

**Gordon Institute  
of Business Science**  
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**The contribution of risk governance and disclosure in  
integrated annual reporting to risk management**

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## **ABSTRACT**

This research was conducted with the aim in determining if risk governance and risk disclosures in integrated reports contribute to risk management and show improvement year on year. The volatile and challenging operating environments that organisations currently operate in has placed significant pressure on organisations assure stakeholders of their ability to create and maintain value, despite the risk of unknown events and circumstances. Integrated annual reports provide a means for organisations to communicate to stakeholders about their commitment to risk management and risk governance through risk disclosure.

This research followed an explorative and quantitative approach. A checklist was created using the risk governance principles from the King Code of Governance Principles for South Africa, application of which is required by the Johannesburg Stock Exchange for all listed companies on an apply or explain basis, the International Integrated Reporting Framework and the G4 Sustainability Reporting Guidelines. Using content analysis, this checklist was completed through inspection of the integrated annual reports for the companies listed in the general retail sector of the Johannesburg Stock Exchange for the past five years. Key risks identified in the integrated annual reports were compared to industry norm risks identified.

The study showed a slight improvement in application of risk governance and risk disclosure principles from year to year. In addition, a slight improvement was noted on the comparison between the key risks identified in the integrated annual reports and the industry norm risks. The results suggest improvement in risk governance and risk disclosure as elements of risk management in the past five years.

## **KEYWORDS**

Enterprise risk management, integrated reporting, risk governance, risk disclosure, key risks

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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## **ABBREVIATIONS**

CAS - Casualty Actuarial Society

COSO - Committee of Sponsoring Organizations of the Treadway Commission

CRO- Chief Risk Officer

Dodd-Frank - Dodd-Frank Reform and Consumer Protection Act

EIU - Economist Intelligence Unit

ERM – Enterprise Risk Management

FCIC - 2011 Financial Crisis Inquiry Commission

G4 - G4 Sustainability Reporting Guidelines

GFC - 2007/2008 global financial crisis

GRI - Global Reporting Initiative

IFRS - International Financial Reporting Standards

IIRC - The International Integrated Reporting Council

<IR> - International Integrated Reporting Framework

IRMSA - The Institute of Risk Management South Africa

JSE – Johannesburg Stock Exchange

King III - King Code of Governance Principles for South Africa

NDP - South African Government's National Development Plan

SEC - Securities and Exchange Commission

UK – United Kingdom

USA – United States of America

Y1 – Year 1

Y2 – Year 2

Y3 – Year 3

Y4 – Year 4

Y5 – Year 5

## **CHAPTER 1 – INTRODUCTION TO RESEARCH PROBLEM**

### **1.1 Research aim**

The aim of this research was to determine whether there was an improvement in risk disclosures in integrated annual reports and risk governance application year on year as proof of an improvement in a company's ability of mitigating and managing risk.

### **1.2 Background**

#### **1.2.1 Introduction**

The 2007/2008 global financial crisis (“GFC”) had a profound effect on the global economy, both economically and socially, increasing global debt in 2008 to levels of more than three times those in 2007 and increasing global poverty levels substantially (Gontarek, 2016). Inquiries such as the 2011 Financial Crisis Inquiry Commission (“FCIC”) concluded that the GFC was avoidable and that failure in financial regulation, failure in corporate governance and improper risk management were the largest contributors to the causes of GFC (Bugalla, Kallman, Lindo, & Narvaez, 2012) .

Post the GFC in South Africa, corporate disasters such as Lonmin Plc's 2012 Marikana Massacre and the 2014 African Bank Limited failure have cast doubt on whether the level of risk management and risk governance in South Africa is appropriate to avert future corporate failures (Pichulik, 2016) (Pickworth, 2014). In Lonmin's 2011 Sustainability Report a principal risk included “poor community and employee relations” and it was stated that the impact of this could result in “strike action and civil unrest” (Pichulik, 2016). This leads to the question that if risks were appropriately measured, managed and acted upon, would the Marikana Massacre have been avoidable? (Pichulik, 2016).

The current global economic environment is volatile, uncertain and unpredictable which has caused the risks that companies face to become increasingly more complex and interconnected (Maingot, Quon, & Zéghal, 2012). The GFC changed the risk profile of companies and highlighted the need for companies to address the challenge of balancing risk and reward (Maingot et al., 2012) . Incorporating effective risk management as part of the strategy to face the challenge has emerged as a key priority for companies

(Maingot et al., 2012). Risk management should be practical, cost effective and assist organisations in surviving and becoming more prosperous (Abdel-Azim & Abdelmoniem, 2015).

### **1.2.2 Enterprise risk management**

Prior to the late nineties, organisations followed the traditional risk management approach, an approach which was reactive and viewed risks as individual silos (Simona-lulia, 2014). Enterprise risk management (“ERM”) was developed as organisations required a more proactive, holistic and effective way to manage risks (Barton & MacArthur, 2015). ERM considers risks to be integrated and aims to evaluate and prioritise risks and manage the mitigation of risks, including operational, financial, strategic and traditional insurance risk, in an effective and efficient manner (Barton & MacArthur, 2015). According to Farrell & Gallagher (2015) the goal of ERM is to “model, measure, analyze, and respond to these risks in a holistic manner, treating each risk exposure not in isolation, but rather in a portfolio context.”

The GFC proved however that many organisations with ERM in place were merely “window dressing” risk management (Barton & MacArthur, 2015). Organisations were stating their commitment to risk management but had a system in place that was not up to the challenge of containing the losses from risk exposure at a level such as those that came with the GFC (Barton & MacArthur, 2015). Risk management was seen as not having radically altered from the traditional risk management approach despite many organisations stating that they are committed into investing in ERM (Simona-lulia, 2014).

### **1.2.3 Risk governance**

Post the GFC, regulatory authorities introduced regulations such as the 2010 Dodd-Frank Reform and Consumer Protection Act (“Dodd-Frank”) and the Securities and Exchange Commission (“SEC”) Rule 33-9089, that required elevated corporate and risk governance in organisations (Gontarek, 2016) (Bugalla et al., 2012). Prior to the GFC, the duties of directors in terms of risk oversight was to ensure risk management ownership by others and validate processes were in place to monitor business risk (Gontarek, 2016). The GFC lead to a greater expectation being placed on directors to oversee risk management in the organisation (Gontarek, 2016). Stakeholders expectation in terms of transparency through disclosure of how an organisation identifies

and manages all risk increased, with a failure in transparency meaning the board is in breach of the duty of risk management and disclosure (Bugalla et al., 2012).

The four most common elements used in improving the risk governance of an organisation, identified by Gontarek (2016), are the presence of a risk committee, the appointment of a Chief Risk Officer (“CRO”), risk conduct and culture and the issuing of a risk appetite statement. These elements provide a valuable tool for the board of organisations to meet the responsibility of risk management (Gontarek, 2016).

Bugalla et al. (2012) suggested that the first common element of risk governance identified by Gontarek (2016), a risk committee, should be comprised of at least one independent member with the required level of risk management expertise, technical training and experience. A risk committee formed in an organisation has been found to reduce risk-taking by banks (Gontarek, 2016).

The CRO, the second element of risk governance identified by Gontarek (2016), should report directly to the board of directors and at the minimum serve as a chief of staff on the risk committee (Bugalla et al., 2012). The presence of a risk committee, as well as a CRO that reports to the board, have been shown to add value to operational performance (Grace, Levery, Phillips, & Shimpi, 2015).

The third element, risk conduct and culture, is cultivated from the top down and is thus the ultimate responsibility of the board (Gontarek, 2016). A risk appetite statement, the fourth common element of risk governance identified should include both quantitative and qualitative metrics for credit, market as well as operational risk (Gontarek, 2016).

The regulatory bodies, securities exchange commissions as well as financial accounting bodies have enhanced the risk reporting disclosure requirements post the GFC, with the aim of increasing transparency and clarity to stakeholders of the risks faced by the organisation and the management of these risks (Dobler, Lajili, & Zéghal, 2011). The International Integrated Reporting Council (“IIRC”), developed a guideline to promote integrated reporting called the International Integrated Reporting Framework (“<IR>”) (The International Integrated Reporting Council, 2013). The <IR> recommends risk disclosure in the integrated annual report which answers the question “What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?” (The International Integrated Reporting Council, 2013).

Risk governance recommended by regulatory authorities to increase the commitment and focus on risk management by organisations in order to avoid preventable corporate failures have the objective of reforming risk (Bugalla et al., 2012). Risk disclosures in integrated annual reports aim to show stakeholders a relevant assessment of an organisation's risk and risk management for stakeholders to use to make informed decisions (Topazio, 2014).

The Institute of Risk Management South Africa ("IRMSA") stated that volatility on South Africa's current context compromises its resilience to future uncertainties (The Institute of Risk Management South Africa, 2016). Thus, IRMSA stated the need for directors to have the right risk management team in place with "a real voice at board level" to sustain the long-term survival of any organisation (The Institute of Risk Management South Africa, 2016).

### **1.3 Research done to date and further research required**

#### **1.3.1 Enterprise risk management**

The question is whether there is value for organisations to invest in ERM? A 2011 study performed by Hoyt & Liebenberg (2015) of 23 insurance firms in the United States of America ("USA") regressed firm value against engagement in ERM activities while controlling other variables such as size, debt to equity ratios, return on assets, diversification, sales growth, dividend payout, type of insurer and insider equity ownership. The results found that on average, insurers with ERM programs in place valued approximately 4% higher than other insurers using univariate analysis (Hoyt & Liebenberg, 2015).

#### **1.3.2 Risk governance**

The value of the first element of risk governance identified by Gontarek (2016), the presence of the risk committee, was studied by Hines, Masli, Mauldin, & Peters (2015) through examination of the relationship between a board risk committee characteristics and audit pricing. It was found that independence of risk committee members and the overlap in risk and audit committee members were associated with lower audit fees (Hines et al., 2015). Hines et al. (2015) recognised as a limitation that risk committee characteristics theory is not well developed in academic literature and suggested that

further studies should be done on risk committees characteristics and reporting outcomes.

A study done by Ling, Zain, & Jaffar (2014) analysed the structure of an organisation and its board attributes in the formation of risk management committees in Malaysia. The results showed that certain board attributes such as size and independence in directors are linked with the formation of a risk committee (Ling et al., 2014). It was noted that limited studies on the formation and structure of a risk committee specifically in developing markets have been performed (Ling et al., 2014). It was suggested that further research to study the benefits of a risk committee to an organisation should be performed (Ling et al., 2014).

### **1.3.3 Risk disclosure**

A study of non-financial firms listed in Egypt over four years from 2006 – 2009 was performed by Abdel-Azim & Abdelmoniem (2015) which tested the relationship between risk disclosure and firm value. It was found that increased risk disclosures had a positive relationship with profitability and asset growth (Abdel-Azim & Abdelmoniem, 2015). Similarly, a study by Abdullah, Shukor, Mohamed, & Ahmad (2015) on 395 non-financial firms listed on Malaysia in 2011 concluded that voluntary risk management disclosure had a positive and significant association with firm value. The study highlighted the importance that voluntary risk management disclosures had for investors in making investment decisions (Abdullah et al., 2015).

Dobler et al. (2011) compared the attributes of risk disclosures in the USA, Germany, the United Kingdom (“UK”) and Canada as well as the quantity of risk disclosure and the association with organisational risk. The research showed that cross country firms that measured as riskier disclosed more risk information (Dobler et al., 2011). Suggestions for further studies included the study of risk disclosures over time as well as the incorporation of corporate governance variables such as board independence and compositions (Dobler et al., 2011).

In addition, a study done on the impact of the GFC on risk disclosures from 2007 to 2008 on non-financial Canadian listed companies, found that the GFC had very little impact on risk disclosures with the total number of risk disclosures only increasing by 3.6% (Maingot et al., 2012). The GFC appeared not to have had a major impact on the level of risk disclosures (Maingot et al., 2012). This study can be expanded for further

countries and development over years.

#### **1.4 Research purpose**

The aim of this research was to explore whether risk disclosure in integrated annual reports, as well as application of risk governance requirements showed improvement in organisations year on year. This research also aimed to show whether the key risks identified and disclosed by organisations are relevant to the industry in which they operate. The research aimed to answer the research questions specifically for South African organisations, who currently operate in a volatile context which requires strong levels of risk management for sustainability (The Institute of Risk Management South Africa, 2016). Thus, the research also intended to explore whether key risks identified were relevant to South African industry level risks identified.

This research was performed to indicate to organisations the current state of risk management and if the increased need to focus on risk management has resulted in an improvement in risk disclosures and risk governance compliance. Further, this research intended to provide insight into the relevance of the risks identified as key risks in terms of the context in which the organisation operates as a measure of the level of risk management.

This research was done to extend the current research done in academia in assessing risk governance and disclosure application which has not currently been sufficiently explored.

## **CHAPTER 2 - LITERATURE REVIEW**

### **2.1 Introduction**

This chapter describes the literature and theory that was reviewed to create a theoretical base for this study. The literature review included the following:

- ERM was defined and the need and importance of ERM adoption and adherence discussed;
- The elements of risk governance were examined as well as the applicable frameworks which organisations are encouraged to adhere to in terms of risk governance;
- The risk disclosure requirements and recommendations were reviewed; and
- Lastly, the identified South African industry specific risks were discussed.

### **2.2 Enterprise risk management**

#### **2.2.1 Introduction**

Risk management is becoming an increasingly more important activity for the medium and long-term survival of organisations (Abdullah et al., 2015). This increase was due to the volatile operating environment in which organisations operate in where there is no stability in currencies, commodity prices nor interest rates (Abdullah et al., 2015). Further, the increase in public scrutiny, the media and the general increase in complexity in the business operating environment has put more pressure on organisations and their board to properly manage risk (Abdullah et al., 2015).

The goal for organisations is to maximise the value for stakeholders which is achieved when strategy and objectives are balanced optimally with growth, return and risk (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). The capabilities inherent in ERM aim to assist management achieve the goal of maximising value (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). However, the value provided through ERM to stakeholders differs

between organisations and thus ERM's meaning and level of adoptions differs across organisations (Farrell & Gallagher, 2015).

### **2.2.2 Enterprise risk management defined**

Risk is a common element to all organisations which no organisation can escape from (Abdullah et al., 2015). ERM is defined by Abdullah et al. (2015) as a systematic approach to manage risk both internally and externally and to address the key risks that an organisation is exposed to at an enterprise level.

Farrell & Gallagher (2015) defined ERM as the system organisations use to model, measure, monitor, analyse, control and respond to risk. Risks are not viewed on an individual basis, but rather in a portfolio context with taking into account the strategic objectives of the enterprise (Farrell & Gallagher, 2015). ERM assists organisations to have a consistent risk framework in place across organisational divisions with the aim to reduce inefficiencies caused by a lack of coordination in risk management cross-divisionally (Farrell & Gallagher, 2015).

Togok, Isa, & Zainuddin (2016) viewed ERM as a coordinated set of activities in place to aid decision-making by considering the possible outcomes of future events or circumstances and the possible effects of these events and circumstances on the organisation. The effects of these uncertain events and circumstances on the organisation's agreed strategic objectives is also monitored and reviewed in ERM (Togok et al., 2016).

Another definition of ERM highlights the goal of ERM in providing value to the stakeholders of organisations (Farrell & Gallagher, 2015). This definition by the Casualty Actuarial Society ("CAS") - Enterprise Risk Management Committee (2013) states that ERM "is the discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing the organization's short- and long-term value to its stakeholders."

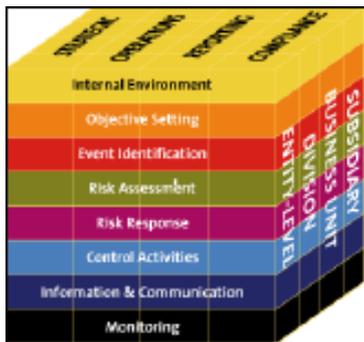
The most commonly adopted definition of ERM comes from the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2004) which defines ERM as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite,

to provide reasonable assurance regarding the achievement of entity objectives.” This definition aligns with the inherent capabilities in ERM identified the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2004) which aim to assist in meeting performance goals and prevent losses and are listed below:

- Alignment of risk appetite and strategy;
- Enhancing risk response decisions;
- Reducing operational surprises and losses;
- Identifying and managing multiple and cross-enterprise risks;
- Seizing opportunities; and
- Improving deployment of capital.

The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2004) developed components of ERM in their framework shown in **Figure 1: COSO Enterprise Risk Management Framework** below. The figure shows the eight components (internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication and monitoring) and their direct relationship between the four objective categories (strategic, operations, reporting and compliance) and how these can be applied at the subsidiary, business unit, division or entity level (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). ERM is not a serial process but multidirectional and iterative (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004).

**Figure 1: COSO Enterprise Risk Management Framework**



Source: Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2004)

### 2.2.3 The need for ERM

Despite the move to ERM from traditional risk management occurring in the 1990s, corporate failures such as Enron and WorldCom in the early 2000's led to a dramatic development in accounting practices and standards and not on risk management practices (Aebi, Sabato, & Schmid, 2012). As highlighted in Chapter 1, it was the GFC that significantly impacted the need for improved risk management in organisations as a lack of corporate governance and risk management failure was amongst the identified causes of the GFC (Gontarek, 2016). Further, in South Africa organisational scandals such as Lonmin Plc's 2012 Marikana Massacre and the 2014 African Bank Limited have highlighted that risk management may not be at the level required by regulation and legislation (Pichulik, 2016) (Pickworth, 2014).

The scrutiny that organisational risk management undergoes by stakeholders and the media, as well as the sheer number of risks faced by organisations due to the complexity in the operating environment and the number of interactions in the world also have impacted the need for risk management activity in organisations (Abdel-Azim & Abdelmoniem, 2015). The increased regulation and frameworks for corporate governance, risk management and annual report disclosure has placed pressure on organisations to step up their risk management systems and procedures (Gontarek, 2016). Such legislation and frameworks include the Dodd-Frank, changes in SEC Rule 33-9089, the <IR>; changes in the International Financial Reporting Standards ("IFRS") (Gontarek, 2016), the <IR> and King Code of Governance Principles for South Africa ("King III") in South Africa.

Implementation of ERM comes with significant costs and opportunity costs to organisations which must be measured by the organisation to balance the cost and benefit (Farrell & Gallagher, 2015). The value in ERM is discussed below.

#### **2.2.4 The value in ERM**

The “perfect capital market theory” proposed in 1958 by Miller and Modigliani implies that management activities do not create value for organisations (Farrell & Gallagher, 2015). Furthermore, Sharpe’s 1964 capital asset pricing model states that diversification in a portfolio of assets eliminates the firm-specific risk of holding an asset (Farrell & Gallagher, 2015). These theorems both suggest that risk management is thus irrelevant and unnecessary for value creation (Farrell & Gallagher, 2015).

ERM has however been shown to have significant cost savings through the coordination of risk management departments and exploitation of natural hedges appearing across an organisation (Farrell & Gallagher, 2015). ERM has also been proven to improve internal decision-making and efficiency of capital allocation (Grace et al., 2015). Further, ERM also advances risk awareness leading to improved strategic decisions (Grace et al., 2015).

Hoyt & Liebenberg (2015) investigated how ERM affects firm values as empirical evidence on this topic is limited. Through analysing insurance companies in the USA, Hoyt & Liebenberg (2015) found that there was a correlation between adoptions of ERM and measures of value and effective management in the organisation. The reasons for this concur with Farrell & Gallagher (2015) that ERM creates a natural hedge for risk across an organisation and in agreement with Grace et al. (2015), that capital allocation is improved as inherent risks are better known (Hoyt & Liebenberg, 2015). In addition, firms that have adopted ERM are likely to be more realistic and accurate about risk adjusted return rates and will thus are likely to select better investments in creating wealth for stakeholders (Hoyt & Liebenberg, 2015).

Farrell & Gallagher (2015) investigated ERM maturity and its valuation implications through a survey, over a period from 2006 to 2011, on 225 publically listed firms across all sectors. The results found that firm size is the key explanatory variable in ERM maturity, possibly because larger firms benefit more from economies of scale and labour division, allowing for risks to be more closely dissected and monitored at a board level (Farrell & Gallagher, 2015). Further the results showed that more internationally

diversified firms had lower ERM maturity measures due to the complexity of international business having a dilution effect on ERM performance and consistency (Farrell & Gallagher, 2015). A strong correlation was found between ERM maturity and firm value, with firms with high levels of ERM maturity showing an increase of 22.5% in firm value (Farrell & Gallagher, 2015).

ERM aims to assist boards in risk oversight and improve the ability and effectiveness of risk management (Ling et al., 2014). Corporate governance codes and guidelines which include risk governance further aim to assist boards in risk oversight responsibility (Ling et al., 2014).

## **2.3 Risk governance**

### **2.3.1 Elements of risk governance**

Risk governance is defined as “the framework through which the board and management establish the firm’s strategy, articulate and monitor adherence to risk appetite and risk limits, and identify, measure and manage risks” (Gontarek, 2016). According to Gontarek (2016) the following have been identified as the four most common risk governance features with their basic requirements:

1. A risk committee - A board level committee with the necessary minimum independent directors with the required experience and with the function including supervision of the overall risk management of the organisation, validation of the organisation’s risk appetite and assessing whether the organisation’s risk awareness is sufficient;
2. A CRO – An individual tasked to oversee organisation-wide risk with the necessary level of empowerment and access to the board;
3. Conduct and Culture – The tone for the organisation is set from the top in terms of the risk culture. An organisation’s commitment to the required level of conduct and culture can be measured through observation of the organisation’s characteristics including the organisation’s code of ethics, the policies and procedures with regard to whistle-blowing, recruitment and training programs on risk and ethics as well as the remuneration and

incentive policies in place; and

4. Risk appetite statements – Board level disclosure of what level and types of risk the organisation would be willing to accept or reject in the context of the organisation’s strategy. The aim of these statements is to promote transparency to stakeholders.

Bugalla et al. (2012) defined the four components in their “new model of governance and risk management.” Bugalla et al. (2012) highlighted a board-level risk committee and a CRO responsible for overall risk management as two of these components which are included in four most common risk governance features identified by Gontarek (2016). Risk oversight responsibilities by the board and an executive-level risk committee complete the four components (Bugalla et al., 2012). The “new model of governance and risk management” promotes better risk disclosure which could lead to higher share prices for the organisation (Bugalla et al., 2012).

### **2.3.2 Risk committee and CRO**

In South Africa, King III recommends that the responsibility lies with the board for risk governance, the determination of risk tolerance and appointment of a committee responsible for risk to assist the board in carrying out its risk governance responsibilities (Institute of Directors Southern Africa, 2009). The risk committee is recommended to be made up of a minimum of three members consisting of both executive and non-executive directors as well as with management representation (including the CRO) with an independent member (Institute of Directors Southern Africa, 2009). The risk committee is to meet at least twice in an annum with the responsibility of considering and monitoring the risk policies and processes of the organisation (Institute of Directors Southern Africa, 2009). The CRO should have suitable qualifications and experience with regular board and board committee interaction (Institute of Directors Southern Africa, 2009).

According to McCollum (2011) in a survey of 460 ERM professionals performed by the North Carolina State University, more than half of the boards of the respondents’ organisations had not formally assigned risk oversight responsibilities to any board subcommittee. A survey performed worldwide by the Economist Intelligence Unit (“EIU”) revealed that only one-third of respondents agree that their organisations are effective in anticipating emerging risks and how these risks impact the business environment of the organisation and the organisation’s strategy (McCollum, 2011).

A study performed by Grace et al. (2015) to investigate the value to the organisation in investing in ERM, using insurance companies in the property-liability and life insurance industry in the USA, concluded that there was a combination of aspects of ERM that add value to the organisation. Two aspects adding value to the operating performance of an organisation were a CRO that reported to the board of directors as well as the presence of a dedicated risk manager that is a risk management committee (Grace et al., 2015). It was found that the presence of a CRO and a risk management committee were also more cost efficient (Grace et al., 2015).

Ling et al. (2014) studied the determinants of a risk committee formation in Malaysia by examining all publically listed Malaysian companies excluding those in the financial sector. The findings included the correlation between organisation size and the likelihood of risk committee formation due to the complexity in the organisation's business activities (Ling et al., 2014). In addition, a higher leverage, a greater level of credit risk as well as a higher number of subsidiaries (or more complex group structure) are more likely to form risk committees than their counterparts as a more comprehensive risk function is needed for more complexity (Ling et al., 2014).

There has been some debate as to whether or not risk committees actually improve an organisation's risk oversight (Hines et al., 2015). On the positive side, a separate risk committee allows the audit committee to concentrate less on operational risk issues and focus on their financial reporting responsibilities as well as focusing directors' attention on key risks in highly complex organisations (Protiviti Inc., 2011) . Similarly, Whyntie (2013) agreed that unloading of audit committees of risk oversight through a risk committee would eliminate the danger that risk would be given a lower priority than needed.

However, on the negative side, there is a possibility that with a dedicated risk committee, the board, with the responsibility of risk management, may reduce their commitment to managing risk, setting the risk appetite and driving the risk culture in the organisation (Whyntie, 2013). In addition, having board members on multiple board committees could also reduce the board's focus and add an additional layer of bureaucracy (Protiviti Inc., 2011). Ultimately, elements such as strong leadership at a board level, a strong risk culture as well as good risk governance add to the value that a risk committee delivers and the strength of the risk management of the organisation (Whyntie, 2013).

Further to the positive and negatives of a risk committee, a study of 3,980 banks in the USA between 2003 and 2011 showed that the presence of a risk committee was associated with higher audit fees (Hines et al., 2015). However, it was also found that risk committees that were independent and had an overlap of members with audit committees were associated with lower audit fees (Hines et al., 2015). The possible reasons given for the positive association between the independence of risk committees and audit committee member overlap with lower audit fees, included prevention of overlap in committee responsibilities by directors serving on multiple board committees and the level of expertise of the members serving on multiple board committees which leads to higher influence in board decision making (Hines et al., 2015). Hines et al. (2015) found no association between other risk committee characteristics including committee size and frequency of meetings with audit fees.

### **2.3.3 Risk culture**

The board, relevant committees and management are tasked with cultivating a corporate culture that understands and follows an effective ERM system (Cohen, 2015). The first step to creating the required risk culture involves senior leaders analysing their own behaviour and critically considering behaviour norms in their organisation as the responsibility for the risk culture lies ultimately in their hands (Cohen, 2015). A culture of openness is critical to ensure staff are free to report problems early to ensure problems are addressed and remedied as soon as possible (Cohen, 2015). Prioritising and reinforcing culture management, rewarding behaviour that conforms to the culture of the organisation and including a culture component in performance reviews are some recommended practices in improving the risk culture in organisations (Cohen, 2015).

Barton & MacArthur (2015) identified the importance of a risk challenge culture for risk management success. A risk challenge culture is an “an environment that encourages, requires, and rewards enquiries that challenge existing conditions” (Barton & MacArthur, 2015). While it is accepted that risk challenge culture starts at the board level, Barton & MacArthur (2015) state that for a risk challenge culture to be a part of day to day life in an organisation it is necessary that “every manager is a bit of a risk manager.” Barton & MacArthur (2015) recommend that a challenge culture executive champion is appointed to ensure precautionary and remedial action is taken for all risk activities and to be an enthusiastic support of the risk challenge culture in ERM so it permeates through the whole organisation.

Ștefănescu (2014) investigated the relationship between good quality corporate governance and risk information disclosure by examining the association between the “risk information disclosure index” developed and the level of education and experience of members of the board and audit committee. The sample was from 261 listed financial institutions in the European Union and the conclusion was that a positive relationship existed between the corporate governance capabilities and the level of risk information disclosure (Ștefănescu, 2014).

The fourth element of risk governance identified by Gontarek (2016) is discussed in 2.4 below.

## **2.4 Risk disclosure**

### **2.4.1 Introduction**

Annual reports are seen to be more of a public document than private and allows organisations to communicate with stakeholders (Togok et al., 2016). Stakeholders are able to assess the board and management’s effectiveness in handling volatility and uncertainties through the disclosures made in the annual report (Togok et al., 2016). As the overall economic climate is volatile and the prices of securities can change in an instance, it is in the best interests of an organisation’s stakeholders that risk is disclosed in a timely and transparent manner (Abdullah et al., 2015).

### **2.4.2 Risk disclosure requirements**

The Johannesburg Stock Exchange (“JSE”) Limited listing requirements require all JSE listed companies to apply the principles laid out in the King III or else issue a statement giving reasons for each instance of non-application of a King III principle (JSE, n.d.). King III came into effect from 01 March 2010 (Institute of Directors Southern Africa, 2009). King III recommends integrated reporting to communicate to stakeholders a more informed view of the true economic value of an organisation as strategy, risk, financial performance and sustainability are seen as interlinked (Institute of Directors Southern Africa, 2009). Integrated reporting can give an organisation a tool to increase business opportunities as well as improve and enhance an organisation’s risk management (Institute of Directors Southern Africa, 2009). Although producing an integrated annual report is not mandatory for JSE listed companies and is to be applied on an “apply or

explain” basis (JSE, n.d.).

The IIRC, a “global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs” developed the <IR> released in December 2013 with the view to promote, enhance and support “integrated thinking and reporting” (The International Integrated Reporting Council, 2013). The IIRC was co-founded by the Global Reporting Initiative (“GRI”), a non-profit that promotes sustainability activities and reporting (Hughen, Lulseged, & Upton, 2014). The GRI released the G4 Sustainability Reporting Guidelines (“G4”) in May 2013 (Global Reporting Initiative, 2013), which provides guidance for effective sustainability reporting to organisations of all sizes globally.

The <IR> specifies eight content elements that are interlinked (The International Integrated Reporting Council, 2013). These content elements include:

- Governance – How the organisation’s governance structure supports its ability to create value in the short, medium and long term. Linked to this it the what actions those responsible for governance have undertaken to influence, monitor and change the strategic risk management approach of the organisation; and
- Risk and opportunities – What specific risk and opportunities does the organisation face that will affect the ability of the organisation to create value in the short, medium and long term, and how the organisation manages these risks and opportunities through tailoring its business model and strategy within its business environment (The International Integrated Reporting Council, 2013).

King III recommends that the board comments in the integrated annual report on the effectiveness of the risk system as well as the process for risk management as well as disclose any unforeseen or unusual risk (Institute of Directors Southern Africa, 2009). The board should perform an assessment of all risks affecting the organisation’s business and sustainability as well as stakeholders’ interest, with management identifying the necessary response to the risk with the view to maximise the opportunities of improved organisation performance (Institute of Directors Southern Africa, 2009).

The <IR> further identifies disclosures of risk needed in the integrated report which answer the question “What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?” (The International Integrated Reporting Council, 2013). According to the <IR> the following disclosures in the integrated annual report are recommended (The International Integrated Reporting Council, 2013):

- Identification of key risks and opportunities specific to the organisation which can be internal or external or a mixture of both;
- An assessment of the probability the risk or opportunity will occur as well as the circumstance which will cause the risk or opportunity to occur;
- The size of effect the risk or opportunity would have if it did occur; and
- The responses to mitigating or managing the identified key risks or steps taken to maximise the value in the opportunity in line with the strategic objectives of the organisation.

Further disclosures on risk and opportunities, similar to the <IR> and incorporating principles of King III, are recommended by the G4 in the sustainability report and include (Global Reporting Initiative, 2013):

- G4-2 – A description of most important key impacts, risks and opportunities focusing on sustainability (economic, environmental and social) and the organisation’s stakeholders in the future as well as the targets, prioritisation of the impacts, risks and opportunities in terms of the organisation’s long-term strategy. In addition, a description of the governance mechanisms to mitigate and managed the risks should be disclosed.
- G4-33/44 – an overview of the highest governance body responsible for risk management should be disclosed with the overall effectiveness of the body as well as the consideration of risk elements and the integration of these risk elements in strategic planning.

- G4-45-47 – report the role that the highest governance body has in:
  1. identification and management and impact assessment of risk and whether stakeholders are consulted in this;
  2. reviewing the effectiveness of the risk management process of the organisation;
  3. The frequency of reviewing of organisation impact, risk and opportunities.

### **2.4.3 Risk disclosure importance**

The enhanced communication to stakeholders of an organisation with regard to the aforementioned content elements, benefits stakeholders by providing a more relevant assessment of organisation risk to make investment decisions as well as identifying the factors that affect the future performance of the organisation (Topazio, 2014). A benefit of risk disclosure is the reduction of asymmetrical information between management and shareholders that could have a negative impact on organisational value (Abdel-Azim & Abdelmoniem, 2015). According to Oliveira, Rodrigues, & Craig (2013) agency theorists contend that disclosure of risk information aim to reduce agency cost. The reasons why organisations disclose risk information other than it is required include legitimacy and reputational factors as well as stakeholder monitoring (Oliveira et al., 2013).

Good risk information can create a competitive advantage to an organisation if the information is timely and contains good commentary and thus gives risk takers, both internal and external, the information to make appropriate decisions (Kerle, 2015). Included in the commentary should an explanation of the risk, the significance of the risk and the steps/controls the organisation has taken or put in place to mitigate and manage the identified risk (Kerle, 2015).

A study done by Elshandidy & Neri (2015) investigated the effect of risk disclosures on market liquidity in the UK and Italy. In the UK organisations were found to reveal more meaningful and voluntary risk disclosure that led investors to make better price decisions improving market liquidity (Elshandidy & Neri, 2015). Italian firms were more likely to reveal mandatory risk disclosure and less voluntary risk disclosure in comparison to UK

firms, and market liquidity was only improved for Italian firms that disclosed voluntary risk information (Elshandidy & Neri, 2015). It could be said that investors see mandatory risk disclosure as generic and see more value in voluntary risk disclosures (Elshandidy & Neri, 2015).

Togok et al. (2016) also highlighted the need for organisations to disclose more than is just mandatory to further close the asymmetry gap in information between management and stakeholders to minimise agency costs. This was again corroborated by Abdel-Azim & Abdelmoniem (2015) who found a positive relationship between increased risk disclosure and firm value. The relationship between asset growth and profitability and firms that disclosed voluntary risk information was also positive (Abdel-Azim & Abdelmoniem, 2015). Abdullah et al. (2015) suggest a reason for the positive correlation between voluntary risk disclosure and organisation value lies in signaling theory, where firms send appropriate signals to investors through voluntary risk disclosure for their investment decisions.

A study of annual reports in the USA, Canada, the UK and Germany showed that there is a prevalence of qualitative risk disclosure compared to quantitative, suggesting organisations are battling to quantify risk exposure (Dobler et al., 2011). Quantitative risk disclosure that is forward looking signals competence and good risk management to stakeholders (Dobler et al., 2011). However, organisations show reluctance to disclose forward looking quantitative information due to the possible adverse consequences of disclosure such as litigation (Dobler et al., 2011). In addition, findings showed that financial risk had the largest focus in risk disclosure over market, operations, regulatory and environmental risk (Dobler et al., 2011).

## **2.5 South African and industry specific risks**

### **2.5.1 Industry level risks**

Volatility in the market has encouraged competitive drive in the economy which creates both risk and opportunities (EY, 2013). Through surveying companies and governments in 15 different countries, the top ten retail industry risks were identified as:

1. Low growth consumer markets;
2. Regulation and compliance;
3. Inability to control costs/rising input prices;
4. Inability to benefit from e-commerce;
5. Wrong price image;
6. Supply chain disruptions;
7. Inability to penetrate emerging markets;
8. Failure to respond to shifting consumer behaviour;
9. Sourcing; and
10. Volatility in commercial real estate markets (EY, 2013).

## 2.5.2 South African industry level risks

The IRMSA has released a second addition of the South African Risk report in 2016 in light of the heightening risk landscape in South Africa (The Institute of Risk Management South Africa, 2016). The events highlighted by IRMSA which evidence the operational difficulties and volatility in the South African context compromising resilience for the future include:

- Xenophobic attacks that left five people dead and thousands displaced which made international headlines;
- The failure of South Africa to arrest Omar Al-Bashir, the Sudanese president wanted by the International Criminal Court;
- FIFA bride allegations related to the 2010 Soccer World Cup;
- Responsibility for Marikana has not been claimed despite the release of the inquiry's report;
- The “fees must fall” youth movement, protesting the for the tight to quality and accessible education;
- Intermittent load shedding and drought warnings; and
- The firing of South Africa's finance minister Nhlanhla Nene resulting in three credit downgrades in the same month by Fitch, Standard & Poor's and Moody's which resulted in a dramatic weakening in the South African rand against the UK pound and the USA dollar (The Institute of Risk Management South Africa, 2016).

The report was compiled through surveys and workshops with 1 007 of South Africa's risk management experts across all industries and highlights South Africa's top risk across five categories including economic, environmental, geographical, societal and technological Africa (The Institute of Risk Management South Africa, 2016). The aim was to identify the risks that could adversely impact the ability to achieve the objectives of the South African Government's National Development Plan (“NDP”) which aims to eliminate poverty and inequality in South Africa by 2030 (The Institute of Risk Management South

Africa, 2016). South Africa's top ten industry level risks identified were:

1. Regulatory / legislative changes;
2. Insufficient electricity supply;
3. Skills shortage;
4. Increasing corruption;
5. Government policy changes;
6. Reputational damage or adverse media / social media attention;
7. Massive incident of data fraud or theft;
8. Profound political and social instability;
9. Water crisis; and
10. Failure / shortfall of critical infrastructure Africa (The Institute of Risk Management South Africa, 2016).

The Institute of Risk Management South Africa (2016) noted that the timing of the surveys and workshops could have influenced the outcomes of the report.

## 2.6 Summary of Chapter 2

The volatility in the markets and the world today, compounded with the scrutiny placed by stakeholders and the media on organisations has resulted in more emphasis being placed on risk management (Abdullah et al., 2015). Boards are responsible for ERM systems and processes for organisations, including risk governance and risk disclosures, to communicate their commitment and ability to create value for stakeholders considering the uncertain future (Bugalla et al., 2012) (Topazio, 2014).

Post the GFC, regulations and reporting frameworks have been released as either law or recommendations and principles to apply to assist with applying corporate governance and disclosure good practice, and includes risk governance and risk disclosure (Gontarek, 2016). Maingot et al. (2012) found that risk disclosures post the GFC did not show significant improvement despite the increased levels of recommendations and principles in place.

In South Africa specifically, King III is recommended to be applied for publically listed companies in terms of corporate governance in terms of the JSE listing requirements (JSE, n.d.). Frameworks such as the <IR> and the G4 are recommended to be applied in terms of integrated reporting and sustainability reporting respectively as good practice (The International Integrated Reporting Council, 2013) (Global Reporting Initiative, 2013). However, limited research has been done to date whether the principles of King III, the <IR> and the G4 are being consistently applied or are improving over time within South Africa in terms of risk governance and risk disclosure.

Further, limited research has been done on whether risk disclosed are valid and applicable to an organisation and the context in which this organisation operates at a country and an industry level, such as the South African industry level risks identified by The Institute of Risk Management South Africa (2016) and the industry specific risks identified by EY (2013).

From the literature review performed, the research questions defined which are discussed in Chapter 3.

## CHAPTER 3 - RESEARCH QUESTIONS

The following research questions were defined to fulfil the aim and purpose of the research based on the literature review performed in Chapter 2.

### 3.1 Research question 1

The evidence from the literature review revealed risk disclosure in an integrated annual report is a means for an organisation to communicate to stakeholders the progress made in mitigating and managing risks identified, showing the organisations measurement of the risk and the responses to the identified risk in line with the organisation's strategy (Topazio, 2014). However, there was a gap in the literature for evidence that these disclosures were, in fact, improving the risk management process of the organisation and that the disclosures were not just repeated year on year. Thus the first research question was defined as:

**Research question 1 – Does risk disclosure in integrated reporting show improvement in risk management of an organisation from year to year?**

### 3.2 Research question 2

Dobler et al. (2011) found that financial risk had the largest focus in risk disclosure over market, operations, regulatory and environmental risk. The second research question was defined below to test the findings of Dobler et al. (2011) and was thus as follows:

**Research question 2 – Do the key risks identified in integrated reporting show a trend year on year in equal weighting between financial, market, operations, regulatory and environmental risks?**

### 3.3 Research question 3

The literature review showed the need for the elements of risk governance recommended by regulatory bodies and institutions post the 2007/2008 GFC (Gontarek, 2016). Risk committees and a CRO reporting to the board were identified as elements of risk governance that increase the operating performance of an organisation (Grace et al., 2015). The JSE listing requirements require companies to apply the principles of King

III (JSE, n.d.), or explain why these principles are not applied. With regards to the risk governance principles in King III, no evidence was noted if companies are applying the principles, and if application of the principles is improving year on year. Thus the third research question is defined as:

**Research question 3 – Do companies show improvement in applying King III risk governance principles year on year?**

### **3.4 Research question 4**

In the literature review, it was noted that voluntary risk disclosures have a positive impact on firm value as investors use this information in making investment decisions, and view voluntary risk disclosure in higher regard than mandatory risk disclosure (Elshandidy & Neri, 2015). The <IR> and the G4 are voluntary disclosure frameworks that incorporate risk disclosures (The International Integrated Reporting Council, 2013) (Global Reporting Initiative, 2013). Due to the researched benefit of voluntary risk disclosure, the third research question is aimed at discovery of adherence to the risk disclosure principles in the <IR> and G4 and whether application of these frameworks shows year on year improvement. The fourth research question is thus defined as:

**Research question 4 – Do companies show improvement in applying the risk disclosure principles of the <IR> and G4 year on year?**

### **3.5 Research question 5**

In the literature review, the top ten industry risks were identified by EY (2013) through surveying companies and governments in 15 different countries. The top ten South African industry specific risks were identified by The Institute of Risk Management South Africa (2016) through survey and workshops with 1 007 risk management experts. The risks identified in the annual reports of companies should be relevant to the context in which they operate. The fifth research question is thus defined as:

**Research question 5 – Do companies show alignment to the top ten industry risks identified by EY (2013) and the top ten industry level South African risks identified by The Institute of Risk Management South Africa (2016)?**

## CHAPTER 4 - RESEARCH METHODOLOGY

This chapter provides the details of the research methodology employed in performing this research and describes the research design, unit of analysis, population, sampling size and sampling method, the measurement instrument as well as the methods used to gather and analyse the data guided by the research questions defined in Chapter 3. Lastly, the limitations in the performance of this research are stated.

### 4.1 Research methodology and design

The research conducted was quantitative in nature. Quantitative research is defined as “business research that addresses research objectives through empirical assessments that involve numerical measurement and analysis approaches” (Zikmund, Babin, Carr, & Griffin, 2010). Quantitative research measured concepts with scales that either direct or indirectly provided numerical values (Zikmund et al., 2010).

Deduction is defined as “a research approach which involves the testing of a theoretical proposition by using a research strategy specifically designed for the purpose of its testing” (Saunders & Lewis, 2012). Using a deductive research design, this research defined researched questions in Chapter 3, operationalised the research questions, sought answers for the research question, analysed the results and confirmed and modified the initial theories laid out (Saunders & Lewis, 2012).

According to Saunders & Lewis (2012), exploratory research should be conducted when general information is to be discovered related to a topic that the researcher does not know well. To assess the contribution of risk disclosure and risk governance in integrated reporting to risk management and mitigation an exploratory research methodology was chosen. This was because the research aimed “to seek new insights, ask new questions and to assess topics in a new light” (Saunders & Lewis, 2012). An exploratory method was appropriate as while the literature revealed the need to risk management and disclosure, it did not show if risk management is improving because of the required risk governance requirements and risk disclosure frameworks. An exploratory research method is considered the “first step, conducted with the expectation that additional research will be needed to provide more conclusive evidence” and aims to “guide and refine these subsequent research efforts” (Zikmund et al., 2010).

Research design includes experimental, survey, case study, action research, grounded theory, ethnography and archival research strategies as part of the research design (Saunders & Lewis, 2012). Integrated annual reports were examined to gather the data for this research. Archival research was used for this research as documents were the main source of data (Saunders & Lewis, 2012).

Cross-sectional design and longitudinal design are two research design strategies with that consider time dimensions (Saunders & Lewis, 2012). The research was longitudinal as it was a “study of a particular topic over an extended period of time (Saunders & Lewis, 2012). The research was required to be performed for multiple years and thus, it was performed for the years 2011 to 2016.

#### **4.2 Unit of analysis**

A unit of analysis indicates what or who provides the data for the research (Zikmund et al., 2010). For this research, the unit of analysis was an organisation that prepared an integrated annual report. This was because the risk disclosure, as well as the risk governance characteristics, were measurable from the information in the integrated annual report.

#### **4.3 Population**

A population is considered to be a complete set of group members (Saunders & Lewis, 2012). Thus, all organisations that produced integrated annual reports for the five years between 2011 and 2016 made up the population. The research was conducted specifically for South African organisations in order to address research question 4 with regards to South African industry risk. Thus the population for this research was organisations in South Africa that prepared an integrated annual report between the years 2011 and 2016.

#### **4.4 Sampling method and size**

A sampling frame is “the complete list of all members of the total population” (Saunders & Lewis, 2012). As the population was all organisation that produce an integrated annual report, but private organisations have a choice to produce integrated annual reports but are not required to make the integrated annual report available to the public, a list of the

complete population was not possible to obtain. Thus, non-probability sampling was used as simple random sampling could not be used as the probability of selection of each member of the population was not known (Saunders & Lewis, 2012). Non-probability sampling is “a sampling technique in which units of the sample are selected on the basis of personal judgment or convenience; the probability of any particular member of the population being chosen is unknown” (Zikmund et al., 2010).

JSE listed companies were used as to select the sample as a form of convenience sampling, “a type of non-probability sampling in which the sample the researcher uses is those who are easy to obtain rather than because of their appropriateness” (Saunders & Lewis, 2012) because:

- The JSE listing requirements recommend listed companies to prepare an integrated annual report and have this report available publically (JSE, n.d.);
- The checklist used to measure the sample for the research included elements of King III which is the proposed governance framework for South African companies listed on the JSE; and
- Research question 5 compared the key risk identified in integrated annual reports to South African specific industry level risks.

Quota sampling, “a type of non-probability sampling that ensures the sample selected represents certain characteristics in the population that the researcher has chosen” (Saunders & Lewis, 2012), was used to select the sample used in the research. The researcher selected companies in the general retail sector listed on the JSE as the sample used to conduct the research. One industry was selected to provide a homogeneous sample for comparison purposes. The companies included in the sample are displayed in Appendix 1.

#### **4.5 Measurement instrument**

A checklist was developed to measure the integrated annual reports of the sampled companies against to answer the research questions defined in Chapter 3. The checklist was included below in **Figure 2: Checklist developed as the measurement instrument.**

**Figure 2: Checklist developed as the measurement instrument**

Company							
Year end							
RQ	Number	Checklist item	Y5	Y4	Y3	Y2	Y1
RQ 3	<b>&lt;IR&gt; (The International Integrated Reporting Council, 2013)</b>						
	1	Number of key risks identified in the integrated report (<IR>) for the: <ul style="list-style-type: none"> <li>· Short;</li> <li>· Medium; and</li> <li>· Long-term</li> </ul>					
	2	Source of risk identified (<IR>)					
	3	Assessment of risk including (<IR>): <ul style="list-style-type: none"> <li>· Likelihood of occurrence; and</li> <li>· Estimation of effect of occurrence of risk identified</li> </ul>					
	4	Disclosure of steps taken to mitigate/manage risk (<IR>)					
	<b>G4 (Global Reporting Initiative, 2013)</b>						
	5	Prioritisation of risks according to their relevance for strategic objectives disclosed (G4)					
6	Clear description of governance mechanisms in place to identify and manage risks (G4)						
7	Disclosure on the targets, performance against previously set targets and lessons learned for the current integrated report related to key risks						
RQ 2	<b>King III (Institute of Directors Southern Africa, 2009)</b>						
	8a	Risk committee present (King III)					
	8b	Combined Audit and Risk Committee					
	9	Risk committee made of minimum 3 members (King III) with the necessary level of expertise and qualification					
	10	Members of risk committee made up of (number of each) (King III): <ul style="list-style-type: none"> <li>· Executive directors;</li> <li>· Non-executive directors;</li> <li>· Member of senior management; and</li> <li>· Independent member</li> </ul>					
	11	Frequency of risk committee meetings per annum (King III) >2 per year					
	12	CRO present (King III)					
	13	CRO is suitable experienced (King III)					
14	Evidence that the CRO reports directly to the board (King III)						
RQ 1	<b>Other</b>						
	15	Number of key risks disclosed that are repeated in integrated reports of years sampled					
RQ 4	<b>Industry and South African Risk</b>						
	16	Number of key risks disclosed that are identified in the top ten industry risks identified as the norm for the retail industry (EY, 2013) <ul style="list-style-type: none"> <li>Low-growth consumer markets</li> <li>Regulation and compliance</li> <li>Inability to control costs/rising input prices</li> <li>Inability to benefit from e-commerce</li> <li>Wrong price image</li> <li>Supply chain disruptions</li> <li>Inability to penetrate emerging markets</li> <li>Failure to respond to shifting consumer behaviour</li> <li>Sourcing</li> <li>Volatility in commercial real estate markets</li> </ul>					
	17	Number of key risks disclosed that are identified in the top ten industry risks identified for South Africa (The Institute of Risk Management South Africa, 2016) <ul style="list-style-type: none"> <li>Regulatory/legislative changes</li> <li>Insufficient electricity supply</li> <li>Skills shortage</li> <li>Increasing corruption</li> <li>Government policy changes</li> <li>Reputational damage or adverse media/social media attention</li> <li>Massive incident of data fraud/theft</li> <li>Profound political and social instability</li> <li>Water crisis</li> <li>Failure/shortfall of critical infrastructure</li> </ul>					

In creation of the checklist, the King III risk governance principles, including characteristics of a risk committee and the CRO, were included to be used in the measurement of the level of risk governance mechanisms disclosed in the integrated annual report. Further, the disclosure recommendations in the <IR> and the G4 were used as a measure of the voluntary risk disclosures in the integrated annual reports. The checklist also noted the key risks identified by companies in the integrated annual reports, assigned each key risk to a risk category for research question 2, and compared the key risks identified to the top ten industry risks as per EY (2013) as well as the top ten South African industry level risks identified (The Institute of Risk Management South Africa, 2016). Lastly, the checklist noted the repeats in the disclosed key risks year on year.

#### 4.6 Data gathering process

To gather the data for the research, the integrated annual reports for the companies sampled and included in Appendix 1, were downloaded from the relevant official company websites. The integrated annual reports were considered to be secondary data as the reports were prepared previously for another purpose (Zikmund et al., 2010). Five years of integrated annual reports were downloaded per company, thus depending on the relevant year end the years 2011 to 2015 or 2012 to 2016 were downloaded. The cut-off date for the 2016 integrated annual reports to be included in the research was 31 August 2016. Thus, the most recent five integrated annual reports were downloaded per sampled company. Each of the downloaded annual integrated reports was used to complete the checklist per **Figure 2: Checklist developed as the measurement instrument** per company per year. The checklist items were developed through the literature review and were answered in a quantitative format through content analysis of the integrated annual reports.

#### 4.7 Analysis approach

The data was processed and analysed so that the research questions were answered and the aim of the research met (Saunders & Lewis, 2012). The data included descriptive or nominal data which is “categorical data that are grouped into sets (categories) that have no obvious rank or order” (Saunders & Lewis, 2012) for questions requiring a yes / no response. The data also had discrete data which is “numerical data whose values are measured numerically as quantities in discrete units and can therefore only take a finite

number of values” (Saunders & Lewis, 2012) for questions that had a definite number as an answer.

The analysis approach per research question followed was:

**Research question 1 – Does risk disclosure in integrated reporting show improvement in risk management of an organisation from year to year?**

The key risks disclosed in the integrated report were noted in each of the downloaded five integrated annual reports per sampled company and compared year on year to establish how many of the identified key risks were repeated year on year. Further, using descriptive statistics, the risk disclosure and risk governance adherence related to King III, the <IR> and the G4 were measured in totality and analysed year on year per company and in total to establish whether there is an increasing trend in the application of these principles. To do this, item 1 to 14 of the checklist in **Figure 2: Checklist developed as the measurement instrument** was included in the analysis.

**Research question 2 – Do the key risks identified in integrated reporting show a trend year on year in equal weighting between financial, market, operations, regulatory and environmental risks?**

The key risk identified in the integrated annual reports were noted and assigned to a category of risk. The risk categories were financial, market, operations, regulatory or environmental risk. The weighting of each category per key risks was noted per company year on year and on total year on year to establish the trend in weightings of each risk category.

**Research question 3 – Do companies show improvement in applying King III risk governance principles year on year?**

Items 8 to 14 of the checklist shown in **Figure 2: Checklist developed as the measurement instrument** were analysed per year per company and in totality, using descriptive statistics, to establish whether application of King III risk governance principles was showing improvement on a year to year basis.

#### **Research question 4 – Do companies show improvement in applying the risk disclosure principles of the <IR> and G4 year on year?**

Using items 1 to 7 of the checklist shown in **Figure 2: Checklist developed as the measurement instrument**, the application of the disclosure principles related to risk in the <IR> and the G4 were analysed. This was done per company and in totality with the use of descriptive statistics. On a year on year basis. Further, the risk disclosure principles were analysed separately for the <IR> (checklist items 1 to 4) and for the G4 (checklist items 5 to 7) principles.

#### **Research question 5 – Do companies show alignment to the top ten industry risks identified by EY (2013) and the top ten industry level South African risks identified by The Institute of Risk Management South Africa (2016)?**

The top ten retail industry risks identified by EY (2013) and the top ten South African industry level risks identified by The Institute of Risk Management South Africa (2016) were compared to the key risks identified in the integrated annual reports. The number of key risks matching the top ten risks were noted and compared for all companies year on year to measure alignment.

Further, the key risks per company per year were noted and aggregated per year to develop the top ten key risks from the sampled companies. These top ten identified risks were compared in aggregate to the top ten retail industry risks identified by EY (2013) and the top ten South African industry level risks identified by The Institute of Risk Management South Africa (2016) to see whether there was alignment.

#### **4.8 Limitations**

Care was taken in designing the research method and in the performance of the research to reduce the number of potential research limitations. However, the following limitations were noted.

Due to the time-frame of the research and the use of non-probability, quota sampling methods, the sample may have been unrepresentative of the population. Further, the use of one industry in the sample, as well as South African companies only, may mean that the results of the research may not be relevant to other industries or in other countries. The results shown were indicative and would require an extended study to be conclusive.

A further limitation is that content analysis relied on the quality of the integrated annual reports. The risk management disclosure in the integrated annual reports may be incomplete and thus would have been omitted in the data collection, meaning that the results captured for the sample may be unrepresentative of the population.

The information from the integrated annual reports was converted into numbers for the purpose of this research which could have led to the information from the integrated annual reports losing the intended meaning. Integrated annual reports were also a snapshot of one period of time and were produced using significant professional judgement, which could mean that the information may have been misinterpreted through judgement error in analysis, or that information was incomplete or did not represent the whole year for which the report was prepared.

Further, the use of content analysis was laborious and time consuming and could have resulted in errors being made in the analysis due to subjectivity. Further, personal biases could have affected the data collection and analysis. To limit this, a single measurement instrument was used to gather the data.

The researcher also had to employ judgement in the comparison of the key risks in the integrated annual reports to the top ten retail industry risks identified by EY (2013) and the top ten South African industry level risks identified by The Institute of Risk Management South Africa (2016). In cases where the risks were not easily matched, judgement had to be employed to measure the alignment of the risks which could have introduced judgement errors in the data.

Further judgement risk occurred in the data in assigning each key risk into either financial, market, operations, regulatory and environmental risk categories further introducing the possibility of judgement error into the data.

The results of the research conducted are laid out in Chapter 5 in the form of tables and graphs. Further discussion of the results is set out in Chapter 6.

## CHAPTER 5 – RESULTS

### 5.1 Introduction

This chapter describes the results of the analyses and is structured per the analysis approach detailed in Chapter 4. The results are laid out per research question described in Chapter 3.

### 5.2 Description of the sample obtained

The companies sampled are displayed in Appendix 1. All companies sampled were included in the general retail sector of the JSE retrieved from the per sector analysis (Standard Online Share Trading, n.d.). Non-probability quota sampling was used to select the sampled companies. The names of the companies, their year ends as well as the years of the integrated annual reports selected for each company in the research is shown in **Figure 3: Sampled companies, year ends and years selected** below.

**Figure 3: Sampled companies, year ends and years selected**

Company Name	Year Ended	2016	2015	2014	2013	2012	2011
ADvTECH Ltd	31-Dec		Y5	Y4	Y3	Y2	Y1
African and Overseas Enterprises Ltd	30-Jun		Y5	Y4	Y3	Y2	Y1
Cashbuild Ltd	30-Jun		Y5	Y4	Y3	Y2	Y1
Combined Motor Holdings Ltd	28-Feb	Y5	Y4	Y3	Y2	Y1	
Curro Holdings Ltd	31-Dec		Y5	Y4	Y3	Y2	Y1
Holdsport Ltd	28-Feb	Y5	Y4	Y3	Y2	Y1	
Homechoice International PLC	31-Dec		Y2	Y1			
Italtile Ltd	30-Jun		Y5	Y4	Y3	Y2	Y1
Lewis Group Ltd	30-Jun		Y5	Y4	Y3	Y2	Y1
Massmart Holdings Ltd	31-Dec		Y5	Y4	Y3	Y2	Y1
Mr Price Group Ltd	31-Mar	Y5	Y4	Y3	Y2	Y1	
Nictus Ltd	31-Mar	Y5	Y4	Y3	Y2	Y1	
Rex Trueform Clothing Company Ltd	30-Jun		Y5	Y4	Y3	Y2	Y1
The Foschini Group Ltd	31-Mar	Y5	Y4	Y3	Y2	Y1	
Truworths International Ltd	30-Jun	Y5	Y4	Y3	Y2	Y1	
Verimark Holdings Ltd	28-Feb	Y5	Y4	Y3	Y2	Y1	
Woolworths Holdings Ltd	30-Jun	Y5	Y4	Y3	Y2	Y1	

Homechoice International PLC listed on the 04 December 2014 and thus had only two years of integrated annual reports, 2014 and 2015. Thus, for the purpose of the analysis, the data for Homechoice International PLC was excluded.

As the holding company of Rex Trueform Clothing Company Limited, African and Overseas Enterprises Limited stated that the material risk information relates to Rex Trueform Clothing Company Limited and thus the key risks are included only in the integrated annual report of Rex Trueform Clothing Company Limited. Thus, the data for African and Overseas Enterprises Limited was excluded for the analysis.

### **5.3 Results on validity and reliability of the data**

#### **5.3.1 Data validity**

The checklist used in analysing the data as seen in **Figure 2: Checklist developed as the measurement instrument** was developed to assist the data input to be consistent to allow for easier analysis and to reduce the researcher's own biases and presumptions which may have impacted the evaluation. The checklist also assisted in inputting data from the large volume of information available in the integrated annual reports which lacked structure and to allow this data to be comparable from company to company and year to year.

The use of non-probability quota sampling may have impacted the validity of the sample and as a result, the sample may not have been representative of the population. The sample only contained South African companies listed in the general retailer sector of the JSE as this sector was of interest to the researcher which could have impacted the validity of the sample and the level of representation of the population.

### 5.3.2 Data reliability

The researcher used a structured process in analysing the integrated annual reports of the sampled companies. The checklist used as the measurement instrument aimed to make the data collection process standardised to reduce the number of sampling errors made. In comparing the key risks identified in the integrated annual reports to the top ten retail industry risks (EY, 2013) and the top ten South African industry level risk (The Institute of Risk Management South Africa, 2016), as well as assigning the key risks a risk category, judgement was used. The judgement used in the data collection could have impacted the reliability of the data.

## 5.4 Results per research question

The results of the research for the research questions defined in Chapter 3 are set out below. Longitudinal analysis was performed for year 1 to year 5 of each company and on a total basis.

The five integrated annual reports were collected per company from either 2012 to 2016 or 2011 to 2015 depending on the company year-end and if the 2016 results were published by 31 August 2016. Thus, year 5 (“Y5”) in the analysis either refers to the 2016 or 2015 integrated annual reports, year 4 (“Y4”) to the 2015 or 2014 integrated annual reports, year 3 (“Y3”) to the 2014 or 2013 integrated annual reports, year 2 (“Y2”) to the 2013 or 2012 integrated annual reports and year 1 (“Y1”) to the 2012 or 2011 integrated annual reports. The sampled companies, their year-ends and what integrated annual report related to years 1 to 5 in the analysis are included in **Figure 3: Sampled companies, year ends and years selected** above.

### 5.4.1 Results for research question 1

Research question 1 was defined in Chapter 3 as “Does risk disclosure in integrated reporting show improvement in risk management of an organisation from year to year?”

The results of item 1 to 14 per the checklist attached in **Figure 2: Checklist developed as the measurement instrument** were analysed per company per year, on average per company and on average per year. Application of a checklist item was assigned a 1 and non-application a 0. The highest total for application of each item was 20.

The results for items 1 to 14 are shown in **Table 1: Analysis of checklist items 1 to 14** below.

**Table 1: Analysis of checklist items 1 to 14**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	7.00	6.00	5.00	5.00	5.00	5.60
Cashbuild Ltd	12.00	11.00	10.00	10.00	10.00	10.60
Combined Motor Holdings Ltd	6.00	6.00	6.00	6.00	6.00	6.00
Curro Holdings Ltd	7.00	6.00	6.00	6.00	5.00	6.00
The Foschini Group Ltd	9.00	7.00	7.00	7.00	7.00	7.40
Holdsport Ltd	6.00	6.00	6.00	6.00	6.00	6.00
Italtile Ltd	9.00	9.00	9.00	9.00	8.00	8.80
Lewis Group Ltd	12.00	12.00	12.00	11.00	11.00	11.60
Massmart Holdings Ltd	11.00	11.00	11.00	10.00	9.00	10.40
Mr Price Group Ltd	3.00	3.00	8.00	8.00	10.00	6.40
Nictus Ltd	7.00	5.00	5.00	5.00	6.00	5.60
Rex Trueform Clothing Company Ltd	9.00	7.00	7.00	7.00	7.00	7.40
Truworths International Ltd	13.00	9.00	10.00	10.00	9.00	10.20
Verimark Holdings Ltd	7.00	7.00	7.00	7.00	6.00	6.80
Woolworths Holdings Ltd	8.00	8.00	8.00	8.00	8.00	8.00
<b>Average</b>	<b>8.40</b>	<b>7.53</b>	<b>7.80</b>	<b>7.67</b>	<b>7.53</b>	<b>7.79</b>

As can be seen in **Table 1: Analysis of checklist items 1 to 14** above, the trend in application of King III, the <IR> and G4 risk governance and disclosure principles measured by checklist items 1 to 14 appear to be improving from Y1 to Y5 from a mean of 7.53 in Y1 to a mean of 8.40 in Y5. A dip was noticed in Y4 from Y3 however as a large decrease in is attributable to Mr Price Group Limited's drop in the application of King III, the <IR> and G4 risk governance and disclosure principles as well as Truworths International Limited.

The companies showing the highest level of application of King III, the <IR> and G4 risk governance and disclosure principles with average application scores of above 10 are Lewis Group Limited with 11.60 average per year application, followed by Cashbuild Limited with 10.60 average per year, Massmart Holdings Limited with 10.40 average per year and Truworths International Limited with 10.20 average per year application.

Further to answer research question 1, the number of key risks identified in each integrated annual report were noted and shown in **Table 2: Number of key risks identified** below.

**Table 2: Number of key risks identified**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	11.00	-	1.00	2.00	2.00	3.20
Cashbuild Ltd	10.00	10.00	10.00	10.00	5.00	9.00
Combined Motor Holdings Ltd	9.00	9.00	9.00	9.00	9.00	9.00
Curro Holdings Ltd	9.00	9.00	9.00	7.00	7.00	8.20
The Foschini Group Ltd	15.00	9.00	7.00	7.00	7.00	9.00
Holdspport Ltd	12.00	12.00	12.00	12.00	12.00	12.00
Italtile Ltd	10.00	10.00	10.00	10.00	-	8.00
Lewis Group Ltd	12.00	12.00	12.00	9.00	8.00	10.60
Massmart Holdings Ltd	10.00	10.00	9.00	10.00	10.00	9.80
Mr Price Group Ltd	16.00	20.00	12.00	24.00	10.00	16.40
Nictus Ltd	10.00	13.00	13.00	-	-	7.20
Rex Trueform Clothing Company Ltd	12.00	12.00	9.00	9.00	9.00	10.20
Truworths International Ltd	10.00	12.00	20.00	17.00	14.00	14.60
Verimark Holdings Ltd	14.00	17.00	14.00	14.00	14.00	14.60
Woolworths Holdings Ltd	16.00	25.00	25.00	18.00	14.00	19.60
<b>Average</b>	<b>11.73</b>	<b>12.00</b>	<b>11.47</b>	<b>10.53</b>	<b>8.07</b>	<b>10.76</b>

On average, 10.76 risks were identified per year with the year with the highest number identified being Y4 with an average of 12 key risks identified. The company with the highest number of key risks identified was Woolworths Holdings Limited in both Y4 and Y3 with 25 key risks identified.

The number of key risks per year that were repeated in integrated annual reports of the company pertaining to other years were calculated and shown in **Table 3: Key risks repeated year on year** below.

From **Table 3: Key risks repeated year on year** it was shown that an average of 9.6 key risks was included in more than one integrated annual report from Y1 to Y5 per company. The highest amount of repeated key risks shown was in Y4 and Y3 of the Woolworths Holdings Limited integrated annual reports in which 25 key risks were repeated in both years.

The percentage of repeated key risks was shown in **Table 4: Percentage of key risks repeated year on year**. On average 89% of key risks appeared in more than one integrated annual report. Y4 showed the highest percentage of repeated key risks with 93% of key risks repeated. 7 of the 15 samples companies showed 100% repeated key risks in each year that key risks were identified.



**Table 3: Key risks repeated year on year**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	-	-	-	2.00	2.00	0.80
Cashbuild Ltd	4.00	7.00	8.00	5.00	3.00	5.40
Combined Motor Holdings Ltd	9.00	9.00	9.00	9.00	9.00	9.00
Curro Holdings Ltd	9.00	9.00	9.00	7.00	7.00	8.20
The Foschini Group Ltd	8.00	8.00	7.00	7.00	6.00	7.20
Holdsport Ltd	12.00	12.00	12.00	12.00	12.00	12.00
Italtile Ltd	10.00	10.00	10.00	10.00	-	8.00
Lewis Group Ltd	12.00	12.00	12.00	9.00	8.00	10.60
Massmart Holdings Ltd	10.00	10.00	9.00	10.00	10.00	9.80
Mr Price Group Ltd	16.00	17.00	11.00	12.00	6.00	12.40
Nictus Ltd	8.00	13.00	13.00	-	-	6.80
Rex Trueform Clothing Company Ltd	12.00	12.00	9.00	9.00	9.00	10.20
Truworths International Ltd	9.00	9.00	17.00	17.00	14.00	13.20
Verimark Holdings Ltd	14.00	14.00	14.00	14.00	14.00	14.00
Woolworths Holdings Ltd	12.00	25.00	25.00	12.00	8.00	16.40
<b>Average</b>	<b>9.67</b>	<b>11.13</b>	<b>11.00</b>	<b>9.00</b>	<b>7.20</b>	<b>9.60</b>

**Table 4: Percentage of key risks repeated year on year**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	0%		0%	100%	100%	50%
Cashbuild Ltd	40%	70%	80%	50%	60%	60%
Combined Motor Holdings Ltd	100%	100%	100%	100%	100%	100%
Curro Holdings Ltd	100%	100%	100%	100%	100%	100%
The Foschini Group Ltd	53%	89%	100%	100%	86%	86%
Holdsport Ltd	100%	100%	100%	100%	100%	100%
Italtile Ltd	100%	100%	100%	100%		100%
Lewis Group Ltd	100%	100%	100%	100%	100%	100%
Massmart Holdings Ltd	100%	100%	100%	100%	100%	100%
Mr Price Group Ltd	100%	85%	92%	50%	60%	77%
Nictus Ltd	80%	100%	100%			93%
Rex Trueform Clothing Company Ltd	100%	100%	100%	100%	100%	100%
Truworths International Ltd	90%	75%	85%	100%	100%	90%
Verimark Holdings Ltd	100%	82%	100%	100%	100%	96%
Woolworths Holdings Ltd	75%	100%	100%	67%	57%	80%
<b>Average</b>	<b>83%</b>	<b>93%</b>	<b>90%</b>	<b>90%</b>	<b>89%</b>	<b>89%</b>

#### 5.4.2 Results for research question 2

Research question 2 was defined in Chapter 3 as “Do the key risks identified in integrated reporting show a trend year on year in equal weighting between financial, market, operations, regulatory and environmental risks?”

The results for research question 2 analysis are showing in **Figure 4: Weighting per risk category - Year 1**, **Figure 5: Weighting per risk category - Year 2**, **Figure 6: Weighting per risk category - Year 3**, **Figure 7: Weighting per risk category - Year 4**, **Figure 8: Weighting per risk category - Year 5** and **Figure 9: Weighting per risk category – Average**.

On average, the largest portion of key risks identified in the integrated annual reports are found in the operation category with 51%, followed by market risks with 21% on average and financial risks with 15% on average. No definite trend can be seen in the weightings of the risk categories market, operations, environmental and regulatory. However, financial risk shows a trend of increase in weight with a weighting on average of 13% in Y1 and Y2, 16% in Y3 and Y4 and 17% in Y5.

**Figure 4: Weighting per risk category - Year 1**

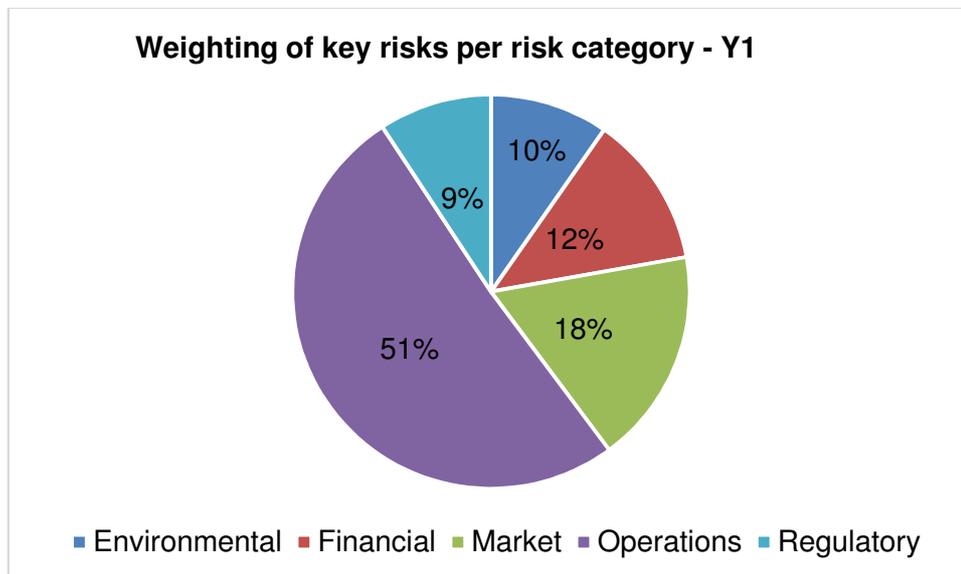


Figure 5: Weighting per risk category - Year 2

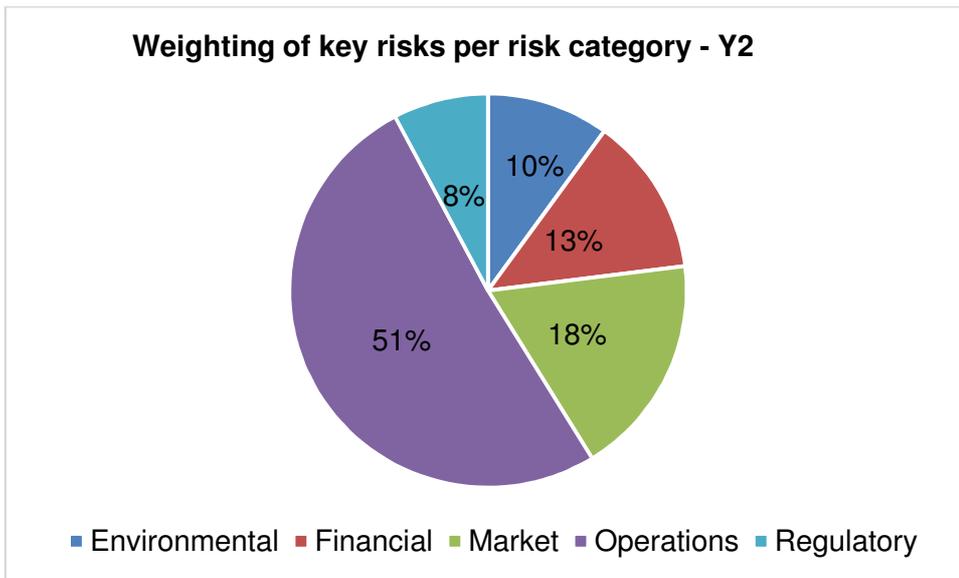


Figure 6: Weighting per risk category - Year 3

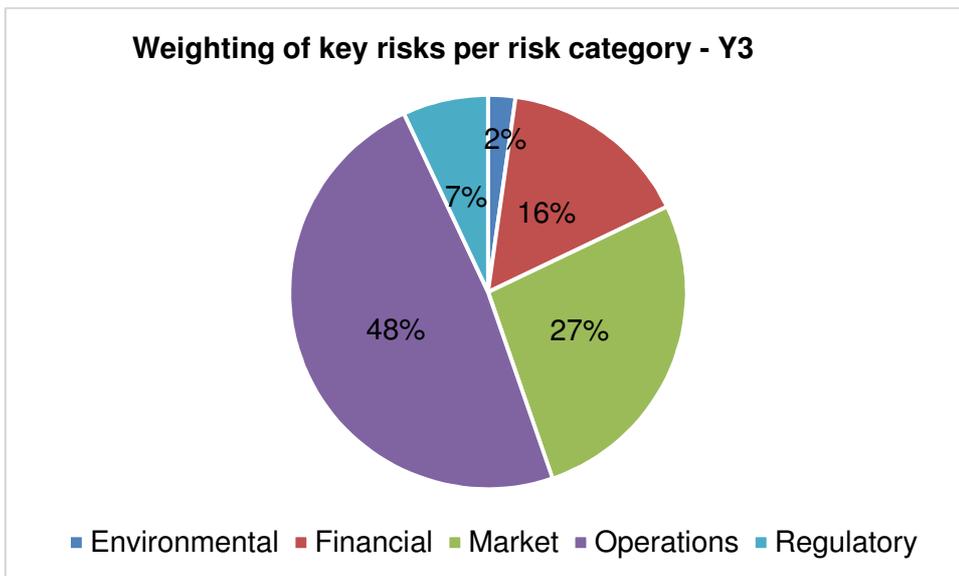


Figure 7: Weighting per risk category - Year 4

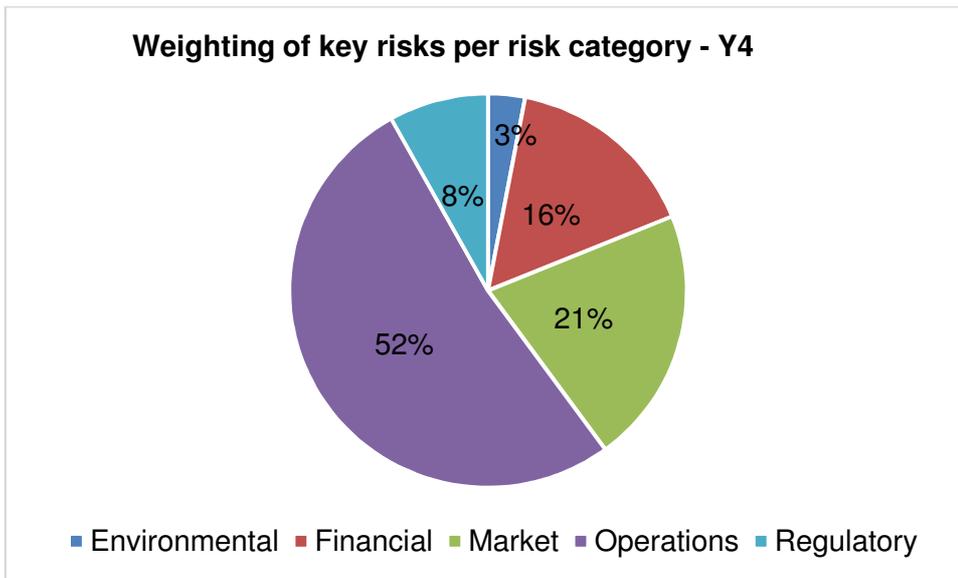
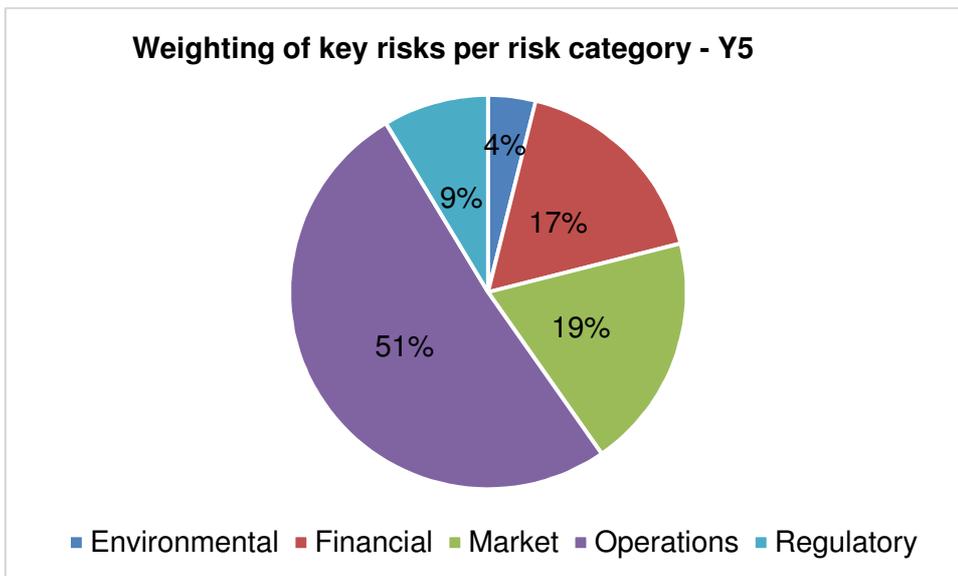
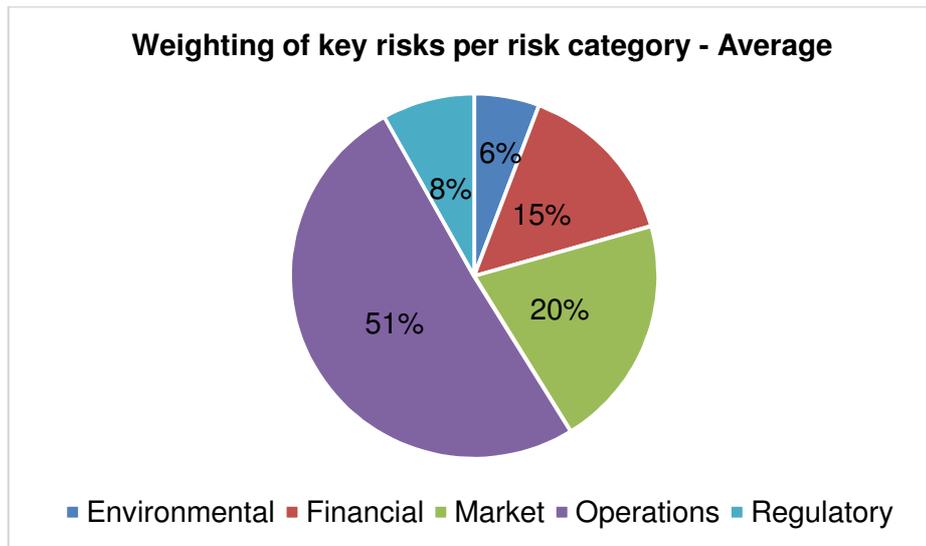


Figure 8: Weighting per risk category - Year 5



**Figure 9: Weighting per risk category – Average**



#### 5.4.3 Results for research question 3

Research question 3 was defined in Chapter 3 as “Do companies show improvement in applying King III risk governance principles year on year?”

The highest score for application of the King III principles related to risk governance is 10. Below in **Table 5: Summary of results for checklist item 8 to 14 relating to King III principles**, the summary results for application of King II principles related to risk governance were shown. If a company complied with a principle measured in a year, a 1 was assigned, else a 0 for non-compliance.

Further, **Table 6: Results of checklist item 8 to 14 relating to King III principles** shows the average per year per each checklist item from 8 to 14. **Table 7: Number of companies with a separate risk committee or a combined audit and risk committee** specifically shows the number of companies with a separate risk committee and the number of companies with a combined audit and risk committee.

**Table 8: Member composition of risk committees and the number of meetings held per annum** shows the composition of the risk committees or of the combined audit and risk committee, describing the average number of non-executive directors, executive directors, senior management and independent experts that are members.

**Table 5: Summary of results for checklist item 8 to 14 relating to King III principles**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	5.00	5.00	4.00	4.00	4.00	4.40
Cashbuild Ltd	7.00	7.00	7.00	7.00	7.00	7.00
Combined Motor Holdings Ltd	4.00	4.00	4.00	4.00	4.00	4.00
Curro Holdings Ltd	4.00	4.00	4.00	4.00	3.00	3.80
The Foschini Group Ltd	5.00	5.00	5.00	5.00	5.00	5.00
Holdsport Ltd	4.00	4.00	4.00	4.00	4.00	4.00
Italtile Ltd	4.00	4.00	4.00	4.00	3.00	3.80
Lewis Group Ltd	8.00	8.00	8.00	7.00	7.00	7.60
Massmart Holdings Ltd	6.00	6.00	6.00	5.00	4.00	5.40
Mr Price Group Ltd	-	-	5.00	5.00	5.00	3.00
Nictus Ltd	4.00	2.00	2.00	3.00	4.00	3.00
Rex Trueform Clothing Company Ltd	5.00	3.00	3.00	3.00	3.00	3.40
Truworths International Ltd	5.00	4.00	5.00	5.00	4.00	4.60
Verimark Holdings Ltd	4.00	4.00	4.00	4.00	3.00	3.80
Woolworths Holdings Ltd	5.00	5.00	5.00	5.00	5.00	5.00
<b>Average</b>	<b>4.67</b>	<b>4.33</b>	<b>4.67</b>	<b>4.60</b>	<b>4.33</b>	<b>4.52</b>

The application of King III principles of risk governance averaged 4.52 per year out of a possible 10. The trend is slightly increasing from Y1 to Y5 with the exception of Y4 which decreased from Y3. The reason for the decrease related to Mr Price Group Limited. In November 2014, Mr Price Group Limited dissolved the risk committee and moved the risk committee agenda into the board. Thus Mr Price Group Limited does not apply the King III principles for Y4 and Y5. Lewis Group Limited shows the highest application of King III principles scoring 8 out of a possible 10 for Y3, Y4 and Y5.

**Table 6: Results of checklist item 8 to 14 relating to King III principles**

King III		Y5	Y4	Y3	Y2	Y1	Average
8a	Risk committee present (King III)	0.53	0.60	0.60	0.47	0.47	0.53
8b	Combined Audit and Risk Committee	0.40	0.33	0.40	0.60	0.53	0.45
9	Risk committee made of minimum 3 members (King III) with the necessary level of expertise and qualification	0.93	0.87	0.93	1.00	0.87	0.92
10	Members of risk committee made up of (number of each) (King III):						
	· Executive directors;	0.47	0.40	0.47	0.40	0.33	0.41
	· Non-executive directors;	0.87	0.73	0.80	0.80	0.80	0.80
	· Member of senior management; and	0.07	0.07	0.13	0.07	0.07	0.08
	Independent member	-	-	-	-	-	-
11	Frequency of risk committee meetings per annum (King III) >2 per year	0.93	0.93	0.93	0.87	0.87	0.91
12	CRO present (King III)	0.20	0.13	0.13	0.13	0.13	0.15
13	CRO is suitable experienced (King III)	0.13	0.13	0.13	0.13	0.13	0.13
14	Evidence that the CRO reports directly to the board (King III)	0.13	0.13	0.13	0.13	0.13	0.13
	<b>Average application</b>	<b>4.67</b>	<b>4.33</b>	<b>4.67</b>	<b>4.60</b>	<b>4.33</b>	<b>4.52</b>

**Table 6: Results of checklist item 8 to 14 relating to King III principles** shows the average results per checklist item in detail. As can be seen, the majority of companies have either a separate risk committee or a combined audit and risk committee. **Table 7: Number of companies with a separate risk committee or a combined audit and risk committee** below further shows the number of companies that have either a separate risk committee or a combined audit and risk committee out of the sampled 15 companies. As previously mentioned, Mr Price Group Limited dissolved their risk committee in November 2014 thus being the only company out of the sample that no longer had either a separate risk committee or a combined audit and risk committee in Y4 and Y5.

**Table 7: Number of companies with a separate risk committee or a combined audit and risk committee**

		Y5	Y4	Y3	Y2	Y1	Average
8a	Risk committee present (King III)	8.00	9.00	9.00	7.00	7.00	7.00
8b	Combined Audit and Risk Committee	6.00	5.00	6.00	8.00	8.00	8.00
	<b>Total</b>	<b>14.00</b>	<b>14.00</b>	<b>15.00</b>	<b>15.00</b>	<b>15.00</b>	<b>15.00</b>

Application to having a minimum of three risk committee members with the necessary level of skills and expertise averaged at 0.92 with Y2 showing full application by all companies in the analysis. The majority members of the risk committees or combined audit and risk committees were made of non-executive directors with the application of this principle increasing from 0.8 in Y1 to 0.87 in Y5. Executive directors as members increased from 0.33 in Y1 to 0.47 in Y5, and senior management as members stayed at 0.07 in Y1 and Y5. No companies had proof of a third party independent member in Y1 to Y5 in the separate risk committee or a combined audit and risk committee. Application of a minimum of 2 risk committee meetings per year increased from 0.87 in Y1 to 0.93 in Y5.

**Table 8: Member composition of risk committees and the number of meetings held per annum** below shows the actual number of risk committee members in total and in composition per year. The average number of members per years was 4.13 in excess of the 3 members required. The majority members were non-executive directors.

**Table 8: Member composition of risk committees and the number of meetings held per annum** also showed the average number of risk committee meetings per year was 3.2 in excess of the minimum of 2 required by King III.

**Table 8: Member composition of risk committees and the number of meetings held per annum**

		Y5	Y4	Y3	Y2	Y1	Average
10	Members of risk committee made up of (number of each) (King III):	4.47	4.60	5.00	4.27	4.13	4.13
	· Executive directors;	1.13	1.13	1.33	1.00	0.93	0.93
	· Non-executive directors;	3.13	3.20	3.07	2.93	2.93	2.93
	· Member of senior management; and	0.20	0.27	0.60	0.33	0.27	0.27
	· Independent member	-	-	-	-	-	-
11	Frequency of risk committee meetings per annum (King III)	3.27	3.00	3.27	3.00	3.20	3.20

#### 5.4.4 Results for research question 4

Research question 4 was defined in Chapter 3 as “Do companies show improvement in applying the risk disclosure principles of the <IR> and G4 year on year?”

Checklist items 1 to 4 related to <IR> principles and was scored out of 7. The average results for application were shown in **Table 9: Summary of results for checklist items 1 to 4 relating to <IR> principles**. The application showed improvement from Y1 to Y5 with scores of 1.40 in Y1 and 1.87 in Y5. The highest scored company was Massmart Holdings Limited with a score of 3 for Y1 to Y5.

Checklist items 5 to 7 relate to the G4 principles and was scored out of 3. The results are shown in **Table 10: Summary of results for checklist items 5 to 7 relating to G4 principles**. The average application per year shows improvement from 1.80 in Y1 to 1.87 in Y2 but there is not a stable trend of improvement year on year. Italtile Limited, Lewis Group Limited and Truworthis International Limited all scored 3 for Y1 to Y5 in the application of G4 principles.

In the summary results as shown in **Table 12: Results of checklist item 1 to 7 relating to <IR> and G4 principles**, the application of both the <IR> and G4 principles show improvement from Y1 to Y5 with scores of 3.20 and 3.73 respectively. There is a decline in application from Y1 to Y2, but the trend is the improvement in application year on year from Y2 to Y5.

**Table 9: Summary of results for checklist items 1 to 4 relating to <IR> principles**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	1.00	-	-	-	-	0.20
Cashbuild Ltd	2.00	1.00	1.00	1.00	1.00	1.20
Combined Motor Holdings Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Curro Holdings Ltd	2.00	1.00	1.00	1.00	1.00	1.20
The Foschini Group Ltd	2.00	1.00	1.00	1.00	1.00	1.20
Holdsport Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Italtile Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Lewis Group Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Massmart Holdings Ltd	3.00	3.00	3.00	3.00	3.00	3.00
Mr Price Group Ltd	1.00	1.00	1.00	1.00	2.00	1.20
Nictus Ltd	2.00	2.00	2.00	1.00	1.00	1.60
Rex Trueform Clothing Company Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Truworths International Ltd	5.00	2.00	2.00	2.00	2.00	2.60
Verimark Holdings Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Woolworths Holdings Ltd	1.00	1.00	1.00	1.00	1.00	1.00
<b>Average</b>	<b>1.87</b>	<b>1.40</b>	<b>1.40</b>	<b>1.33</b>	<b>1.40</b>	<b>1.48</b>

**Table 10: Summary of results for checklist items 5 to 7 relating to G4 principles**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Cashbuild Ltd	3.00	3.00	2.00	2.00	2.00	2.40
Combined Motor Holdings Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Curro Holdings Ltd	1.00	1.00	1.00	1.00	1.00	1.00
The Foschini Group Ltd	2.00	1.00	1.00	1.00	1.00	1.20
Holdsport Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Italtile Ltd	3.00	3.00	3.00	3.00	3.00	3.00
Lewis Group Ltd	3.00	3.00	3.00	3.00	3.00	3.00
Massmart Holdings Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Mr Price Group Ltd	2.00	2.00	2.00	2.00	3.00	2.20
Nictus Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Rex Trueform Clothing Company Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Truworths International Ltd	3.00	3.00	3.00	3.00	3.00	3.00
Verimark Holdings Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Woolworths Holdings Ltd	2.00	2.00	2.00	2.00	2.00	2.00
<b>Average</b>	<b>1.87</b>	<b>1.80</b>	<b>1.73</b>	<b>1.73</b>	<b>1.80</b>	<b>1.79</b>

**Table 11: Summary of results for checklist items 1 to 7 relating to <IR> and G4 principles**

Company Name	Y5	Y4	Y3	Y2	Y1	Average
ADvTECH Ltd	2.00	1.00	1.00	1.00	1.00	1.20
Cashbuild Ltd	5.00	4.00	3.00	3.00	3.00	3.60
Combined Motor Holdings Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Curro Holdings Ltd	3.00	2.00	2.00	2.00	2.00	2.20
The Foschini Group Ltd	4.00	2.00	2.00	2.00	2.00	2.40
Holdsport Ltd	2.00	2.00	2.00	2.00	2.00	2.00
Italtile Ltd	5.00	5.00	5.00	5.00	5.00	5.00
Lewis Group Ltd	4.00	4.00	4.00	4.00	4.00	4.00
Massmart Holdings Ltd	5.00	5.00	5.00	5.00	5.00	5.00
Mr Price Group Ltd	3.00	3.00	3.00	3.00	5.00	3.40
Nictus Ltd	3.00	3.00	3.00	2.00	2.00	2.60
Rex Trueform Clothing Company Ltd	4.00	4.00	4.00	4.00	4.00	4.00
Truworths International Ltd	8.00	5.00	5.00	5.00	5.00	5.60
Verimark Holdings Ltd	3.00	3.00	3.00	3.00	3.00	3.00
Woolworths Holdings Ltd	3.00	3.00	3.00	3.00	3.00	3.00
<b>Average</b>	<b>3.73</b>	<b>3.20</b>	<b>3.13</b>	<b>3.07</b>	<b>3.20</b>	<b>3.27</b>

**Table 12: Results of checklist item 1 to 7 relating to <IR> and G4 principles**

		Y5	Y4	Y3	Y2	Y1	Average
	<b>&lt;IR&gt; (7)</b>	<b>1.87</b>	<b>1.40</b>	<b>1.40</b>	<b>1.33</b>	<b>1.40</b>	<b>1.48</b>
1	Number of key risks identified in the integrated report (<IR>) for						
	· Short;	-	-	-	-	-	-
	· Medium; and	0.13	-	-	-	-	0.03
	· Long-term	-	-	-	-	-	-
2	Source of risk identified (<IR>)	0.40	0.33	0.33	0.29	0.36	0.34
3	Assessment of risk including (<IR>):						
	· Likelihood of occurrence; and	0.13	0.07	0.07	0.07	0.07	0.08
	· Estimation of effect of occurrence of risk identified	0.20	0.07	0.07	0.07	0.07	0.09
4	Disclosure of steps taken to mitigate/manage risk (<IR>)	1.00	0.93	0.93	0.93	0.93	0.95
	<b>G4 (3)</b>	<b>1.87</b>	<b>1.73</b>	<b>1.73</b>	<b>1.73</b>	<b>1.80</b>	<b>1.77</b>
5	Prioritisation of risks according to their relevance for strategic objectives disclosed (G4)	0.60	0.53	0.57	0.53	0.53	0.55
6	Clear description of governance mechanisms in place to identify and manage risks (G4)	1.00	1.00	1.00	1.00	1.00	1.00
7	Disclosure on the targets, performance against previously set targets and lessons learned for the current integrated report related to key risks	0.27	0.27	0.20	0.20	0.27	0.24

**Table 12: Results of checklist item 1 to 7 relating to <IR> and G4 principles** showed the average application per principle for the <IR> and G4 principles in checklist items 1 to 7. There was no application of disclosure of short, medium and long-term risks with the exception of two companies in Y5 disclosing medium-term risks. There was a slight improvement in the application of disclosing the source of risks with the application showing a trend in improvement from Y2 to Y5, but a decrease from Y1 to Y2. The likelihood of occurrence of each identified risk was assessed by one company in Y1 to Y4 and two companies in Y5, improving application from 0.07 to 0.13 from Y1 to Y5. The

estimated effect of the occurrence of each risk was disclosed by three companies in Y5 and one company in Y1 to Y4. All companies disclosed steps taken to mitigate or manage risks in Y5, an improvement from the application of 0.93 in Y1 to Y4.

The prioritisation of risks according to their relevance from strategic objectives improved in application from 0.53 in Y1 to 0.6 in Y5. In addition, all companies disclosed clear governance mechanisms in place to identify and manage risks in Y1 to Y5. Disclosure on the targets, performance against previously set targets and lessons learned related to key risks application stayed at 0.27 in Y1, Y4 and Y5 with 0.20 application in Y2 and Y3.

#### **5.4.5 Results for research question 5**

Research question 5 was defined in Chapter 3 as “Do companies show alignment to the top ten industry risks identified by EY (2013) and the top ten industry level South African risks identified by The Institute of Risk Management South Africa (2016)?” The results for the average match between key risks identified in the integrated annual reports and the EY (2013) top ten retail industry risks and The Institute of Risk Management South Africa (2016) top ten South African industry level risks were shown in

#### **Table 13: Keys risk aligned with top ten retail industry risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk Management South Africa, 2016).**

The average match between the key risks identified in the integrated annual reports and the top ten retail industry risks identified by EY (2013) was 4.13 out of a possible 10. Further, an improving trend was noted from Y1 through to Y5 as the average match went from 3.53 to 4.40.

The top ten South African industry level risks identified by The Institute of Risk Management South Africa (2016) matched an average of 3.52 to the identified key risks in the integrated annual reports. A steady improving trend was noted from Y1 with an average of 2.8 match through to Y5 with a 4.13 match.

**Table 13: Keys risk aligned with top ten retail industry risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk Management South Africa, 2016)**

	Y5	Y4	Y3	Y2	Y1	Average
<b>Number of key risks disclosed that are identified in the top ten industry risks identified as the norm for the retail industry (EY, 2013)</b>	<b>4.40</b>	<b>4.40</b>	<b>4.27</b>	<b>4.07</b>	<b>3.53</b>	<b>4.13</b>
Low-growth consumer markets	0.43	0.50	0.50	0.54	0.46	0.49
Regulation and compliance	0.67	0.64	0.64	0.62	0.62	0.64
Inability to control costs/rising input prices	0.43	0.57	0.50	0.46	0.46	0.48
Inability to benefit from e-commerce	0.14	0.07	0.07	-	-	0.06
Wrong price image	0.21	0.21	0.29	0.23	0.23	0.24
Supply chain disruptions	0.93	0.93	0.86	0.85	0.77	0.87
Inability to penetrate emerging markets	0.20	0.21	0.21	0.38	0.15	0.23
Failure to respond to shifting consumer behavior	0.79	0.71	0.64	0.69	0.62	0.69
Sourcing	0.43	0.43	0.43	0.46	0.38	0.43
Volatility in commercial real estate markets	0.43	0.43	0.43	0.46	0.38	0.43
<b>Number of key risks disclosed that are identified in the top ten industry risks identified for South Africa (The Institute of Risk Management South Africa, 2016)</b>	<b>4.13</b>	<b>3.87</b>	<b>3.60</b>	<b>3.20</b>	<b>2.80</b>	<b>3.52</b>
Regulatory/legislative changes	0.67	0.64	0.64	0.62	0.62	0.64
Insufficient electricity supply	0.36	0.36	0.21	0.23	0.15	0.26
Skills shortage	0.50	0.64	0.57	0.54	0.54	0.56
Increasing corruption	0.07	0.07	0.07	0.08	0.08	0.07
Government policy changes	0.14	0.14	0.07	0.08	0.08	0.10
Reputational damage or adverse media/social media attention	0.40	0.29	0.21	0.15	0.08	0.23
Massive incident of data fraud/theft	0.57	0.50	0.50	0.46	0.23	0.45
Profound political and social instability	0.93	0.79	0.86	0.77	0.77	0.82
Water crisis	0.07	0.14	0.14	0.15	0.15	0.13
Failure/shortfall of critical infrastructure	0.57	0.57	0.57	0.62	0.54	0.57

The top ten risk per year were measured through frequency per year in the integrated annual reports of the sampled companies. The top ten risks identified from the integrated reports per year were shown in **Table 14, Table 15, Table 16, Table 17** and **Table 18** below. The risks that were identified in each year in the top ten were regulation and compliance, information technology risk, low economic growth / economic instability, merchandise appealing to customers at good margins, managing credit - increase in bad debt, dependency on key suppliers / sustainability of suppliers, supply chain and pricing and supplier standards and management succession / talent management.

**Table 19: Top ten keys risk aligned with top ten retail industry risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk Management South Africa, 2016)** shows a summary of the match between the identified top ten risks from the integrated annual reports and the top ten retail industry risks identified by EY (2013) and The Institute of Risk Management South Africa (2016) top ten South African industry level risks. There is not an increasing trend in the match between the identified top ten risks from the integrated annual reports and the EY (2013) top ten retail industry risks (Y3 and Y4 had the highest match of 6 out of 10) nor The Institute of Risk Management South Africa (2016) top ten South African industry level risks (Y4 had the highest match

of 5 out of 10).

**Table 14: Top ten identified key risks, frequency in appearance and match to top ten retail risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk South Africa, 2016) for Y5**

Rank	Risks - Y5	Frequency	EY (2013)	IRMSA (2016)
1	Information technology risk	11		
2	Regulation and compliance	9	1	1
3	Low economic growth / economic instability	6	1	1
3	Merchandise appealing to customers at good margins	6		
5	Managing credit - increase in bad debt	5		
5	Brand reputation / positioning	5	1	1
5	Product offering / range of stock in stores not meeting customer requirements	5	1	
5	Dependency on key suppliers / sustainability of suppliers	5		
5	Supply chain and pricing and supplier standards	5	1	
5	Management succession / talent management	5		
	<b>Total</b>		<b>5</b>	<b>3</b>

**Table 15: Top ten identified key risks, frequency in appearance and match to top ten retail risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk South Africa, 2016) for Y4**

Rank	Risks - Y4	Frequency	EY (2013)	IRMSA (2016)
1	Information technology risk	10		
2	Regulation and compliance	9	1	1
3	Supply chain and pricing and supplier standards	7	1	
4	Brand reputation / positioning	6	1	1
4	Management succession / talent management	6		
5	Low economic growth / economic instability	5	1	1
5	Merchandise appealing to customers at good margins	5		
5	Product offering / range of stock in stores not meeting customer requirements	5	1	
6	Managing credit - increase in bad debt	4		
6	Dependency on key suppliers / sustainability of suppliers	4		
6	Inability to attract, retain and develop suitable staff	4		
6	Disruption to distribution/ supply chain capabilities ineffective	4	1	1
6	Shortage of skills and expertise	4		1
	<b>Total</b>		<b>6</b>	<b>5</b>

**Table 16: Top ten identified key risks, frequency in appearance and match to top ten retail risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk South Africa, 2016) for Y3**

Rank	Risks - Y3	Frequency	EY (2013)	IRMSA (2016)
1	Information technology risk	10		
2	Regulation and compliance	8	1	1
3	Management succession / talent management	7		
4	Low economic growth / economic instability	6	1	1
4	Merchandise appealing to customers at good margins	6		
4	Supply chain and pricing and supplier standards	6	1	
5	Brand reputation / positioning	4	1	1
5	Product offering / range of stock in stores not meeting customer requirements	4	1	
5	Managing credit - increase in bad debt	4		
5	Dependency on key suppliers / sustainability of suppliers	4		
5	Disruption to distribution/ supply chain capabilities ineffective	4	1	1
	<b>Total</b>		<b>6</b>	<b>4</b>

**Table 17: Top ten identified key risks, frequency in appearance and match to top ten retail risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk South Africa, 2016) for Y2**

Rank	Risks - Y2	Frequency	EY (2013)	IRMSA (2016)
1	Information technology risk	9		
2	Regulation and compliance	8	1	1
3	Management succession / talent management	7		
3	Low economic growth / economic instability	7	1	1
4	Merchandise appealing to customers at good margins	6		
4	Supply chain and pricing and supplier standards	6	1	
5	Managing credit - increase in bad debt	5		
5	Dependency on key suppliers / sustainability of suppliers	5		
6	Disruption to distribution/ supply chain capabilities ineffective	4	1	1
6	BBBEE	4		
	<b>Total</b>		<b>4</b>	<b>3</b>

**Table 18: Top ten identified key risks, frequency in appearance and match to top ten retail risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk South Africa, 2016) for Y1**

Rank	Risks - Y1	Frequency	EY (2013)	IRMSA (2016)
1	Regulation and compliance	8	1	1
2	Information technology risk	7		
3	Merchandise appealing to customers at good margins	6		
4	Low economic growth / economic instability	5	1	1
5	Management succession / talent management	4		
5	Supply chain and pricing and supplier standards	4	1	
5	Dependency on key suppliers / sustainability of suppliers	4		
6	Managing credit - increase in bad debt	3		
6	Disruption to distribution/ supply chain capabilities ineffective	3	1	1
6	BBBEE	3		
6	Inability to attract, retain and develop suitable staff	3		
6	Health and safety	3		
6	Shortage of skills and expertise	3		1
	<b>Total</b>		<b>4</b>	<b>4</b>

**Table 19: Top ten keys risk aligned with top ten retail industry risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk Management South Africa, 2016)**

	Y5	Y4	Y3	Y2	Y1	Average
<b>Number of top ten key risks identified that are identified in the top ten industry risks identified as the norm for the retail industry (EY, 2013)</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>5</b>
Low-growth consumer markets	1	1	1	1	1	
Regulation and compliance	1	1	1	1	1	
Inability to control costs/rising input prices	1	1	1	1	1	
Inability to benefit from e-commerce						
Wrong price image	1	1	1			
Supply chain disruptions		1	1	1	1	
Inability to penetrate emerging markets						
Failure to respond to shifting consumer behavior	1	1	1			
Sourcing						
Volatility in commercial real estate markets						
<b>Number of top ten key risks identified that are identified in the top ten industry risks identified for South Africa (The Institute of Risk Management South Africa, 2016)</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>4</b>
Regulatory/legislative changes	1	1	1	1	1	
Insufficient electricity supply						
Skills shortage		1			1	
Increasing corruption						
Government policy changes						
Reputational damage or adverse media/social media attention	1	1	1			
Massive incident of data fraud/theft						
Profound political and social instability	1	1	1	1	1	
Water crisis						
Failure/shortfall of critical infrastructure		1	1	1	1	

The results presented in this chapter were discussed in detail in Chapter 6 with reference to the literature review performed in Chapter 2 and the research questions defined in Chapter 3.

## CHAPTER 6 – DISCUSSION OF RESULTS

This chapter discusses the results of the research performed that was displayed in Chapter 5. The discussion of the results is organised using the research questions defined in Chapter 3 and make use of the literature review presented in Chapter 2.

### 6.1 Discussion of research question 1

#### **Does risk disclosure in integrated reporting show improvement in risk management of an organisation from year to year?**

For the survival of organisations in the current complex environment, organisations are required to be committed to risk management (Abdullah et al., 2015). Further, companies should commit to risk management to balance the strategy of the organisation to the growth, risk and return in order to achieve the maximum value for stakeholders (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). Topazio, (2014) suggests that risk disclosure is a means for an organisation to communicate the progress on mitigating and managing risk, showing measurement of that risk and the organisations response in line with their strategy. Risk management should be practical, cost effective and assist organisation in surviving in the medium to long term (Abdel-Azim & Abdelmoniem, 2015).

Barton & MacArthur (2015) said that a risk management system in place for just “window dressing” purposes and that would not be able to contain losses occurring with risk exposure could do more harm than no risk management system in place at all. An example is the Lonmin Plc 2012 Marikana Massacre saga where Lonmin noted the risk of a strike by mine workers due to the poor relationship between the mine, the workers and the community (Pichulik, 2016). However, this risk was poorly managed and mitigated which resulted in the loss of lives, with no one claiming responsibility for till this day (Pichulik, 2016) (The Institute of Risk Management South Africa, 2016).

Research suggested that risk management had not come a long way after the GFC significantly enhanced the focus on risk management, with many organisations stating there are committed to investing in risk management (Simona-Iulia, 2014). Further, organisation could be reluctant to invest in risk management systems due to the significant cost and opportunity cost of investing in a risk management system (Farrell & Gallagher, 2015).

From the results for research question 1, the average application of King III, <IR> and the G4 risk governance and risk disclosure principles shown slight improvement from Y1 to Y5. This suggests that the commitment to risk management as shown through these risk disclosures is showing improvement year on year. However, the highest application of these principles over the five years is in Y5 at 8.40 out of a possible twenty which shows less than fifty percent application of the identified risk governance and risk disclosure principles. This could suggest that there is room for a significant improvement in application of these principles in communicating commitment to risk management to stakeholders in the integrated annual reports. A failure in transparency means the board is in breach of its duty with regards to risk management and disclosure (Bugalla et al., 2012).

The results for research question one showed that on average 10.76 key risks were identified in the integrated annual reports per year. On average, 9.60 of the 10.76 key risks identified in the integrated annual reports were a repeat of the key risks noted in a different year's integrated annual report of the same company and were thus considered a repeated key risk. This amount equated to an average of 89% key risks that were repeated year on year in the integrated annual reports.

There is no noticeable trend in the movement of the percentage of repeated risks year on year however, there is an improvement from Y1 showing 89% of key risks are repeated to Y5 showing 83%. Y5 showed the lowest percentage of repeated key risks out of all of the years which suggest that the percentage is reducing and may do so in the future.

In the economic climate where risks organisations face are increasing, becoming more interconnected and complex (Abdel-Azim & Abdelmoniem, 2015) which would suggest that the key risks faced by companies would change more frequently than on an annual basis. Thus, the average of repeated key risks of 89% seems to be high and could suggest that companies are not as committed to risk management as they ought to be and are merely repeating risks year on year to comply with risk disclosure recommendations. This casts doubt on the risk management systems and processes of the companies and increases the likelihood of companies "window dressing" risk management.

In conclusion, although not decisive, companies are showing slight improvement in risk management as communicated by the risk disclosures from Y1 to Y5 measure as well as the decline in repeated key risks shown in Y5.

## 6.2 Discussion of research question 2

### **Do the key risks identified in integrated reporting show a trend year on year in equal weighting between financial, market, operations, regulatory and environmental risks?**

The key risks noted from the analysed integrated annual reports were categorised into environmental risks, financial risks, market risks, operations risks, and regulatory risks for each year to investigate if the weighting of the risks per category was even. Dobler et al. (2011) found in their research that the majority risks disclosed by organisations were financial over the remaining risk categories of market, environmental, operations and regulatory risks. The reason for this is probably because of regulation such as IFRS as well as specific regulation per the industry in which the organisation operates require more mandatory financial risk disclosure than any other category of risk.

Further, one of the principles of risk disclosure in the G4 is to identify the key risks focusing on sustainability and including economic, social and environmental risk categories (Global Reporting Initiative, 2013). The G4 focused on sustainability specifically and thus all risks regardless of the source need to be considered.

From the results the majority risks came from operations with an average of 51% weighting of all key risks. Market risks had the second largest weighting at 21% with financial risk an average weighting of 15%. The trend in the financial weighting showed an increasing trend with Y1's weighting at 13% and Y5 at 19%.

The sampled companies were all listed in the general retail sector of the JSE. In retail, the focus is on operations to deliver the correct value to the customer with the most reliable and efficient supply chain possible (EY, 2013). Further, demographics mixed with low market growth are an additional focus in the retail sector showing why market risks came in with the second highest weighting (EY, 2013). Thus, the results showed a finding contrary to Dobler et al. (2011).

In conclusion, the weighting of the identified key risks from the integrated annual reports inspected are not even but rather highly dominated by operations risks. The reason for this is likely because of the sector that the sampled companies operate in.

### **6.3 Discussion of research question 3**

#### **Do companies show improvement in applying King III risk governance principles year on year?**

Application of King III principles, on an apply or explain basis, is included in the JSE listing requirements (JSE, n.d.). The King III principles include risk governance principles with specifically with regards to the risk committee formation, member composition and expertise, frequency of meetings requirements as well as the appointment of a CRO with the necessary experience and qualification that reports directly to the board (Institute of Directors Southern Africa, 2009). The risk committee and CRO made up two of the elements of risk governance identified by Gontarek (2016) as well as two of the four elements of the model Bugalla et al. (2012) developed for governance and risk management. Both these elements provide a valuable tool to the board to assist in meeting the responsibility of risk management (Gontarek, 2016).

Out of a possible ten, the average application of the King III risk governance principles was 4.52. No definite trend in improvement from year to year was noted however, Y5, at 4.67 was higher than Y1 at 4.33.

Research performed by McCollum (2011) showed that half of boards did not assign any risk oversight to a board subcommittee. However, in the results, all companies had formed either a separate risk committee or a combined audit and risk committee that had been tasked with the responsibility of risk oversight with the exception of Mr Price Group Limited that officially dissolved their risk committee into the board in November 2014, thus not applying the King principle in Y4 and Y5.

Protiviti Inc. (2011) said that a separate risk committee allows the audit committee to focus on their financial reporting issues by taking over the operational risk issues. Further, a risk committee has been found to reduce risk taking in organisations (Gontarek, 2016). In Y5, 6 companies had combined audit and risk committees compared to 8 in Y1 suggesting that the trend is in separating combined audit and risk committees. Further, Grace et al. (2015) found that the presence of both a risk committee

and a CRO add to the operational performance of an organisation.

Protiviti Inc. (2011) suggested that a possibility exists that board dedication to risk management erodes when a board subcommittee is formed and tasked with risk management oversight. Whyntie (2013) agreed and stated that the presence of a risk committee may give risk a lower priority at board level than is required. In every report analysed it was noted that the ultimate responsibility for risk management lay in the hands of the board.

On an average application of 0.92, the risk committees or combined audit and risks committees were made of a minimum of three members with the necessary levels of expertise, experience and qualification. Further, the composition was majority non-executive directors with an average application of 0.80. Application of executive directors as members of the risk committee was 0.41 and senior management at 0.08. There was no evidence of an external independent risk committee member to bring additional expertise. It could be possible that senior management and external independent members were not reported in the integrated annual reports.

The average application of appointing a CRO was 0.15 with evidence of the CRO being present and reporting to the board both measuring 0.13. It is a possibility that the presence of the CRO was not reported in the integrated annual reports as focus on reporting directors making up the board, audit, risk committee and other sub committees was noted. Further, it was never noted that no CRO was present, meaning that the CRO could have been appointed by not disclosed in the integrated annual reports. Bugalla et al. (2012) suggested that at a minimum, a CRO should serve as the staff representative on the risk committee. The presence of a CRO that reported directly to the board was found to be cost efficient and an aspect that added value to the operating performance of organisations according to Grace et al. (2015).

The frequency of risk committee meetings was on average at 4.13 a year, in excess of the minimum suggested by King III of 2 meetings per year. Application of this principle showed improvement from Y1 at 0.87 to Y5 at 0.93. This suggests a commitment shown by the risk committee with the risk oversight responsibility and in the consideration of and monitoring of the risk policies and processes of the company.

In conclusion, no significant trend in the improvement of application of King III risk governance principles was noted in the results, however, companies showed

commitment in the formation of either a separate risk committee of a combined audit and risk committee and holding regular meeting per annum. Further, there was a slight trend in the formation of a separate risk committee and away from the combined audit and risk committee.

#### **6.4 Discussion of research question 4**

##### **Do companies show improvement in applying the risk disclosure principles of the <IR> and G4 year on year?**

There was no requirement for companies to apply the <IR> and G4 principles. Rather these principles are recommended as good practice in integrated annual reports and thus are considered to be voluntary. Thus, organisation have the opportunity to communicate their commitment of risk management to stakeholders more effectively (Togok et al., 2016). Risk disclosure can reduce the asymmetrical information between an organisation and stakeholder which if not reduced, could cause a negative impact on the value of an organisation should the stakeholder make decision based on incorrect information (Abdel-Azim & Abdelmoniem, 2015). Risk disclosures also give a legitimacy signal to stakeholders about the commitment to risk management (Oliveira et al., 2013).

Good risk information could return a competitive advantage to an organisation provided it is well presented with commentary and is given on a timeous basis (Kerle, 2015). Elshandidy & Neri (2015) found that meaningful voluntary risk disclosure assists stakeholders in making improved price decisions, leading to more market liquidity for the organisation. Investors see mandatory risk disclosures as generic and view value in voluntary risk disclosures (Elshandidy & Neri, 2015). Further, Abdel-Azim & Abdelmoniem (2015) found that increased risk disclosures were positively related to increased profitability and asset growth.

Risk disclosures in line with <IR> and G4 principles both showed a drop in application from Y1 to Y2 but then a trend in improvement from Y2 to Y5. Y5 application for <IR> principles averaged 1.87 out of a possible 7 and for G4 principles 1.87 out of a possible 3. Dobler et al. (2011) found that firms with higher risk disclosure measured as more risky. This could discourage companies from risk disclosure if the thought is more risk disclosure signals a riskier company. Further, the <IR> and G4 were only published in 2013 and thus reports in Y1 to Y3 would not have applied the <IR> and G4 principles. Further, companies are liked still getting the application of the <IR> and G4 under grips

for the use as a framework for integrated annual reports.

The <IR> requires an organisation to answer what risks affect the organisation's ability to create wealth in the short, medium and long terms and to show an organisation is dealing with these risks. For all the years and companies analysed, only two companies identified medium terms risks in Y5. There is difficulty in projecting the time horizon of risks as can be seen in the number of repeated risks per the results from research question 1.

There is low application of the source of risks, the likelihood of occurrence and the estimation of the effect of occurrence for each risk identified. According to Dobler et al. (2011), companies struggle with quantification of risks and prefer to disclose qualitative risks over quantitative. Although companies may signal competence in forward looking risk disclosures, the inability to predict the future as well as external effects results in hesitancy of companies to disclose forward looking risks and quantification (Dobler et al., 2011). An effective risk statement should include both quantitative and qualitative metrics for credit, market and operational risk to be effective (Gontarek, 2016).

Companies show a high application of the steps taken in mitigating risks with full application shown in Y5. This is consider qualitative risk disclosure and as Dobler et al. (2011)'s research suggested, companies prefer to disclose qualitative risk information.

In risk management, risks should be considered in line with company strategy in order to balance the risk and reward and maximise the value of the organisation (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). The alignment of strategy is a key capability of ERM (Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), 2004). The disclosure of key risks and their prioritisation according to their relevance for strategic objectives showed improvement in application to 0.6 in Y5 from 0.53 in Y1.

It was noted that there was a full application of 1 for all years for the description of governance mechanisms in place to identify and manage risks. The ERM process was discussed as qualitative disclosure in every integrated annual report analysed.

The targets, performance of previously set targets and lessons learnt for the key risks identified showed no improvement in application year on year. This principle requires forward thinking, quantitative disclosure, which organisations, according to Dobler et al. (2011) are reluctant to do for fear of signaling the incorrect message to stakeholders.

In conclusion, although application of <IR> and G4 principles, which are considered voluntary, shows improvement year on year, the application especially for the <IR> principles is low. This is because the majority of the disclosure requires either forward looking statement or quantitative disclosure which organisations find hard to disclose due to the risk of signaling incorrect information to stakeholders based on future assumptions on events that may or may not occur (Dobler et al., 2011).

## 6.5 Discussion of research question 5

### **Do companies show alignment to the top ten industry risks identified by EY (2013) and the top ten industry level South African risks identified by The Institute of Risk Management South Africa (2016)?**

Considering the context in which the sampled companies operate in being the general retail sector of South Africa, the key risks identified in the integrated annual reports should be aligned with researched retail industry risks identified (EY, 2013) as well as South African industry level risks identified (The Institute of Risk Management South Africa, 2016). The Institute of Risk Management South Africa (2016) stated that South Africa's volatile current context casts doubt on its resilience to future uncertainties.

The key risks identified an average of 4.13 compliance to the top ten retail industry risks identified (EY, 2013) as well as a trend of increasing alignment from Y1 to Y5 with Y5 ending with alignment of 4.40. Further, the alignment to the top ten South African industry level risks (The Institute of Risk Management South Africa, 2016) averaged to 3.52 per year, and again showed a trend of improving alignment from Y1 to Y5.

Alignment of the top ten key risks based on frequency of occurrence across the sampled companies identified to the top ten retail industry risks identified (EY, 2013) averaged at 5 out of 10 with no trend of increasing alignment from Y1 to Y5. Further, the alignment to the top ten South African industry level risks (The Institute of Risk Management South Africa, 2016) averaged to 4 out of 10 and showed no trend of improving alignment from Y1 to Y5.

The low levels of alignment to the top ten retail industry risks identified (EY, 2013) could be due to fault in the ERM system in identifying and disclosing the key risks of an organisation. In addition, as can be seen in the high levels of repeated risk, the risk disclosures may be indicating “window dressing” in the risk management systems and processes.

The low levels of alignment to the top ten South African industry level risks (The Institute of Risk Management South Africa, 2016) could be due to the fact that the South African risks were influenced by the timing of the surveys and workshops conducted in identifying these risks. The timing of the surveys included the firing of the finance minister of South African Nhlanhla Nene by President Jacob Zuma which could have influenced the risk of “profound political and social instability” being recognised as a top ten risk. In addition, the annual reports were mostly prepared before the top ten South African industry level risks were compiled.

The list of top ten key risks based on frequency of occurrence across the sampled companies showed the following risks in Y1 to Y5:

- Regulation and compliance;
- Information technology risk;
- Low economic growth / economic instability;
- Merchandise appealing to customers at good margins;
- Managing credit - increase in bad debt;
- Dependency on key suppliers / sustainability of suppliers;
- Supply chain and pricing and supplier standards; and
- Management succession / talent management.

The repeated key risks identified in the top ten of Y1 to Y5 are clearly indicative of the industry in which the sampled companies operate. The retail industry creates competitive advantage through new brands and ranges of products and an effective, reliable and efficient supply chain and distribution (EY, 2013).

Chapter 7 confirms the principal findings of the research and includes recommendations for management and stakeholder as well as the limitations noted in the performance of the research. The chapter is concluded with recommendations for future research.

## **CHAPTER 7 – CONCLUSION**

### **7.1 Introduction**

This chapter discusses the principal findings of this research, the implications these findings have for management and stakeholders, the limitations of the research as well as the recommendations for future research.

### **7.2 Principal findings**

The research was aimed at exploring whether risk disclosure in integrated reporting and application of risk governance requirements showed an improvement in organisations year on year. Further, this research aimed to indicate the current state of risk management through the measure of application of risk disclosure principles. In addition, this research was performed to show whether risks identified were relevant to the context that organisations operate in. The research was conducted on companies listed in the general retail sectors of the JSE through content analysis of the integrated annual reports for the five most recent years. The research addressed the five research questions defined in Chapter 3 that addressed risk governance principles of King III and risk disclosure principles of <IR> and G4.

The results of the first research question showed that a slight improvement in application of risk governance and risk disclosure in companies from Y1 to Y5. However, the application of the principles considered to be best practice is under half of all principles measured. This is a concern as risk disclosure is considered a key element in risk governance as part of the risk management system in organisations. In addition, risk disclosure was found to have many benefits including the reduction of asymmetrical information between an organisation and its stakeholders, leading to better information to base decisions on and adding value to both the organisation and the stakeholder (Oliveira et al., 2013).

Further, the results of the first research showed that the majority of identified key risks, a requirement of both the <IR> and G4, show an 89% average repeat in the integrated annual reports analysed. This casts doubt on the risk identification and management process, as risks are changing in the volatile and complex operating environment that organisations trade in (Abdel-Azim & Abdelmoniem, 2015). The most recent year analysed of the integrated annual reports shows the lowest percentage of key risks repeated which indicates improvement in the key risk identification system may occur.

Research question two aimed at investigating if an improvement in the even weighting of key risks per category was shown from year to year, as research showed financial risks were most often reported on in comparison to any other risk category. It is concluded that no trend towards the equal weighting between risk categories of financial, operation, market, environmental and regulatory was noted. Over half of the key risks identified related to operations risks including supply chain management and product management.

Research question three aimed at showing if an improvement of the risk governance principles of King III showed improvement in application year on year. It was found that no conclusive improvement was shown year on year. A CRO was present in only 13% of the sampled companies in Y5 with no mentioned noted in the other integrated annual reports. The presence of a separate risk committee showed improvement from Y1 o Y5 with companies converting the combined audit and risk committee to a separate risk committee.

Research question 4 investigated whether the application of <IR> and G4 risk disclosure principles are improving year on year. A slight improvement was noted in both the application of the <IR> and G4 principles specifically from Y2 to Y5. However, application of the <IR> principles was low. Only two companies reported on the time horizon that key risks related to in Y5 only. Further, the likelihood of the risk occurring showed low application. This is due to the difficulty in predicting the future which companies are reluctant to report on. Further, few companies disclosed an estimation of the effect of an occurrence of a risk. Companies have difficulty in quantifying risk disclosure (Dobler et al., 2011).

Research question 5 aimed to investigate whether the identified key risks in the integrated annual reports showed alignment to the top ten retail industry risks (EY, 2013) and top ten South African industry level risks (The Institute of Risk Management South Africa, 2016). Although the alignment was only 4.13 out of 10 with regard to EY (2013)'s top ten retail risks and 3.52 to The Institute of Risk Management South Africa (2016)'s South African risk, there was a trend that the alignment for both to the identified key risks improved slightly year on year.

Further, out of the top ten key risks per year identified from all of the sampled integrated annual reports, the average alignment was 5 out of 10 with regard to EY (2013)'s top ten retail risks and 4 to The Institute of Risk Management South Africa (2016)'s South African risk, showing a higher result than the key risks in total. However, no trend was noted year on year in the alignment of the key risks to the EY (2013) top ten retail risks and The Institute of Risk Management South Africa (2016) South African industry level risks.

From the results, no definite conclusion can be reached as to how risk governance and risk disclosure contributes to improving risk management year on year. It can be inferred that there is a slight improvement year on year in risk disclosure and risk governance principles indicating that the level of risk management may be improving in organisations from year to year.

### **7.3 Implications for management and stakeholders**

The research findings show a slight improvement in application of risk disclosure and risk governance principles but also that there is significant room for improvement to unlock the value risk disclosure can offer for organisations. Although application of King III principles are a JSE listing requirement, no improvement is shown from Y1 to Y5 which is a cause for concern with regards to the risk governance practices of companies.

Integrated annual reports give organisations the means to communicate with stakeholders regarding their commitment to and performance in risk management (Togok et al., 2016). It is also an opportunity for organisations to reduce the

asymmetrical information between organisation and stakeholders, to assist stakeholders in making better informed decisions (Abdel-Azim & Abdelmoniem, 2015). A failure in transparency of risk disclosure means the board is in breach of their duty of risk management and risk disclosure (Bugalla et al., 2012). Through risk disclosure, an organisation signals to their competence and ability to create organisational value to stakeholders in the short, medium and long-term (Dobler et al., 2011).

Further, effective risk management can have a costs saving benefit according to Farrell & Gallagher, (2015). Risk disclosure that is meaningful and timeously has a benefit of creating liquidity in markets (Kerle, 2015). Forward looking qualitative and quantitative measures of risk indicate to stakeholders management's ability in risk management (Dobler et al., 2011).

Stakeholders should apply pressure on organisation to communicate their risk management performance and commitment in a complete and timeous way to ensure stakeholders have the correct information on which to base decisions. This will assist in trying to combat corporate disasters in the future such as Lonmin Plc's 2012 Marikana Massacre and the 2014 African Bank Limited failure.

#### **7.4 Limitations of the research**

Although integrated annual report preparation is a JSE listing requirement, many integrated reports are still lacking essential information. This research relied on the quality of the integrated annual reports to gather reliable data from. The risk management disclosure in the integrated annual reports may have been incomplete and thus was not included in the data collection rendering the data misrepresentative of the population. Further, the data for this research was collected using only integrated annual reports and further risk management information may have been disclosed by organisations in other methods and reports which would have been excluded in the data collected.

The time-frame of the research and the sampling methods used with one industry in the sample, as well as South African companies only, may mean that the results of the research is not relevant to other industries or countries. Further, in using multiple years

in the research, some companies in the sample were not listed on the JSE for the sampling time-frame and thus had to be excluded from the data analysed. The data is thus incomplete which may have skewed the results.

The information from the integrated annual reports were converted into numbers for the purpose of this research which could have led to the information from the integrated annual reports losing the intended meaning. Integrated annual reports are also a snapshot of one period of time and are also produced using significant professional judgement, which could mean that the information may be misinterpreted through judgement error in analysis, or that information is incomplete or does not represent the whole year for which the report was prepared.

Judgement was employed in the comparison of the key risks in the integrated annual reports to the top ten retail industry risks identified by EY (2013) and the top ten South African industry level risks identified by The Institute of Risk Management South Africa (2016). In cases where the risks were not easily matched, judgement had to be employed to measure the alignment of the risks which could have introduced judgement errors in the data. Judgement error may have occurred in assigning a risk category to the key risks in the data of either financial, market, operations, regulatory or environmental risk categories introducing the possibility of judgement error into the data which may have skewed the results.

## 7.5 Suggestions for future research

This research focused on South African countries listed in the general retail sector of the JSE. The research could be expanded to include more industries and countries to compare risk management performance and application of risk disclosure principles between countries and industries.

Further, no relationship was examined in this research. Thus the following possible relationships could be examined in future research:

- Risk committee characteristics and the result on risk disclosure reporting outcomes;
- CRO characteristics and the result on risk management and risk disclosures;
- The difference in risk disclosure between organisations with a risk committee and organisations with a combined audit and risk committee; and
- Voluntary risk disclosure and the impact on organisation value in emerging markets.

Further, comparative studies could be performed such as:

- Risk disclosure and value creation for organisations in emerging markets in comparison to developed markets; and
- Comparatives in risk disclosure between different size organisations to investigate how risk disclosures are impacted.

Lastly, as the research to South African specific risk management is fairly new and limited, qualitative analysis as to the level of risk management by risk practitioners could be performed to assess the state of risk management in South Africa.

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## APPENDICES

### Appendix 1: List of sampled companies

Companies listed on the JSE in the general retailer sector included in the sample for the research (Standard Online Share Trading, n.d.)

<b>Company Name</b>	<b>Share Code</b>
ADvTECH Ltd	ADH
African and Overseas Enterprises Ltd	AON, AOO, AOV
Cashbuild Ltd	CSB
Combined Motor Holdings Ltd	CMH
Curro Holdings Ltd	COH
Holdsport Ltd	HSP
Homechoice International PLC	HIL
Italtile Ltd	ITE
Lewis Group Ltd	LEW
Massmart Holdings Ltd	MSM
Mr Price Group Ltd	MRP
Nictus Ltd	NCS
Rex Trueform Clothing Company Ltd	RTN, RTO, RTOP
The Foschini Group Ltd	TFG, TFGP
Truworths International Ltd	TRU
Verimark Holdings Ltd	VMK
Woolworths Holdings Ltd	WHL

## Appendix 2: Ethical clearance confirmation

Ethical clearance confirmation received via email on Monday, 18 July 2016.

Dear Miss Marike Louw

Protocol Number: **Temp2016-01457**

**Title: The relationship between risk governance and integrated reporting risk disclosures in mitigating and managing risk**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker

### Appendix 3: Turnitin report pages one to five

 Turnitin Originality Report  
Research report by Marike Louw  
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