW, Daimler, Fiat, GM, Jaguar, Nissan, PSA, Toyota and VW.

The reports published by the companies were reviewed, and 19 of the 20 companies are still issuing separate annual and CSR reports. Only one company, Mitsubishi, has published an integrated report. Information was obtained from CSR reports, with Audi and Daimler also referring to their annual report, and BMW and Ford referring to their annual report as well as their website for governance information.

3.3.2 Reporting guidelines

The reports were evaluated, based on the reporting guideline that was used. The data in Figure 3.2 indicates the number of companies and reporting guidelines used. Fifteen of the 20 companies referred to the GRI G4 guidelines, which indicated their preference for reporting according to the guidelines. Seven companies used the GRI G4 as well as the UN Global Compact principles when producing their CSR reports. The companies that used the combination include BMW, Daimler, Ford, GM, Hyundai, SAAB and Volvo. Six companies only used the GRI G4 guidelines, namely: Audi, Fiat, Honda, Jaguar Land Rover, Nissan and Volkswagen. Two companies used only the GRI G3 guidelines, and one company only used the ISO 26000 guidelines. The other companies used combinations of the available guidelines.

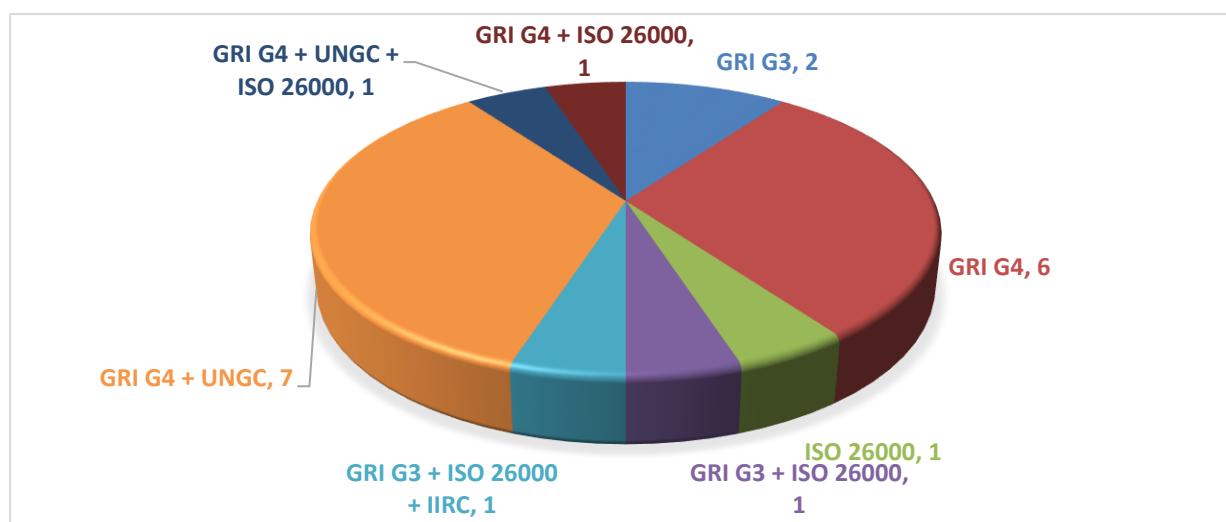


Figure 3.2: Reporting guidelines use by company

Source: Researcher's own deductions.

In view of the 18 September 2015 VW emission scandal, it was interesting to note that Audi had cancelled their subscription with UN Global Compact. VW also did not publish

a CSR report for 2015. The latest report available for VW is the 2014 report. Sixteen companies submitted reports for 2015, and three companies have already released reports for 2016, being Honda, Kia and Nissan. These reports were used to obtain information for the checklist.

3.3.3 Validation

External validation adds to the credibility of the information disclosed in the CSR reports. From the sample of 20 companies, only 14 had their CSR reports externally validated. The data in Figure 3.3 indicates which companies were used by the sample companies to obtain external assurance of information represented in the CSR reports.

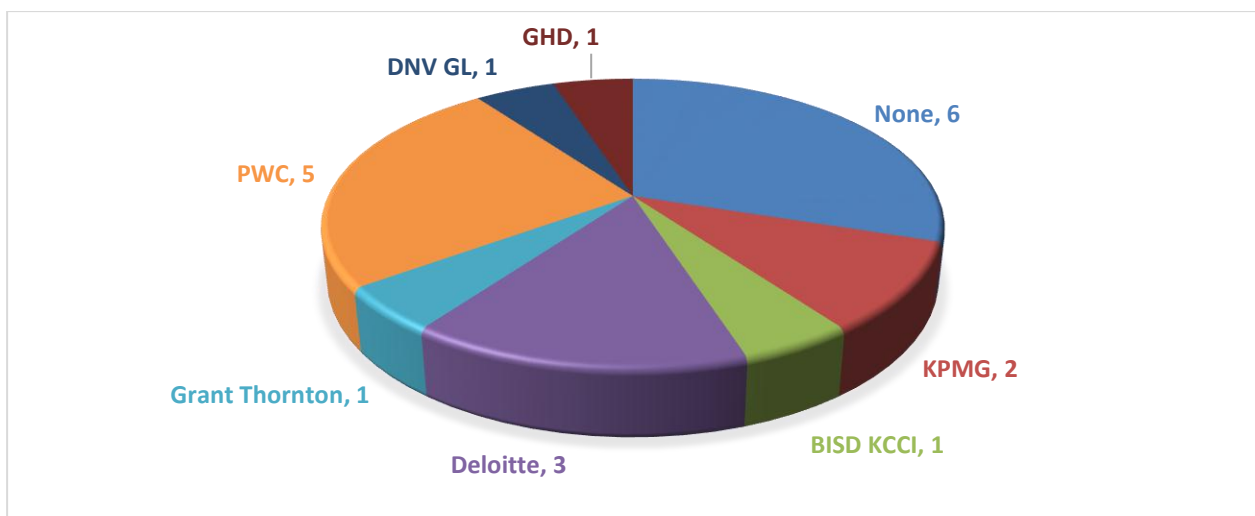


Figure 3.3: External assurance companies

Source: Researcher's own deductions.

Companies providing external validation included PricewaterhouseCoopers (five companies), KPMG (two companies), Deloitte (three companies), Grant Thornton (one company), DNV GL Business Assurance Korea Ltd (one company), The Business Institute for Sustainable Development (BISD) managed by the Korea Chamber of Commerce & Industry (KCCI), and GHD Service Inc. (one company). The six companies that published reports that were not validated from an external source is Ford, Isuzu, Jaguar Land Rover, Mitsubishi, SAAB and Volvo.

3.4 RESULTS

3.4.1 Organisational values, principles, standards and norms

This section of the checklist aimed at evaluating the disclosure of information on codes of conduct or codes of ethics as well as to which extent employees, governance board members and business partners were informed about the code and trained in using the code. The section consisted of six questions, and it was only required to indicate whether the items were present in the reports.

All 20 companies indicated that there was a code of conduct or code of ethics at the company, of which only nine or 45% had made the code *available in different languages*. *Eighty percent* of the companies indicated that training was provided regularly, whereas only 40% required employees to read the document and sign that they had read and understood the content. It was noted that there was a trend among these companies that training was being done electronically, either via e-learning, video clips or email. The companies utilising technology to do training did not indicate whether records were kept of successful completion of the training.

Only 60% of the companies indicated that a top executive level position had been created and an employee had been appointed to take full responsibility of the code and the required training. The other companies indicated that there were compliance offices or governance boards, but did not indicate a designated employee.

3.4.2 Mechanisms for seeking advice on ethical and lawful behaviour

This section of the checklist was designed to measure whether the company report included mechanisms available to employees, governance board members and business partners, to seek advice on ethical and lawful behaviour, as well as all aspects related to company integrity. It also reviewed whether companies made use of mechanisms independent of the company, or whether they only used in-house systems. This section consisted of nine questions, aiming at evaluating whether information on these types of mechanisms for seeking advice was disclosed in the annual or CSR report. The first question identified the companies that did report on the mechanism. The questions that followed indicated percentages of the companies that complied, and excluded companies that did not indicate that the mechanisms were present.

Nineteen of the twenty companies indicated that such a mechanism was indeed made available to the stakeholders, and only 37% had the mechanisms available in different languages. These mechanisms encouraged the use of the facility and included phone lines, email or fax facilities, direct contact with management as well as manuals on ethical and lawful behaviour.

Fifty-three percent of the companies that had made an advice seeking mechanism available to the stakeholders had it located at an external source or organisation independent of the company. In the majority of cases the external companies were law firms who administered and managed the requests submitted via the device.

The sensitivity related to the mechanism indicated that although all companies preferred that individuals disclosed information in person, only 47% indicated that it allowed anonymous requests for information. Fifty-three percent of the companies indicated that the seeking of advice was treated confidentially.

Fifty-three percent of companies indicated that an executive level position had been created, and that the appointed incumbent was responsible for the advice seeking mechanism. Where a designated employee had not been assigned, the companies referred to compliance groups or governance board members.

Companies were also required to provide feedback on the usage of the mechanisms, and 37% of companies indicated figures on the number of stakeholders who had used the mechanism during the year. Only 16% of companies indicated the number of requests that had been responded to successfully. None of the companies disclosed information on the level of satisfaction of the employees who had used the mechanism to seek advice.

3.4.3 Mechanisms to report concerns on unethical or unlawful behaviour

This section of the checklist reviewed whether companies disclosed information on mechanisms available to employees, governance board members and business partners to report concerns on unethical or unlawful behaviour related to company integrity. This section also evaluated whether the mechanisms were in-house or external and independent of the company. The first question identified companies that had made mechanisms available, while the remainder of the questions were aimed at companies with mechanisms and excluded companies that did not indicate the mechanism in the annual or CSR report. This section consisted of 12 questions.

Nineteen of the twenty companies indicated that there were mechanisms available to stakeholders to report any concerns related to company integrity. Only 32% indicated that the mechanism was available in different languages. Fifty-eight percent of the companies indicated that the mechanism was independent of the company. As with the mechanism for seeking advice, the majority of the companies indicated that the external body administering and handling the mechanism was a law firm. The majority of the companies referred to hotlines for whistle blowers or just hotlines, but an email and phone call option were also indicated. Some of the companies also expressed their wish that employees would discuss the concern with their immediate management.

Fifty-three percent of the companies indicated that a designated employee was assigned the responsibility of the mechanism, and 74% indicated that all stakeholders had received training on how, and when to use the mechanism.

The sensitivity with regard to reporting concerns was handled in the same manner as with advice seeking mechanisms; although companies preferred stakeholders reporting in person, with 58% indicating that they allowed anonymous reporting of concerns. Fifty-three percent of companies indicated that the reporting of concerns was handled confidentially. Employees who were not allowed to report concerns about ethical or lawful behaviour anonymously might be frightened by the treatment they could receive from the company when reporting incidents or concerns. Companies had to protect such employees and ensure that there would be no punishment or retaliation when stakeholders reported concerns. The company could implement non-retaliation policies to solve the problem. Only 47% of the companies with mechanisms indicated that they had a non-retaliation policy. Fifty-eight percent of companies also indicated what company process was being followed when a concern or unethical behaviour was reported.

When reviewing the reports for information on the usage of the mechanism, 37% of companies indicated the number of concerns or reports received via the reporting mechanism. Thirty-two percent indicated the number of reports that were resolved successfully, while none of the companies indicated the level of satisfaction of stakeholders who had made use of the mechanism.

3.4.4 Risk assessment related to corruption

This section focused on the level of information disclosure on risk assessments done in the company to determine any significant risks related to corruption. It consisted of two questions. Only five of the 20 companies indicated the number or percentage of units assessed for possible areas where corruption could take place. Of these five companies, only three revealed the risks that were identified. These risks included the VW emission connection with Audi. Ford identified contact with government officials as one of the highest risks due to bribery. The PSA Group identified fraud as one of the biggest risks.

3.4.5 Anti-corruption policies and procedures

This section focused on whether companies created awareness among all stakeholders on policies and procedures related to anti-corruption. It consisted of two questions.

When reviewing the reports it was found that all the companies had indicated that they communicated information on anti-corruption policies and procedures to all stakeholders. *Eighteen* of the 20 companies also actively trained stakeholders in the policies and procedures.

3.4.6 Confirmed incidents of corruption

This section evaluated whether companies reported on confirmed cases of corruption, action taken against guilty employees or business partners, as well as what legal action was taken against the company. The section consisted of three questions.

Only seven or 35% of all companies indicated that confirmed incidents of corruption had occurred during the period of the report. Only seven or 35% of all companies indicated what actions were taken against the guilty parties, and only 35% of all companies indicated pending legal actions against them.

3.5 CHAPTER CONCLUSION

This chapter focused on the empirical study that was conducted on the motor vehicle manufacturing companies. Information obtained from the annual and sustainability reports was used to compile the checklist. The results were indicated as per the checklist sections.

The following chapter will evaluate the results of the checklist and compare it to what was found in the literature review, and conclusions will be drawn. The chapter will conclude with recommendations.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

Insight was gained into the growing need for sustainability in terms of operations within companies, as well as communication from the companies with greater society. Not only will more transparent communication be required by investors looking at investment opportunities, but also by society who has shifted their focus from short-term profits to long-term sustainability, thereby ensuring that resources are used in such a way that future generations can also benefit. Greater society also emphasises long-term sustainability in terms of resources, which include conservation of the earth. Motor vehicle manufacturing companies feel the pressure, especially with increasing gas emissions and particularly after the VW scandal.

Although sustainability and CSR reporting are still fairly recent, prompt adoption of the notion has been evident, and companies are actively participating in providing the required information. As has become evident from this study, the majority of companies are aware of the need for more transparency, improved work ethics and integrity, and are taking an active stance against corruption. Although there are clear guidelines on what to include in their reports, some companies are still not providing the information as recommended by the guidelines and required by greater society.

4.2 CONCLUSIONS

4.2.1 Company values, principles, standards and norms

Company values, principles, standards and norms are of utmost importance. Although this is often only viewed as a code of conduct or a code of ethics, literature defines it as a tool that can assist companies in setting goals, measuring performance and managing the process towards sustainability. It is also viewed as a tool to justify moral actions. This tool focuses on internal procedures that enhance internal processes. Without a code of conduct or a code of ethics, employees will have little direction in terms of ethics, integrity and governance.

All companies included in the sample group indicated that they had a code of conduct or code of ethics and that the majority trained their stakeholders on a regular basis. The

training could be conducted via different mediums, including e-training, video clips, class-room training sessions, email and training manuals. One of the companies also indicated that current training was done in the form of a game, in order to make it more interesting for the stakeholders. A below average number of companies indicated that it was required that training guidelines for company values, principles, standards and norms should be read and signed. The reports did not indicate whether training done via electronic media could be considered read and signed.

It was interesting to note the shift from traditional training in class room style, to training done via technology, which indicated that the companies take the information transfer of values seriously and that they are adapting to different formats of transferring such information.

4.2.2 Mechanisms for seeking advice on ethical and lawful behaviour

Employees were introduced to the company code of conduct or code of ethics and were actively trained in the values in some companies. However, some areas were not covered by the training and companies should therefore ensure that resources are available for employees to seek advice, specifically about ethical and lawful behaviour. The majority of companies had made mechanisms available to stakeholders to seek advice on such behaviour. Only seven companies indicated that the mechanisms had been made available in different languages. This could imply that the requirement of making the mechanisms available to all stakeholders would not be met. Only half of the sample indicated that the mechanisms were independent of the company and were often referred to a law firm.

Sensitivity remained an important aspect, as without protection, employees would feel uncomfortable to step forward and enquire from, or inform authorities of any actions that could jeopardise the operation and reputation of the company. Of the companies that had made mechanisms available to employees, just above average allowed anonymous advice seeking and indicated that reports were treated confidentially. Half of the companies indicated that a designated employee was assigned the responsibility of the advice seeking mechanism. The importance of this mechanism should not be underestimated as well as whether the employee assigned the duty of overseeing the mechanism could provide valuable management information on risk or concern areas, as indicated in the enquiries.

Reporting on the number of requests received during the year was poor, with only seven companies indicating this. Of the seven, only three companies indicated whether the request had been responded to successfully. None of the companies reported on the extent of satisfaction of the employees who had made use of the mechanism. Indications of whether the mechanisms were used actively, was very poor, with no clear indication whether the mechanisms were efficient.

4.2.3 Mechanisms to report concerns on unethical or unlawful behaviour

Getting rid of corruption can never depend on actions of the management team or the governance board only. The support of every employee working at a company is required to continuously act against all forms of corruption. From the literature it becomes evident that companies should work towards integrated thinking among management, employees and business partners. Integrated thinking can highlight risks and opportunities and curb negative impacts.

The majority of companies, 19 out of the 20, indicated that mechanisms were available to stakeholders to report on concerns and unethical or unlawful behaviour. However, only a few companies indicated that such mechanisms were available in different languages. More than half of the companies indicated that the reporting mechanisms were independent of the company, and in most cases, these were administered by law firms. Some of the companies indicated that the same mechanisms were used for both seeking advice and reporting concerns. Having an in-house system could create a perception that reports on unethical behaviour or concerns about company integrity would not be addressed in a proper manner, due to companies being sensitive to reputational risk. It can be viewed as a step towards transparency when companies involve independent organisations to manage and administer mechanisms for seeking advice and reporting concerns. This can also create confidence in the system from the employees' perspective. More than half of the companies indicated that training was conducted in how to use the mechanisms.

Companies indicated that employees preferred to report any concerns on unethical or unlawful behaviour in person. Half the companies also indicated that they allowed anonymous reporting and that reports were treated with confidentiality. Employees fear retaliation when reporting unlawful actions, hence it will be important that a company protects an employee who draws attention to misconduct. Less than half of the companies

indicated that they had a non-retaliation policy in place. Investors might view this as a disadvantage, as there is no protection for employees. This could result in employees not actively assisting in the fight against corruption.

Information obtained in the company reports on the process that was followed, when unethical or unlawful behaviour was reported via the mechanisms, was inconclusive or just above average. Communicating the process that will be followed can indicate a strong stance against any corrupt behaviour.

The companies that disclosed information on what was reported via the reporting mechanisms were below average, indicating that such information was still not disclosed fully to greater society. According to the literature, ethics can be viewed as rules that safeguard the company from scandals, a bad reputation and even a negative effect on the bottom line. The concern is that many companies link disclosing of sensitive information with reputational risk and the effect that such disclosures will have on investor confidence, hence, information is withheld. In a modern day society where greater society demands transparency, it would be wise to invest more time and effort into ethics and integrity, as it adds value to transparency and moral responsibility.

4.2.4 Risk assessment related to corruption

As highlighted in the literature in Chapter 2 (section 3.6.1.1, paragraph 3), businesses are guided by law, but society expects more than just legal compliance. Regular and continued risk assessments in the company is of utmost importance if the company aims to meet society's requirements. Not only is it important to meet expectations from society, but also to maintain professionalism and protect employees, business partners and stakeholders.

When reviewing the results from the checklist, very few companies (25%) indicated what areas were assessed for risks, and only 15% indicated significant risks identified. This information is very important, especially for possible future investors, as it indicates areas of irregularities that could have an impact on future performance. Omitting this type of information can indicate that the assessments were not done. The incidents that were reported included the connection of other brands with Volkswagen, due to the emission scandal. Government officials' bribery and fraud cases were also identified as important

indicators of corruption. These incidents were only mentioned and no in-depth detail was provided.

4.2.5 Anti-corruption policies and procedures

Creating awareness via communication and training could empower employees, board members and business partners to be knowledgeable of what could be regarded as acceptable conduct and thus enable stakeholders to actively fight any form of corruption. If employees are not fully aware of policies and procedures, they would not notice whether misdemeanour occurs within their immediate environment. It became evident from the reports that the companies understood the importance of communicating their policies and procedures on anti-corruption to all stakeholders.

When reviewing the reports, all the companies indicated that they had policies and procedure on anti-corruption in place. The companies reported that their policies and procedures were communicated to all stakeholders, with 90% of the companies indicating that training was provided in both policies and procedures. It can be expected that companies will fight against all forms of corruption collectively - an important aspect that investors and greater society would like to be reflected in reports.

4.2.6 Confirmed incidents of corruption

When evaluating the company reports according to the checklist, companies disclosed very little information on confirmed incidents of corruption. On average, only 35% indicated the number or nature of confirmed incidents of corruption, actions taken against the guilty parties, as well as legal action taken against the company.

As indicated in the literature review, Chapter 2 (section 3.6.1.2,) corruption is viewed as the abuse of power with the aim of personal gain. It undermines trust, breaks up relationships and often results in detrimental actions. This is exactly what happened with the VW scandal, where there was abuse of power for monetary gain. The incident created anger among various countries, with some countries only initiating legal action after a year. This deceit from a reputable company would not have been as risky if it was only for monetary gain, but in actual fact, it was impacting on the environment and its sustainability. The cost of this action is still to be determined, but VW has agreed to pay 15.3 billion dollars to settle US federal lawsuits.

Corruption can have a significant impact on the reputation of any business, especially if made known by an external source and not the company itself. There is a growing expectation from society that companies should adhere to company integrity, governance and good business practice.

Based on the evaluation of reports, according to the guidelines of the GRI G4, companies are still not disclosing information on sensitive aspects such as ethics, integrity and corruption, possibly out of fear for negative reaction from greater society.

The checklist was not designed to evaluate information per country. It was however noticed that Germany and the USA received higher scores than the other countries. It was also observed that none of the companies in Japan, South Korea or Sweden indicated that they did any risk assessments related to corruption. All the countries indicated that there is policies and procedures on anti-corruption and that training was actively done. Companies in Germany disclosed more information on corruption incidents than any of the other countries.

4.3 RECOMMENDATIONS

There is a very good understanding of sustainability; how it was created, the rationale behind it, why it is growing in importance, and how it is perceived. Companies also have a good understanding of the importance of sustainability reporting and experience pressure as a result of regulation and investor and customer expectations.

In some countries, sustainability reporting is not compulsory as yet. However, there is a global movement towards such reporting and a definite increase in support for the Global Reporting Initiative reporting guidelines. Not only is non-financial information important to greater society, but the reviewing of internal processes can also guide companies in many aspects, such as highlighting possible risk areas.

There is a growing need from society for more transparent and accurate sustainability reporting. Society is also expecting companies to show commitment and intent to build long-term sustainability by being more accountable, taking responsibility for their actions, and communicating their commitment. Companies should accept responsibility for misconduct that has occurred, disclose such information and respond with appropriate action. Greater society will accept acknowledgement of misconduct more easily when disclosed by the company itself rather than learning about it in the media. It is

recommended that companies disclose information on all aspects, as proposed by the reporting guidelines.

Although businesses are guided by law, companies should emphasise awareness programmes and training in good business practices. Re-enforcing rules and regulations on a regular basis will lead to such rules becoming a culture. Companies should also assist employees in their fight against corruption, by making mechanisms available for information seeking or reporting of distrustful activities. Sharing this information in annual reports will confirm the strong stance of the company on governance aspects.

Ultimately, companies should aim to create business integrity, where employees, managers and business partners will do the right thing without anyone looking over their shoulder.

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ANNEXURE A

CHECKLIST BIOGRAPHICAL INFORMATION

1	Company name:									
	Audi	BMW	Daimler	Fiat	Ford	GM	Honda	Hyundai	Isuzu	Jaguar
2	Based in country:									
	Germany	Germany	Germany	Italy	USA	USA	Japan	South Korea	Japan	UK
3	Other brands part of the parent company:									
	VW Group	Mini	Mercedes-Benz	Ferrari		Chevrolet				Land Rover
	Lamborghini	Rolls-Royce	Smart	Chrysler		Buick				Owned by
	Ducati		Fuso	Maserati		Cadillac				Tata
				Jeep		Opel				
				Dodge		Vauxhall				
				Alpha Romeo		GMC				
4	Type of reporting used Annual (A), Corporate Social Responsibility (CSR) or Integrated (IR):									
	A + CSR	A + CSR	A + CSR	A + CSR	A + CSR	A + CSR	A + CSR	A + CSR	A+CSR	A + CSR
5	Reporting guidelines used in reporting: Global Reporting Initiative (GRI) or UN Global Compact (UNG), ISO 26 000 (ISO), International Integrated reporting framework or Sustainability for Accounting Standard Board (SASB)									
	G4	G4 + UNG	G4 + UNG	G4	G4 + UNG	G4 + UNG	G4	G4 + UNG	G3	G4
6	Information found in annual report (AR), CSR report (CSR) or directed to website (W):									
	AR + CSR	AR+CSR+W	AR + CSR	CSR	AR+CSR+W	CSR	CSR	CSR	CSR	CSR
7	Year of latest report									
	2015	2015	2015	2015	2015	2015	2016	2015	2015	2015
8	Was report external assured?									
	1	1	1	1	0	1	1	1	0	0
9	External assurance company									
	PWC	PWC	PWC	Deloitte		GHD	Deloitte	BISD KCCI		
10	Shortened name for checklist									
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG

CHECKLIST BIOGRAPHICAL INFORMATION (continued ...)

1	Company name:									
	Kia	Mahindra	Mazda	Mitsubishi	Nissan	PSA	SAAB	Toyota	Volvo	VW
2	Based in country:									
	South Korea	India	Japan	Japan	Japan	France	Sweden	Japan	Sweden	Germany
3	Other brands part of the parent company:									
					Datsun Infiniti Renault	Peugeot Citroen		Lexus		Bentley Bugatti Porsche Lamborghini Scania Ducati
4	Type of reporting used Annual (A), Corporate Social Responsibility (CSR) or Integrated (IR):									
	A + CSR	A + CSR	A + CSR	IR	A + CSR	A + CSR	A + CSR	A + CSR	A+CSR	A + CSR
5	Reporting guidelines used in reporting: Global Reporting Initiative (GRI) or UN Global Compact (UNG), ISO 26 000 (ISO), International Integrated reporting framework or Sustainability for Accounting Standard Board (SASB)									
	G4+UNG+ISO	G3.1	G3 + ISO	G3+ISO+IIRC	G4	G4+ISO	G4+UNG	ISO	G4+UNG	G4
6	Information found in annual report (AR), CSR report (CSR) or directed to website (W):									
	CSR	CSR	CSR	IR	CSR	CSR	CSR	CSR	CSR	CSR
7	Year of latest report									
	2016	2015	2015	2015	2016	2015	2015	2015	2015	2014
8	Was report external assured?									
	1	1	1	0	1	1	0	1	0	1
9	External assurance company									
	DNV GL's	KPMG	KPMG		PWC	Grant Thornton		Deloitte		PWC
10	Shortened name for checklist									
	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOY	VOL	VW

CHECKLIST REPORTING CONTENT

1	G4-56: Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
	Does the company have a code of conduct or code of ethics?																			
1.1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
	Is the codes of conduct or codes of ethics available in different languages?																			
1.2	0	1	1	1	1	0	0	0	0	0	0	0	0	0	1	1	1	0	1	1
	Is training regularly provided on the code of conduct, or code of ethics																			
1.3	1	1	1	1	1	1	1	0	1	0	1	0	1	1	1	1	1	0	1	1
	Is it required that codes of conduct or codes of ethics be read and signed by all?																			
1.4	0	0	1	1	1	1	0	0	0	0	1	1	0	0	1	0	0	0	0	1
	Has the organisation appointed and e0ecutive-level position to carry the responsibility?																			
1.5	1	1	0	0	1	0	1	0	1	0	0	1	1	1	1	1	0	1	0	1
2	G4-57: Report the internal and e0ternal mechanisms for seeking advise on ethical and lawful behaviour, and matters related to organisational integrity																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
2.1	Is there mechanisms for seeking advise available and accessible to employees and business partners?																			
	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1
2.2	Is the mechanisms available in different languages?																			
	0	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	1	0	0	1
2.3	Is there mechanisms independent of the organisation?																			
	0	0	1	1	0	1	1	0	0	0	0	0	1	0	1	1	1	1	0	1
2.4	Are requests for advice treated confidentially?																			
	0	1	1	1	0	1	1	1	0	0	0	0	0	0	1	1	0	1	0	1
2.5	Does the mechanisms allow for anonymous requests for advice?																			
	0	1	1	0	0	1	1	0	0	0	0	0	0	0	1	1	1	1	0	1
2.6	Is there a designated person assigned the overall responsibility for mechanism for seeking advice?																			
	1	1	1	0	1	0	1	0	0	0	0	1	1	1	0	1	0	0	0	1
2.7	Does the report indicate the number of requests received during the reporting period?																			
	0	0	0	1	0	0	1	0	0	0	0	1	1	1	0	0	0	1	0	1
2.8	Does the report indicate the number of requests successfully answered?																			
	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1
2.9	Does the report indicate the level of satisfaction from those who used the mechanism?																			
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

CHECKLIST REPORTING CONTENT (continued ...)

3	G4-58: Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity such as escalation through line management, whistleblowing mechanisms or hotlines																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
3.1	Is the reporting mechanisms available and accessible to employees and business partners?																			
	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1
3.2	Is the mechanisms available in different languages?																			
	0	1	0	1	1	1	0	0	0	0	0	0	0	0	0	0	1	0	0	1
3.3	Is there reporting mechanisms independent of the organisation?																			
	1	0	1	1	0	1	1	0	0	0	0	0	1	0	1	1	1	1	0	1
3.4	Is training provided to employees and business partners?																			
	0	1	0	1	1	1	1	0	0	0	1	0	1	1	1	1	1	1	1	1
3.5	Is there a designated person assigned the responsibility of the reporting mechanisms?																			
	1	1	1	0	1	0	1	0	0	0	0	1	1	1	0	1	0	0	0	1
3.6	Are concerns treated confidentially?																			
	0	1	1	1	0	1	1	1	0	0	0	0	0	0	1	1	0	1	0	1
3.7	Does the mechanisms allow for anonymous requests for advice?																			
	1	1	1	0	0	1	1	0	0	0	0	0	0	0	1	1	1	1	1	1
3.8	Does the organisation have a non-retaliation policy?																			
	0	0	1	0	0	1	1	1	0	0	0	0	1	1	1	0	0	0	1	1
3.90	Is there a process through which concerns are investigated?																			
	1	1	1	1	1	1	1	1	0	0	0	0	0	0	1	1	0	0	0	1
3.10	Does the report indicate the number of requests received during the reporting period?																			
	0	0	0	1	0	0	1	0	0	0	0	1	0	0	0	1	0	1	1	1
3.11	Does the report indicate the number of requests successfully answered?																			
	0	0	1	1	0	0	1	0	0	0	0	0	0	0	0	1	0	1	1	1
3.12	Does the report indicate the level of satisfaction from those who used the mechanism?																			
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

CHECKLIST REPORTING CONTENT (continued ...)

4	G4-SO3: Total number and percentage of operations assessed for risks related to corruption and the significant risk identified.																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
4.1	Does the report indicate the number or percentage of operations assessed for risks related to corruption?																			
	0	1	0	0	1	0	0	0	0	1	0	0	0	0	0	1	0	0	0	1
4.2	Does the report indicate any significant risks identified during the risk assessment?																			
	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
5	G4-SO4: Communicate and training on anti-corruption policies and procedures.																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
5.1	Does the report indicate if the policies and procedures were communicated to all stakeholders?																			
	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
5.2	Does the report indicate if stakeholders received training on anti-corruption?																			
	1	1	1	1	0	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1
6	G4-SO5: Confirmed incidents of corruption and actions taken.																			
	AUDI	BMW	DAIM	FIAT	FORD	GM	HOND	HYUN	ISZ	JAG	KIA	MAH	MAZ	MIT	NIS	PSA	SAAB	TOYT	VOLV	VW
6.1	Does the report indicate the number and nature of confirmed incidents of corruption?																			
	1	0	0	1	0	0	0	0	0	1	0	1	0	0	0	1	0	1	0	1
6.2	Does the report indicate actions taken against employees or business partners found guilty of corruption?																			
	0	1	0	0	0	0	1	0	0	0	1	1	0	0	0	1	0	1	0	1
6.3	Does the report indicate any legal cases regarding corruption against the organisation?																			
	1	0	1	1	0	0	0	0	0	1	0	1	0	0	0	0	0	1	1	0

ANNEXURE B

LETTER FROM THE LANGUAGE EDITOR

Acknowledgement of Language Review and Reference Editing

Date: 11 November 2016

To whom it may concern

This serves to confirm that I performed the tasks of **language review and reference editing** for **Lize Bierman** on her dissertation, entitled: **An evaluation of the reporting on ethics and integrity of selected listed motor vehicle companies** for submission **November 2016**. A final document with comments for correction before submission was provided by me to **Ms Bierman** on **11 November 2016**.

I, Elsa Laura Diedericks, obtained a post-graduate honours degree in Linguistics and Literature Science (specialising in Translation, Editing and Interpreting) from the University of Johannesburg during 2004. I am a seasoned Language Practitioner with my own language practice and more than 12 years' experience in the field, with various high-profile tertiary education clients, including the University of Johannesburg and North-West University.

Should any further particulars be required, please do not hesitate to contact me.

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