

Progress in the harmonisation of ESG reporting in South Africa, the USA and the UK: A comparative analysis

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TABLE OF CONTENTS

ABSTRACT	5
CHAPTER 1 – INTRODUCTION AND BACKGROUND	6
1 INTRODUCTION	6
1.1 BACKGROUND.....	6
1.2 VALUE OF ESG REPORTING.....	7
1.3 CURRENT ESG DISCLOSURE ISSUES AND HARMONISATION.....	8
2 PROBLEM STATEMENT	10
3 RESEARCH OBJECTIVES	11
3.1 PRIMARY OBJECTIVE.....	11
3.2 SECONDARY OBJECTIVES.....	11
4 RESEARCH DESIGN AND METHODOLOGY	12
4.1 PARADIGMATIC ASSUMPTIONS.....	12
4.1.1 <i>Ontological assumptions</i>	12
4.1.2 <i>Epistemological assumptions</i>	12
4.1.3 <i>Methodological assumptions</i>	13
4.2 LITERATURE REVIEW.....	14
4.3 EMPIRICAL STUDY.....	14
4.3.1 <i>Population and sampling</i>	14
4.3.1.1 Population.....	14
4.3.1.2 Sampling and sampling techniques.....	15
4.3.1.3 Sample size.....	15
4.3.2 <i>Data collection and analysis</i>	15
5 ETHICAL CONSIDERATIONS	16
6 CHAPTER OVERVIEW	16
CHAPTER 2 – RESEARCH ARTICLE	18
1 INTRODUCTION	18
1.1 SUSTAINABILITY AND THE NEED FOR ACCOUNTABILITY.....	18
1.2 ESG REPORTING AS A FACILITATOR OF ACCOUNTABILITY.....	18
1.3 STANDARDISATION OF ESG REPORTING.....	19
1.4 HARMONISATION IN ESG REPORTING.....	21
1.5 RESEARCH OVERVIEW.....	22
2 RESEARCH FINDINGS	24

2.1	PATRONAGE FOR ESG REPORTING AND HARMONISATION.....	24
2.1.1	<i>South Africa</i>	25
2.1.1.1	Corporate governance codes and stock exchange rules	25
2.1.1.2	Laws and regulations	26
2.1.2	<i>USA</i>	26
2.1.2.1	Corporate governance codes and stock exchange rules	26
2.1.2.2	Laws and regulations	27
2.1.3	<i>UK</i>	28
2.1.3.1	Corporate governance codes and stock exchange rules	28
2.1.3.2	Laws and regulations	29
2.1.4	<i>Comparison of patronage</i>	30
2.2	REPORTING STANDARDS AND FRAMEWORKS APPLIED	32
2.2.1	<i>Cumulative and average numbers of ESG standards and/or frameworks applied</i>	34
2.2.2	<i>Year-on-year growth in the number of standards and/or frameworks applied</i>	35
2.2.3	<i>SASB reporters</i>	37
2.2.4	<i>GRI reporters</i>	38
2.2.5	<i><IR> reporters</i>	39
2.2.6	<i>TCFD reporters</i>	40
2.3	ESG SCORES.....	40
2.3.1	<i>Average ESG scores</i>	41
2.3.2	<i>Correlation between ESG scores and the number of standards and/or frameworks applied</i>	43
	CHAPTER 3 – SUMMARY AND CONCLUSION	45
3	SUMMARY	45
4	CONCLUSION	48
5	LIMITATIONS	49
6	RECOMMENDATIONS	50
	REFERENCES	51

LIST OF FIGURES AND TABLES

FIGURE 1: CUMULATIVE NUMBER OF ESG STANDARDS AND/OR FRAMEWORKS APPLIED.....	34
FIGURE 2: AVERAGE NUMBER OF ESG STANDARDS AND/OR FRAMEWORKS APPLIED PER COMPANY	34
FIGURE 3: YEAR-ON-YEAR GROWTH IN THE NUMBER OF STANDARDS AND/OR FRAMEWORKS APPLIED ...	35
FIGURE 4: SASB REPORTERS BY COUNTRY.....	37
FIGURE 5: GRI REPORTERS BY COUNTRY	38
FIGURE 6: <IR> REPORTERS PER COUNTRY	39
FIGURE 7: TCFD REPORTERS BY COUNTRY.....	40
FIGURE 8: AVERAGE ESG SCORE PER COUNTRY	41
FIGURE 9: SOUTH AFRICA	43
FIGURE 10: UK.....	43
FIGURE 11: USA	43
FIGURE 12: SAMPLE AVERAGE.....	43
TABLE 1: COMPARISON OF SAMPLE COUNTRIES' PATRONAGE FOR ESG REPORTING AND HARMONISATION.....	30
TABLE 2: CORRELATION BETWEEN ESG SCORES AND THE NUMBER OF ESG REPORTING STANDARDS AND/OR FRAMEWORKS APPLIED.....	44

ABSTRACT

Title: Progress in the harmonisation of ESG reporting in South Africa, the USA and the UK: A comparative analysis

Keywords: Collaboration, convergence, disclosure, ESG, frameworks, harmonisation, integrated reporting, listed companies, standards, sustainability reporting

Over the past few years, there has been a proliferation in the number of environmental, social and governance (ESG) reporting standards and frameworks. Unlike financial reporting, ESG reporting does not have a generally accepted reporting standard, mainly because ESG reports invoke the interests of a far wider range of stakeholders, thereby making it impossible to develop a universally accepted standard that sufficiently caters to the information needs of all stakeholders. Rather, a multi-standard approach seems most appropriate for ESG reporting. The conjunctive application of different ESG reporting standards and frameworks ensures that all stakeholders are addressed and also improves disclosure quality and quantity. In recent years, several collaboration efforts between standard- and framework-setters, such as the CDSB, GRI, IIRC, ISSB and SASB, have occurred. These collaborations aim to understand how the various reporting standards and frameworks align, how they can be harmonised and how reporters can apply them complementarily. For the purposes of this study, harmonisation refers to the simultaneous application of various ESG reporting standards and frameworks. This study compares progress made in South Africa, the USA and the UK over the 2019 to 2021 period in relation to the concurrent application of ESG reporting standards and frameworks, and also considers the underlying patronage that facilitated such progress. This was primarily executed by means of a content analysis of the ESG reports of the top 40 listed companies in each country, and also by the collection and summarisation of each country's legal, regulatory, corporate governance and stock exchange patronage for ESG reporting and harmonisation. In spite of strong evidence of harmonisation in each of the sample countries, the study finds that South Africa's harmonisation progress appears to be slightly delayed in relation to the USA and the UK, albeit still commendable. The study also finds evidence that a positive correlation may exist between ESG scores and the number of reporting standards and frameworks applied.

CHAPTER 1 – INTRODUCTION AND BACKGROUND

1 Introduction

1.1 Background

Since the emergence of modern capitalism, society has been grappling with the consequences of profit maximisation (Ali, 2006:1-2). The profit-seeking culture cultivated by capitalism brought about various adverse economic, environmental and social consequences, including wealth disparity, exploitation of natural resources and various other social inequalities, such as gender and race inequities (Purcell, 2016:32-38). Sustainable development has consequently become a prevalent contemporary topic since it aims to resolve the profound adverse consequences of capitalism and the pursuit of profit. The World Commission on Environment and Development (1987:16) defines sustainable development as “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. Endeavours to advance sustainable development are, however, significantly impeded by climate change, energy consumption and overpopulation, among others (Furstenau *et al.*, 2020:140079). It is imperative that societies find ways to overcome these issues. Sheth *et al.* (2011:21) opine that a company’s future success is dependent on the manner in which it addresses sustainability matters. Entities are no longer able to soft-pedal the significance of sustainability.

As it is evident that the importance of sustainable development cannot be underestimated, it is imperative that sustainability reporting is also not trivialised (Manickum, 2021:2). The corporate space currently finds itself in an era of radical transparency, mainly facilitated by the ease of access to information via social media and the ubiquitous internet. This transparency results in companies being laden with the profound responsibility of reporting on their affairs comprehensively and exhaustively to all relevant stakeholders, therefore, inherently including reporting on its sustainability endeavours. Environmental, social and governance (ESG) factors have become all-important disclosure aspects in financial reports across the globe. The exigence of sustainable development led to the emergence of triple-bottom-line reporting for corporations, which entails reporting on three main elements: people, planet and profit. It also led to the incorporation of various organisations, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), which facilitate the development of sustainability reporting standards. Globally, governments and other institutions have also developed or adopted various sustainability reporting criteria and requirements. In South Africa, entities listed on the Johannesburg Stock Exchange (JSE) are required to report in terms of the Integrated Reporting (<IR>) framework or to explain why they do not (JSE, 2019:448). This entails reporting on the six capitals of an entity, namely, financial, manufactured, intellectual, human, social and natural capitals (International Integrated Reporting Council, 2021:2). ESG reporting mainly relates to the reporting on the last three capitals – human,

social and natural capitals – which are often disregarded by management, because they tend to focus on increasing shareholder value by means of profit maximisation (Camilleri, 2018:576).

In 2015, the United Nations (UN) adopted the Sustainable Development Agenda, which aims to facilitate sustainable development in economic, social and environmental spheres globally by 2030 (UN, 2015:5). In order to align global economic policies and financial systems with the aforementioned agenda, the UN established worldwide objectives to be attained by 2030 which, among others, include the improvement of the quality and availability of ESG disclosures (UN, 2020:37). Recent studies show that there is an increasing number of companies disclosing ESG information (Maaloul *et al.*, 2021:3). This is confirmed by research conducted by KPMG (2020:10), which found that sustainability reporting, and therefore ESG reporting, among N100 entities increased from 12% in 1993 to 80% in 2020. N100 entities refer to a worldwide sample of 5 200 companies comprising the top 100 listed entities from each of the 52 countries covered by their research. Another recent study conducted by the Global Sustainable Investment Alliance (2020:5) found that there has been a 15% increase in sustainable investing between 2018 and 2020. Sustainable investing refers to the consideration of ESG factors when making investment decisions (Global Sustainable Investment Alliance, 2020:5). Therefore, it is evident that reporting on ESG matters is a prevalent and indispensable exercise and that entities' performance in terms of ESG reporting should be evaluated and monitored.

ESG scores make it possible to evaluate an entity's ESG reporting performance (Alva, 2021). These scores are calculated for thousands of companies worldwide by several large institutions, like MSCI, Sustainalytics, Bloomberg, Refinitiv and S&P Global. These scores quantify a company's environmental, social and governance risks based on various criteria, the foremost of which is the disclosure of information with respect to the ESG elements (Del Giudice & Rigamonti, 2020:10). Lopez-de-Silanes *et al.* (2020:25) found a strong positive correlation between the quantity and quality of sustainability disclosures and ESG scores. They further found statistically significant evidence that favourable ESG scores are correlated with decreased risk (Lopez-de-Silanes *et al.*, 2020:35). It is, therefore, generally expected that a company with a higher quantity and quality of disclosure in respect of material ESG elements will have a more favourable ESG score, indicating lower overall perceived business and compliance risk due to their acknowledgement of their responsibility for ESG. A favourable ESG score is valuable to an entity.

1.2 Value of ESG reporting

Apart from the fact that ESG reporting is imperative to attain sustainability objectives and that it is highly encouraged by institutions and regulatory authorities, various studies have proven that a sound ESG score tends to offer companies value.

Maaloul *et al.* (2021:10) found that a good ESG score generally results in a better reputation and, therefore, a lower cost of debt. This improved reputation could likely be ascribed to the lower

perceived business and compliance risk evidenced by the superior ESG score. In line with the aforesaid, Dhaliwal *et al.* (2011:94) found that an entity's cost of equity is likely to decrease after they initiate reporting on corporate social responsibility matters, therefore, inferring ESG matters. Conventional economics knowledge conveys that there is generally a positive correlation between risk and return, which potentially explains the foregoing findings. Singhania and Saini (2021:5) argue that investment in ESG disclosures could potentially result in a reduced agency problem. The agency problem entails that managers of companies (the agents) act in their own best interests instead of in the best interests of shareholders (the principals) (Chen *et al.*, 2012:252). This problem is likely to occur when managers' performance incentivisation is based on profit benchmarks. In such a case, managers are motivated to attain predetermined profit objectives to qualify for bonuses, which could result in managers making inconducive decisions, such as neglecting the maintenance of employee relations, which subsequently impedes long-term value creation. If a company reports on its ESG matters in an appropriate manner, it inherently facilitates higher accountability, potentially substantiating how the agency problem is reduced.

In addition to the aforementioned, financial markets have seen a marked increase in the integration of ESG data with investment decision-making in recent years (Christensen *et al.*, 2022:147). In 2020, \$35.3 trillion of investments worldwide were made after applying sustainable investment strategies that consider ESG criteria (Global Sustainable Investment Alliance, 2020:5). A total of 35.9% of all managed financial assets worldwide apply sustainable investing principles, the most prevailing being the integration of ESG criteria (Global Sustainable Investment Alliance, 2020:5).

1.3 Current ESG disclosure issues and harmonisation

Despite the pervasiveness of ESG disclosures in contemporary corporate settings, there is a perceptible variation in the comparability, completeness and quality of such disclosures. In spite of the presence of several initiatives that aim to harmonise sustainability reporting worldwide, such as the SASB, GRI and <IR> framework, ESG reporting is still varied and inconsistent across different companies (Del Giudice & Rigamonti, 2020:12). This could potentially be ascribed to the fact that sustainability disclosures have a tradition of voluntary reporting, unlike disclosures relating to financial information that are mandated in most countries (Camilleri, 2018:573-574). Many companies incorporate sustainability reporting in their corporate practices to appease market and social forces, however, there is no accountability for companies that fail to do so (Stubbs & Higgins, 2018:492). A survey conducted by Stubbs and Higgins (2018:502-504) found that there is a strong preference among companies for voluntary integrated reporting and that such companies showed strong endorsement for corporate governance principles in which the term "risk" is prevalent, instead of the terms "accountability" and "stewardship".

Many scholars opine that the lack of standardised reporting frameworks is yet another reason for the inconsistencies in ESG reporting (Arif *et al.*, 2020:498). Some developed countries, like the United States of America (USA) and the United Kingdom (UK), have mandated certain ESG disclosures,

however, most companies report on ESG matters independently, without any detailed disclosure guidance (Mohammad & Wasiuzzaman, 2021:9). Some other countries, like countries in the European Union, have merely been encouraged, but not mandated, to report on sustainability matters, and the extent of such disclosures are determined by the shareholders of the entity (Jose, 2017:254). Some of the most popular internationally recognised ESG disclosure standards and frameworks include those of the SASB, GRI and International Integrated Reporting Council (IIRC), however, as made evident by significant global harmonisation efforts, none of these standards and frameworks in isolation adequately facilitate the disclosure of complete, comparable and transparent ESG information. Many companies only apply one of the aforementioned standards or frameworks for ESG reporting, guided by the endorsements of the authorities or corporate governance codes in their respective jurisdictions, if any such endorsements exist.

The SASB standards are industry-specific and focus on the impact that ESG elements have on a company's financial performance and financial position, whereas GRI standards are industry-neutral and focus broadly on the impact that a company has on the ESG elements (GRI & SASB, 2021:5). The SASB and GRI standards are mutually supportive and supplement each other, however, only a few companies worldwide apply both standards concurrently in their sustainability reporting (GRI & SASB, 2021:5-40). According to KPMG (2020:25), GRI is the most popular reporting standard among listed entities worldwide. The <IR> framework of the IIRC is in some respects similar to the GRI standards because it focuses broadly on how a company creates value across six different capitals, which include the ESG elements.

The GRI standards focus primarily on the impact of a company's operations on a broad range of stakeholders but do not address the financial impact of sustainability matters on investors, hence, failing to sufficiently cater to the information needs of shareholders. On the other hand, the SASB standards focus primarily on the financial impact of ESG matters on the investors of a company, hence, neglecting the information needs of other stakeholders. As a result of the misalignment of the perspectives of these standards, and similarly many others, there have been some significant attempts at harmonising sustainability reporting standards in recent years. Harmonisation refers to the process of increasing the compatibility of reporting practices by inhibiting their extent of variation (Nobes & Parker, 2008:75). Correspondingly, the harmonisation of ESG reporting standards and frameworks would, therefore, typically entail attempts to make these standards and frameworks more compatible and to provide guidance on the concurrent use of their respective requirements and recommendations.

In order to ensure that sustainability disclosures are comparable, complete and inclusive of the information needs of all relevant stakeholders, a multifaceted disclosure approach appears to be the most appropriate. This could be ascribed to the fact that reported information is most useful when it is reliable, consistent, comparable across different entities worldwide and is fit for use both internally by management and externally by a wide range of users (CDP *et al.*, 2020:9). In a joint statement

issued in 2020, prominent standard- and framework-setters, which include the Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), GRI, IIRC and SASB, highlighted the complimentary and supplementary natures of their respective standards and frameworks. In this joint statement, these standard- and framework-setters communicated their intent to collaborate their efforts in an endeavour to make meaningful progress in comprehensive sustainability reporting. Many companies worldwide have already started using GRI and SASB standards concurrently for reporting on ESG matters (Value Reporting Foundation, 2021b).

Another harmonisation effort became evident in 2021 when the SASB and IIRC merged to form the Value Reporting Foundation, which aims to harmonise ESG reporting by aligning their frameworks to facilitate the easier integration of these standards (Medress, 2021). This harmonisation effort inherently illustrates the complementary nature of the IIRC and SASB standards. The International Financial Reporting Standards (IFRS) Foundation also announced the creation of the ISSB (International Sustainability Standards Board) in November 2021, which intends to develop a comprehensive set of sustainability reporting standards that can be used globally (IFRS, 2021).

It is evident that the various ESG reporting standards and frameworks mutually support each other. Stock exchanges, corporate governance codes and/or local authorities could consider encouraging or mandating the integrated application of the various sustainability reporting standards and frameworks, as opposed to applying them in isolation.

2 Problem statement

Considering the global proclivity for the harmonisation of ESG reporting, especially after 2019, one expects to witness companies giving impetus to the concurrent use of various reporting standards and/or frameworks in the preparation of their sustainability reports. Some governments, corporate governance codes and stock exchanges endorse the application of certain ESG standards and frameworks. Presently, only the use of the <IR> framework is encouraged in South Africa. The King IV Corporate Governance Code endorses the application of the <IR> framework (Institute of Directors in Southern Africa, 2016:28,48). JSE-listed entities are required to comply with various principles set out in the King IV Code, however, integrated reporting in terms of the <IR> framework is not one of those requirements (JSE, 2019:448). Rather, integrated reporting is enforced by the JSE on an “apply or explain” basis. Although South Africa’s JSE-listed entities have an astounding sustainability reporting rate of 96%, according to KPMG (2020:13), only five South African listed companies applied SASB standards in compiling their sustainability reports in 2021 (Value Reporting Foundation, 2022). This illustrates a slow adoption of the SASB standards, which were officially published in November 2018. This consequently raises the question of whether South Africa’s harmonisation efforts are adequate, especially in light of the growing global harmonisation trend. It should be noted that *harmonisation* in the context of this study entails the concurrent application of

multiple ESG standards and frameworks as a response to global standard and framework harmonisation endeavours.

Lopez-de-Silanes *et al.* (2020:35) found that cross-country differences in the quality and quantity of ESG reporting, and therefore ESG scores, seem to be the result of more stringent ESG disclosure requirements and the presence of corporate governance codes, which endorse sustainability disclosure. The aforesaid, combined with the knowledge that South Africa presently only encourages the application of the <IR> framework, compels one to ponder whether South Africa's harmonisation efforts are on par with those of other global leaders in ESG reporting, such as the USA and UK.

Based on the aforementioned, the following research question can be formulated: How does South Africa's ESG reporting harmonisation progress compare with those of other countries over a period of time?

3 Research objectives

This study aims to evaluate South Africa's progress in the harmonisation of ESG reporting in comparison with the USA and the UK.

The following objectives have been formulated for this study:

3.1 Primary objective

The primary objective of this research is to evaluate South Africa's response to global ESG reporting harmonisation endeavours by analysing the harmonisation progress made in South Africa, the USA and the UK comparatively over the period 2019 to 2021.

3.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives have been formulated:

Theoretical objective

The following theoretical objective has been formulated for this study:

To briefly summarise current issues with ESG reporting, the rising need for the concurrent application of ESG reporting standards and frameworks, and current harmonisation endeavours.

Empirical objectives

The following three empirical objectives have been formulated for this study:

Objective 1: To briefly analyse and compare the legal, regulatory, corporate governance and stock exchange patronage for ESG reporting in South Africa, the USA and the UK in order to evaluate their sustainability reporting harmonisation efforts in comparison with each other.

Objective 2: To perform an analysis of the sustainability and/ or integrated reports of the top 40 listed entities in South Africa, the USA and the UK over a period of three years to identify the sustainability

reporting standards and/or frameworks applied and to ascertain whether more than one standard and/or framework was applied in the preparation of such reports. This objective aims to compare the integration of various ESG reporting standards and frameworks in the sample countries and to consequently evaluate harmonisation endeavours on the premise that a higher level of standards and framework integration equates to better progress in harmonisation. The analysis covers the annual ESG reports issued during the period 2019 to 2021, since major harmonisation endeavours became especially evident during this period.

Objective 3: To compare the average ESG scores of the sample entities from South Africa, the USA and the UK over a period of three years (2019 to 2021). As well as to measure South Africa's relative progress in ESG reporting on the premise that relatively favourable ESG scores correlate with a higher quantity and quality of sustainability disclosures, indicating relatively better harmonisation efforts. The aim of this objective is to support the findings of *Objective 1* in terms of South Africa's relative progress in the harmonisation of ESG disclosure.

4 Research design and methodology

4.1 Paradigmatic assumptions

4.1.1 Ontological assumptions

Mouton and Marais (1988:11) define ontology as the study of being and reality. Similarly, Hofweber (2017) defines it as the study of what is. A researcher's ontological assumption, therefore, entails what the researcher believes to be true. Ontology can be classified as being realistic or relativistic. Realism presupposes that a truth exists independently from human beliefs and that it should, therefore, be discovered (Thomasson, 2003:580). Relativism juxtaposes realism since it presupposes that the reality of something is dependent on the person who observes it, therefore, implying that such reality is influenced by the beliefs of the observer (De Ronde & Mouján, 2017:15). This study does not postulate that a definitive truth of South Africa's relative progress in the harmonisation of ESG reporting exists, but rather acknowledges that the interpretation of such progress is dependent on the researcher's beliefs, opinions and observations, therefore, corroborating an ontology of relativism. A different researcher may conclude differently on South Africa's relative harmonisation progress, seeing that it is particularly dependent on their subjective observations and interpretations.

4.1.2 Epistemological assumptions

Epistemology pertains to how a researcher intends to uncover new knowledge (Alharahsheh & Pius, 2020:40). A researcher's epistemological assumption can generally be categorised into positivism and interpretivism. A positivist approach assumes that an objective reality exists, which is totally independent of the researcher's beliefs and consequently involves statistical analyses, the development of measurement models, large-scale surveys and the use of experiments to find the

objective truth (Bahari, 2010:22-23). Contrary to a positivist approach, an interpretivist approach assumes that a study's findings are influenced by the researcher's perspectives (Bahari, 2010:22). This approach is, therefore, largely dependent on the observations and interpretations of the researcher. This research adopts an epistemology of interpretivism since the findings of the literature study and empirical analysis pertaining to South Africa's relative ESG harmonisation progress will be interpreted by the researcher and no definitive conclusion can be made. Scotland (2012:11) and Alharahsheh and Pius (2020:42) validate the appropriateness of an interpretivist epistemology by confirming that such epistemology is usually grounded in an ontology of relativism, as is the case for this study.

4.1.3 Methodological assumptions

Hiller (2016:100) suggests that researchers' ontological and epistemological assumptions influence the design of their research. Giacomini (2010:129) defines research methodology as a framework that guides research design. The research methodology of this study should, therefore, be clearly defined to ensure that the design is consistent with the researcher's ontology and epistemology and to facilitate the successful attainment of the research objectives.

Research could either follow a quantitative or qualitative approach (Queirós *et al.*, 2017:369). A quantitative approach typically entails empirical research into a phenomenon, which involves the testing of a theory and the consequential analysis of results of such testing, typically with statistics, in order to ascertain whether the theory explains or predicts the phenomenon (Yilmaz, 2013:311). A qualitative approach, on the other hand, typically entails the raising of questions, interpretation of data and consequential recording of observations (Antwi & Hamza, 2015:221). Ahrens (2008:296) supports the aforementioned by observing that the terms "qualitative" and "interpretive" are often used interchangeably to describe the research methodology of a study that follows a qualitative research approach. Bowen (2009:27) further categorises document analysis and interpretation as a qualitative research tool. This research followed a qualitative approach because it involved the review of existing literature on ESG disclosure harmonisation, a summarisation of significant harmonisation efforts by means of a content analysis of corporate governance codes and legislation, the inspection and analysis of sustainability reports from the sample of listed entities and the comparison of average ESG scores between the sample countries over time.

Research could also either be inductive or deductive in nature (Soiferman, 2010:3). Zalaghi and Khazaei (2016:228) describe an inductive approach as the observation of information and the subsequent drawing of a conclusion through such observation, whereas a deductive approach entails the construction of a theory and the subsequent observation or testing to confirm that theory. This research followed an inductive approach seeing that it aimed to observe the implementation of various ESG reporting practices across companies in the sample countries to evaluate South Africa's relative progress in the harmonisation of sustainability reporting. The foregoing is confirmed by

Neuman (cited by Zalaghi & Khazaei, 2016:228), who suggested that an inductive approach is typically intertwined with a qualitative research approach, as is the case in this research.

The research contains both a literature review and empirical research.

4.2 Literature review

The literature review aims to address the theoretical objective and intends to make use of the following secondary data sources, which relate to ESG reporting:

- Relevant academic journals from the North-West University (NWU) library and Google Scholar
- Books from the NWU library
- Website articles
- Sustainability reporting statistics from various data providers
- Stock exchange rules or listing requirements
- Laws and regulations
- Current corporate governance codes

4.3 Empirical study

The empirical objectives of this research are addressed within the following parameters:

4.3.1 Population and sampling

4.3.1.1 Population

Bless *et al.* (2006:98) define the population of a study as the complete group of objects for which the researcher intends to determine characteristics. The population of this research is identified as being listed companies in South Africa, the USA and the UK. The research intends to use listed entities because they are more likely to report on sustainability matters, as evidenced by a study conducted by KPMG (2020:10), which found that 80% of N100 entities report on sustainability matters. Man and Bogeanu-Popa (2020:4) support the use of listed entities by suggesting that their integrated reports have the greatest use for stakeholders. The integrated or sustainability reports and ESG scores of listed companies are also generally easier to obtain since such companies are publicly accountable. The study also specifically intends to use the USA and UK because these countries' sustainability reporting rates were 98% and 94%, respectively, in 2020 and ranked among the top 10 countries worldwide in terms of ESG reporting levels (KPMG, 2020:13). The sustainability reports and ESG scores of companies in these countries are also easily obtainable, further corroborating the appropriateness of selecting the USA and UK. The research did not focus on a specific sector of the market since it was opined that sustainability reporting is pervasive and encouraged for all listed companies. The presence of various industries in the sample companies is not expected to vitiate the findings of this portion of the empirical study since Matakanye *et al.* (2021:14) found that there is no evidence to support the notion that ESG ratings vary between industries.

4.3.1.2 Sampling and sampling techniques

A non-probability sampling method was used for the selection of listed companies from South Africa, the USA and the UK. Vehovar *et al.* (2016:327) define non-probability sampling as a sampling method for which the probability of unit selection is either unknown or known as zero. Since the research made use of the top 40 listed entities, determined on the basis of market capitalisation, from each of the sample countries, the probability of unit selection is known to be zero, elucidating the presence of a non-probabilistic, convenience sampling approach. Costa *et al.* (2018:485) confirm that this approach will not invalidate the research, seeing that the population is clearly defined.

4.3.1.3 Sample size

The study focused on the top 40 listed companies based on market capitalisation from the JSE for South Africa, the New York Stock Exchange (NYSE) for the USA and the London Stock Exchange (LSE) for the UK, respectively. Marx and Mohammadali-Haji (2014:239) justify the use of the top 40 listed companies from the JSE by accentuating the significant proportion of the All-Share Index's market value, which is represented by the top 40 companies, indicating that a wide range of stakeholders' interests would be represented by the integrated reports of those entities. Similarly, it is anticipated that the integrated reports of the top 40 listed entities from the NYSE and LSE will represent a variety of stakeholder interests. Since the JSE is relatively smaller in terms of market capitalisation and the number of listed companies, it would also be futile to enlarge the sample size.

4.3.2 Data collection and analysis

The empirical study of this research entailed both a summarisation of the ESG reporting patronage in the sample countries and a collection and analysis of sustainability reports and ESG scores.

Information pertaining to the current patronage for ESG reporting and the harmonised application of reporting standards and frameworks (*Objective 1* of empirical objectives) were collected for each of the sample countries from the following sources:

- Relevant academic journals from the NWU library and Google Scholar
- Website articles
- Stock exchange rules or listing requirements
- Drafts, proposals and final documents pertaining to laws and regulations
- Corporate governance codes

The information obtained from these sources was summarised, compared and ultimately evaluated in conjunction with the findings arising from the execution of *Objective 2* and *Objective 3*.

The sustainability reports of the sample entities were obtained from the respective companies' websites or other reputable sources (*Objective 2* of empirical objectives), whereas the ESG scores were collected from reputable ESG score providers such as S&P Global, Refinitiv, Sustainalytics,

MSCI and ISS (*Objective 3* of empirical objectives). The collection and analysis of text and documents is frequently referred to as content analysis (Stemler, 2000:1).

A simple coding mechanism was used to collect data from the sustainability reports of the sample companies. Hsieh and Shannon (2005:1278) confirm that qualitative content analysis involves the use of a coding process to identify patterns or themes. The coding mechanism used for the analysis of the sustainability reports (*Objective 2* of empirical objectives) entailed the formulation of relevant questions to which “yes” or “no” would be answered. The primary intention of the coding was to identify the number of ESG reporting standards and/or frameworks used by the sample companies for the preparation of their sustainability reports. Once the data were collected through the coding process, it was analysed and interpreted by the researcher in order to formulate an opinion as to whether South Africa has made progress in the harmonisation of ESG reporting over a period of three years (2019 to 2021), relative to the USA and UK. The findings of this part of the empirical study were used in conjunction with the findings of the ESG scores (*Objective 3* of empirical objectives) to ascertain whether or not the ESG score findings potentially corroborate the findings of the sustainability report analysis.

5 Ethical considerations

It is anticipated that this study has low risk, seeing that the data used for the execution of the study is freely available to the public and the study is not aimed at disparaging the harmonisation efforts of any country, organisation or authority mentioned in the research, but is rather aimed at studying their factual progress in harmonisation efforts as evidenced by the aforementioned freely available data.

The study made use of the secondary data mentioned in the methodology. All of this data is freely obtainable and therefore complies with the minimum ethical standards pertaining to academic research. None of the data the researcher used is confidential in nature. The researcher did not conduct any interviews nor have any personal interactions with any human participants in the course of gathering data. This study was evaluated by the North-West University’s Economic and Management Sciences Research and Ethics Committee and adhered to its requirements.

6 Chapter overview

Chapter 1: Introduction

The first chapter contains an introduction to and motivation for the research. It contextualises sustainability reporting and provides a high-level overview of existing global harmonisation efforts. It further accentuates the research problem and formulates the research question. The objectives for the study are then formulated, which subsequently form the basis for the research methodology which the researcher intends to apply.

Chapter 2: Research article

The second chapter contains a literature review, as well as a comparative empirical study of harmonisation progress in South Africa, the USA and the UK.

Chapter 3: Conclusion

The final chapter summarises the findings of the study.

CHAPTER 2 – RESEARCH ARTICLE

1 Introduction

1.1 Sustainability and the need for accountability

Sustainability is arguably one of the most ubiquitous and indispensable themes in the 21st century business domain. Capitalism and industrialism have facilitated the establishment of a profit-seeking culture, which has inadvertently led to pervasive economic, environmental and social issues such as wealth disparities, natural resource exploitation and other social injustices such as discrimination (Purcell, 2016:32-38). Excessive preoccupation with the bottom-line has resulted in unsustainable business practices whereby companies have become willing to pursue higher returns at the detriment of social and environmental resources. Governments, legislators and other international organisations have become increasingly perturbed by these trends and have consequently embarked laboriously on the development and implementation of strategies, policies and laws to remediate the adverse effects of profit maximisation (Bosselmann, 2016:3-22). One of the most prominent global endeavours towards the facilitation of worldwide economic, environmental and social stability is the Sustainable Development Goals (SDGs) developed and adopted by the UN in 2015, whereby member governments committed themselves to the attainment of 17 SDGs which are collectively aimed at ending, among others, poverty, natural resource exploitation, AIDS and discrimination by 2030 (UN Development Programme, 2023). Following the introduction of the SDGs, several governments, corporate governance institutions and stock exchanges have employed significant measures to establish practices and attitudes that are conducive to the attainment of these global goals, resulting in a heightened emphasis being placed on ESG matters and accountability in relation thereto (Laine *et al.*, 2022:2).

1.2 ESG reporting as a facilitator of accountability

ESG reporting facilitates accountability for global sustainability endeavours (Weber, 2014:304). Alsayegh *et al.* (2020:6) suggest that ESG reports reduce information asymmetry and increase stakeholders' perceptions about an entity's accountability. Sustainability reports are publicly available and usually contain information about a company's performance, policies and objectives in relation to the ESG elements. These reports are, therefore, a medium to achieve transparency and demonstrate honesty pertaining to sustainability practices. This aligns with the objective of the GRI, which is to provide transparency about how a company has been and will be contributing to sustainable development (GRI, 2021:7). Schwartz and Carroll (2008:172) argue that accountability is supported by the principles of transparency and honesty, which is precisely what public reporting achieves. It is, therefore, postulated that high-quality public reporting would inevitably enhance accountability for sustainable development. The aforesaid postulation is shared with Holland

(2011:159) who argues that improved sustainability reporting is ensued by improved transparency and therefore improved accountability.

1.3 Standardisation of ESG reporting

Unfortunately, over the past two decades, the efficacy of ESG reporting has been hampered by inconsistency, irrelevance and lack of comparability (Business for Social Responsibility, 2016:3,7; Comyns *et al.*, 2013:231; Lokuwaduge & Heenetigala, 2017:439). Scholars, such as Arif *et al.* (2020:498), argue that a lack of standardisation is to blame for this variability. Standardisation entails the development of reporting standards and frameworks and is predominantly dependent on the efforts of standard- and framework-setters, corporate governance institutions and lawmakers. It is generally observed that standard- and framework-setters are responsible for developing reporting standards and frameworks, whereas stock exchanges, corporate governance institutions and lawmakers are responsible for devising strategies to effectively implement such standards and frameworks. Accountancy Europe (2019:13) concedes that standard embedment would vary between different jurisdictions and highlights that it could be enforced either directly through legislation or, first, through regulation and other endorsement mechanisms, which could then be translated into legislation at a later point in time. Regardless of the approach taken, both standardisation and regulation are imperative for the establishment of effective, high-quality sustainability reporting (Khan *et al.*, 2021:345).

For a long time, however, the standardisation and enforcement of ESG reporting was slow and insufficient (Pakšiová, 2016:705). This lack of standardisation led to ESG reporting being unable to reach the standardisation level of financial reporting (Gunawan *et al.*, 2022:4; Pakšiová, 2016:705). Sustainability reporting has had a pronounced tendency to be voluntary, juxtaposed to financial reporting, which has predominantly been mandated by most legislators and stock exchanges (Camilleri, 2018:574; Lokuwaduge & Heenetigala, 2017:439). For most of the past decade, companies have merely been encouraged to report on ESG matters but have by no means been obligated to do so. A significant amount of literature, however, suggests that enforcement is vital for the successful implementation of reporting standards (Christensen *et al.*, 2021:1190). The aforesaid was empirically confirmed by Khan *et al.* (2021:359), who found that regulations favourably affect the quality of ESG reports. It could, therefore, be conjectured that the compounded effect of standard-setters' slow adaptation to stakeholders' ESG information needs and the general lack of legal and stock exchange backing led to ESG reporting being inefficient for an extended period of time.

In recent years, however, significant standardisation efforts have been undertaken by several global organisations to address the apparent inefficiencies in sustainability reporting. This has resulted in the development and introduction of several renown ESG reporting standards, frameworks and tools, such as the CDP, GRI standards, <IR> framework, SASB standards, Task Force on Climate-Related Financial Disclosures (TCFD) framework and the International Sustainability Standards Board

(ISSB) standards, which were partially issued in June 2023 (IFRS, 2023). These ESG reporting standards and frameworks have been subject to extensive improvements over the past decade (Alareeni & Hamdan, 2020:1414), mainly due to the increased emphasis placed on sustainability reporting and the challenges inherent therein.

In addition to global standardisation endeavours, many countries have recently embarked on processes to mandate sustainability disclosures, whether through laws, corporate governance codes or stock exchange rules. This trend demonstrates a favourable response to the recommendation made by Generation Investment Management (2012) that integrated reporting should be mandated. Many developed countries, such as the USA and the UK, have started taking significant measures to make certain ESG disclosures obligatory. As of April 2022, all large corporations in the UK have been lawfully obliged to report on ESG matters in terms of the TCFD framework (Department for Business Energy & Industrial Strategy, 2022:6). Similarly, several drafts and state bills were tabled in the USA during 2023 to mandate certain ESG disclosures, especially those linked to climate-related matters (Compliance & Risks, 2023). Some developing countries, such as South Africa, have also made strides in impelling entities to report on sustainability. South Africa was the first country in the world to implement the “apply or explain” principle within the context of integrated reporting (Steyn, 2014:145). The “apply or explain” or “comply or explain” principle requires of companies to document their compliance with a code’s principles or to provide an explanation as to why they did not comply.

Singhania and Saini (2022:169) recently conducted an empirical study on the collection of codes, laws, regulations, standards and frameworks used by countries to enforce, encourage or support ESG reporting and found that the UK presently has a *well-developed* ESG framework, whereas the USA and South Africa have *rapidly improving* ESG frameworks. These findings are supported by impressive statistics compiled by KPMG (2022:13), which indicate that 100% of the top 100 listed companies in the USA currently report on sustainability matters, followed by the UK with 99% and South Africa with 96%, starkly comparing with the global average of 79%. The superior performance of these three countries in relation to the rest of the world could potentially be ascribed to its improving and well-developed ESG frameworks, consequently delineating the indubitable advantage of encouraging and regularising ESG reporting.

When considering all of the aforementioned, it is evident that standardisation and regulation are currently key trends in the sphere of sustainability reporting (Plastun *et al.*, 2017:13). A large number of new standards have been introduced and several others have been improved. However, many reporters have voiced concern over the proliferation of ESG reporting standards and frameworks (Adams & Abhayawansa, 2022:2). The vast choice of standards and frameworks available to companies, along with a general lack of prescription as to which is preferred, have led to incertitude among reporters pertaining to which standards or frameworks are most appropriate for ESG reporting.

1.4 Harmonisation in ESG reporting

Unlike financial reporting, sustainability reporting does not have a generally accepted reporting standard that caters to the needs of all stakeholders (De Silva Lokuwaduge & De Silva, 2022:152; Pronobis & Venuti, 2021:3; Tschopp & Nastanski, 2014:152). There is no single ESG reporting standard or framework that sufficiently addresses the information requirements of all stakeholders. For example, the GRI standards and <IR> framework target a multiplicity of stakeholders and focus on how a reporting company affects the ESG elements, whereas the SASB standards primarily cater to the needs of shareholders by demonstrating how the ESG elements affect the reporting company (Bose, 2020:18-19; De Villiers *et al.*, 2022:729; Department for Business Energy & Industrial Strategy, 2022:35-36). Although the <IR> framework seemingly follows a multi-stakeholder approach through its six capitals perspective, it is often criticised for showing favour to financial capital providers (Bose, 2020:18; Van der Lugt & Mans-Kemp, 2022:5). Other than the <IR> framework, the TCFD framework endeavours to facilitate the reporting of a company's impacts *and* dependencies on the environment, but only targets an array of participants in the investment ecosystem, especially intermediaries (Bose, 2020:23). On the other hand, CDP is a tool that enables companies to report on greenhouse gas emissions (Dye *et al.*, 2021:5). It is, therefore, evident that each reporting standard, framework or tool addresses a different target audience and assumes a different position.

ESG reporting is vastly different from financial reporting in that its target audience is much more expanded. Financial reports cater only to the financial information needs of shareholders, lenders and creditors (IFRS, 2018:A19). Sustainability reports, however, invoke the interest of far more stakeholder groups, given that the nature of the reported information is not confined to one element, such as financial performance, but rather a plethora of elements arising from ESG practices. Because of the aforementioned differences between the target audiences of financial reporting and ESG reporting, it is impossible to develop one universally accepted reporting standard for ESG as was possible for financial reporting (Tschopp & Nastanski, 2014:161). This sentiment is shared with the Business for Social Responsibility (2018:1), which affirms that a single unified ESG reporting standard is neither practical nor preferable.

Given the impracticability to converge sustainability reporting standards into a single standard, it is widely postulated that ESG reporting standard- and framework-setters should collaborate to obtain an understanding of how their standards and frameworks align, how they could be harmonised to reduce redundancies and overlaps, and how reporters could apply them concurrently (Adams & Abhayawansa, 2022:7; BlackRock, 2020:1; Business for Social Responsibility, 2018:1; Department for Business Energy & Industrial Strategy, 2022:40). Several significant collaboration efforts between standard- and framework-setters have been embarked on over the past few years. In 2020, the "Big Five" ESG reporting institutions, namely the CDP, CDSB, GRI, IIRC and SASB, released a collaboration statement in which they highlighted the complimentary and supplementary natures of

their respective standards and frameworks. In 2021, the IIRC and SASB merged to form the Value Reporting Foundation in response to the global call for convergence in ESG reporting. The Foundation outlined the possibility of using the <IR> framework and SASB standards concurrently, indicating that it would produce compounding benefits for reporters (Value Reporting Foundation, 2021a). The Foundation issued guidance in September 2021, which described how this framework and standard could be applied in a complimentary manner. The IFRS Foundation subsequently acquired the Value Reporting Foundation in 2022 and communicated its intent to use the <IR> framework's principles for the development of the ISSB's sustainability reporting standards, thereby facilitating further standard and framework harmonisation (IFRS, 2022).

It is conjectured that the simultaneous application of different reporting standards and frameworks produces two significant benefits. Firstly, it facilitates an improvement in the number of stakeholder perspectives catered for. A multi-stakeholder consideration appears to be the most appropriate approach to ESG reporting (Business for Social Responsibility, 2018:1; European Financial Reporting Advisory Group, 2021:6; GRI, 2022). When cognisance is borne of the varying target audiences catered for by the different reporting standards and frameworks, it becomes evident that the synchronous application of these standards and frameworks would satisfy the information needs of a larger number of stakeholders, thereby reducing information asymmetry. Secondly, it facilitates an improvement in the quality and quantity of ESG disclosures. A study conducted by Helfaya *et al.* (2019:163) found that the users of sustainability reports perceive information types, themes disclosed, measures used, visual tools applied and the use of reporting guidelines as key indicators of disclosure quality. It could, therefore, be postulated that the concurrent application of complimentary reporting standards and frameworks would increase the range of information types, themes, measures and visual tools used and presented in companies' ESG reports, thereby increasing the quality of sustainability disclosures. It is also inevitable that such parallel application of standards and frameworks would increase the length and, therefore, quantity of disclosures.

1.5 Research overview

Given the significant collaboration efforts undertaken by standard- and framework-setters and the indubitable global propensity towards standard and framework integration, especially since 2019, it is expected that companies would be inclined towards concurrently applying several reporting standards and frameworks in order to enhance the efficacy of their ESG reporting. The main objective of this research was to compare South Africa's progress made in the harmonisation of ESG reporting with that of the USA and the UK for the 2019 to 2021 reporting cycles. In the context of this research, *harmonisation* is achieved when a company concurrently applies a variety of ESG reporting standards and frameworks for its sustainability reporting. Therefore, it is postulated that *progress in the harmonisation of ESG reporting* amounts to increases in the number of reporting standards and frameworks applied simultaneously by companies for the compilation of their sustainability reports. As mentioned before, enforcement plays a crucial role in the adoption of

reporting standards. It has been observed by KPMG (2013:24) that such enforcement is often facilitated by laws, regulations, corporate governance codes and stock exchange rules. This research, therefore, also considered the sample countries' patronage for the application of specific ESG reporting standards and frameworks on the premise that it could ultimately underpin harmonisation.

As an auxiliary objective, this study also considered whether ESG score performance could potentially corroborate and strengthen the harmonisation findings arising from the execution of the main objective of the research. An ESG score is a quantification used to measure a company's ESG and corporate social responsibility practices (Alareeni & Hamdan, 2020:1414-1415; PwC, 2023). Several rating agencies, such as S&P Global, Sustainalytics and Bloomberg, calculate and report these scores on an annual basis. ESG scores are derived from information disclosed in companies' sustainability reports (Alareeni & Hamdan, 2020:1415; Alsayegh *et al.*, 2020:10). As a result, it is conjectured that the improved quality and quantity of ESG disclosures produced by the concurrent application of multiple reporting standards would ineluctably deliver higher ESG scores. A positive correlation between ESG scores and the number of reporting standards and frameworks applied could demonstrate that ESG scores are indicators of harmonisation and therefore support the main objective's findings.

This study specifically focused on South Africa, the USA and the UK due to their superlative ESG reporting performance over the past decade, as found by (KPMG, 2013:23; 2020:13; 2022:16). The study specifically considered the 2019 to 2021 reporting cycles given that the most significant standard collaboration and integration efforts occurred from 2019 onwards. The sustainability reports of the top 40 listed companies in the sample countries were inspected since they represent a significant proportion of the All-Share Index's market value and a wide range of stakeholders' interests (Marx & Mohammadali-Haji, 2014:239).

The findings documented in this chapter answer the research question: How does South Africa's ESG reporting harmonisation progress compare with that of the USA and the UK over the period 2019 to 2021?

This research found a pronounced upward trend in the number of ESG reporting standards and frameworks simultaneously applied by reporters in each of the sample countries, thereby providing clear evidence of harmonisation progress. The SASB standards and TCFD framework were the most significant contributors to the harmonisation observed in the 2019 to 2021 period. The study also found evidence that ESG scores appear to be positively correlated with the number of sustainability reporting standards and frameworks applied by reporters, thereby potentially corroborating the evidence that harmonisation occurred during the reporting cycles under review. The UK appeared to have the best response to global standard and framework convergence, which could potentially be ascribed to their relatively superior patronage for ESG reporting. South Africa and the USA also

demonstrated meaningful harmonisation progress, although South Africa's harmonisation progress appeared to be slightly delayed in relation to the USA and the UK.

2 Research findings

A study was executed in accordance with the methodology described in Chapter 1 to address the empirical objectives that were formulated for this research. The findings have been documented in this section.

2.1 Patronage for ESG reporting and harmonisation

This section of the study addresses the first empirical objective formulated for this study: To briefly analyse and compare the legal, regulatory, corporate governance and stock exchange patronage for ESG reporting in South Africa, the USA and the UK in order to evaluate their sustainability reporting harmonisation efforts in comparison with each other.

The patronage for ESG reporting was analysed for each sample country with reference to two main facilitators:

- i. Laws and regulations
- ii. Corporate governance codes and stock exchange rules

Information was obtained from various sources, including academic journals, laws and regulations, corporate governance codes, stock exchange rules and various ESG, government, audit firm and law firm websites.

This section of the study highlights how each of the aforementioned facilitators contributed to ESG reporting and standard/framework adoption in South Africa, the USA and the UK. Following this analysis, a comparison was drawn between the sample countries, specifically in relation to backing by the two main facilitators.

It is imperative to note that the purpose of this part of the research was not to compare and evaluate the legal, regulatory, stock exchange and corporate governance code patronage for the advancement of *sustainability* across the sample countries but rather to assess the backing for *ESG reporting* and endorsement for the application of specific sustainability reporting standards and frameworks.

This study found clear evidence of patronage for ESG reporting and the convergence of reporting standards and frameworks across the sample companies. The UK appeared to demonstrate superior and proactive backing, whereas South Africa and the USA also demonstrated noteworthy patronage for harmonisation but slightly delayed in comparison with the UK.

2.1.1 South Africa

2.1.1.1 Corporate governance codes and stock exchange rules

South Africa's primary stock exchange is the JSE. The JSE was the first and only stock exchange in the world to enforce the application of the <IR> framework (Hoang *et al.*, 2020:364). Since 2011, all listed companies on the JSE have been required to prepare integrated reports in terms of the <IR> framework or to explain why they do not (JSE, 2019:447-448). The JSE achieved this enforcement through patronage for the King IV Corporate Governance Code, which is especially prominent in South Africa. The King IV Code, which was issued by the Institute of Directors in Southern Africa, endorses the application of the <IR> framework and implores companies to prepare integrated reports (Institute of Directors in Southern Africa, 2016:28,48). JSE-listed entities are mandated by the listing requirements to comply with many elements of the King IV Code, while the non-mandated principles are enforced with an "apply or explain" approach (JSE, 2019:448). Therefore, although the JSE listing requirements do not specifically mandate the application of the <IR> framework, it imposes it upon listed companies by virtue of the "apply or explain" rule. The stock exchange has been lauded by several institutions and scholars for its proactive stance on ESG reporting. This study found that 100% of the top 40 listed companies in South Africa report on ESG in terms of the <IR> framework (refer to Figure 6 in Section 2.2.5), clearly demonstrating the effectiveness of the JSE's enforcement of this reporting framework.

In June 2022, the JSE (2022) published its Sustainability Disclosure Guidance document. This guidance endeavours to support the convergence of the various global reporting standards and to improve ESG reporting in South Africa by helping companies navigate the evolving sustainability reporting landscape. The JSE based its guidance on the principles and reporting requirements contained in the GRI standards and the <IR> and TCFD frameworks, providing evidence of its patronage for harmonisation. It is, however, imperative to note that this guidance by no means supersedes or replaces the variety of reporting standards and frameworks available for ESG reporting but rather ventures to assist listed companies with the application of these standards and frameworks within the South African context. Although this guidance is only voluntary at present, many experts, such as BDO South Africa (2022:2), Ernst & Young (2022) and Greenstone+ (2023), warn that South African companies may soon be mandated to report on ESG matters and that the application of the JSE's Sustainability Disclosure Guidance could enable companies to prepare for such inevitable reality. Ernst & Young (2022) opine that South Africa's interconnectedness with global markets, especially by virtue of commodities, together with the global drive towards standard and framework convergence, will soon necessitate the establishment of mandated ESG disclosure requirements in South Africa. It should be emphasised that the JSE's Sustainability Disclosure Guidance was only issued in 2022 and would therefore not have influenced reporters' conduct during the 2019 to 2021 reporting periods. It does, however, potentially corroborate the findings depicted by Figure 3 in Section 2.2.2, which suggests that South Africa's harmonisation progress appeared

to be slightly delayed in relation to the USA and the UK, especially when one compares the timeline of South Africa's harmonisation endeavours with the timelines of the USA and the UK's harmonisation attempts (refer to Section 2.2).

2.1.1.2 *Laws and regulations*

Similar to the JSE, the South African Reserve Bank Prudential Authority (SARB PA), which regulates financial institutions in South Africa, has taken a proactive stance on ESG reporting. In August 2022, the SARB PA (2022:4) advised that financial institutions should identify and disclose important climate-related information and suggested that the TCFD framework could serve as a useful guideline for such disclosure. In August 2023, the SARB PA (2023:4) again encouraged institutions to be proactive in climate-related reporting, emphasising that such disclosures are expected to become mandatory in the future. At present, financial institutions in South Africa are not yet obligated to report on climate-related matters, however, given the recent advisories issued by the SARB PA, it is reasonable to expect that ESG reporting will soon be mandated in South Africa, albeit at first confined to climate-related disclosures for financial institutions.

The literature study revealed that there are currently no laws or regulations that mandate South African companies to report on ESG matters. South Africa has developed an array of laws and regulations that govern sustainability, but none which govern sustainability reporting. The advisories issued by the SARB PA constitute the first major advancement made in the regularisation of sustainability disclosures in South Africa, however, at the time that this study was executed, no formal regulations had been drafted or instituted in this regard. It should be emphasised that the SARB PA announcements were only made in 2022 and would therefore not have influenced ESG reporting in the 2019 to 2021 reporting cycles. Again, it does potentially explain South Africa's apparent delayed harmonisation response (refer to Figure 3 in Section 2.2.2).

2.1.2 USA

2.1.2.1 *Corporate governance codes and stock exchange rules*

The USA does not have a widely adopted corporate governance code (Burke, 2023; Gregory & Holland, 2022). Rather, its corporate governance framework consists of various interrelated components, such as state corporate law, federal securities law and regulations laid out by the United States (US) Securities and Exchange Commission (SEC) (European Corporate Governance Institute, 2023). In addition to this, there are some institutions, such as the Council of Institutional Investors and the National Association of Corporate Directors, that issue guidance which aims to direct companies on corporate governance matters, however, none of these guidelines are embedded into any legislation or stock exchange rules (Gregory & Holland, 2022). This is unlike South Africa and the UK, where independent institutions issue corporate governance codes that are enforced on a "comply or explain" basis. Laws and regulations that make up the US corporate governance framework were considered in Section 2.1.2.2. It is, however, worth noting that the

Council of Institutional Investors (2023) strongly advocated ESG reporting and issued a guide on the different sustainability reporting frameworks in September 2019, which highlighted CDP, GRI, SASB and TCFD in particular.

The NYSE and Nasdaq are the two largest stock exchanges in the USA (Social Finance, 2022). In May 2019, Nasdaq issued its ESG Reporting Guide, which encourages listed companies to disclose ESG data in the form of stand-alone sustainability reports by making use of established ESG reporting standards and frameworks (Nasdaq, 2019:3). Nasdaq did not mandate sustainability disclosure in any way, but merely asserted the value that ESG reporting offers companies. Their guidance encouraged the application of CDP, the GRI and SASB standards and the TCFD framework, among others (Nasdaq, 2019:14-28; Sustainable Stock Exchanges Initiative, 2023). Similarly, the NYSE issued its ESG Guidance in May 2021 (NYSE, 2023; Sustainable Stock Exchanges Initiative, 2023). Their guidance is similar to that issued by Nasdaq and also endorses the application of the GRI and SASB standards as well as the TCFD framework. The NYSE emphasised that ESG reporting is a global best practice, however, it does not mandate its listees to report on sustainability matters (NYSE, 2023). Both stock exchanges underlined the fact that their guidance does not replace existing reporting standards or frameworks, but rather aims to highlight the key elements of high-quality ESG reporting.

As a result, it was evident that US stock exchanges encourage reporting on ESG matters and that they support the concurrent application of various reporting standards and frameworks, thereby contributing to harmonisation progress in the USA. Although their endorsements have not yet materialised into listing requirements, it is reasonable to expect that their backing would have had an impact on companies' sustainability reporting practices, especially from 2020 onwards. Figure 3 in Section 2.2.2 provides evidence of the USA's substantial harmonisation advancements in 2020 and 2021, which could potentially be ascribed to the endorsements made by the NYSE and Nasdaq in 2019 and 2021, respectively.

2.1.2.2 *Laws and regulations*

For the past two decades, US companies have imposed some environmental and social reporting requirements in terms of federal securities laws. For example, the Sarbanes-Oxley Act of 2002 required that companies disclose board diversity policies and the Dodd-Frank Act of 2010 required that entities comply with specialised disclosure rules in terms of human rights matters (Harper Ho, 2020:5). These requirements, however, never obligated companies to prepare sustainability or integrated reports, nor did it encourage the application of any specific reporting standards or frameworks.

In March 2022, the SEC proposed rule amendments that would mandate companies to include climate-related information in their annual reports (SEC, 2022a:1). The proposed requirements would obligate listed companies to report on Scope 1 to 3 greenhouse gas emissions, as well as

climate-related risks, metrics and targets (SEC, 2022a:3). The Scope 1 and Scope 2 greenhouse gas disclosures will be subject to limited assurance during the phase-in period and reasonable assurance after the phase-in period (Deloitte & Touche, 2022). The SEC has a quasi-legislative nature and therefore has the practical ability to develop regulations that support the implementation of laws passed by the US Congress (Gordon, 2023; SEC, 1955:6). Their proposed regulations are expected to be finalised in October 2023 (AuditBoard, 2023:4). A phase-in approach of three years is expected and is likely to commence in 2024 (SEC, 2022a:3). The SEC has endorsed various ESG reporting standards and frameworks, including the GRI and SASB standards and the TCFD framework. The SEC indicated that the climate-related disclosures envisaged by the proposed rules are broadly in line with the TCFD framework and further mentioned that other standards, such as the GRI and SASB, could also be useful to ensure compliance (SEC, 2022b:46,314). Endorsement was also demonstrated for the CDP tool since it was found to fully incorporate the TCFD framework's reporting requirements and principles (SEC, 2022b:314).

The aforementioned demonstrates how the SEC is contributing to the harmonisation of ESG reporting in the USA. It should, however, be noted that the SEC announcement was made at the beginning of 2022 and that its patronage would likely not have had a material bearing on the reporting behaviour of US companies during the 2019 to 2021 reporting cycles.

2.1.3 UK

2.1.3.1 *Corporate governance codes and stock exchange rules*

Similar to South Africa, the UK has a widely adopted corporate governance code. Since January 2019, all companies with premium listings in the UK have been obligated to comply with the UK Corporate Governance Code on a "comply or explain" basis (Financial Reporting Council, 2018:3). The current version of the UK Corporate Governance Code does not address reporting on the environmental (E) and the social (S) elements of ESG but does extensively speak to reporting on the governance (G) element thereof. Companies are required to report on how they have applied the principles set out in the Code and are also obligated to provide reasons for departing from the Code's provisions (Financial Reporting Council, 2018:2). These disclosures should be incorporated into a company's annual reporting suite. It was noted that the Code does not prescribe the application of any specific ESG reporting standard or framework, unlike the King IV Code that endorsed the <IR> framework. In July 2022, the Financial Reporting Council issued a position paper in relation to the UK Corporate Governance Code and committed to revising the Code in order to incorporate wider board responsibilities for ESG reporting (Financial Reporting Council, 2022:4). This announcement demonstrates the Code's support for sustainability reporting. At the time of concluding this research, the Financial Reporting Council had not yet issued the revised Code.

In addition to the UK Corporate Governance Code, the Financial Reporting Council also issued the UK Stewardship Code in 2020. This Code provides voluntary reporting principles in relation to ESG

elements, specifically for asset managers and service organisations in the UK (Financial Reporting Council, 2020:4-30). Signatories of the Code are required to document their compliance with the Code's principles or to provide an explanation as to why they did not comply.

The LSE is one of the leading stock markets in the world (CFI Institute, 2023). The LSE issued its comprehensive ESG reporting guidance in February 2017, much earlier than the guidance issued by the JSE and NYSE (Sustainable Stock Exchanges Initiative, 2023). This guidance endeavours to help issuers navigate the complex environment of ESG reporting and to support the convergence of ESG reporting standards and frameworks (London Stock Exchange Group, 2017:3). It also demonstrates support for the application of various ESG reporting tools, standards and frameworks, including the CDP, GRI standards, <IR> framework, SASB standards and the TCFD framework (London Stock Exchange Group, 2017:24). Although the LSE did not obligate its listees to comply with this guidance, it strongly encouraged them to report on ESG matters and indicated that the discussion around sustainability reporting should move on from debating whether such reporting should be mandatory or not, to focusing on innovation and the information relevance that ESG reporting provides (London Stock Exchange Group, 2017:4)

The UK's corporate governance institution and stock exchange were proactive in demonstrating patronage for ESG reporting and the harmonised application of reporting standards and frameworks. Their backing would have affected reporting behaviour in the 2019 to 2021 reporting cycles since it was communicated well in advance of report preparation for the periods under review. This support likely underpins the UK's superior harmonisation progress discovered and documented in Sections 2.2 and 2.3.

2.1.3.2 *Laws and regulations*

Similar to the Financial Reporting Council and the LSE, the Bank of England's Prudential Regulation Authority (PRA), which is responsible for regulating the UK's financial sector, also demonstrated clear patronage for ESG reporting. In April 2019, the PRA (2019:7-8) communicated its expectation that banks and insurers should develop their climate-related financial disclosures by making use of relevant reporting standards and frameworks such as the TCFD framework. Firms were expected to fully implement these disclosures by the end of 2021 (PRA, 2020:1).

In November 2020, the UK government announced that several clusters of UK companies would be mandated by law from April 2022 to prepare disclosures that are aligned with the TCFD framework. The government issued a roadmap that laid out a phased approach for the implementation of this reporting requirement. Large occupational pension schemes, banks, insurance companies and premium-listed entities were among the first to be mandated to report in terms of the TCFD framework, with smaller pension schemes, wider scope listed entities and other UK-registered companies following shortly thereafter (HM Treasury, 2020:5). The Financial Conduct Authority

(2020) proactively responded to the government’s announcement by regularising TCFD for financial years commencing 1 January 2021 and later.

Given the imminence of the legislation and regularisation of TCFD reporting, it was observed that many listed UK companies, regardless of their industry, started aligning their climate-related disclosures with the TCFD framework since the 2020 reporting period. The effect of these laws and regulations is clearly evident in Figure 7.

2.1.4 Comparison of patronage

A simple comparison of the sample countries’ patronage for ESG reporting and harmonisation has been summarised in Table 1. The findings documented in Sections 2.1.1 to 2.1.3 were used to compile this comparison.

Table 1: Comparison of sample countries’ patronage for ESG reporting and harmonisation			
	South Africa	USA	UK
Legal and regulatory patronage			
Nature of patronage	Encouragement	Obligation	Obligation
Overview of patronage	PA advised that financial institutions should identify and disclose important climate-related information. TCFD suggested.	SEC proposed a rule that would require listed companies to report on Scope 1 to 3 greenhouse gas emissions, as well as climate-related risks, metrics and targets. TCFD, CDP, GRI and SASB could be useful to ensure compliance. Regulation has not yet been effected but is expected to be promulgated in October 2023.	PRA communicated that banks and insurers should fully develop their climate-related financial disclosures by the end of 2021. TCFD suggested. UK companies are required to report in terms of TCFD from April 2022. A phase-in approach followed. Financial Conduct Authority regularised TCFD reporting.

Table 1: Comparison of sample countries' patronage for ESG reporting and harmonisation

	South Africa	USA	UK
Year	2022	Communication of proposed rule: 2021 Expected promulgation: 2023	PRA regulation communicated: 2019 Communication of TCFD law: 2020 Effective date of TCFD law: 2022 Financial Conduct Authority regulation communicated: 2020
Corporate governance code patronage			
Nature of patronage	Encouragement	N/A	UK Corporate Governance Code: Obligation UK Stewardship Code: Encouragement
Overview of patronage	King IV Code encourages integrated reporting using the <IR> framework principles.	N/A	UK Corporate Governance Code requires reporting on governance principles. UK Stewardship Code encourages reporting on ESG principles.
Year	2009	N/A	UK Corporate Governance Code: 2018 UK Stewardship Code: 2020
Stock exchange patronage			
Nature of patronage	Integrated reporting: Obligation Sustainability Disclosure Guidance: Encouragement	Encouragement	Encouragement
Overview of patronage	JSE requires companies to comply with King IV, including integrated reporting in terms of <IR> framework, on a	Nasdaq issued an ESG Reporting Guide that supports the application of CDP, GRI, SASB and TCFD.	LSE issued reporting guidance that demonstrates patronage for the application of various ESG reporting tools,

Table 1: Comparison of sample countries' patronage for ESG reporting and harmonisation			
	South Africa	USA	UK
	<p>"comply or explain" basis.</p> <p>JSE issued Sustainability Disclosure Guidance, which is based on GRI, <IR> and TCFD.</p>	<p>NYSE issued ESG Guidance, which supports the application of GRI, SASB and TCFD.</p>	<p>standards and frameworks, including CDP, GRI, <IR> framework, SASB and TCFD.</p>
Year	<p>Integrated reporting: 2011</p> <p>Sustainability Disclosure Guidance: 2022</p>	<p>Nasdaq ESG Reporting Guide: 2019</p> <p>NYSE ESG Guidance: 2021</p>	2017

Table 1 seems to indicate superlative legal and regulatory backing for ESG reporting harmonisation in the UK and the USA, whereas South Africa's patronage appears to be somewhat underwhelming.

2.2 Reporting standards and frameworks applied

This section of the study addresses the second empirical objective formulated for this study: To perform an analysis of the sustainability and/or integrated reports of the top 40 listed entities in South Africa, the USA and the UK over a period of three years to identify the sustainability reporting standards and/or frameworks applied and to ascertain whether more than one standard and/or framework was applied in the preparation of such reports.

This component of the study was executed within the following parameters:

- Annual integrated and/or sustainability reports of the sample companies, which cover the period 2019 to 2021, were downloaded from the sample companies' respective websites. It was observed that some companies, especially those in South Africa, do not prepare separate sustainability reports since such reports are fused into their integrated reports, juxtaposed to most companies in the USA and UK that do not prepare integrated reports and, therefore, have the proclivity of issuing separate ESG reports.
- The content of the downloaded integrated and/or sustainability reports was subsequently analysed to identify the reporting standards and/or frameworks applied by each company in 2019, 2020 and 2021, respectively. This content analysis was performed by means of a keyword search. Only the so-called "Big Five" ESG reporting standards and frameworks, along with the increasingly popular TCFD framework, were considered. The following keywords were searched for in each report to identify the corresponding standard or framework applied:
 - CDP: "Carbon Disclosure Project", "CDP"

- GRI: “Global Reporting Initiative”, “GRI”
- <IR> Framework: “IIRC”, “integrated report”, “International Integrated Reporting Council” “<IR> Framework”, “six capitals”
- SASB: “SASB”, “Sustainability Accounting Standards Board”
- TCFD: “Task Force on Climate-Related Financial Disclosures”, “TCFD”

Virtually all of the sample companies distinctly identified the standard(s) and/or framework(s) that they had applied in the preparation of their sustainability reports.

- Some standard- and framework-setters have databases that contain listings of companies which apply their standards and/or frameworks. After performing the content analysis, these databases were searched to confirm each company’s application or non-application of the relevant standards and/or frameworks.
- The websites of the sample companies were also inspected for any evidence of standards and/or frameworks applied. Virtually all sample companies had ESG pages on their websites.
- Upon the completion of the aforementioned procedures, each of the sample companies’ data were captured into a spreadsheet for each reporting period between 2019 and 2021.
- Finally, the spreadsheet data were analysed, translated into visual graphs and/or charts and subsequently interpreted.

In order to facilitate consistency in the identification of standards and/or frameworks applied by the sample companies, criteria were applied invariably to each ESG report. In order for it to have been concluded that a sample company applied a certain standard or framework in any reporting period under review, any one of the following criteria should have been satisfied:

- The entity considered the principles of the standard or framework in the formulation of its ESG reporting policy for that reporting cycle.
- The entity partially reported in terms of the standard or framework during that reporting cycle.
- The entity fully reported in terms of the standard or framework during that reporting cycle.

A mere pledge of support for a reporting standard or framework was not deemed sufficient for it to be considered that the sample entity had applied that standard or framework in the reporting period under review.

A strong upward trend was noted across the sample countries in relation to the number of ESG reporting standards and frameworks concurrently applied for sustainability reporting purposes. This finding aligns with the conjecture made prior to research execution and is corroborated by the fact that harmonisation efforts especially gained momentum during 2020 and 2021, evidenced by the formation of the Value Reporting Framework in 2021 and the collaboration statement issued by the CDP, CDSB, GRI, IIRC and SASB in 2020.

The empirical findings are depicted in Figures 1 to 12 and Table 2. Narratives and interpretations have been provided for each figure and table.

2.2.1 Cumulative and average numbers of ESG standards and/or frameworks applied

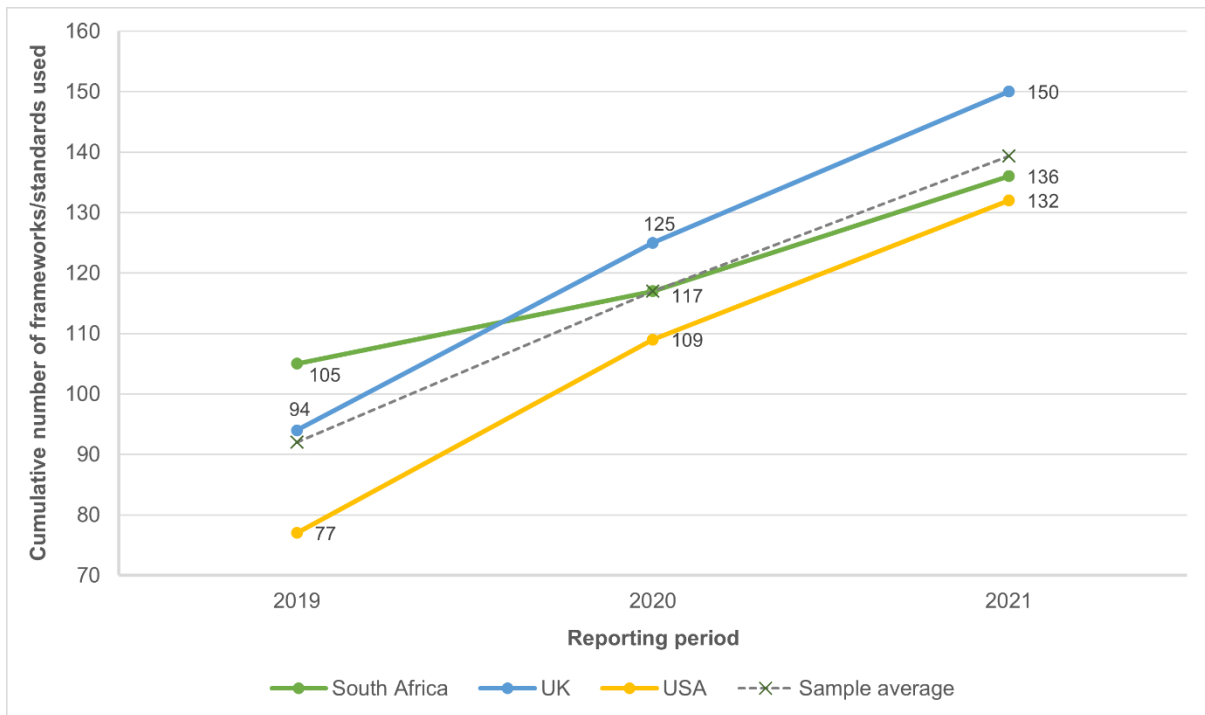


Figure 1: Cumulative number of ESG standards and/or frameworks applied

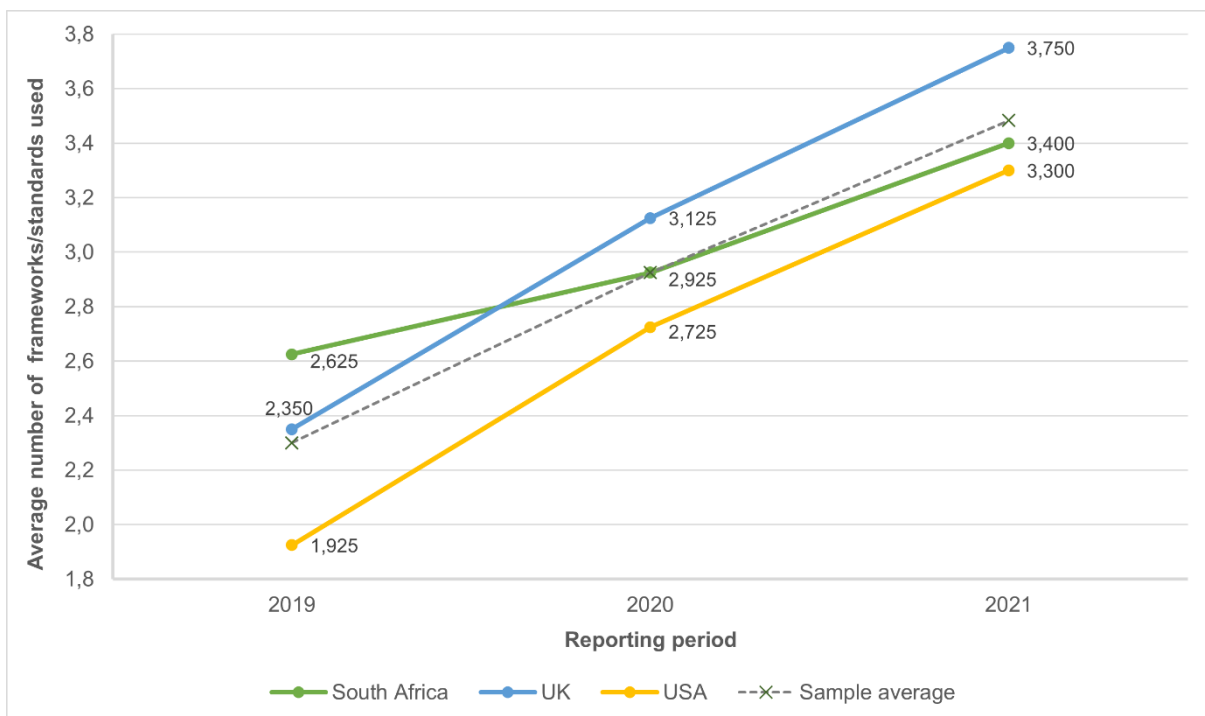


Figure 2: Average number of ESG standards and/or frameworks applied per company

Figures 1 and 2, respectively illustrate the cumulative and average number of ESG reporting standards and/or frameworks applied by the sample companies per country for the reporting cycles under review. South Africa outperformed the UK and the USA in 2019 but was trumped by the UK in 2020 while still outperforming the USA. This ranking remained unchanged in 2021. The UK's

growth was mainly driven by substantial increases in its number of TCFD reporters (refer to Figure 7) and could potentially be ascribed to companies' pre-emptive adoption of this framework in view of the UK's regularisation of TCFD disclosures from April 2022 (Brown, 2022:217).

In light of South Africa's performance, it appears reasonable to deduce that South Africa had the soundest ESG reporting practices prior to 2020 but that it failed to sufficiently or timeously respond to harmonisation efforts arising in periods thereafter. This deduction could be substantiated by Figure 3, which delineates South Africa's relatively low growth rate in relation to the cumulative number of standards and frameworks applied by its reporters. South Africa's growth was primarily driven by increases in the number of companies that applied TCFD for ESG reporting purposes (refer to Figure 7), which proved to be a prevalent trend across the sample countries.

In spite of healthy growth in its companies' concurrent application of reporting standards and frameworks, the USA consistently underperformed in each reporting cycle and demonstrated below-average standard and framework integration. The USA's progress was mainly driven by an upsurge in the number of its SASB and TCFD reporters (refer to Figures 4 and 7). During research execution, it was concerningly noted that a few of the sample companies from the USA did not prepare any kind of sustainability or integrated reports in 2019, thereby clarifying their subpar performance in that reporting cycle. The aforementioned companies reported on ESG matters for the first time in 2020, unlike South Africa and the UK, where the entire sample of companies prepared some form of sustainability or integrated reports prior to 2020.

2.2.2 Year-on-year growth in the number of standards and/or frameworks applied

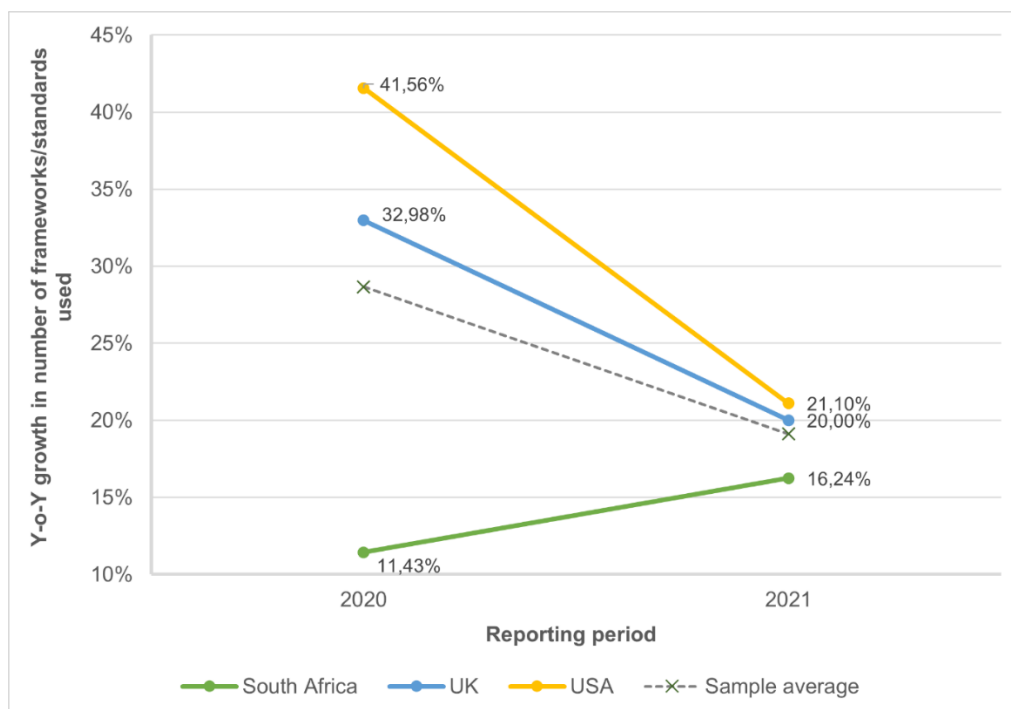


Figure 3: Year-on-year growth in the number of standards and/or frameworks applied

Figure 3 illustrates the year-on-year growth in the number of sustainability reporting standards and/or frameworks applied by the sample companies across the sample countries and therefore depicts the growth trajectory. The graph demonstrates that South Africa's response to harmonisation efforts was significantly below-average in 2020 and 2021, but that these efforts evidently improved in 2021. The UK and the USA showed meaningful responses to the concurrent application of ESG standards and/or frameworks throughout all reporting periods, especially in 2020.

Although the USA sample companies consistently applied fewer standards and/or frameworks in their ESG reporting relative to South Africa and the UK (refer to Figures 1 and 2), it demonstrated the greatest improvement in relation thereto during 2020 and 2021, proven by the superlative growth rate denoted in Figure 3. By virtue of the aforesaid, it appears that the USA exhibited the best harmonisation progress over the period under review, followed by the UK and then South Africa. The reader's attention is, however, drawn to the upward trajectory of South Africa's year-on-year growth between 2019 and 2021, which is contrary to the downward trajectory of the UK and the USA. South Africa's upward trajectory potentially denotes its delayed yet promising response to harmonisation. This delayed progress is supported by the fact that regulatory and stock exchange patronage for ESG reporting in South Africa only started demonstrating improvement in 2022, slightly delayed in comparison with the USA and the UK (refer to Sections 2.1.1 to 2.1.4). The UK and USA's downward trajectories, on the other hand, could potentially be ascribed to the fact that their sample companies would have adopted a substantial number of new standards and/or frameworks during 2020, as illustrated by Figures 1 and 2, thereby reducing the number of available unadopted standards and frameworks in 2021 and narrowing the untapped harmonisation potential. The UK and USA's downward growth trajectories, therefore, do not indicate inadequate harmonisation efforts in 2021 but rather indicate good harmonisation progress through high standards and framework adoption in prior years. Their harmonisation progress was underpinned by proactive regulatory and stock exchange patronage (refer to Sections 2.1.2 and 2.1.3).

The execution of this study required an inspection of the sample companies' sustainability reports for the 2019 to 2021 reporting periods. Although this inspection was mostly superficial, an indubitable improvement was observed in relation to the UK and USA entities' ESG disclosures during the 2020 and 2021 reporting cycles. The sustainability reports prepared by South African companies also demonstrated perceptible improvements throughout all reporting periods but to a lesser extent than those prepared by the UK and USA sample companies. Although these superficial observations were purely based on the apparent length and detail of the entities' ESG disclosures, they correspond with Figure 3's depiction of the UK and USA's superior growth performance in relation to South Africa. An increase in the number of reporting standards and frameworks applied would inexorably increase the length and detail of sustainability disclosures since it would expand the imposed reporting requirements. This is especially true in light of the argument that the ESG

reporting standards and frameworks could be applied in tandem and that their requirements are infrequently contradicted or duplicated by one another (Bose, 2020:17).

2.2.3 SASB reporters

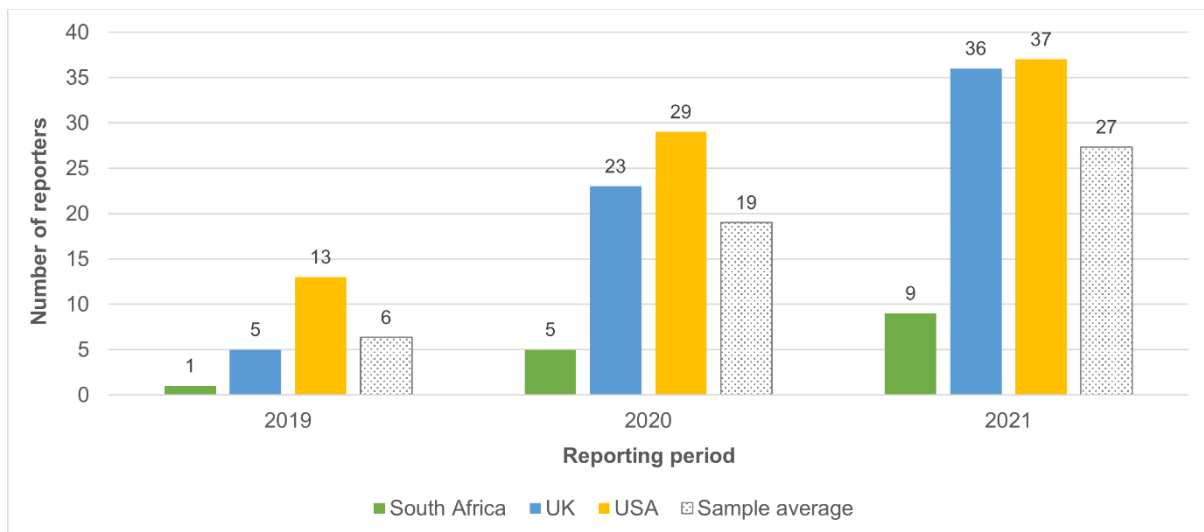


Figure 4: SASB reporters by country

Figure 4 elucidates the application of the SASB standards by the sample companies. There were only a few SASB reporters in 2019. Only the USA demonstrated an above-average number of reporters in this year and this could potentially be ascribed to the fact that the SASB standards were originally established in the USA to promote integrated reporting by American public companies (Tschopp & Nastanski, 2014:161). The overall low application of this standard in 2019 was in line with expectations since the SASB standards were first published in 2018, consequently placing strain on companies' ability to timeously acquaint themselves with these standards and to incorporate them into their 2019 reporting suites. The average number of SASB reporters increased substantially over the 2019 to 2021 period. The UK and USA made significant inroads, with 36 (90%) and 37 (93%) of the 40 sample companies, respectively, applying this standard in 2021. This juxtaposes the meagre advancement made in South Africa, where only 9 (23%) of the 40 sample companies applied SASB in their ESG reporting during the 2021 reporting cycle. Overall, the USA led the adoption of the SASB standards, followed by the UK and then South Africa. South Africa consistently demonstrated subpar adoption of this standard in relation to the other two countries.

The SASB standards are investor-focused (Bose, 2020:25), similar to the <IR> framework, which is finance-focused (Van der Lugt & Mans-Kemp, 2022:4). The low adoption rate for SASB in South Africa could potentially be explained by the fact that South African companies predominantly report in terms of the <IR> framework (refer to Figure 6), which assumes a similar viewpoint to sustainability as the SASB standards, thereby potentially causing those charged with governance to falsely believe that the SASB standards would duplicate or contradict the disclosure requirements prescribed by the <IR> framework. The aforesaid notion is incorrect since these standards and framework are

mutually supportive and create compounding benefits (Value Reporting Foundation, 2021a). The Value Reporting Foundation was formed in 2021 to harmonise the integration of these standards and framework and detailed integration guidance was published by the Foundation in September 2021. This harmonisation effort could potentially improve the adoption rate of the SASB standards across all countries, especially South Africa, from 2022 onwards. Further research could be done to assess harmonisation efforts post-2021.

2.2.4 GRI reporters

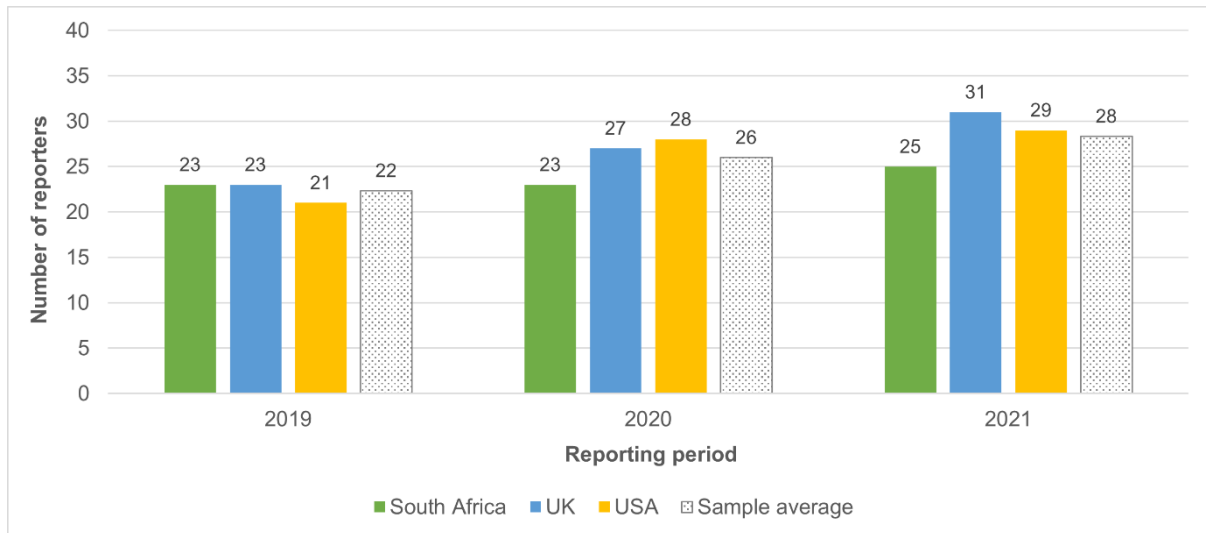


Figure 5: GRI reporters by country

Figure 5 exhibits the number of sample companies per country, which report in terms of the GRI standards. The study revealed that the GRI standards were one of the most commonly applied standards across all three countries, with an adoption rate of more than 50% per country throughout the entire period under review. This concurs with Bose (2020:18), who indicated that GRI is the most widely adopted ESG reporting standard in the world. The aforementioned could potentially be ascribed to the fact that the GRI standards are the oldest sustainability reporting standards in the world, with the first standard being issued in 2000 (De Villiers *et al.*, 2022:730). Although the average number of GRI reporters in the sample increased year-on-year, the trajectory thereof was lower than that of the SASB standards (refer to Figure 4). It is pragmatic to assume that the adoption rate of an established standard, such as the GRI, would be much lower than of one that was only recently issued, such as the SASB, and therefore this lower comparative trajectory is substantiated.

South Africa and the UK led in terms of the number of GRI reporters in 2019, however, in 2020 and 2021, South Africa trailed behind. Both the UK and the USA demonstrated steady growth in the number of GRI reporters over the 2019 to 2021 period, with respectively, 31 (78%) and 29 (73%) of the 40 sample companies reporting in terms of this standard. South Africa's GRI reporters remained constant at 23 (58%) out of 40 sample companies in 2020 and increased to 25 (63%) out of 40 in 2021, making South Africa the sample country with the least GRI reporters.

2.2.5 <IR> reporters

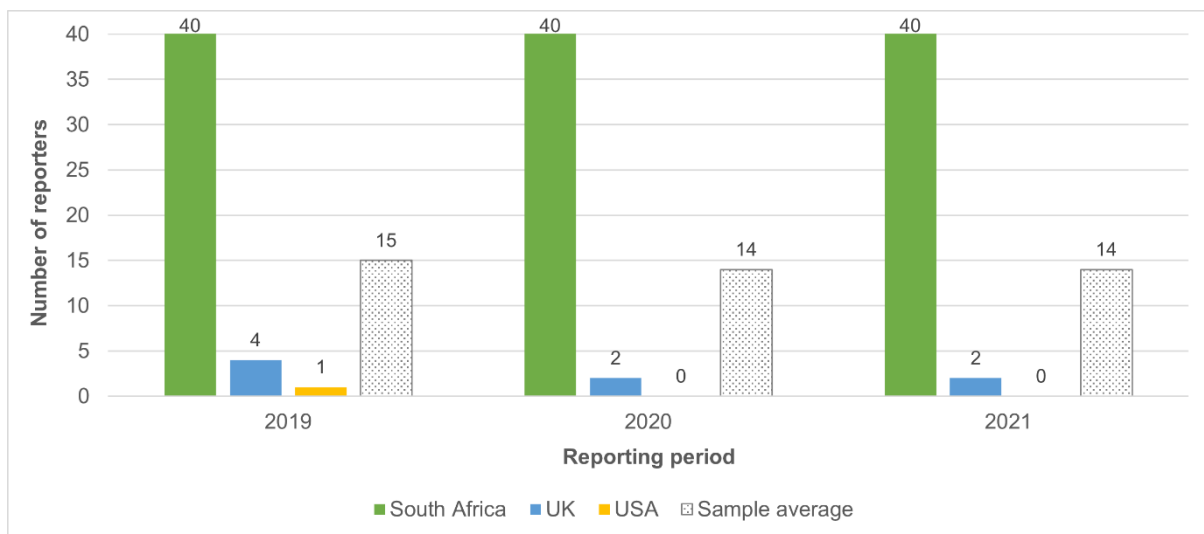


Figure 6: <IR> reporters per country

Figure 6 sketches a bleak picture of the global adoption of the <IR> framework. South Africa leads the sample countries with a 100% adoption rate for the <IR> framework. This could be ascribed to the fact that JSE-listed companies are required to report on ESG matters in terms of this framework or to explain why they do not. It is also worth noting that South Africa is the only country in the world to encourage the application of the <IR> framework at a stock exchange level (Mokabane & du Toit, 2022:6). The aforesaid, along with the fact that the <IR> framework is notoriously difficult to apply due to its principle-based nature (Bose, 2020:18), corroborates the conspicuously lower adoption rates in the UK and the USA. Very few companies in the UK report in terms of the <IR> framework, with their reporters declining from 4 (10%) out of the 40 sample companies in 2019 to 2 (5%) of 40 in 2020 and 2021. A majority of the <IR> framework reporters from the UK sample were dually listed on the JSE and LSE. It could, therefore, be inferred that these reporters' ESG disclosures were most likely tailored to satisfy JSE listing requirements, thereby making the UK statistic for <IR> reporting an anomaly. There were no (0%) <IR> framework reporters in the USA for the 2020 and 2021 reporting periods.

Although the statistics of <IR> framework adoption in the UK and the USA are discouraging, hope for future improvement is offered by the establishment of the Value Reporting Foundation in 2021, which aims to integrate the application of this framework with the SASB standards that are currently popular in the UK and the USA (refer to Figure 4). The <IR> framework principles are also be considered in the development of the ISSB standards (IFRS, 2022).

2.2.6 TCFD reporters

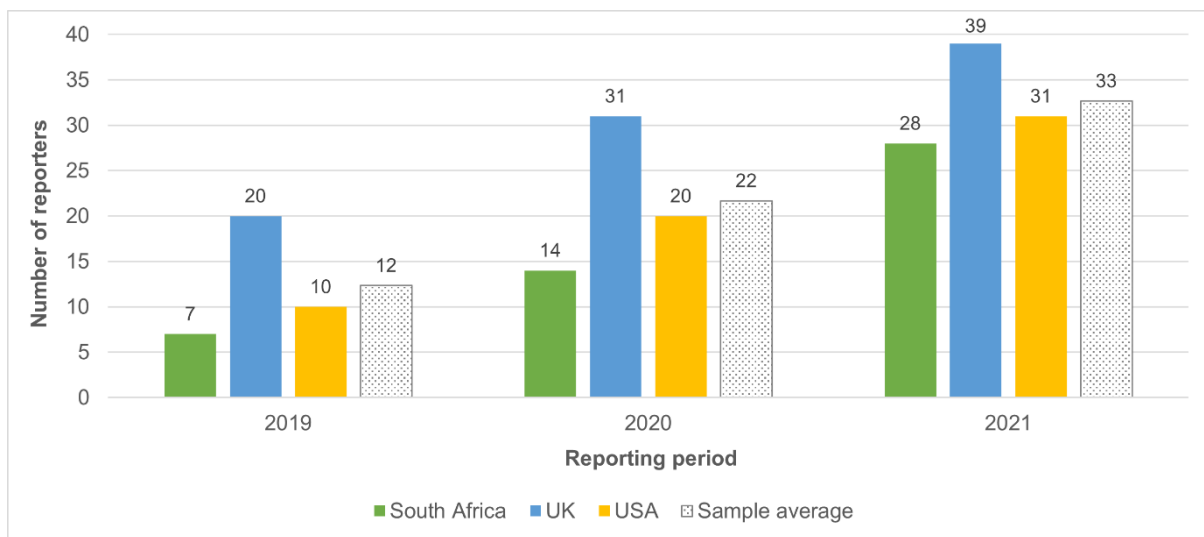


Figure 7: TCFD reporters by country

Figure 7 presents the number of TCFD reporters in the sample. The TCFD framework was one of the most popular ESG reporting frameworks applied in 2021, alongside the GRI standards. TCFD adoption showed a pronounced upward trend across all sample countries. The UK consistently outperformed South Africa and the USA, with 39 (98%) of the 40 sample companies reporting in terms of this framework in 2021. This superb performance could be ascribed to their foreknowledge of the impending mandatory TCFD reporting, which the UK government imposed in April 2022, potentially resulting in these companies adapting their ESG reporting suites in advance. South Africa and the USA also demonstrated a meaningful improvement in the number of TCFD reporters over the course of 2019 to 2021. By 2021, 28 (70%) of the 40 South African companies reported in terms of TCFD, whereas 31 (78%) of the 40 USA companies applied this framework. The TCFD framework facilitates reporting on both the impact and dependence on the environment (Bose, 2020:23), thereby establishing a two-sided view of sustainability, similar to the GRI standards. Based on the wide adoption of the GRI standards and the fact that GRI and the TCFD cater to similar ESG information needs, it is possible to deduce that the TCFD framework may likely also garner significant levels of support among sustainability reporters in the future.

2.3 ESG scores

This section of the study addresses the third empirical objective formulated for this study: To compare the average ESG scores of the sample entities from South Africa, the USA and the UK over a period of three years (2019 to 2021) to measure South Africa's relative progress in ESG reporting on the premise that relatively favourable ESG scores correlate with a higher quantity and quality of sustainability disclosures, indicating relatively better harmonisation efforts.

This component of the study was executed within the following parameters:

All ESG scores were gathered from S&P Global's ESG database. The annual ESG scores of each of the sample companies were collected for the period 2019 to 2021. These scores were captured into a spreadsheet and subsequently analysed, translated into visual graphs and/or charts and subsequently interpreted. S&P Global is a reputable ESG data provider (Tayan, 2022). It was not considered meaningful to understand nor crucial for the facilitation of data validity to verify the scores obtained from S&P Global against those of other rating agencies since the execution of this part of the study pertained to the fulfilment of an auxiliary research objective, which was exclusively aimed at potentially reinforcing the findings of the second empirical objective.

It is logical to infer that ESG scores will increase as the quality and quantity of ESG disclosures improve. This is because ESG scores are all derived directly from a company's sustainability reports (Alsayegh *et al.*, 2020:10) and are therefore dependent on the effectiveness of a company's self-reported ESG information (Aluchna *et al.*, 2022:8). In light of the aforesaid, and as mentioned before, it is reasonable to expect that ESG scores would improve when companies concurrently apply a variety of ESG reporting standards and frameworks for their sustainability reporting. This is because such concurrent application would inevitably refine the quality and extensiveness of such ESG disclosures. It could, therefore, be conjectured that ESG scores could be indicative of harmonisation progress in relation to sustainability reporting.

ESG scores were obtained from S&P Global for each of the sample companies in an attempt to support the harmonisation findings documented in Section 2.2 of this research.

2.3.1 Average ESG scores

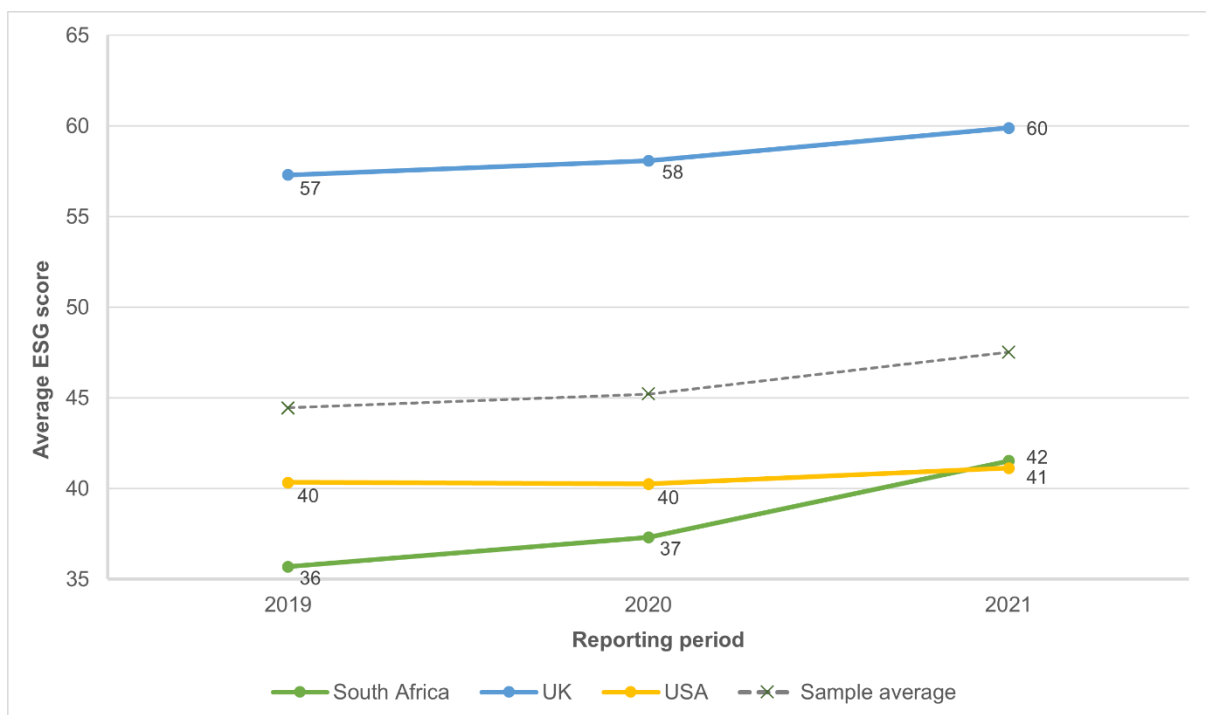


Figure 8: Average ESG score per country

Figure 8 depicts the average ESG score per country. This average was calculated by obtaining the ESG score for each of the sample companies per country and dividing it by the sample size. UK companies consistently had a substantially higher average ESG score when compared to South Africa and the USA. The harmonisation findings documented in Sections 2.1 and 2.2 of this research support the UK's superior ESG scores. As mentioned before, the execution of the second research objective (documented in Section 2.2) required the superficial inspection of the sample companies' sustainability reports. It was observed that the UK companies' ESG reports were predominantly of higher quality, especially due to the lengthiness and detail of their disclosures. It should, however, be emphasised that all three countries demonstrated high-quality sustainability reports. The UK's superiority in the context of this study, therefore, does not imply that the other two countries' reporting was substandard or inadequate, but merely that its length and detail were slightly less. South African and American sample companies had lower average ESG scores, with South Africa having a higher average ESG score relative to the USA in 2021. Superficial observations during research execution revealed a marked improvement in the length and detail of South African companies' ESG disclosures for the 2021 reporting period, thereby supporting the last-mentioned finding. The reader is also reminded that South African companies consistently applied more standards and frameworks than American companies. It is, therefore, possible that South African companies became more proficient in the application of their various adopted standards and frameworks, thereby enhancing reporting quality and improving their ESG scores.

It is emphasised again that the objective of this part of the study was not to identify or explain the inherent correlation between the ESG score levels and the quantity and quality of sustainability reporting but rather to confirm on a high level that any extent of positive correlation exists between harmonisation progress in the sample countries and their ESG scores in order to potentially confirm the existence of harmonisation efforts across each of the sample countries. Figure 8 depicts such a relationship since it demonstrates an upward trend in the average ESG scores for each of the sample countries over the 2019 to 2021 reporting period, which corresponds with the upward trend evident in Figure 1 and Figure 2. The aforementioned correlation is, however, better illustrated in Figures 9 to 12.

2.3.2 Correlation between ESG scores and the number of standards and/or frameworks applied

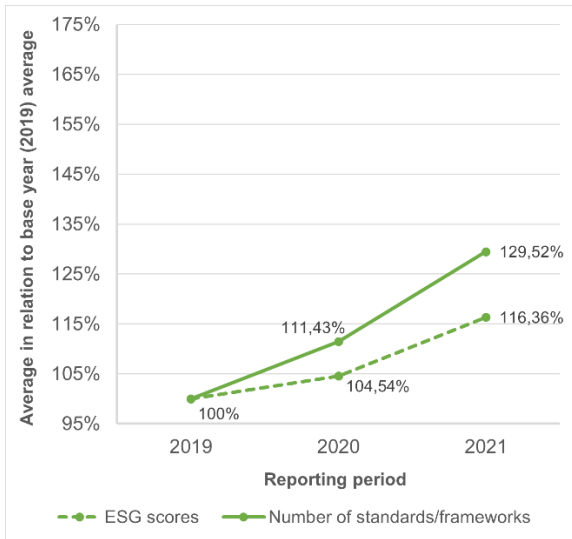


Figure 9: South Africa

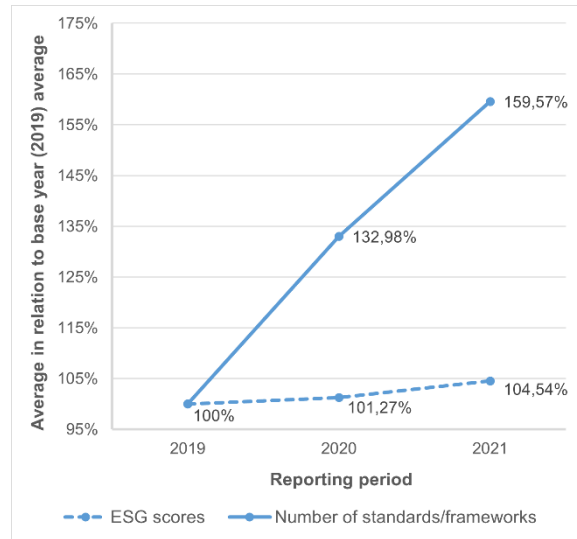


Figure 10: UK

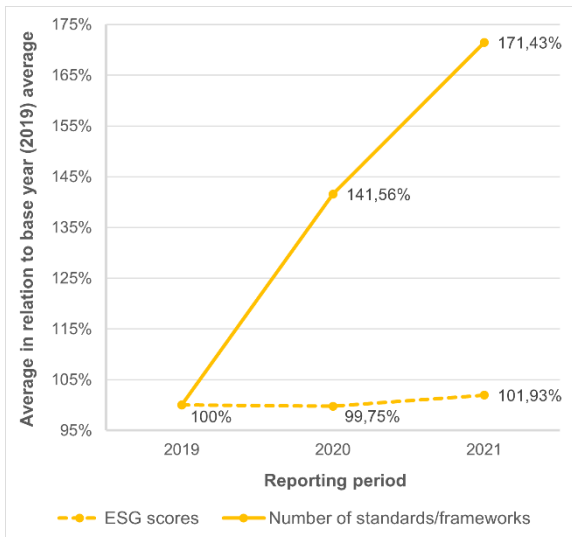


Figure 11: USA

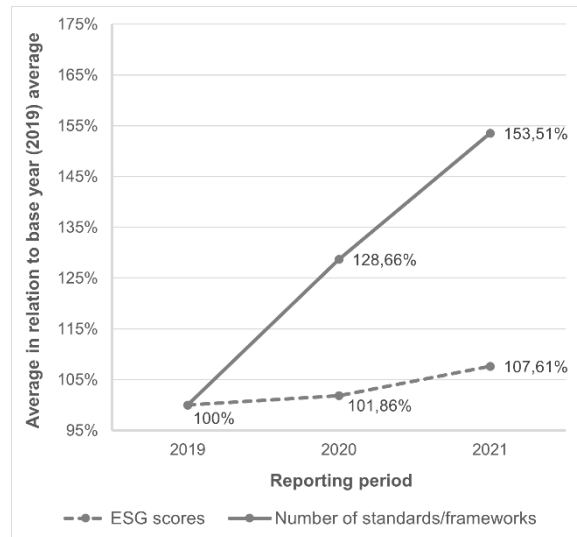


Figure 12: Sample average

Figures 9 to 12 are index graphs, each with a 2019 base year, that compare the year-on-year growth rate in the number of ESG reporting standards and/or frameworks applied with the year-on-year growth rate of the ESG scores. An index graph was selected to present this comparison since the objective of this part of the study was to identify whether a positive correlation of any extent existed between the number of standards and/or frameworks applied and ESG scores. Although the extent of the correlation differs for each country, these figures demonstrate that a positive correlation exists between ESG scores and the number of standards and/or frameworks applied, especially when considered holistically across all sample countries (refer to Figure 12). Table 2 provides further evidence of this positive correlation. This positive correlation implies that an increase in the number of ESG reporting standards and frameworks applied causes an increase in a company's ESG score.

Table 2: Correlation between ESG scores and the number of ESG reporting standards and/or frameworks applied			
	2019	2020	2021
Average ESG score	44.447	45.213	47.520
Average number of standards and/or frameworks applied	2.300	2.925	3.483
Correlation	0.951		

This finding potentially confirms that ESG scores are indicative of harmonisation progress and, therefore, verifies and strengthens the harmonisation evidence from South Africa, the USA and the UK documented in Section 2.2. Bearing cognisance of the positive correlation, it is possible to infer that harmonisation occurred in each of the sample countries over the 2019 to 2021 period since each of the sample countries' average ESG scores improved over this period (refer to Figure 8 in Section 2.3.1).

CHAPTER 3 – SUMMARY AND CONCLUSION

3 Summary

Capitalism has contributed to the establishment of a widespread profit-seeking culture. This culture has given rise to several adverse economic and social conditions and has consequently imperilled sustainable development. Many global organisations and governments have consequently developed strategies, targets, laws and regulations to curb the consequences of capitalism and to encourage companies to operate sustainably, the UN's Sustainable Development Goals being the foremost example of such endeavours. These global strategies, targets, laws and regulations would only be useful if companies could be held accountable for their contribution thereto or compliance therewith. ESG reporting is an effective way to hold companies accountable for their adherence with global sustainability goals. For this reason, sustainability reporting has become a ubiquitous topic in the corporate environment over the past few years. ESG reporting has, until recently, however, been hampered by inconsistency, incomparability and irrelevance, mainly due to a lack of standardisation. Therefore, over the past two decades, several standard- and framework-setters, such as the GRI, the IIRC, the SASB and the TCFD have embarked on laborious endeavours to standardise ESG reporting.

However, the proliferation of sustainability reporting standards and frameworks led to reporters being uncertain as to which standards or frameworks they should adopt for ESG reporting purposes, especially because these reporting standards and frameworks differ in terms of their disclosure requirements and target audiences. It was, however, found that the array of reporting standards and frameworks available to companies, in fact, complement one another and that there is very little duplication or contradiction in their reporting requirements. Over the past few years, many standard- and framework-setters have collaborated to understand how their reporting standards and frameworks can be applied concurrently, given that such complimentary application of the standards and frameworks would improve reporting quality and quantity. For example, the CDP, CDSB, GRI, IIRC and SASB issued a joint statement in 2020, which communicated their intent to work together and to provide guidance on how their standards and frameworks could be used complementarily. Similarly, the IIRC and SASB merged to form the Value Reporting Foundation in 2021 and have since issued guidance on how the <IR> framework and SASB standards could be applied concurrently. For the purpose of this study, *harmonisation* refers to the integrated and concurrent application of various ESG reporting standards and frameworks for sustainability reporting purposes.

Given the global propensity towards reporting standard and framework convergence, it was expected that companies around the globe would respond to these harmonisation endeavours by increasing the number of ESG reporting standards and frameworks they apply. It was further postulated that the harmonised application of various ESG reporting standards and frameworks is underpinned by backing from lawmakers, regulators, corporate governance institutions and stock exchanges. For

this reason, the study considered the sample countries' patronage for ESG reporting and the concurrent application of reporting standards and frameworks. A patronage analysis was performed for the main facilitators of ESG reporting and harmonisation: laws and regulations and corporate governance codes and stock exchange rules. The study found that South Africa, the USA and the UK, all demonstrated some form of backing for sustainability reporting and harmonisation.

In South Africa, there are presently no laws or regulations that mandate ESG reporting, although it was noted that the SARB PA started imploring companies in the financial sector to report on climate-related matters using the TCFD framework. This encouragement was, however, only communicated after 2021 and would not have contributed to harmonisation in the 2019 to 2021 reporting periods. It was found that the King IV Corporate Governance Code, which is widely adopted in South Africa, endorses the application of the <IR> framework and that the JSE mandates listees to prepare integrated reports in terms of this framework. The study found that 100% of the sample companies reported in terms of the <IR> framework, which clearly proves the effectiveness of this patronage for integrated reporting. The study also noted the JSE's Sustainability Disclosure Guidance that was issued in June 2022, which provides guidance on the concurrent application of GRI standards and the <IR> and TCFD frameworks. This guidance was, however, issued after 2021 and would not have contributed to harmonisation during the reporting periods reviewed.

In spite of South Africa's overall delayed communication of support for harmonisation, the study found that the sample companies from South Africa demonstrated year-on-year increases in the number of ESG reporting standards and frameworks that they applied for sustainability reporting purposes. Their average number of standards and frameworks applied was also higher than the USA throughout all reporting periods reviewed. South African companies, therefore, responded favourably to the global harmonisation endeavours despite the fact that only the <IR> framework was endorsed during the reporting cycles reviewed. This could reflect favourably on the governance of South African companies since it demonstrates that those charged with governance observed global harmonisation endeavours and that they consequently responded to it without being nudged by South African lawmakers, regulators, corporate governance institutions or stock exchanges.

It was, however, noted that South Africa's year-on-year growth in the number of reporting standards and frameworks used was lower than that of the USA and the UK, demonstrating that its response to global harmonisation was less intense than the other sample countries' responses. This finding is supported by the fact that the advancements made in South Africa's patronage for ESG reporting from 2019 to 2021 were underwhelming in comparison with the advancements made in the USA and the UK during the same period. South Africa consistently had the least number of SASB reporters and made meagre progress in applying these standards. South Africa also consistently had the least GRI and TCFD reporters, however, it should be noted that significant progress was made with respect to the adoption of the TCFD framework. A 100% year-on-year increase in TCFD reporters was observed for the 2020 and 2021 reporting cycles. This could potentially be ascribed to the UK's

announcement to mandate TCFD disclosures, which may have consequently encouraged South African companies to proactively adapt their reporting suites in case a similar imposition should be made in South Africa in the future. The average ESG score in South Africa also increased steadily from 2019, supporting the evidence that harmonisation occurred during the 2019 to 2021 period.

The USA demonstrated relatively good patronage for ESG reporting and harmonisation. Stock exchanges, such as Nasdaq and the NYSE, demonstrated a proactive response to the harmonisation of sustainability reporting standards and frameworks. Nasdaq and the NYSE issued their reporting guidance in 2019 and 2021, respectively, earlier than South Africa but later than the UK. Both their disclosure guidance reports encouraged the concurrent application of ESG reporting standards and frameworks. In 2021, the SEC announced that it intended to promulgate a rule which would mandate certain climate-related disclosures. The SEC suggested that the CDP, TCFD, GRI and SASB could be useful to ensure compliance with the proposed rule. The aforementioned backing by stock exchanges and the SEC occurred during the 2019 to 2021 reporting periods and could, therefore, have contributed favourably to harmonisation during the period reviewed.

The study found that the average number of ESG reporting standards and frameworks applied by US companies increased significantly over the period reviewed. In 2020 and 2021, the USA demonstrated the highest overall year-on-year growth in the number of standards and frameworks applied, significantly outperforming South Africa and the UK. It was, however, noted that the US companies still applied the least number of reporting standards and frameworks among the sample countries. If they maintain their superior year-on-year growth, they may outperform South Africa and the UK in the near future with regard to the average number of standards and frameworks applied. The SASB standards were found to be the most common reporting standards in the USA, with 93% of companies applying these standards for ESG reporting purposes. Similar to South Africa, the USA also made significant progress in the adoption of the TCFD framework, potentially due to the SEC's announcement in 2021 and the stock exchanges' patronage for the application of this framework. The average ESG scores in the USA were consistent in 2019 and 2020 but increased marginally in 2021.

The UK demonstrated the best overall patronage for ESG reporting and harmonisation. In 2017, the LSE issued its ESG reporting guidelines and communicated support for CDP, GRI, <IR>, SASB and TCFD. The LSE was the first among the sample countries' stock exchanges to communicate sustainability reporting guidelines and backing for the most prominent reporting standards and frameworks. The UK was also the first among the sample countries to communicate and promulgate a law, which mandates certain ESG disclosures and that requires the application of a specific reporting framework.

The consequences of the UK's proactive patronage for ESG reporting and harmonisation were evident in this study's findings. The average number of standards and frameworks applied by UK companies was the second highest among the sample countries in 2019 but improved to the highest

in 2020 and 2021. The UK demonstrated substantial growth in the application of the SASB standards, improving from a reporting rate of 13% in 2019 to 90% in 2021. The TCFD framework was by far the most popular reporting framework in the UK, with 98% of the sample companies reporting in terms of this framework in 2021, a significant improvement from the 50% reporting rate in 2019. This improvement in TCFD reporting is undoubtedly ascribed to the UK's legal and regulatory patronage for the application of this framework. The average ESG scores in the UK improved steadily over the period reviewed, providing further evidence of harmonisation. The UK's ESG scores were considerably higher than those of South Africa and the USA, reflecting the high-quality and quantity of its sustainability reporting.

The study also found that ESG scores are potentially positively correlated with the number of reporting standards and frameworks applied. This aligns with the postulation that improvements in the number of reporting standards and frameworks used would increase the quality and quantity of ESG disclosures, thereby resulting in improvements in ESG scores that are calculated with direct reference to companies' sustainability reports. The average ESG scores of all the sample countries improved throughout the 2019 to 2021 period, thereby contributing to the evidence that harmonisation occurred in South Africa, the USA and the UK.

It was found that the SASB standards were the greatest overall contributor to harmonisation in the sample countries, followed by the TCFD framework. It was observed that backing for SASB and TCFD is exceedingly common among the sample countries. The <IR> framework and GRI standards, on the other hand, contributed the least to harmonisation during the 2019 to 2021 period. Support for the <IR> framework in the sample countries is limited, with the exception of South Africa, where the JSE requires companies to prepare integrated reports. The GRI standards are the oldest of all the reporting standards and frameworks, and therefore, most companies had already considered its reporting requirements prior to 2019, possibly substantiating the reason for its low contribution to harmonisation during the 2019 to 2021 period.

4 Conclusion

The following research question was formulated for this study: How does South Africa's ESG reporting harmonisation progress compare with those of other countries over a period of time? The researcher aimed to answer this question by analysing the harmonisation progress made in South Africa, the USA and the UK comparatively over the period 2019 to 2021 (primary objective). The researcher performed a literature review to provide context to the study (refer to section 1 of Chapter 2), investigated and compared the legal and regulatory patronage for reporting harmonisation in South Africa, the USA and the UK (refer to section 2.1 of Chapter 2), investigated and compared the ESG standards and frameworks applied in these countries (refer to section 2.2 of Chapter 2), and finally considered whether ESG scores supported the evidence found (refer to section 2.3 of Chapter 2).

It is evident that progress was made in the harmonisation of ESG reporting in South Africa, the USA and the UK during the 2019 to 2021 period. The UK appears to have demonstrated the most proactive legal, regulatory, corporate governance and stock exchange patronage for ESG reporting and harmonisation. Its patronage was communicated and developed significantly between 2017 and 2022, thereby contributing favourably to harmonisation during the period reviewed in this research. The UK's patronage facilitated commendable improvement in its companies' concurrent application of ESG reporting standards and frameworks in the 2019 to 2021 reporting cycles.

The USA also demonstrated improvement in its backing for ESG reporting and harmonisation, albeit slightly delayed in relation to the UK. Since 2019, the number of reporting standards and frameworks concurrently applied by US companies has increased significantly, resulting in the USA achieving the highest year-on-year growth among the sample countries in relation to the number of reporting standards and frameworks applied by its reporters.

Although South Africa was the first and only country in the world to require integrated reporting, it appears to have lagged behind in relation to the harmonisation of ESG reporting since it only communicated its first backing for newer reporting standards and frameworks and the concurrent application thereof in 2022. South African companies undoubtedly demonstrated improvement in the number of ESG reporting standards and frameworks adopted, however, its improvement seemed slightly delayed in relation to the USA and the UK. South Africa's largest improvement occurred in the 2021 reporting cycle, which is slightly later than the USA and the UK, who made their most significant progress in the 2020 reporting cycle.

Overall, it was observed that legal, regulatory, corporate governance and stock exchange patronage fulfils an imperative role in the harmonisation of ESG reporting. Although each of the sample countries undoubtedly demonstrated backing for ESG reporting and harmonisation during the period reviewed, South Africa's support was slightly delayed. This resulted in the USA and the UK demonstrating relatively better performance in the harmonisation of ESG reporting during the 2019 to 2021 period. There is, however, a strong expectation that South Africa's progress will improve after 2021, given the stock exchange and regulatory backing communicated in 2022 and the upward harmonisation trajectory noted in Section 2.2.2 of this research.

5 Limitations

The following limitations have been identified for this research:

- The study did not consider the extent of the sample companies' compliance with the various ESG reporting standards and frameworks. For the purposes of this research, a company was deemed to have applied a reporting standard or framework even if the entity only considered the principles of the standard or framework in the formulation of its ESG reporting policy for a particular reporting cycle. The extent to which companies comply with the requirements of standards and frameworks influences the quality of their disclosures. As such, some countries may have

demonstrated relatively higher improvements in the concurrent application of sustainability reporting standards and frameworks, where in fact the quality of their disclosures may be inferior in relation to the other sample countries. This may also have an impact on the correlation of ESG scores and the number of reporting standards and frameworks applied.

- The correlation of ESG scores and the number of reporting standards and frameworks applied was calculated with reference to three reporting cycles only. The consideration of more reporting cycles may result in a more accurate correlation finding.
- Different ESG score providers use different methodologies to calculate ESG ratings. The impact of different ESG score calculation methodologies was not considered for the purposes of this research since the objective was merely to confirm whether any extent of correlation exists between ESG scores and the number of reporting standards and frameworks applied.
- ESG scores could also improve due to a learning curve whereby companies become more proficient in reporting on ESG matters as time progresses. Improvements in ESG scores may, therefore, not be the sole result of increases in the number of reporting standards and frameworks applied. The correlation calculated in this research does not consider the impact of other factors on the ESG score.
- This study only considered listed companies. Progress in the harmonisation of ESG reporting among non-listed companies may be different, especially due to their lower accountability level.

6 Recommendations

The following recommendations are made for future research:

- Study the extent to which companies in South Africa, the USA and the UK comply with the ESG reporting standards and frameworks they apply for sustainability reporting purposes.
- Perform a detailed correlation study of ESG scores and the number of ESG reporting standards and frameworks applied. This study could cover more than three reporting cycles and with reference to more than one ESG rating institution to increase the veracity of the findings.
- Analyse the progress made in the harmonisation of ESG reporting among non-listed companies in South Africa, the USA and the UK.
- Investigate harmonisation progress made in South Africa, the USA and the UK after 2021 to analyse the impact of patronage communicated after 2021.

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