# Incorporating materiality considerations into analyses of absence from sustainability reporting

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# Abstract

This paper highlights the need to take materiality into account when analysing the absence of social and/or environmental disclosures from organizational sustainability reports. It argues that materiality must be considered as a prerequisite when researchers seek to interpret lack of disclosures of specific social and/or environmental issues or incidents. Illustrating these arguments using an example from interpretation of absence from reporting in a recent award winning paper, we contend that such interpretations can only be justified if organizational processes related to materiality are factored into the analysis of rhetorical or symbolic representations of sustainability within organizational reporting, a point that tends to be missed in studies of absence from sustainability reporting.

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# Incorporating materiality considerations into analyses of absence from sustainability reporting

# Introduction

Numerous research studies into social and environmental accounting and accountability compare organizational discourses on sustainability with underlying sustainability performance (Bebbington *et al*, 2014). The predominant forms of organizational discourse analyzed in such studies tend to be annually produced reports such as sustainability reports or sustainability disclosures within financially-focused annual reports, or web-based sustainability reports. A variety of methods are used to identify proxies for underlying performance. The social and environmental disclosures within these reports are regarded within many studies as attempts by the reporting organizations to discursively (and thus socially) construct a powerful image of the ‘reality’ of the organization in the minds of a range of economically powerful stakeholders. Academic research studies of this nature identify differences between these symbolical realities constructed through sustainability reporting and the substantive underlying reality of sustainability performance (Ashforth and Gibbs, 1990). Put another way, to use Goffman’s ([1981](#_ENREF_13)) metaphor, they compare the frontstage image of sustainability with the backstage reality of sustainability performance.

In interpreting the meaning of, and motivations for, differences between an organization’s symbolic and substantive sustainability performance, policies and practices, researchers tend to compare what is reported in the sustainability disclosures with separate evidence they have compiled about sustainability performance and practices. In this type of study the absence from a sustainability report of disclosures about negative performance can be as important (and sometimes more important) in the interpretation of disclosure practices as information that is disclosed in the sustainability report. The justification for placing weight on the absence of disclosures in such studies is that if organizations are seeking to use the sustainability reporting to rhetorically project an image of sustainability that differs from underlying performance, it is just as important to know what and how the organizations have reported what is included in the report as it is to know what negative sustainability incidents and outcomes are attributable to the organization that the organization has chosen to exclude from its rhetorical construction of reality through a sustainability report.

While accepting the importance of studying absence of disclosures alongside presence in drawing inferences from discourse analyses of sustainability reporting, this paper aims to contribute towards improving the methods used to identify and draw such inferences from absence. Specifically it develops a case within these analyses of absence for systematic consideration of materiality in the context of the reporting organizations’ overall operations and impacts. Although we do not provide a guide or checklist of methods to incorporate materiality considerations into analysis of absence from sustainability reports, because these precise methods will need to vary according to the context of each study, we demonstrate how ignoring materiality considerations can lead to misleading results from research studies.

The main contribution of this paper therefore is the recognition that before drawing inferences from lack of disclosure by an organization of a negative sustainability outcome associated with that organization, researchers need to ascertain that the negative outcome is indeed material in relation to the overall operations covered by a sustainability report. Just because a negative incident or outcome might appear to be significant in relation to the totality of similar incidents and outcomes across a range of organizations or society, this does not necessarily mean that the incident or outcome will be material in the overall context of each reporting organization. Where an organization has processes in place that are used to distinguish between material and immaterial sustainability issues and incidents/events, we argue that to draw an inference from absence of disclosure of a specific issue or incident requires the researchers first to investigate whether the issue or incident was considered and filtered out through a materiality process. If it was, then to draw inferences requires the researchers to provide credible evidence that questions and challenges the specific judgments made by the reporting organization in the application of a materiality filter to the incident or event. While such a study of materiality determination processes in individual companies is beyond the scope of this paper, we urge researchers to develop a research agenda examining these processes from the inside. This is because we believe the lack of empirical evidence in this area could enable companies to use (or abuse) materiality as a justification for not disclosing issues that many stakeholders might consider to be very important.

To achieve its aims, the paper proceeds as follows: The next section outlines why studying absence is important in analysis of organizational discourse. This is followed by a section that recaps the concept of materiality and explains how this has been incorporated in sustainability reporting guidelines. The subsequent section then takes a recently published award winning paper ([Boiral, 2013](#_ENREF_5)) and explains how consideration of materiality could have affected or augmented the interpretation of the results within the study. The final section draws conclusions and makes recommendations for future studies of absence with sustainability reporting.

# Importance of absence in analysis of sustainability discourse

It has long been recognized that when analysing accounting phenomena, identification and interpretation of absence of the accounting issues or aspects being explored can add substantively to the insights derived from the analysis. Choudhury ([1988, p. 550](#_ENREF_7)) explains that:

The absence of accounting may tell researchers a lot about the nature of accounting and its existence. The aim of knowledge is not only to systematize that which exists but also to rationalize that which does not. By investigating examples of accounting absence and explaining accounting’s non-pervasiveness, it might be possible to create a dialectic between the existing and non-existing accounting worlds and thereby achieve a deeper understanding of the nature of accounting … just as the chief executive’s actions, comments and emphases, both public and within the firm, operate as indicators of corporate intent (Peters, 1978), the omissions – what is not done, not said, and not emphasized – are similarly informative.

Analysis of absence has played an important role in some sustainability reporting research where the studies have established major macro-level social and environmental issues prevalent at the time the analysed organizational reports had been published. For example, Adams and Harte ([1998](#_ENREF_3)) examined how a number of large British banks and retailers reflected female employment practices in their annual reports over six decades. They interpreted the disclosure patterns by examining “disclosure and non-disclosure in the light of the social, political an economic context of the time” (p. 781). In justifying this approach, Adams and Harte (p. 782) state that “[a]ccounting can be seen as a language which can be used to legitimate corporate action, where what is not disclosed can be seen as important as that which is”. They further explain, in the conclusions to their study (p. 807), that:

Alone, corporate annual reports add little, but using a theoretical framework which allows us to identify what is missing, they can be seen to add to our knowledge of women’s employment … both in their choice of disclosures (e.g. explaining opportunities for young men) and in their silence, corporate managers have contributed to social perceptions of women and employment.

While Adams ands Harte (1998) is an example of a research study into social reporting practices that takes into account significant elements of the changing macro-societal context within which the disclosure practices took place, some academic studies into sustainability reporting interpret absence of disclosures on more micro-level issues. These issues may have been selected as being of interest to the researchers without apparently taking into account the likely significance of the issues to society as a whole and/or their significance in the context of the reporting organization’s overall operations in the period covered by the sustainability report. In some sustainability reporting research, absence (or the ‘non-materialisation’) of certain issues from disclosures within the sustainability report appears to be almost automatically taken as an indicator of intentional and somewhat malign exclusion by the organization’s senior managers.

However, Choudhury (1988, p. 550) explains that absence takes on meaning when it is considered against the context in which the accounting phenomena being investigated is enacted: “It is the context, the background, the milieu that gives absence its significance”. He also argues (p. 551) that “only against a backdrop of a preconceived set of expectations can non-events be recognized”. He cautions about over-interpreting accounting absence, when the preconceptions held by a researcher of the expected presence of an accounting phenomena (such as a type of disclosure) is unreasonably strong: “the study of accounting absence must tread a precarious path between under- and over-sensitivity” (Choudhury, 1988, p. 551).

From this perspective it is important for academics who engage in interpretations of absence of disclosures from sustainability reports to acknowledge why and how particular discourses are not manifest in a sustainability report by focusing on the context of production of texts [[1]](#footnote-2). This involves investigating the *process* of production rather than assuming *a priori* intentionality from the *outcome* (i.e. the presence or absence of specific discourses in the text). In other words whilst it is reasonable for research studies to take a position that “the absence of accounting can be understood … as the negative of presence (in principle)” ([Catasus, 2008](#_ENREF_6)), this understanding should emerge from a contextualised analysis of the production and negotiation of discourses rather than a content analysis simply exposing what is missing. In this respect one element of the sustainability reporting context that seems to be ignored in many research studies that interpret absence in sustainability reporting is the materiality (within the overall context of the reporting organization) of the negative social and environmental issues, incidents and outcomes that researchers find have occurred but that are absent from the reports. To help provide a background for understanding this important contextual element, the next section of this paper briefly explores the principle and manifestation of materiality in sustainability reporting practices.

# Materiality in sustainability reporting

Materiality has long been regarded as a fundamental concept underlying production of financial reports and accounts (Edgley, 2014). However materiality has only developed in sustainability reporting guidelines more recently.

In financial reporting, materiality represents a guideline for professionals and practitioners to help them assess whether an item should be included or not in a financial report, based on its relative significance. For example, the International Accounting Standards Board’s Conceptual Framework for Financial Reporting ([IASB, 2010, p. 17](#_ENREF_16)) defines materiality as follows:

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity’s financial report. [The IASB] cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation

In seeking to clarify how materiality should be applied to financial reporting, the IASB in its 2013 discussion paper reviewing its conceptual framework ([IASB, 2013, p. 145](#_ENREF_17)) stated that “disclosure of immaterial information can impair the understandability of material information that is also disclosed”. This indicates a view from this informed body that clarity of corporate reports, and their communicative effectiveness, can be diminished where information that is not material is included in the report. We suggest that this consideration applies equally, if not more so, in sustainability reports than in financial reports. This is because sustainability reports cover a much broader range of complex issues than a narrower financial report (Hopwood *et al*, 2010, Bebbington and Larrinaga, 2014), so the scope for information overload for report readers by including less material items in a sustainability report is even greater than the scope for information overload when including less material items in a financial report.

As sustainability reporting has become ever more prevalent over the past two decades, voluntary sustainability reporting guidelines have been developed to codify and shape best practice. The main sustainability reporting guidelines now set out materiality processes to be adopted that can guide reporting organizations in deciding whether a particular impact or outcome is or is not sufficiently material, against the context of an organization’s overall operations and impacts, to be disclosed in the sustainability report. The aim of these processes appears to be similar to the aim of materiality hurdles in financial reporting, to ensure that the clarity of a report is not diminished by excessive detail on relatively minor issues obscuring a focus and clarity on the major issues. This raises questions about who decides whether a particular issue is relatively major or minor, or from whose perspective an issue is material or immaterial. In practice, this can be from external stakeholders’ or report preparers’ perspectives or a combination of the two – a point we return to later in this paper.

Although there are several sets of guidelines related to sustainability reporting, in this paper we will focus on the most widely used sustainability reporting guidelines – those published by the Global Reporting Initiative (GRI)[[2]](#footnote-3). The GRI G3 Guidelines published in 2006 were the first set of GRI guidelines to incorporate reasonably detailed consideration of materiality and guidance on how to determine whether any particular issue was sufficiently material to be disclosed within a sustainability report. The G3 guidelines stated that they now covered materiality because ([GRI, 2006, p. 8](#_ENREF_14)):

The information in a report should cover topics and Indicators that reflect the organization’s significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.

The G3 guidelines further explained that:

Organizations are faced with a wide range of topics on which [they] could report. Relevant topics and Indicators are those that may reasonably be considered important for reflecting the organization’s economic, environmental, and social impacts, or influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in the report. Materiality is the threshold at which an issue or Indicator becomes sufficiently important that it should be reported. Beyond this threshold, not all material topics will be of equal importance and the emphasis within a report should reflect the relative priority of these material topics and Indicators. … Materiality for sustainability reporting is not limited only to those sustainability topics that have a significant financial impact on the organization. Determining materiality for a sustainability report also includes considering economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations.

The GRI G3 guidelines specify that the views of a range of external stakeholders regarding the importance of an issue as well as internal organizational assessments regarding the significance of that item should be combined in determining its materiality. They also specify that the processes an organization uses to identify the materiality of different impacts and outcomes should be explained in the report. Figure 1 reproduces a diagram from the GRI G3 guidelines showing how the external stakeholder and the internal organizational assessments of significance of an item can be combined to determine the relative importance of different sustainability issues against the overall context of the organization’s operations and impacts, and thereby decide what should be included in the report and what should be left out (GRI 2006, p. 8).

**[TAKE IN FIGURE 1 ABOUT HERE]**

Definitions and processes of determining materiality set out in the subsequent GRI G3.1 Guidelines published in 2011 and G4 Guidelines published in 2013 do not differ substantively from the above G3 definitions and processes. However there is an even greater focus in the latest G4 Guidelines on the importance of applying materiality criteria to ensure the resultant sustainability report has greater clarity through concision ([GRI, 2013, p. 3](#_ENREF_14)):

G4 has an increased emphasis on the need for organizations to focus the reporting process and final report on those topics that are material to their business and their key stakeholders. This ‘materiality’ focus will make reports more relevant, more credible and more user-friendly. This will, in turn, enable organizations to better inform markets and society on sustainability matters.

While organizations may monitor and manage a very wide array of sustainability-related topics arising from and related to their everyday management activities, this greater focus on materiality means that sustainability reports should be centred on matters that are considered (through a materiality process) the most critical in order to best inform an organization’s prioritized stakeholders about its impact on society, the economy and the natural environment.

## ‘Looking’ for materiality when doing research

Application of the principle of materiality in sustainability reporting, for example as set out in the GRI Guidelines, is therefore about adopting processes that should result in sustainability reports focusing on issues that are believed to have the most significant impact on sustainability. Applying a materiality hurdle or filter therefore requires an organization’s managers to make choices about what is considered by the organization and its key stakeholders to be the most relevant social, environmental and economic sustainability information to be communicated about the company. As a judgement of value in relative terms, materiality is by necessity a process that involves selection, inclusion, and exclusion of information. On this basis, defining the context of production of discourses and a holistic approach to interpretation are essential to derive conclusions from any analysis of absence from sustainability reporting research.

Examples exist of how pioneering businesses have concerned themselves with developing practices to include materiality issues that take into account the views of their stakeholders. Unerman and O’Dwyer ([2010](#_ENREF_19)) for example show how the principle of materiality was applied by BT in deciding upon the content of their sustainability reports. In line with GRI guidelines discussed above, at BT this involved a formal process of assessment of environmental and social risks which combined internal and external perspectives, including customers, staff, shareholders, investors, suppliers, government, and the media. Different views were subsequently plotted on a ‘materiality identification graph’ and combined in ‘most material’, ‘material’ and ‘non material’ clusters. According to Unerman and O’Dwyer (2010) this process allowed BT to weigh and adjust the internal materiality of each issue vis-à-vis the external attribution of significance emerging from BT’s External Corporate Responsibility Leadership panel. In the case of BT, therefore, the inclusion of items in, or the omission of items from, the BT sustainability Report represented the outcome of a process in which a negotiation of significant issues had occurred, although this might not be apparent from merely reading the final report. For example, the decision of not including specific accounts on ethical sourcing of BT staff uniforms in the final report emerged because of internal and external agreement on the relative low significance of this vis-à-vis other issues.

There are many other examples in sustainability reports where organizations disclose aspects of their structures for negotiating materiality between internal and external perspectives, as recommended in the G3 and G4 guidelines. We will return to one such instance in the next section of this paper as part of the data we draw upon to illustrate the importance of considering materiality in interpretations of absence from sustainability reporting.

# An example of incorporating materiality considerations into the interpretation of sustainability reporting absence

The issues discussed so far in this paper indicate that materiality is an important guiding principle in deciding which positive and negative social, environmental and economic impacts, incidents and/or events should be included and which should be excluded from an organization’s sustainability report. They also indicate that incorporating analysis of absence from sustainability reports into research studies of sustainability reporting has the potential to add substantive insights to the analysis compared to an exclusive focus on disclosures that are actually present in a report – but only if the researcher is not over-sensitive to absence. We have argued that ignoring materiality criteria and processes applied by the reporting organizations in such research is likely to result in over-sensitivity to, and therefore risk over-interpretation of, instances of absence from sustainability reporting. We now proceed to illustrate these issues by examining interpretations of absence from sustainability reporting in a recently published and award-winning study – Boiral (2013). We must stress that by focusing on Boiral’s paper we do not intend to undermine the quality of his work nor challenge altogether the conclusions he draws from his analysis. Rather, we problematize some of the premises to his analysis highlighting in particular how materiality appears downplayed in the background of his investigation[[3]](#footnote-4). We aim thus to offset what in our view is a potential limitation of Boiral’s study by offering an alternative/ additional perspective to his methods through suggesting a more holistic analytical approach inclusive of materiality issues. Our critique of methods applies not only to Boiral’s paper but it extends to all studies that have attempted interpretation of absences from sustainability reporting without taking into account the reporting organizations’ materiality processes and contexts. We have simply used the Boiral (2013) study as an example as it is the most recently published highly regarded study of which we were aware at the time of undertaking this research that interprets absence from sustainability reporting.

Boiral’s main argument – that sustainability reports can be seen as opportunities to camouflage negative events and to project corporate images detached from reality – is underpinned by two distinct analytical approaches. The first approach draws on a content analysis of 23 mining and energy company sustainability reports[[4]](#footnote-5) from 2007 that were GRI compliant at the A or A+ application levels and compares them to “significant news events” (p. 1047) related to the corporate social responsibility of firms analysed. From this part of his study, Boiral concludes that 90 per cent of the significant negative news events were not disclosed in the sustainability reports. The second approach in Boiral (2013) analyses a corpus of pictures used in sustainability reports to suggest corporations tend to instrumentally deploy distorted representations for ‘organizational narcissism’. Although Boiral conflates results from the two analytical elements to conclude that “the virtual absence of negative images paralleled the scarcity of information about the negative events involving the firms, despite the GRI requirements for balance and completeness” (Boiral, 2013 p. 1062) in our paper we only discuss the first approach as the methods used in this approach relate to the focus of our paper. We critique his interpretation of absence of disclosure without his explicitly factoring into his paper outcomes of organizational processes used to define materiality.

In gathering counter accounting data to identify negative news events, Boiral selected news articles that “addressed significant events that occurred in 2007 implicating the responsibility of one of the 23 firms in a major spill, conflict with local residents, explosion, etc.” (p. 1047). It would thus appear that Boiral chose to treat events as ‘significant’ because they had been reported in news media (specifically, in at least two news articles). However no information is provided in the paper about whether and how such events were filtered through materiality processes in the context of production of the organizational reports. To make up for this gap we re-examined the 20 reports we were able to access in English out of the 23 mining and energy companies’ 2007 sustainability reports[[5]](#footnote-6) analysed by Boiral. We focused this re-examination on ascertaining whether, and the extent to which, issues related to the principle of materiality had been disclosed in these reports. The results of this review are shown in table 1.

**[TAKE IN TABLE 1 ABOUT HERE]**

The 2007 sustainability reports analysed related to the year after the GRI first incorporated detailed guidance and requirements about materiality in its 2006 G3 guidelines. Compliance with any G3 application level requires not just consideration of materiality but also an explanation of these materiality consideration processes (as part of the explanation about how the content of the sustainability report was decided upon). As the companies in the sample have all self-declared GRI compliance at the highest application level (A or A+), we would expect them all to have both used a materiality filter in deciding upon the contents of their reports and to have disclosed some information about this process. We were therefore surprised to find that four of the sample companies did not appear to include any information or discussion about materiality in their 2007 sustainability report. Of the remaining 16 companies that did explicitly address some aspect(s) of materiality in their sustainability reports, four only gave what we regard as the bare minimum disclosure that they had taken materiality into account as required by GRI G3 guidelines. This left 12 of the companies from the Boiral study that disclosed a variety of aspects about how materiality considerations influenced or were incorporated in their sustainability reports.

Nine sustainability reports note that materiality considerations had been taken into account in deciding upon the contents of the report. Eight reports either discussed materiality in relation to the requirements of AccountAbility’s AA1000 standard and/or disclosed materiality processes or considerations as part of an assurance statement. Some of these assurance statements devoted considerable space to explanations of materiality considerations in relation to reporting processes and/or content.

Nine reports disclosed some information about how a range of stakeholders were engaged in the process of deciding which issues were sufficiently material to be incorporated in the sustainability report. Eight reports explained that the company used a combination of external perspectives and internal management perspectives in deciding upon which were the most material issues (all but one of these companies were also among those that explained their processes of stakeholder engagement in arriving at the external view). This combining of internal and external views follows the GRI guidance in determining the topics that are material enough in the organization’s overall context to be disclosed in its sustainability report. Four of these companies provided a materiality graph, although only two of these (Gas Natural Fernosa and Petrobras) displayed broad sustainability issues on the graph – enabling readers of the reports to appreciate both the external and internal importance accorded to each broad issue. The other two companies (Shell and Tech Cominco) provided a graph illustrating their materiality determination process without placing sustainability issues on the graph. However, eight companies did provide lists of the broad sustainability areas that their materiality processes had decided were the most material, even though they did not all show the positioning on a graph of internal and external perspectives that had led to a determination of the materiality of these issues.

Within Shell’s report there was a report from an external review committee. The following excerpt from this report illustrates well the reasons why it is necessary to filter out less material items from a sustainability report if the resultant report is to provide greater clarity on the most material issues. This also shows that in practice it is not necessarily the company itself that exclusively determines the relative materiality of different broad sustainability issues:

In autumn 2007, we commented on Shell’s initial choice of issues to address in the report. … The 2007 report effectively prioritises the issues that are most material to the company, and of greatest interest to Shell’s stakeholders, in addition to covering one of the most significant topics facing our world – climate change. In a short report, it will always be a challenge to provide sufficient depth on critical, complex issues. This year, because of the urgency of addressing climate change, we encouraged Shell to devote more space to explain its latest Strategic Energy Scenarios and advocacy efforts. Inevitably, due to space limits, other topics – such as local environmental impacts, Shell’s contributions to achievement of the Millennium Development Goals (including the link between energy and poverty reduction), and social performance in difficult operating environments – received less attention as a result. We therefore encourage Shell to use other tools such as its website to reinforce the coverage of all sustainability issues of importance to its stakeholders … we refer again this year to the need for Shell to provide greater insight into its investment levels in renewable energy sources. The credibility of Shell’s advocacy efforts, on which it rightly focuses, will be greatly strengthened by providing this information. (The Shell Sustainability Report 2007, p. 38)

This disclosure clearly explains that the 2007 Shell Sustainability report focuses on just the most material topics, and stakeholders interested in other impacts (of which there will be many) can refer to disclosures in other media – such as web-based disclosures. In this context, we contend that inferences drawn in Boiral (2013) about the lack of sustainability report disclosures of some of Shell’s specific micro-level negative news events are unreasonable, as these events do not fall within the issues Shell’s external review panel explicitly consider the most material and therefore worthy of disclosing in the 40 page report. While probably important to those involved in these incidents, we contend that the following issues identified in Boiral (2013, pp. 1054-55) appear to be relatively minor in the context of a company the size of Shell:

The sustainability report with the greatest number of such omissions was that issued by Shell … The events that Shell did not report were fairly representative of the diversity of economic, environmental and social problems that are hidden behind the reassuring appearances of sustainability reports. For example, with regard to economic sustainability issues, Shell was accused by the French competition authority … of colluding with other oil companies in pricing kerosene on Re´union Island. Contrary to the GRI requirements (SO7 and SO8 indicators on anti-competitive behavior and compliance with laws and regulations), the report made no mention of the matter nor of the legal proceedings totalling several million Euros for anti-competitive practices. With regard to social issues, one notable event in 2007 involved Shell being sued by some of its Ethiopian and Malaysian employees for discriminatory hiring practices. Whether they were justified or not, these discrimination cases involving hundreds of employees … were not mentioned in the sustainability report contrary to GRI requirements (see for example HR4 incidents of discrimination and actions taken). Finally, Shell was accused of misleading advertising by the British Advertising Standards Authority in 2007, for having connected the term “sustainable development” with exploitation of the oil sands in Alberta, an operation which has had particularly negative environmental impacts … This charge should have been mentioned in Shell’s report (PR7 indicator on incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising).

**[TAKE IN FIGURE 2 ABOUT HERE]**

Figure 2 reproduces the materiality graph from Petrobras’s 2007 sustainability report, one of the two reports in the sample that provides a graph with broad issues mapped onto the graph. The company explains that topics in quadrant III are considered the most material as they are of substantive importance both for stakeholders and for the company. Petrobras chose to focus its sustainability reporting for 2007 on these most material topics in addition to topics in quadrants II and IV (of high importance to either stakeholders or the company).

Interpreting this information disclosed in Petrobras’s 2007 Sustainability Report against the inferences drawn in the Boiral (2013) study, Boiral states (in his Table IV, p. 1052) that of the six negative news events he had identified for Petrobras four had not been disclosed in the Petrobras 2007 Sustainability Report and the other two had only been ‘partially reported’. Based on the arguments earlier in this paper, to draw robust inferences from this observation, we believe that Boiral would first have had to identify which of the six events that he discovered from external news reports fell within topics in Petrobras’s Materiality Matrix quadrant I. We are not claiming that these events did not fall within this quadrant; rather we are concerned that without explicitly addressing this question, it is not possible to tell if, and if so how, Boiral took this factor into account in reaching his interpretation. Just because a negative sustainability incident or event is mentioned in two news reports (Boiral’s hurdle for identifying a significant event) does not necessarily make it material in the context of Petrobras’s overall operations and impacts. Indeed, in an era when some journalists sometimes appear to do little more than reproduce press releases or stories from other news media rather than undertaking original investigative journalism, two or more negative news articles could flow from a press release put out by a campaigning organization and may not indicate much about the significance of the reported issue or event to society more broadly. Equally, we recognise that companies themselves provide press releases with their preferred view of the world to journalists that find their way into news reports.

Even if the six events negative identified by Boiral for Petrobras in 2007 from external news reports fell within broad topics that Petrobras considered to be the most material for the company in 2007, there is a further level of materiality filter that companies need to apply in their sustainability reporting. It would be unreasonable to expect large companies to disclose individually all incidents that fell within a particular material topic. For example, for Petrobras Health and Safety is one of the most material sustainability topics. An organization the size and complexity of Petrobras is likely to face a large number of health and safety incidents in any one year, most of which individually might be immaterial. Once it has been decided that a particular broad sustainability topic is material, an organization might then dedicate a section of its sustainability report to explaining why it is important, giving an overview of its approach and polices to managing sustainability risks in this topic area, providing aggregate key performance indicators to show its overall targets and performance in this topic area, and providing illustrations by disclosing a very small number of examples from the more material individual incidents in this topic area during the year under review. In other words, materiality filters apply both in filtering broad topics or issues to be addressed in a sustainability report and in filtering which individual or collective incidents within any material broad topic area should be disclosed individually rather than as part of an aggregate disclosure.

Overall, therefore, while we cannot assume without further investigation (which is beyond the scope of this paper) that the materiality processes employed by the companies took into account all of the ‘significant events’ Boiral identified from the counter-accounts, neither can we (or Boiral) assume they did not take these events into account and decide that they were individually not sufficiently material to disclose in the sustainability report.

# Conclusions

Our main aim in this paper has been to highlight the importance of including considerations of materiality when analysing absence from sustainability reporting. We have argued for a methodological approach to interpretation of absence from and/or non-disclosure in reports that focuses on and investigates the *process* of materiality determination rather than assuming a priori intentionality from the *outcome* of this process. From this premise we have used a recent investigation by Boiral (2013) to demonstrate the limitations of overlooking or black-boxing materiality in drawing robust analytical conclusions about absence.

In our view a key pitfall of not explicitly factoring materiality processes into analyses of absence from sustainability reporting is reliance on a conceptualisation of ‘significance’ from presence of issues in counter accounts such as news articles. While such counter accounts collectively are necessary for healthy development and dissemination of the sustainability agenda, the reporting of individual incidents or events in news reports is not in always sufficient to make theses incidents or events material in the overall context of the organizations responsible for the negative social and/or environmental incidents and events. It might be reasonable to expect macro-level and some micro-level issues of major concern to society and/or reporting organizations to be reflected across a large number of news reports and other counter accounts, with a large number of news reports in these cases plausibly proxying for widespread societal concern and materiality from an organizational perspective. An example of this broad correlation of widespread news reporting, raised societal concern and materiality could be the BP Gulf of Mexico accident and oil spill of April 2010 which was a material incident for BP (socially, environmentally and financially), a major incident ecologically and socially, and widely reported across many news media for a prolonged period.

However, a relatively small number of news reports about individual micro-level negative sustainability incidents and events does not equate to these incidents and events being material in a societal context or against a reporting organization’s overall context. Where researchers find an absence from an organization’s sustainability reporting of some of these narrow micro-level incidents and events, credible interpretation of this absence requires the researchers to evaluate the materiality evaluation processes that resulted in decisions about what to include and what not to explicitly mention in the sustainability report. To then infer malign intent from absence of such micro-level incidents requires a well reasoned and evidenced challenge to the integrity of the judgements deployed by the organization’s managers in deciding upon the immateriality of specific incidents and events.

We recognize that any definition of materiality represents a contested area where meanings are constructed both from stakeholders’ and organizations’ perspectives and thus open to negotiation of discourses. We also recognize that the interests of capital may wield disproportionate power in this negotiation process in a way that could partly or wholly marginalize the voices of other stakeholders. The disclosure of significant events in organizational sustainability reports represents the outcome of such potentially tense processes of negotiation and it is in this direction that we encourage further research to address the limitations of simply looking at the outcomes of, or black-boxing, these processes of materiality determination when analysing absence from sustainability reporting.

There are a number of avenues this further research could take. First, we might expect organizations to have become more conversant with and experienced at meeting the requirements of sustainability reporting standards and guidelines in more recent years, providing more widespread disclosure of materiality matrices within sustainability reports compared to the 2007 reports analysed in this paper (just a year after the GRI’s first detailed guidance on materiality). Studies that seek to draw inferences from the absence of specific sustainability disclosures in more recent years than Boiral’s (2013) study could analyse whether the materiality information now disclosed has become more sophisticated and pervasive. If so, more systematic incorporation of corporate disclosures about materiality processes into research studies might enable researchers to more readily ascertain whether the negative issues and events they had identified from counter accounts in more up to date studies were within areas not deemed material by each reporting organization. Second, research could be conducted across a number of organizations to ascertain in greater depth than is apparent from disclosures within sustainability reports their criteria of materiality determination both for each broad area of sustainability and for individual positive and negative incidents and events within each broad area that is considered material. This could help to identify, rather than assume, the extent to which materiality determination follows a narrow and economically focused managerialist agenda. Finally, in-depth case studies based on interviews and/or ethnographies could be used to provide a fine-grained understanding of the judgement processes and power dynamics used in determining the materiality of broad areas of sustainability and of individual incidents and events within each of these areas. A study of power dynamics could also surface insights about whether and how materiality determination processes can be designed by managers in a way that ensures major issues they do not want to disclose in a sustainability report are likely to be deemed immaterial.

We believe that opening up a research agenda to address the above issues should help academics provide more robust interpretations of absence from sustainability reporting than is the case in assuming, without evidence, that issues of interest to a researcher are material in the reporting organization’s context. This robust evidence may have the potential to much more credibly show whether, and if so how, companies use or abuse sustainability reporting processes (such as materiality determination processes) to portray a false image of their sustainability performance.

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Table . A summary of materiality disclosures within 2007 sustainability reports analysed by Boiral (2013)

|  |  |
| --- | --- |
| **Company Report Analyzed** | **Determining materiality disclosed in relation to:** |
| **GRI** | **Deciding on report content** | **AA1000 / Assurance** | **Stakeholder engagement** | **External & internal process of deciding materiality** | **Broad material areas disclosed** | **Materiality matrix disclosed** |
| Anglo American |  | ✔ | ✔ | ✔ |  |  |  |
| Anglo Gold | ✔ | ✔ |  |  |  |  |  |
| Avon Metals |  |  |  |  |  |  |  |
| BHP Billiton |  | ✔ | ✔ | ✔ | ✔ | ✔ |  |
| BP | ✔ | ✔ | ✔ |  | ✔ | ✔ |  |
| CPFL Energia |  |  |  |  |  |  |  |
| Gas Natural Fenosa | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Illawarra Coal | ✔ |  |  |  |  |  |  |
| Kospo |  |  |  |  |  |  |  |
| OJSC | ✔ |  | ✔ | ✔ | ✔ | ✔ |  |
| Penoles | ✔ |  |  |  |  |  |  |
| Petrobras | ✔ | ✔ |  | ✔ | ✔ | ✔ | ✔ |
| Pt Kaltim Prima Coal |  |  |  |  |  |  |  |
| Repsol | ✔ |  |  |  |  |  |  |
| RWE |  |  | ✔ | ✔ | ✔ | ✔ |  |
| Rio Tinto | ✔ |  | ✔ |  |  |  |  |
| Shell |  | ✔ |  | ✔ | ✔ | ✔ | ✔ |
| S-Oil | ✔ | ✔ |  | ✔ |  | ✔ |  |
| Teck Cominco | ✔ | ✔ | ✔ | ✔ | ✔ |  | ✔ |
| Usiminas | ✔ |  |  |  |  |  |  |



Figure - GRI process for defining materiality, copied from GRI G3 Guidelines, (GRI, 2006, p. 8)

Figure . Materiality determination graph extracted from the 2007 Petrobras Sustainability Report, (Petrobras, 2007, p. 109)



1. We borrow the notion of texts ‘produced’ and ‘consumed’ at different sites from Critical Discourse Analysis to suggest the different conditions under which a text is constructed and received (see for example van Dijk, 1985). [↑](#footnote-ref-2)
2. The Global Reporting Initiative (GRI) states that it "produces a comprehensive Sustainability Reporting Framework that is widely used around the world, to enable greater organizational transparency. The Framework, including the Reporting Guidelines, sets out the Principles and Indicators organizations can use to report their economic, environmental, and social performance. GRI is committed to continuously improving and increasing the use of the Guidelines, which are freely available to the public." [↑](#footnote-ref-3)
3. Whilst Boiral often refers to general GRI principles he only mentions materiality once (p. 1039) and juxtaposes the results of his analysis to the principles of balance, completeness and transparency. [↑](#footnote-ref-4)
4. Boiral (2013) analyses “reports from firms in the energy and mining sectors which had received application levels of A or A + from the Global Reporting Initiative (GRI)” (p. 1036).). [↑](#footnote-ref-5)
5. In our search the reports of Suncor and Newmont Mining were not available. The report of Codelco was not available in English. [↑](#footnote-ref-6)