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FW: Comment on SASB standards

From: Rob Worthington-Smith [mailto:rob@farsightfirms.com (mailto:rob@farsightfirms.com)]
Sent: Friday, January 19, 2018 9:13 PM
To: Sustainability Accounting Standards Board <info@sasb.org (mailto:info@sasb.org)>
Subject: Comment on SASB standards

To whom it may concern:

My main concern is that the SEC filing dataset SASB uses, as well as representation on the workgroups that determine the final weightings for the SASB materiality tables, could be skewed towards environmental and human rights issues. When comparing with our own methodology, it appears that some issues of materiality to society, in particular governance and ethical issues, such as marketplace behaviour, are under-represented in the SASB model.

In the attached submission, I will show how we at FarSight derive material issues and weight them. The result of our research and analysis is shown in accompanying tables. By comparing ours with SASB's, it is evident that there is a significant difference in materiality weightings for certain issues.

Materiality is of course a contested concept, very much influenced by the eye of the beholder. My concern is that the SASB 'eye' appears to be blinded to certain governance and ethics issues, while human rights and environmental issues are up-weighted, beyond the actual materiality for the business. It seems to me that SASB workgroups have lost sight of the objective, which is to identify societal issues that could influence the sustainability of the organisation, not issues that are of exclusive concern to broader society.

I think the main source of this bias is SASB's original dataset, which is derived from self-declared issues in SEC filings. From our own research here in South Africa, we find that companies engage in 'virtue signalling', writing substantial tracts on how virtuously they respond to human rights issues, and preserve the environment, skating over governance and ethics issues, particularly those relating to marketplace behaviour. My hypothesis is that this inherent dataset bias (originating from the companies themselves), along with potential bias on the working groups (possibly with under-representation from equity analysts), results in SASB materiality tables that don't reflect true weighted materiality of issues influencing long-term sustainability of the companies across industries.

My recommendation is that SASB conducts research into this hypothesis.

Yours sincerely

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<FarSight submission to SASB.PDF>

Submission to SASB

By: Rob Worthington-Smith

20 January, 2018

Executive summary

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Background

I have been following the development at SASB with keen interest over a number of years, probably since Prof Eccles and Serafeim paid us a visit here in South Africa back in 2012. At that time, we were already quite advanced here in SA in terms of integrated reporting and I was at the forefront of the development of the International, Integrated Reporting Council (IIRC) guidelines for annual integrated reporting.

In my own firm, I ran the reporting function and indeed won the EY Reporting Awards for 2010 and 2011 for the Bidvest Group's Integrated report (one of the largest companies on the Johannes Stock Exchange).

Company analysis

Since 2013, I have been using my own model for assessing companies' resilience based on the quality of their reporting. My model is called FarSight. I do this research for investors who want to understand which companies are the best prospects to invest in for the longer-term investor.

The FarSight model results in a score which we regard as a ***measure of leadership maturity.***

We arrive at this score by assessing the company's response to Governance, Ethics, Labour, Societal, Customer and Environmental (GELSCE) issues as communicated through in its annual reports, on its website, through corporate announcements and interviews with business journalists.

The model has four steps: (1) identify issues material to the business; (2) weight these for their relative materiality; (3) rate the company's response to each issue; (4) calculate the FarSight Score. For the purposes of this submission, I will only relate the first two steps:

Step One: Identify issues material to the business
FarSight researchers scour national media and trade journals, CEO interviews with business journalists, regulatory reports (eg: industry ombud reports and Competition Commission reports), company Integrated Reports and SENS announcements to understand the industry, its drivers of value, its risks and vulnerabilities. These are then sorted into the 31 issue categories in our universe of issues.

The first 24 issues are true ESG issues in that they have some element of materiality for society, as well as for the firms providers of capital. The seven Financial/operational issues have no meaningful materiality for society (except when approaching a market bubble), and are thus categorised as separate from the true ESG issues.

The FarSight Universe of issues are:

Non-financial, ESG issues
Governance
1 Board balance & effectiveness
2 Audit independence
3 Leadership selection & preparation
4 Remuneration and incentives
5 System integrity

Ethics
6 Moral DNA of the organisation
7 Theft, fraud and corruption
8 Anti-competitive behaviour

Labour
9 Fair labour
10 Occupational health & safety
11 Skills development

Society
12 Community
13 Internal equity
14 Industry equity
15 External societal risks

Customers
16 Product suitability
17 Treatment of customers
18 Access to products & services
19 Consumer ID & data privacy

Environment

20 Energy
21 Water
22 Bio-resources
23 Biophysical impact
24 External environmental risks

Operational/Financial issues
25 Business action
26 Business partnerships
27 Market risks
28 Capital risks
29 IP & Manufactured capital
30 Inputs and resources
31 Productivity

Step Two: Weight issues for their relative materiality
FarSight assigns a weighting of between 0 and 30 to each of the 24 issues. Issues weighted between 0 and 5 are barely material, while issues over 25 are crucial to the business' long-term survival.

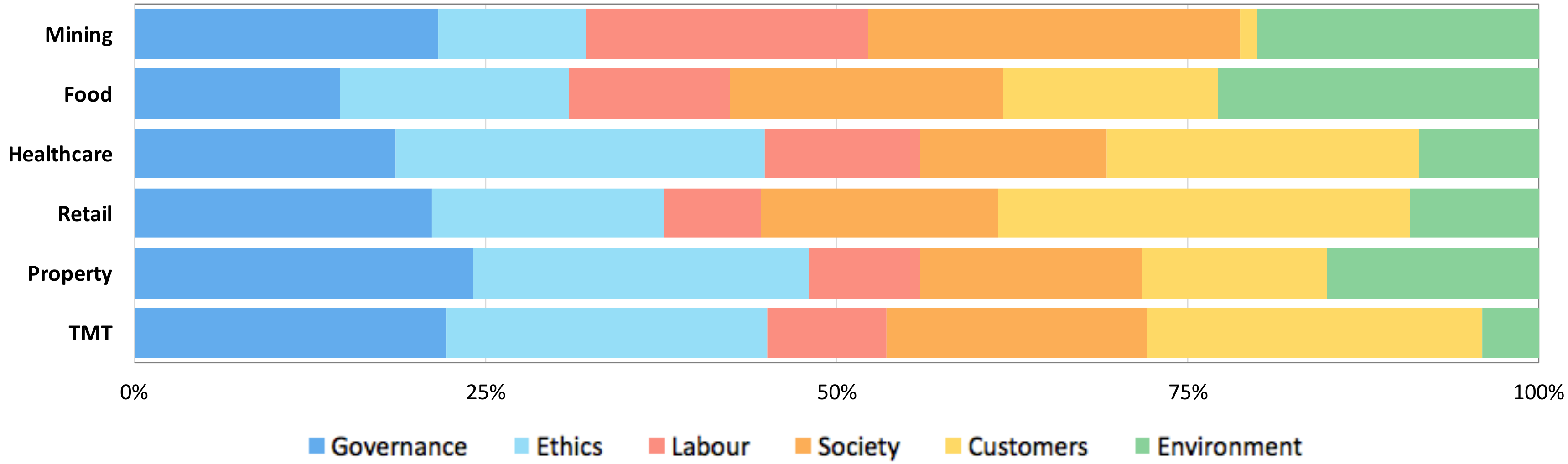
Weighting issues is not an exact science. The Sustainability Accounting Standards Board (SASB) starts by interrogating SEC 10k (and other) filings for frequency of key words (based on the original Harvard Study by Khan, Serafeim and Yoon). It then modifies the resultant weighting by evaluating whether management or mismanagement of the issue will affect traditional corporate valuation parameters (e.g. profit). Finally, using discretion, it adjusts upwards the weighting of issues judged to be newly emerging. My main concern is that representation on the workgroups that determine the final weightings could be skewed towards environmental and human rights issues, with the result that some issues of materiality to society, in particular governance and ethical issues, such as marketplace behaviour, are under-represented in the SASB model.

FarSight adopts a similar three-step approach to SASB, but applies an approach more similar to the International Integrated Reporting Council (IIRC) in order to derive issue weightings. For FarSight, the weighting of an issue is affected by:
- The probability and magnitude of its impact
- On the the firm's relationships and resources, and
- How this may affect returns to shareholders
- Through a three- to five-year window

The stacked bar chart below shows how different the weightings for each issue category turn out across a sample of six industries. Note:
- Labour, societal and environmental issues are most important for the mining sector, but least important for the retail, property and media sectors.
- Governance and ethics are most important for healthcare, property and media,
- Customer issues are most important for consumer facing industries, such as healthcare, retail and media.

The following pages show our materiality tables. The first two are overviews across sectors, the next six double page spreads are summary overviews for each of six sectors. More detailed, 20-page materiality reports for each sector are available on request.

Materiality split between GELSCE aspects across industries



Top 5 issues in the Mining industry:

LABOUR
Occupational health & safety
Fair labour
GOVERNANCE
Board balance & effectiveness
ENVIRONMENT
Bio physical impact
SOCIETY
Community impact, relations & development

Top 5 issues in the Food Processing industry:

CUSTOMERS
Product suitability
Access to products & services
ENVIRONMENT
Bio resources
Water
Bio physical impact

Top 5 issues in the Healthcare industry:

ETHICS
Moral DNA of the organisation
Theft, fraud & corruption
CUSTOMERS
Access to products & services
Treatment of customers
GOVERNANCE
Board balance & effectiveness

Top 5 issues in the Retail industry:

CUSTOMERS
Treatment of customers
Product suitability
Access to products & services
ETHICS
Moral DNA of the organisation
LABOUR
Fair labour

Top 5 issues in the Property industry:

GOVERNANCE
Board balance & effectiveness
Leadership selection & preparation
ETHICS
Moral DNA of the organisation
Theft, fraud & corruption
CUSTOMERS
Treatment of customers

Top 5 issues in the TMT industry:

GOVERNANCE
Board balance & effectiveness
CUSTOMERS
Product suitability
Treatment of customers
Customer ID protection & data privacy
SOCIETY
External societal risks

MATERIALITY																
All Industries	TMT	Property				Retail				Healthcare			Food	Mining	Avg
	All cos.	UK cos.	SA cos.	RES stable	All cos.	Food Retail	Retail Pharma	Gen., apparel, credit	All cos.	Hospitals	Pharma	All cos.	All cos.	All cos.	
1 Board balance & effectiveness	21	23	25	25	24	21	20	16	18	21	22	21	23	29	23
6 Moral DNA of the organisation	19	20	20	20	20	24	24	22	23	26	26	26	20	24	22
15 External societal risks	19	14	18	15	15	17	17	17	17	21	21	21	15	15	17
9 Fair labour	6	2	2	2	2	22	19	22	22	8	13	11	18	21	15
16 Product suitability	20	16	13	14	14	25	26	22	24	5	27	17	15	15	18
14 Industry equity	14	5	15	11	9	17	14	16	16	11	14	12	15	15	14
17 Treatment of customers	19	17	17	17	17	27	25	27	26	30	16	22	14	13	19
18 Access to products & services	16	3	11	12	7	22	20	17	19	21	25	23	13	8	16
11 Skills: attraction/development/ retention	14	15	15	15	15	12	15	14	14	17	15	16	17	19	16
4 Remuneration and incentives	15	14	16	16	15	16	16	13	15	15	15	15	20	26	18
3 Leadership selection and preparation	18	18	22	21	20	15	15	15	15	15	16	15	22	27	19
13 Internal equity	14	1	15	9	7	10	12	11	11	14	12	13	16	16	14
5 System integrity	15	15	19	17	17	15	13	14	14	20	17	18	20	25	19
23 Biophysical impact	4	15	15	15	15	13	11	13	12	4	11	8	9	0	7
20 Energy	9	17	17	17	17	8	8	8	8	10	9	10	12	2	8
8 Anti-competitive behaviour	17	10	17	19	16	16	8	11	12	16	21	19	18	21	17
2 Audit independence	16	14	14	14	14	12	7	13	12	12	13	12	22	27	18
7 Theft, fraud & corruption	17	15	19	21	19	0	0	0	0	24	26	25	19	22	17
21 Water	0	10	17	15	13	11	8	9	9	12	13	13	11	2	7
10 Occupational health and safety	0	1	1	1	1	0	0	0	0	13	13	13	17	20	10
12 Community impact, relations & development	10	15	12	12	13	5	3	3	4	2	1	1	16	18	10
19 Consumer ID protection and data privacy	19	0	0	0	0	12	15	14	13	20	14	16	13	3	13
24 External environmental risks	2	3	3	3	3	2	1	4	3	1	1	1	1	0	1
22 Bio resources	1	8	8	8	8	0	0	0	0	0	12	7	11	0	4
Average materiality	12,7	11,3	13,8	13,3	12,6	13,4	12,3	12,6	12,8	14,0	15,5	14,8	15,7	15,3	14,3

Note that some industries, such as mining, have higher overall materiality. This means the vulnerabilities and risks demanding leadership response are more pernicious, with more likelihood of failure should management not be able to deal with the challenges presented.

MATERIALITY OVERVIEWS

Precious Metals

May, 2016

While the depreciation of the rand has improved the competitiveness of South Africa's labour over the past years, the South African mining industry is nonetheless faced with uncomfortable truths that expose the traditional high-labour business model as being uncompetitive in the modern era. The mining industry spends 80% less on technology and innovation than the petroleum industry, for example.

Smart technology and mechanisation provide competitors in other countries with major advantages, including: faster lead times and more flexible response, higher recovery rates, better identification of available ore seams, higher productivity and better safety records.

The imperative for South African mines to invest in technology and mechanisation is unavoidable, especially as SA ore reserves are now to be found at ever deeper levels, or require more advanced techniques to extract product from lower ore grades. Already, 30% of SA's platinum now comes from mechanised mines.

If gold and platinum mines continue as before, they will simply go out of business (rationalisation continues with Amplats exiting Union and Rustenberg mines). In order to build the capacity to become profitable in the long term, SA mining companies will have to invest in smart technology and mechanisation. This is already starting, Amplats' modernised Batophele mine being an example.

In our view, the most material non-financial, or underlying ESG issues for the mining industry is how to deal with the expectations of surrounding communities in the face of the new reality of mechanisation and thus fewer jobs.

Our view is that Gold Fields' diverse assets in other geographies and its strategy of diverting its investment away from non-performing assets in South Africa, is a valid and responsible reaction to this issue as it reduces the residual risk it faces. Nonetheless, South Deep is a significant asset. Despite strong acknowledgement of the challenges facing community development by CEO Nick Holland, a clear strategy has yet to emerge.

Top 10 unranked material GELSCE issues in the Mining sector rated by FarSight

LABOUR
1. Occupational health & safety
2. Fair labour
3. Skills: attraction/ development/retention

SOCIETY
4. Industry equity
5. Community impact, relations & development
6. External societal risks
7. Internal equity

ENVIRONMENT
8. Bio physical impact
9. Energy/carbon footprint
10. Materials and resources

GOVERNANCE, ETHICS & CUSTOMERS
- No significant material issues

Amplats, as PMG metals producer, is more wedded to the Bushveld Complex, and thus to South Africa. Consequently, its exposure to the risks associated with this issue are higher. And its reporting reflects a more mature leadership approach to community development than does Gold Fields'. Amplats not only invests R&D in Fuel Cell technology and in the local jewellery industry, but also shows real commitment to local enterprise development, particularly related to its own supply chain. Whether the former will materialise and the extent to which the latter will make a significant impact on the local economy, remains to be seen.

Labour

Fair labour

The Platinum miners' strike of 2014 was a result of poor stewardship by mining leadership of its human resource capital. During the platinum metal boom of the previous period, the gap between executive management earnings and mine wages rose to unsustainable levels. Meanwhile, the Farlham Commission revealed the financial difficulties facing miners in the form of garnishee orders that rendered many of them impoverished on pay day. Mechanisation and the mining exodus from South Africa further put further pressure on employment levels. In particular, mines will continue to shed jobs as they accelerate towards a smart-tech, mechanised and more labour efficient model of mining ores further out of reach of traditional methods. These and other challenges have to be addressed by mining houses in the rebuilding of relations between mine management and workers post Marikana.

Gold Fields experienced a foretaste of this. Its initiative to bring in an Australian team to lead mechanisation at South Deep was, by its own admission) a disaster, meeting strong political resistance.

Artisanal and illegal mining

An emerging issue addressed by very few companies in the analysis is that of artisanal and illegal mining. This is but one expression of the frustration shown by local residents in being shut out of the apparent riches being exploited by foreign miners. The mining industry needs to find ways to include marginalised operators, whether at the informal, low-technology level, or at a higher, more formalised level.

Society

Community expectations

The hard realities facing the labour-serving communities in the mining belt has yet to hit home, and expectations of jobs are wildly unrealistic. Communities have high expectations for development, leading to rapid influx into local towns (Greater Tubatse's population, for example has increased from 260,000 to 375,000 since 2006). Workers seeking employment, or recently retrenched, begin venting their anger against preferential treatment given to those still in employment.

Smaller workforces will require new models for engagement with communities. Current mining CSI programmes are inadequate for they have failed to encourage local economic development for self-reliance.

LED in partnership with local government

On the other hand, local municipalities' budgets are too small to provide the infrastructure required for the growth of the local economy (roads, housing, water & sanitation, electricity, schooling, etc.). Private/public partnerships will need to be further strengthened to develop local infrastructure, hopefully implementing projects that offer direct benefits to mine and community.

Environment

Downstream beneficiation

Likewise, there is growing realisation that local economic investment in downstream beneficiation of the primary mined product would be a way to develop the local economy rather than sending commodities offshore for others to benefit from adding value. The platinum industry is showing signs of interest in this arena, developing fuel cell technology to augment alternative energy systems, as well as catalytic converters to meet tightening environmental legislation to reduce vehicle exhaust emissions. Other industrial opportunities beckon, as well as the jewellery industry, thus far with little success.

Weighting of material issues for seven companies in the Mining industry

Mining	MATERIALITY							
May '16	ANG	AMS	GFI	HAR	LON	RBP	SGL	Avg
10 Occupational health and safety	26	30	27	30	30	30	30	29
1 Board balance & effectiveness	28	26	28	25	29	23	28	27
9 Fair labour	25	30	27	30	30	15	30	27
23 Biophysical impact	26	26	26	26	26	26	26	26
12 Community impact, relations & development	25	30	26	30	30	5	30	25
20 Energy/carbon footprint	24	24	24	24	24	24	24	24
14 Industry equity	20	27	22	27	27	5	27	22
13 Internal equity	20	25	20	25	25	5	25	21
11 Skills: attraction/development/retention	18	22	18	22	22	20	22	21
15 External societal risks	20	22	22	22	22	15	15	20
4 Executive remuneration	16	20	16	20	20	20	20	19
21 Water	18	18	18	18	18	18	18	18
3 Leadership selection and preparation	15	15	15	22	15	15	15	16
5 System integrity	15	15	15	15	15	15	15	15
6 Moral DNA of the organisation	15	15	15	15	15	15	15	15
24 External environmental risks	15	15	15	15	15	15	15	15
2 Audit independence	13	13	13	13	13	13	13	13
7 Theft, fraud & corruption	8	8	8	8	8	8	8	8
8 Anti-competitive behaviour	3	3	3	3	3	3	3	3
17 Treatment of customers	0	4	0	4	4	4	0	2
18 Access to products & services	0	5	0	0	0	5	2	2
16 Product suitability	0	0	0	0	0	0	0	0
19 Consumer ID protection and data privacy	0	0	0	0	0	0	0	0
22 Materials and resources	0	0	0	0	0	0	0	0
Average materiality (out of max 30)	14,6	16,4	14,9	16,4	16,3	12,5	15,9	15,3

Food Processors

January, 2017

Considering the reliance and impact on natural resources for companies working in the primary sector, it is not surprising that environmental issues dominate the most significant material issues for the food sector. Of similarly high materiality for the food industry are the customer facing issues of product representation & suitability, and access to food.

Environment

The fishing industry exploits ***natural resources*** in the sea, where the only way to renew the resource is through conservation measures and control through the application of quotas. Further, the industry is exposed to illegal fishing, which erodes yields, particularly in the context of already fully- or over-exploited stocks. Sugar cane farms require the extensive use of ***land*** with competing demands for its usage. Further, the land itself is vulnerable to mismanagement and can suffer from erosion and general loss of its natural resource value. Food companies have inputs to their production processes which may be affected by climate and weather events (e.g. tomato blight).

The cost of energy, the reliability of the energy provider, green-house gas emissions from agricultural and food processing activities, and the management of the product's carbon footprint all contribute to the ***energy usage and carbon footprint*** of the companies.

The responsible ***usage of water*** in the food processing industry is a hot topic in the eye of the public. In particular, the amount of water consumed to produce a litre or a kg of end product for the consumer is fast becoming a performance measure under scrutiny. Further, access to ***quality water*** as an ingredient of the end product is a strategically important issue for producers reliant on traditional water sources that may be now under pressures from encroachment.

For companies that procure agricultural products as inputs to their processing plants, they have an obligation to understand and manage the ***environmental management practices*** of the primary producers, typically, the farms and fisheries concerned. The food processing industry is notorious for producing significant waste from products that don't meet quality standards, or are wasted as a result of ***spoilage in the supply chain***. Processing of agricultural products also results in significant contamination of water courses from the discharge of effluents (potentially impacting on downstream communities), and these impacts are falling under increased scrutiny from authorities as well as the public.

Top 10 unranked material GELSCE issues in the Property sector rated by FarSight

ENVIRONMENT

1. Materials and resources
2. Biophysical impact
3. Water
4. External environmental risks

CUSTOMERS

5. Product suitability
6. Access to products & services

SOCIETY

7. Internal equity
8. Industry equity

LABOUR

9. Fair labour

ETHICS

10. Anti-competitive behaviour

Customers

Following the Consumer Protection Act of SA, consumers have the right to demand full disclosure of the price of goods and services, as well as protection against false, misleading or deceptive representations. In the context of the food industry, there are a number of issues here:

1 ***Marketing and ethical advertising*** – the industry is vulnerable to deceptive or unfair marketing and advertising, making untruthful claims or making misleading representations in order to sway customer purchasing decisions, building brand loyalty to children based on encouraging the development of negative self-images and marketing products with a high sugar, salt or fat content to uninformed customers.

2 ***Disclosure and labelling*** – How accurate and truthful is the disclosure of harmful product ingredients on the labelling of products, as well as other pertinent information, such as product net weight, inclusion of bulking ingredients, quality, etc.

3 ***Nutritive value and health impact*** – To what extent do companies in the food processing industry seek to improve the health impact of their products and services, either remediating harmful impacts (such as of obesity from sugar content, or from harmful chemicals used in their production), or developing and promoting realistically beneficial impacts. This is particularly relevant to companies in SA where rapidly rising rates of obesity foreshadow increased pressure on the public health system.

The issue of ***food security*** for the poor and ***equitable access to nutritious foods*** for South Africa's low-income population is one of the most significant ESG issues facing the food processing industry. Regulators, as well as society in general, will continually seek to balance the ability of food producers to survive and thrive with the imperative to feed populations. This is exacerbated in times of economic stress where the flexibility of producers and consumers is constrained.

Labour

Rhodes Fruit group is judged to have the highest exposure to ***human rights vulnerabilities*** as a result of their farm holdings where workers have little or no ownership stake and are vulnerable in terms of security of tenure, income and lack of bargaining power for fair treatment. Tongaat, although also with agricultural holdings, has less vulnerability as many previously disadvantaged sugarcane farmers own their own farms. However, this is not the case in other countries where they operate.

Society

The promotion of subsistence fishing and farming, as well as the development of small-scale farming and fishing businesses is an intense political issue being driven by various different constituencies in SA and consequently by national government as it tries to balance the demands of economic growth and equitable distribution of the factors of production. This affects companies at the primary end of the production chain, including OCE, RCL, TON and TBS. Companies with a large ***local procurement spend*** are under more pressure from the dti's BEE Codes to promote ***local enterprise and supplier development.*** These would include AVI, RCL and PFG. Those that own a larger proportion of their upstream supply chain are less exposed to the issue, such as OCE and RFG.

Food processing companies that employ farm workers (or fishermen) in their supply chains will be increasingly scrutinised for the fair labour practices and the human rights practices of companies not under their direct control. Society increasingly associates fair practices down the supply chain with the brands that reach the stores, and these companies need therefore to ensure that the association being made with the brand is not tainted by human rights abuses or questionable practices taking place along the supply chain. Oceana (and also by part ownership, Tiger Brands) have exposure to the fishing communities where they are the dominant employer. This includes Houtbay, Laaiplek and Sadhana Bay. Tongaat has significant exposure to communities affected by its farming operations, as well as by its intended development of its property division. Rhodes is also fairly significantly invested in the Drakenstein farming community, with a significant community impact.

Ethics

Anti-competitive behaviour

Collusion is a particular vulnerability for companies in the food processing industry, and the spotlight is never far removed from this sector. Pioneer Foods and Tiger Brands were involved in a scandal in the early 2000s that involved the fixing of bread prices. At the time, the companies involved paid their fines and moved on without significant damage to their brands, largely because there were no other competitors that could profit from their loss of consumer confidence.

Weighting of material issues for seven companies in the Food processing industry

Food Processing Industry	MATERIALITY							
January '17	AVI	OCE	RCL	PNR	TON	TBS	RFG	Avg
16 Product suitability	22	20	21	26	23	26	26	23
22 Materials and resources	25	29	19	19	19	25	19	22
21 Water	20	10	20	25	24	25	27	22
23 Waste, water and air pollution	19	17	21	21	21	21	21	20
18 Access to products & services	19	19	22	22	22	19	17	20
9 Fair labour	21	16	26	21	17	19	19	20
14 Industry equity	20	17	21	20	21	20	17	19
24 External environmental risks	18	20	18	18	18	18	18	18
20 Energy/carbon footprint	16	18	18	18	18	19	19	18
8 Anti-competitive behaviour	17	17	17	17	17	17	17	17
13 Internal equity	17	17	17	17	17	17	17	17
15 External societal risks	16	16	16	16	16	16	16	16
12 Community impact, relations & development	10	22	10	10	22	15	22	16
10 Occupational health and safety	14	19	14	14	14	17	14	15
1 Board balance & effectiveness	15	15	15	15	15	15	15	15
6 Moral DNA of the organisation	15	15	15	15	15	15	15	15
11 Skills: attraction/development/retention	15	9	15	15	12	15	15	14
2 Audit independence	13	13	13	13	13	13	13	13
4 Executive remuneration	13	13	13	13	13	13	13	13
3 Leadership selection and preparation	12	12	12	12	12	12	12	12
5 System integrity	11	11	11	11	11	11	11	11
7 Theft, fraud & corruption	11	11	11	11	11	11	11	11
17 Treatment of customers	14	8	8	8	11	8	8	9
19 Consumer ID protection and data privacy	7	0	0	0	0	0	0	1
Average materiality (out of max 30)	15,8	15,2	15,5	15,7	15,9	16,1	15,9	15,7

Healthcare

March, 2017

Governance
Despite the economic downturn, the healthcare sector is relatively resilient, as customers need health and wellness products regardless of the state of the economy.

As a result of the sharp rise in the burden of disease, in particular metabolic diseases, cardio-vascular diseases, mental disorders and Type II Diabetes, coupled with an ageing profile and steadily decreasing number of medically insured lives, fewer healthy individuals are available to fund the overall healthcare burden.

This has resulted in an uneasy tension between governments, funders and the providers of healthcare, both hospitals and pharmaceutical companies. Governments demand lower cost and solutions that prevent rather than only treat, while funders use their increasing market power to dictate the pricing and terms of the healthcare being provided.

Other regulatory risks facing the healthcare industry include:

- The Healthcare Market Enquiry (HMI) in South Africa, as part of the government's transformational agenda of making healthcare more affordable to the South African public (conclusion expected in November 2017);
- The National Health Insurance (NHI) White Paper introducing the possibility of contracting affordable healthcare to the private sector;
- Protection of Personal Information Act (POPI);
- Annual adjudication by the SA government of the single exit price which fails to cover the cost of increases faced by the pharmaceutical industry;
- Lengthy product registration timelines affect returns on R&D investment for pharmaceutical companies.
- Uncertainty around issuing of new bed licences by government health departments.
- Limit on the direct employment of doctors in a clinical practice role in South Africa, as per the Ethical Rules of the Health Professions Council of South Africa (HPCSA).

Top 10 unranked material GELSCE issues in the Healthcare sector rated by FarSight

GOVERNANCE
1. Board balance and effectiveness
2. System integrity

ETHICS
3. Moral DNA of the organisation
4. Theft, fraud & corruption
5. Anti-competitive behaviour

CUSTOMERS
6. Product suitability
7. Treatment of customers
8. Access to products and services

LABOUR
9. Skills: attraction/ development/retention

SOCIETY
10. External societal risks

Customers
Multi-drug resistance and infection is an escalating threat in the hospital industry, potentially even risking pandemics. Good governance structures are required to ensure a sterile environment and responsible stewardship of antibiotic use.

Patient's satisfaction with their experience while in the care of the hospital and its staff includes ensuring the patient is informed with respect to medical procedures and pharmaceutical information, quality of the food, reduction of noise and pre- and post-operative counselling. Response to concerns and complaints is also critical.

Pharmaceutical brand reputation depends on the ***responsible manufacture and supply*** of products, thus raising the risk exposure in the pharmaceutical industry. Highly technical demands on R&D and risk of events can result in batch rejection or product recall.

Inflated claims about the efficacy of drugs, or underplaying side-effects, can have serious consequences for both patients and for the pharmaceutical business in terms of sanctions and reputational damage. Regulation and consequent risk may vary between more and less developed markets.

There is a strong expectation from society that private hospitals should play a role in extending ***healthcare access to the poor*** and marginalised. In South Africa, the model for participating in the government's ambitions to provide National Health Insurance is far from certain. Nonetheless, considering higher patient volumes at the lower end of the market, hospitals need to explore new healthcare models, such as are being pioneered by the likes of Lenmed, BusaMed and Phelang Bonolo.

Governments are scrutinising the ***pricing of pharmaceuticals*** and implementing programmes to control and/or reduce the pricing of pharmaceuticals, including price regulation of pharmaceutical products and promoting increased usage of generics.

Ethics
Hospitals are offering higher quality of care, but at higher cost, resulting in the Competition Commission's ***Health Market Inquiry*** (HMI) into the private healthcare sector. Amongst the issues relating to hospitals are ***incentive-based arrangements between hospitals and doctors*** that may bias treatment in favour of excessive hospital utilisation. This also applies to other services, such as emergency transport, pathology, radiology and anaesthetists.

Corrupt practices are a significant vulnerability facing the hospital sector. Specialists with conflicted interests may prescribe ***unnecessary procedures***. If ethical codes aren't enforced as part of the company's ***moral DNA***, violations, such as in the case of the illegal kidney transplants in 2001 and 2003 may occur, seriously ***compromising basic human rights***. More pervasive practices include the inflation of consumables and expenses through devious billing practices, and a lack of transparency in accessing information, such as for pricing and billing.

Labour
There is intense ***competition for skilled doctors in the hospital sector***. Key to attracting doctors is the quality of the resident nursing care, the efficacy of governance structures, professional networks to provide for continuous professional development, as well as forums that help with issues such as antibiotic stewardship and optimum levels of care. Nurses, intensive care unit (ICU) employees and semi-skilled labour, are also in high demand. Likewise, ***specialist technical skills*** are a key resource for competitive advantage in the pharmaceutical industry.

Society
South Africa is the main territory affected by legislation demanding levels of ***local equity*** in order to compete for government tenders. This affects hospital group LHC for bed allocations and pharmaceutical group AIP which supplies medicines to the Dept. of Health's programmes. All companies operating in SA are affected by this societal imperative. Equity aspects include: ownership, employment and preferential procurement from local suppliers.

Environment
Environmental issues were not identified as being critical to the business, though a number of aspects contribute to business sustainability. ***Reliable supply of utilities***, such as ***electricity*** and ***water*** impact on both hospitals and pharmaceutical sectors' business continuity, while ***hazardous waste and spills*** from manufacturing sites are specific risks for the pharmaceutical sector.

Weighting of material issues for seven companies in the Healthcare industry

Healthcare Industry	MATERIALITY							
March '16	NTC	MDC	LHC	APN	AIP	ASC	NVO	Avg
6 Moral DNA of the organisation	26	26	26	26	26	26	26	26
7 Theft, fraud & corruption	25	25	23	25	22	27	30	25
18 Access to products & services	20	20	22	24	24	24	27	23
17 Treatment of customers	30	30	30	15	12	18	18	22
1 Board balance & effectiveness	21	21	20	21	20	20	26	21
15 External societal risks	20	22	20	22	19	19	22	21
8 Anti-competitive behaviour	16	16	16	18	18	18	29	19
5 System integrity	20	20	20	17	17	17	17	18
16 Product suitability	5	5	5	25	25	27	30	17
19 Consumer ID protection and data privacy	20	20	20	12	10	15	18	16
11 Skills: attraction/development/retention	17	17	17	15	15	15	15	16
3 Leadership selection and preparation	15	15	15	15	15	15	18	15
4 Executive remuneration	15	15	15	15	15	15	15	15
10 Occupational health and safety	13	13	13	13	13	13	13	13
13 Internal equity	13	12	16	12	16	12	9	13
21 Water	12	12	12	13	13	13	13	13
2 Audit independence	12	12	12	12	12	12	15	12
14 Industry equity	10	9	13	10	14	8	22	12
9 Fair labour	7	7	11	14	11	14	14	11
20 Energy/carbon footprint	10	8	12	9	12	10	6	10
23 Biophysical impact	3	3	5	15	10	10	10	8
22 Materials and resources	0	0	0	12	12	12	12	7
12 Community impact, relations & development	2	2	2	1	2	1	0	1
24 External environmental risks	1	1	1	1	1	1	1	1
Average materiality (out of max 30)	13,9	13,8	14,4	15,1	14,8	15,1	16,9	14,8

Retail

June, 2017

Customers
In the retail sector, the most important non-financial issues relate to customers.

Product suitability
The ***health impact of products*** is an issue with significant societal consequences, as well as risk to retailers caught with brands and brand positioning that is behind the trend towards healthier alternatives. Retailers that pick up on health concerns when they first emerge, such as foods that may be carcinogenic, or lead to obesity, and find innovative strategies to position their brand as being responsible, build valuable relational capital.

Credit affordability
Credit retailers (in the same way as banks and insurers) have the further responsibility to determine whether their customers can ***afford the credit*** being offered and that their customers understand and can manage the financial responsibility they are taking on when buying on credit. Edcon had signed up more than 2m credit customers at the time of its deal with Bain in 2007 and this contributed significantly to its financial weakness in the 2008 credit crunch. In general, retailers that extend significant credit, particularly to low LSM customers, will also be more vulnerable to societal, as well as financial, risk.

Treatment of customers
Customer satisfaction is a leading indicator of consumer purchase intentions and loyalty. Measuring and successfully responding to customer feedback in all its forms, from loyalty programmes to customer complaints, allows a retailer to sense its customers' concerns, build customer loyalty and emotional attachment to the brand. Conversely, poor response can raise the likelihood of an incident destroying significant goodwill.

Ethical advertising and product labelling, especially in the food retail industry, is an issue that, if mismanaged (for example through inappropriate targeting of children, or misleading product information), can significantly increase a retailer's reputational vulnerability when consumer watch organisations uncover such practices.

Responsible credit and lending practices is a societal obligation to ensure customers are treated fairly when extending credit, including not charging unfair or exorbitant interest rates and other 'add on' fees, such as Edcon's club membership fees (2017). In 2016, Lewis Stores was exposed for mismanagement of its credit practices at point of sale. In general, retailers that extend significant credit, particularly to low LSM customers, will also be more vulnerable to societal, as well as financial, risk.

Top 9 unranked material GELSCE issues in the Retail sector rated by FarSight
GOVERNANCE
1. Board balance and effectiveness
2. Remuneration & incentives

ETHICS
3. Moral DNA of the organisation

CUSTOMERS
5. Product Suitability
4. Treatment of customers
6. Access to products and services

LABOUR
7. Fair labour

SOCIETY
8. Industry equity
9. External societal risks

ENVIRONMENT
- No significant material issues

Access to products and services
Equitable access to products and services is a national imperative to bring about a more equitable society. While some retailers may be more focussed on higher LSM categories, and thus arguably less exposed, the government and the press tend to hold food retailers responsible for providing affordable food and preventing the starvation of the poor. How companies respond to the challenge impacts on the value of their societal capital. SHP and MSM are most exposed considering their LSM positioning.

Consumer ID and data privacy
Consumer protection and ID privacy is emerging as a material issue for those retailers who gather information about their customers, particularly at the point of sale. This information can be used legitimately for digital marketing, but also brings with it the obligation to manage the information responsibly, not violating customer privacy. Credit retailers and companies with loyalty programmes are more vulnerable.

Governance
Board balance and effectiveness is a strong value driver for companies taking on significant risks, such as new acquisitions, new markets, new business arenas and companies with additional premium on institutional memory (where a key executive has retired, for example). SNH is most exposed, followed by DCP, SHP and WHL. ***IT Governance*** is crucial to support strategies to respond to online retail competition (clothing and general), as well as for food retailers with sophisticated logistics and supply chains that need to preserve the cold chain for fresh products. Acquisitive companies, such as SNH, need to streamline IT governance in newly acquired businesses and across operations. This is further

exacerbated for large and complex businesses with operations in several geographies. Other material issues include ***Remuneration and incentives, leadership selection and preparation,*** and ***audit independence.***

Society

External societal risks include destabilised political environment in South Africa, as well as the emergence of populism globally (particularly in Europe). Bureaucratic red tape and corruption adds friction to doing business in Africa, exacerbated by inadequate and unreliable infrastructure. Emergence of national global inequality impacts on retailers operating in middle market (see treatment under 'Access to products and services'). While most retailers are affected, SHP has raised vulnerability. ***Industry equity*** relates to how large retailers treat their small suppliers. In emerging economies, especially South Africa, retailers have the further responsibility to promote local industries in the supply chain, sourcing local rather than importing from other countries. This issue is also gaining prominence globally, as an increasingly nationalistic agenda drives trade policy.

Labour

Fair treatment of labour both within the business and throughout the supply chain is an issue retailers may be vulnerable to, particularly those with the most economic power and brand exposure, selling high-volume, low margin products for which SNH, SHP and MSM are most exposed. Clothing retailers (especially those with brands) also exposed to treatment of labour in the supply chain (WHL, MPC, TRU and TFG).

Ethics

Moral DNA relates to the quality of the company's values and how well the company lives by them in dealing with its stakeholders. Fast-growing businesses in diverse geographies retailing food and drugs have the highest vulnerability to this issue. WHL stands out with the highest materiality considering its Good Business Journey brand positioning. ***Anti-competitive behaviour*** is of some concern for large retailers considering current scrutiny from the Competition Commission.

Environment

Most of the environmental impact for retailers lies in the supply chain, with some minor impact on the business through reliability and efficiency of resource use (***energy*** and ***water***). Containment of pollution and management of waste by producers supplying product to retailers (***biophysical impacts***), as well as responsible disposal/recycling of packaging, may be of concern where end customers are particularly conscious and prepared to vote with their dollars. WHL, considering its Good Business Food Journey, has the highest exposure to this issue.

Weighting of material issues for eleven companies in the Retail industry

Retail Industry		MATERIALITY											
	June '17	SHP	PIK	WHL	SPP	CLS	DCP	TFG	MSM	MRP	TRU	SNH	Avg
17	Treatment of customers	26	26	30	26	25	25	27	25	26	27	28	**26**
16	Product suitability	25	25	26	25	26	26	25	24	15	26	21	**24**
6	Moral DNA of the organisation	23	24	27	20	24	24	22	21	21	22	25	**23**
9	Fair labour	24	22	24	19	19	19	21	23	22	21	24	**22**
18	Access to products & services	24	25	17	20	20	20	16	18	16	16	17	**19**
1	Board balance & effectiveness	23	21	21	18	18	21	18	1	16	19	26	**18**
15	External societal risks	20	16	16	15	17	16	19	17	17	18	15	**17**
14	Industry equity	19	17	17	14	14	14	14	18	16	14	19	**16**
3	Leadership selection and preparation	20	15	13	13	13	17	17	13	13	17	17	**15**
4	Remuneration and incentives	20	17	14	14	14	17	14	4	18	14	17	**15**
5	IT Governance	16	16	16	13	13	13	13	13	13	13	18	**14**
11	Skills: attraction/development/retention	12	11	15	11	15	15	16	9	15	15	16	**14**
19	Consumer ID protection and data privacy	9	15	13	10	15	14	16	9	14	15	16	**13**
23	Biophysical impact	11	11	17	13	11	11	14	11	11	14	13	**12**
8	Anti-competitive behaviour	17	16	14	15	9	7	9	9	9	9	17	**12**
2	Audit independence	12	13	12	12	7	7	15	9	13	13	17	**12**
13	Internal equity	10	12	9	10	12	12	10	12	12	12	9	**11**
21	Water	11	11	12	8	8	8	8	11	8	8	8	**9**
20	Energy	8	8	8	8	8	8	8	8	8	8	8	**8**
12	Community impact, relations & development	7	6	2	6	4	2	3	5	2	2	2	**4**
24	External environmental risks	1	4	3	1	1	1	6	1	6	6	1	**3**
7	Theft, fraud & corruption	0	0	0	0	0	0	0	0	0	0	0	**0**
10	Occupational health and safety	0	0	0	0	0	0	0	0	0	0	0	**0**
22	Materials and resources	0	0	0	0	0	0	0	0	0	0	0	**0**
	Average materiality (out of max 30)	14,1	13,8	13,6	12,1	12,2	12,4	13,0	10,9	12,1	12,9	13,9	**12,8**

Property

August, 2017

The property sector has enjoyed a boom over the last decade in South Africa, but given the maturity of the SA market and political uncertainties, local investors have been growing their offshore portfolios, particularly Eastern Europe. Governance and ethics have recently become key issues for the property sector as legislation and government scrutiny in emerging markets (both in Africa and in Eastern Europe) raise the risk of exposure for companies flouting regulation and ethics in their business dealings. Companies in SA have additional societal burden relating to pressure from government to improve Black Economic Empowerment

Governance

Responsible decisions require a strong board, combining experience, industry knowledge and innovative thinking, encapsulated in the governance issues: ***board balance and effectiveness***, as well as ***leadership selection and preparation.*** Companies weighted highest for this issue will be those demanding a broader set of skills, e.g. raising funding, identifying and delivering on acquisitive growth, managing project delivery, tenant relations, etc. This demand is associated with those that have a more active investment and development programme, or have taken on more complexity, such as operating across multiple geographies and subsectors (retail, office, warehousing, etc.).

Independence on the board requires aligning the interests of leadership with the interests of minority shareholders. Where directors serve on multiple boards, or have significant holdings in other companies, some disclosure and discussion is expected in the integrated report.

Given the opportunities for executives in the property sector to enrich themselves at the expense of providers of capital, FarSight has given significant weight to ***remuneration & incentives*** and ***audit independence*** (though the FS weighting reduced as the protocols around audit are tightly legislated and controlled). Companies listed on the LSE are encouraged to take up a significant shareholding in the company (>400% of annual pay) in order to incentivise alignment with shareholders.

Top 8 unranked material GELSCE issues in the Property sector rated by FarSight

GOVERNANCE
1. Board balance and effectiveness
2. Leadership selection & preparation
3. Remuneration & incentives
4. Audit independence

ETHICS
5. Moral DNA of the organisation
6. Theft, fraud & corruption

CUSTOMERS
7. Treatment of customers

ENVIRONMENT
8 Energy

SOCIETY
- External societal risks (SA only)

LABOUR

Ethics

In the property sector, businesses deal with brokers and tenants in the establishment and management of leases. They deal with banks and other finance partners for financing, with municipalities for approvals of development plans, and with contractors for building and maintenance. A general set of values that guides and defines the way the company conducts its business can have a significant impact on the company's sustainability. Trusted REITs will be preferred, while those in less in control of ***moral DNA*** might lose goodwill, or fall foul of legislation.

Theft, fraud and corruption has historically attracted little societal attention, but is raised as a vulnerability considering the undoubted temptation to seek advantage in the development marketplace, as well as the potential opportunities to commit fraud in the governance of funds. Given the increasing incidence of corruption in South Africa and the public outrage against corporates found to have colluded with public officials and SOEs, the issue is further upweighted for the SA market.

Anti-competitive behaviour has become a significant issue in South Africa with the Competition Commission's Grocery Retail Market Inquiry, currently under way. Amongst its objectives is to inquire into the impact of long-term exclusive lease agreements and the role of financiers on competition in the grocery retail sector. Mall owners in regional centres that enjoy market power are more vulnerable to this issue, as well as where individuals or companies have cross-holdings, both between property companies, as well as with large retailers.

Customers

Despite its business importance, ***product suitability*** issue enjoys limited societal scrutiny. Issues of concern include building health impact on occupants, quality standards, cleanliness, convenience of access (parking) etc. ***Treatment of customers*** refers to customer satisfaction and the response by building owners to complaints by tenants and is weighted slightly above average for materiality. ***Access to products and services*** is weighted and low and ***customer ID protection and data privacy*** is a non-issue for this sector.

The trend towards green building has gained considerable traction and most high-grade buildings now differentiate their offering based on one of the Green Building standards. Building 'green' has become a differentiator for quality - more environmentally friendly, and more 'natural' – and thus more healthy and attractive for occupants and visitors. Modern companies hiring smart, young knowledge workers, or shopping malls looking to attract such shoppers, seek to create inspiring, attractive, healthy and, above all, 'environmentally green' buildings that uplift the visitor's/occupant's experience.

Energy and ***water*** conservation rank high in public perception, though companies are more concerned with reliability of supply and minimisation of cost, rather than for environmental ends. Aspects relating to energy conservation include increased efficiency of HVAC (air-conditioning) systems and onsite generation of energy, or the purchasing of renewable energy to register credits (in the UK). ***Biophysical impacts*** relate to waste management and embodied carbon and GHG emissions. ***Materials and resources*** is weighted low and ***external environmental risks*** is barely noted as a risk, rather a hygiene factor to be taken into account at design, or due diligence stage.

Society

Community impact, relates to compliance with zoning laws and adherence to the building and landscaping regulations, as well as the potential impact on the local community during development operations and construction. ***External societal risks*** relate to the general deterioration in national governance (South Africa), ineptitude and inefficiency at local municipalities responsible for processing planning applications, incorrect billing for utilities and municipal services, and possible corruption of pubic officials. A lack of adequate infrastructure and services, such as a reliable supply of electricity, are further inhibitors to growth for property companies in South Africa, as well as on the continent. Concerns for security and terrorism were raised as strategic risks by all companies in the survey operating in the UK, Western Europe and Africa.

Internal equity and ***industry equity*** are largely of concern to South African companies only, with the current The Property Sector Charter Report calling for the industry to address the challenges to transformation, in particular through the commitment to sell 35% of property disposals to B-BBEE enterprises over a five-year period, and to commit to 10% of new property development in under-resourced areas over a five-year period.

Labour

Labour issues are not particularly significant societal issues in the property sector, given the high average skill level of employees in the industry and the generally small staff to income ratio.

Weighting of material issues for eleven companies in the Property industry

Property Industry	MATERIALITY											
August '17	HMN	CCO	ITU	GRT	RDF	HYP	FFB	RES	NEP	ROC	NRO	Avg
1 Board balance & effectiveness	23	23	23	25	25	25	25	25	25	25	25	**24**
3 Leadership selection and preparation	18	18	18	22	22	22	22	20	20	20	20	**20**
6 Moral DNA of the organisation	20	20	20	20	20	20	20	20	20	20	20	**20**
7 Theft, fraud & corruption	15	15	15	19	19	19	22	22	20	20	20	**19**
17 Treatment of customers	17	17	17	17	17	17	17	17	17	17	17	**17**
20 Energy	17	17	17	17	17	17	17	17	17	17	17	**17**
5 System integrity	15	15	15	18	20	20	15	15	15	15	20	**17**
8 Anti-competitive behaviour	10	10	10	15	18	18	20	20	15	20	18	**16**
4 Remuneration and incentives	14	14	14	16	16	16	17	16	15	15	15	**15**
11 Skills: attraction/development/retention	15	15	15	15	15	15	15	15	15	15	15	**15**
15 External societal risks	14	14	14	18	18	18	15	18	12	12	12	**15**
23 Biophysical impact	15	15	15	15	15	15	15	15	15	15	15	**15**
16 Product suitability	16	16	16	12	12	15	12	15	14	14	14	**14**
2 Audit independence	14	14	14	14	14	14	14	14	14	14	14	**14**
21 Water	10	10	10	17	17	17	17	17	10	10	10	**13**
12 Community impact, relations & developm	15	15	15	12	12	12	12	12	12	12	12	**13**
14 Industry equity	5	5	5	15	15	15	12	15	5	5	5	**9**
22 Materials and resources	8	8	8	8	8	8	8	8	8	8	8	**8**
18 Access to products & services	1	8	1	10	10	12	17	17	1	1	1	**7**
13 Internal equity	1	1	1	15	15	15	12	15	1	1	1	**7**
24 External environmental risks	3	3	3	3	3	3	3	3	3	3	3	**3**
9 Fair labour	2	2	2	2	2	2	2	2	2	2	2	**2**
10 Occupational health and safety	1	1	1	1	1	1	1	1	1	1	1	**1**
19 Consumer ID protection and data privacy	0	0	0	0	0	0	0	0	0	0	0	**0**
Average materiality (out of max 30)	11,2	11,5	11,2	13,6	13,8	14,0	13,8	14,1	11,5	11,8	11,9	**12,6**

Telecommunications, media and technology

November, 2017

The telecommunications, media and technology sectors are in a constant state of change as new, disruptive technologies threaten the business models of yesterday. Vodacom, MTN and Telkom (the telcos) have moved through an early phase of investment in infrastructure in order to dominate ownership of networks, to a new phase where they are competing over content to serve to their customers. This trend is converging with media companies Naspers and Tencent, who likewise seek to capture customer attention, a foundation critical for monetising product and service offerings. Blue Label's focus is specifically on distributing prepaid services to rural and poor customers. Technology firms EOH and Datatec provide the back-end services and the heavy lifting required to maintain the integrity of converging systems.

Governance

Given the dynamism of the TMT sector and the range of geographies across which companies operate (in particular MTN, Naspers and Tencent), strong boards are required, combining experience, industry knowledge and innovative thinking. ***Board balance and effectiveness***, as well as ***leadership selection and preparation,*** are particularly critical issues where founders play dominant roles on the board, where the company has a particularly active investment and development programme (Naspers, Tencent and EOH), or where complexity has increased (e.g. Blue Label's acquisition of Cell-C).

Ethics

Anti-competitive behaviour is a significant issue in South Africa for the TMT sector, especially for mobile telecoms operators. Whereas Ghana's 25 million people is served by six operators, in SA, only three operators, VOD, MTN and TKG serve some 97% of the market. Other jurisdictions are taking notice, with Nigeria's regulator classifying MTN as a 'dominant operator', undermining the company's competitiveness and affecting pricing and the approval of offers.

In SA, first movers Vodacom and MTN gained significant market power in a relatively weak regulatory environment, an advantage only now being structurally addressed and potentially challenged by the recapitalisation of Cell-C by Blue Label. In June 2013, Telkom paid a R200 m admission of guilt fine to the Competition Commission for anti-competitive behaviour against Internet Service Providers (ISPs), and has agreed to transparent and indiscriminate pricing in the wholesale and retail channels.

Top 8 material GELSCE issues in the Media sector rated by FarSight

GOVERNANCE
1. Board balance & effectiveness
2. Leadership selection & preparation

CUSTOMERS
3. Product suitability
4. Treatment of customers

SOCIETY
5. External societal risks

ETHICS
6. Moral DNA of the organisation
7. Theft, fraud & corruption
8. Anti-competitive behaviour

Naspers and Tencent may be vulnerable to ***corruption*** and resultant risks of avoiding regulatory scrutiny where they operate in emerging markets. EOH has a significant share of its business directly involved in government tender work and its vulnerability has been upweighted following allegations in the media that it may have been a party to collusive practices relating to the SASSA contract (though subsequently refuted).

Customers

Network operators' primary responsibility is to deliver ***dependable services*** and to be responsive to customer concerns. A major bottleneck hindering growth in South Africa is the lack of broadband availability. Engaging with and persuading government to allocate broadband spectrum is a major challenge for network operators. The National Integrated ICT Policy White Paper sets out how the SA government wants to provide equitable access to industry players, as well as provide wider coverage for citizens. In May 2017, a high-level agreement was reached between the Ministry and industry stakeholders, whereby the government would not take away assigned spectrum from existing licensees in return for licensees committing to participating in the Wholesale Open Access Network (WOAN), including providing access to consumers in rural areas.

In the TMT industry, the hosting of ***harmful content***, in particular content containing sex, violence and language to children, or content that might be harmfully addictive, is an issue that primarily affects content providers and distributors, such as Tencent, as well as mobile network operators through their responsibility to manage content distributed by OTT services.

Abuse of content may take the form of censorship or alteration of content by service providers and limits on freedom of expression imposed by firms in the media industry. Fake news would be an example of content that is either frivolously or maliciously propagated across a media platform to influence the public, and at the extreme may even destabilise governments. Tencent is directly vulnerable to this issue, while NPN has some vulnerability through its interest in Tencent, with a further responsibility through other media channels it controls more directly. How companies manage government's censorship, or intrusion is also a material issue in the TMT sector, particularly for Naspers and Tencent.

Customer satisfaction is a leading indicator of consumer purchase intentions and loyalty. Measuring and successfully responding to customer feedback in all its forms, through call centres, online portals and complaints handling, allows a network operator or media company to sense its customers' concerns, build customer loyalty and emotional attachment to the brand. Conversely, not providing customers with fair, easy-to-understand tariffs, not preventing or managing roaming or bill shocks, and/or poor response to complaints can raise the likelihood of an incident destroying significant goodwill, or exposure for non-compliance with the Consumer Protection Act and consequent penalties.

Equitable access to products and services is a national imperative to bring about a more equitable society.
In the TMT sector, there has been increasing public outcry against high costs of data, encapsulated in the #datamustfall campaign. Not only is data up to twice as expensive in South Africa as in other African markets, extraordinarily high out-of-bundle rates and pay-as-you-go (prepaid) data vouchers are often an order of magnitude more expensive, unfairly burdening lower-income citizens. Society has yet to sanction the TMT sector for this behaviour, but more mature leadership will notice and respond to the trend towards equity being pursued by governments across Africa.

Customer ID protection and data privacy has become a a key risk as media companies gather vast stores of consumer information for advertising as well as e-commerce-related revenues. Exposure and subsequent sanction would undermine the entire business models of the likes of Naspers and Tencent, and to an increasing extent, other companies across the sector. Examples of customer data requiring protection include: records and content of communications, demographic data, behavioural data, and other personal information that can reveal or compromise the identity of an individual.

Telcos and media operators in emerging economies take on political, as well as socio-economic challenges faced by the government of the host nation. Vodacom and MTN note national security and customer SIM registration regulations in their African markets, with MTN's poor stewardship of these regulations in its Nigerian market resulting in considerable value destruction for the company through the payment of fines. More onerous on-boarding and registration of new subscribers and SIM cards, as well as enforced disconnections pose typical risks faced by the sector.

Weighting of material issues for eight companies in the TMT industry

TMT Industry	MATERIALITY								
November '17	VOD	MTN	TKG	NPN	SEHK	BLU	EOH	DTC	Avg
1 Board balance & effectiveness	18	22	16	26	27	23	18	16	21
16 Product suitability	27	27	27	28	28	10	5	5	20
17 Treatment of customers	27	27	27	27	27	10	5	5	19
15 External societal risks	20	25	20	22	27	16	12	12	19
19 Consumer ID protection and data privacy	18	18	18	25	25	18	15	15	19
6 Moral DNA of the organisation	20	20	20	20	24	16	14	14	19
3 Leadership selection and preparation	14	20	14	20	24	15	20	15	18
7 Theft, fraud & corruption	16	16	16	22	23	15	18	12	17
8 Anti-competitive behaviour	20	20	15	28	28	15	5	5	17
2 Audit independence	11	16	16	20	20	16	18	14	16
18 Access to products & services	22	22	22	17	17	20	2	2	16
4 Remuneration and incentives	14	14	14	16	16	16	17	16	15
5 System integrity	18	8	17	20	20	16	12	12	15
13 Internal equity	15	15	15	12	8	16	18	16	14
14 Industry equity	12	15	15	12	8	16	18	16	14
11 Skills: attraction/development/retention	16	16	16	12	12	14	12	12	14
12 Community impact, relations & development	10	10	10	8	8	15	8	8	10
20 Energy	8	8	8	12	12	7	7	7	9
9 Fair labour	5	5	12	5	5	5	5	5	6
23 Biophysical impact	4	4	4	4	4	4	4	4	4
24 External environmental risks	2	2	2	2	2	2	2	2	2
22 Materials and resources	0	0	0	0	0	0	8	0	1
10 Occupational health and safety	0	0	0	0	0	0	0	0	0
21 Water	0	0	0	0	0	0	0	0	0
Average materiality (out of max 30)	13,2	13,8	13,5	14,9	15,2	11,9	10,1	8,9	12,7