

**UNIVERSITY OF VAASA, FINLAND**

**FACULTY OF BUSINESS STUDIES**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

Anna-Leena Teppo

**CORPORATE SOCIAL RESPONSIBILITY REPORTING AND  
FINANCIAL MARKET PERFORMANCE**

**Do investors care about CSR disclosures?**

Master's Thesis in  
Accounting and Finance

Line: Financial Accounting

**VAASA 2007**

<b>TABLE OF CONTENTS</b>	<b>page</b>
<b>ABSTRACT</b>	7
<b>1. INTRODUCTION</b>	9
1.1 Introduction to subject	9
1.2 Research problem and approach	11
1.3 Construction of the study	14
<b>2. PREVIOUS RESEARCH</b>	15
2.1 Drivers of CSR reporting	15
2.2 CSR/FP relationship studies	17
2.3 Information releases and share price responses	18
2.4 CSR reporting	19
2.5 Disclosure, stakeholders and market performance	21
<b>3. CORPORATE SOCIAL RESPONSIBILITY</b>	24
3.1 General definitions of sustainable development and CSR	24
3.2 The three dimensions of corporate social responsibility	25
3.2.1 Economic dimension	26
3.2.2 Social dimension	27
3.2.3 Environmental dimension	29
3.3 International regulations, standards and guidelines concerning corporate social responsibility	30
3.3.1 Principle based standards	31
3.3.1.1 The Global Compact	31
3.3.1.2 OECD and responsible business	31
3.3.1.3 The European Multistakeholder Forum on Corporate Social Responsibility	33
3.3.2 Performance standards	33
3.3.2.1 The AA1000 guidelines	33
3.3.2.2 The ISO environmental standards	34
3.3.3 Process standards	35
3.3.3.1 The EU Eco-Management and Audit Scheme	35
3.3.3.2 Global Reporting Initiative's Reporting Guidelines	32



<b>4. CORPORATE SOCIAL RESPONSIBILITY REPORTING</b>	41
4.1 The history of CSR reporting	43
4.2 Current state of reporting	45
4.3 Theoretical Background for voluntary CSR reporting	46
4.3.1. Political economy theory	46
4.3.2. Organizational legitimacy theory	46
4.3.3. Stakeholder theory	47
4.3.4. User utility theory	48
<b>5. FINANCIAL MARKETS</b>	50
5.1 Market efficiency	50
5.2 Mainstream investment and CSR	51
5.3 The context of financial system	51
<b>6. DATA GATHERING AND ANALYSIS METHODS</b>	54
6.1 Data gathering	55
6.2 Statistical testing	57
<b>6. FINDINGS OF EMPIRICAL STUDY</b>	59
<b>7. CONCLUSIONS</b>	63
<b>BIBLIOGRAPHY AND REFERENCES</b>	68



**LIST OF PICTURES****page**

Picture 1. Corporate social responsibility	25
Picture 2. The general principles of GRI guidelines	38
Picture 3. Theoretical framework	49

**LIST OF TABLES**

Table 1. Corporate Social Responsibility initiatives and guidelines	41
Table 2. Descriptive statistics for the variables	56
Table 3. Pearson correlation coefficients	59
Table 4. Chi-squared test statistics	60
Table 5. Output from fitting a general linear model	61
Table 6. Parameter estimates for dependent variable returns	61



---

**UNIVERSITY OF VAASA****Faculty of Business Studies**

**Author:** Anna-Leena Teppo  
**Topic of the Thesis:** Corporate Social Responsibility Reporting and Financial Market Performance  
**Name of the Supervisor:** Professor Paavo Yli-Olli  
**Degree:** Master of Business Studies  
**Department:** Accounting and Finance  
**Major Subject:** Financial Accounting  
**Line:** General Accounting and Finance  
**Year of Entering the University:** 2002  
**Year of Completing the Thesis:** 2007 **Pages:** 76

---

**ABSTRACT**

The roles and responsibilities of business in society have been going through significant changes during past decades. In addition to the traditional bottom line; creating value to shareholders, the companies are asked to be accountable for a changing set of corporate social responsibility (CSR) issues and thus contributing to local as well as global sustainable development. Companies have responded to this growing demand for CSR by publishing more information related to their social and environmental responsibility.

This study examined whether there exists a relationship between such social and environmental disclosure and the financial market performance of a company. Thus the study addressed a question whether investors care about the CSR reporting of companies so that their appreciation of a larger amount of reporting could be seen through improved share price performance.

The final sample consisted of 80 Finnish and Swedish companies listed in the Nordic Exchange. By using the method of content analysis the CSR data component was obtained from companies' annual reports and separately published CSR reports from years 2001-2007. Share returns were calculated from share price data obtained from Datastream database. The results from the series of statistical testing with Pearson correlation coefficients, Chi-Square test of association and analysis of co-covariance indicated that the answer to the research question is no. None of the findings proved to be statistically significant and thus there still seems to be a contradiction between the investors' increasing demand for CSR disclosure and the appreciation of this disclosure since there still exist no evidence of proven links between the price sensitivity of the social and environmental data.

---

**KEYWORDS:** corporate social responsibility reporting, corporate sustainability, financial market performance



## 1. INTRODUCTION

### 1.1 Introduction to subject

The power of companies has risen tremendously during past century to the extent that corporations today represent over the half of world's largest economies. Largest multinational corporations possess as much, if not more power than some countries in the world and they most certainly have more resources than some nations. With power undeniably come responsibilities and this has forced businesses to redefine their status and operating in societies. Expanding globalisation, new forms of global governance and growing public awareness of organisations actions have all led to a new era of doing business. The traditional bottom-line of businesses; creating value to shareholders is therefore continuously expanding towards companies needing to realize their responsibilities to all other stakeholder groups as well. (Warhurst, 2005; Zadek, 2001).

An increasing number of analysts, regulators, activists, labour unions, employees, community organisations and news media have started asking companies to be accountable for a changing set of corporate social responsibility (CSR) issues and thus contributing to local as well as global sustainable development. There is an increasing demand for transparency in business operations due to various accounting, environmental and labour scandals and growing expectations for corporations to measure, report, and continuously improve their social and environmental as well as economic performance. (Warhurst 2005; Epstein 2003; Tsoutsoura 2004).

Companies have responded to the growing demands for sustainability and social responsibility in varying ways. According to KPMG International survey of Corporate Responsibility Reporting 2005, CR reporting has been steadily rising since 1993 and it has increased substantially in past three years. In 2005, 52 percent of 250 global and 33 percent of 100 national companies in 16 countries issued separate CR reports, compared with 45 percent and 23 percent in 2002. If annual financial reports with CR information are included, percentages are even higher: 64 percent and 41 percent. (KPMG 2005.)

However, even though shareholders and investors are said to mainly appreciate this increased amount of disclosure as a way of discharging accountability and increasing transparency, research in the past has indicated

that reporting on environmental and social issues has little or no influence on investor's decision-making. Traditionally investors tend to be concerned only with financial information and information with possible financial impacts on share prices (see e.g. Milne & Chan 1999). If these conclusions are to be generalized, one might wonder why companies would even take the effort of reporting about their social and environmental responsibilities. In order to report these issues, the company has to go through significant amount of planning, accounting and measuring to be able to collect and evaluate the required data, and auditing or assuring in order to verify the information given in the disclosure (Niskala & Tarna, 2003).

Taking environmental and social issues into the business strategy is both time and resource consuming. Thus it seems obvious that there also need to be other drivers than the usefulness to investors behind CSR reporting. At the time being, large multinational corporations are leading the way in working towards more sustainable (or less unsustainable) way of doing business by taking on the CSR issues and reporting about their actions despite the fact, that the information disclosed might not be of importance to investors, the main user group of company information in general.

These companies have realized the impacts which other stakeholders in addition to shareholders can have on them (boycotts, reputation scandals etc.) and they have realized the benefits of being (or at least pretending to be) environmentally and socially responsible (cost savings, improved reputation, motivated employees). Thus the question addressed in this study is, could it be that by now, also the investors would have grown to appreciate a well managed, sustainable and responsible company which widely and openly reports on its performance on sustainability issues? Or do the investors still have a "lesson to learn" in the field of socially responsible business.

At the same time as corporate social responsibility is requiring more attention within businesses, the power of financial markets continues to hold companies under its influence. According to Murray et al. (2006) there is 'a growing anxiety about the re-distributional effects that such markets encourage and also equal concern on how much they guide the managements' decision-making'. If companies must be among the major institutions through which environmental responsibility, social justice and eventually, sustainability are to be delivered, then companies need the ability to experiment, take longer perspectives and undertake actions of which

financial markets may disapprove. (Murray, Sinclair, Power & Gray, 2006: 228-229.)

There seems to be a contradiction between the investors' increasing demand for CSR disclosure and the appreciation of this disclosure because there still exists no evidence of proven links between the price sensitivity of the social and environmental data. This might support the conclusion made by Ullman (1985); "it pays to be good but not too good" for companies in a way that the reasons behind goodish companies are purely financial (cost savings, cost or liability avoidance, revenues, best in class management practices) and the company does not want to go any further in 'being responsible' because the financial markets do not reward for doing so.

Finland is generally considered among the top countries in the world what comes to sustainable development and corporate social responsibility. In fact, Finland, followed by Norway, Uruguay, Sweden and Iceland, was ranked first in environmental sustainability in 2005 out of 146 countries according to the latest Environmental Sustainability Index (ESI). (Center for International Earth Science Information Network, 2006.).

The level of environmental and social reporting in Finnish companies is relatively high (Niskala & Pretes, 1995), but it has mainly focused on environmental issues due to the dominance of environmentally sensitive industries such as forest, paper, and energy. With this exploration of the social and environmental information disclosed by some largest Finnish and Swedish companies today, it will be interesting to see, if the focus has spread out to include also the social dimension of corporate responsibility. Of main interest will be how the financial markets appreciate the companies' efforts in the field of CSR based on their reporting on those efforts.

## **1.2 Research problem and approach**

This study examines whether there exists a relationship between social and environmental disclosure and the financial market performance of largest Finnish and Swedish publicly listed companies. The possible link between the two is examined through the amount of environmental and social disclosure on companies' annual reports, separately published additional reports and share returns, by using a series of statistical tests.

In addition to empirical testing, the paper presents a brief history of the concept of corporate social responsibility (CSR) and some drivers behind the implementation of CSR to corporate policy. Theoretical perspectives are provided to explain the voluntary disclosure and possible linkage between the disclosure and market performance. In addition some initiatives and guidelines which most affect the CSR policy and practice are introduced in order to provide an overall picture of the current state as well as possible future directions of CSR/sustainability accounting and reporting.

The theoretical part of the study will draw upon principles of political economy theory, organizational legitimacy theory, stakeholder theory and user utility theory. These are the most used theories in CSR research (Deegan, 2002). Also some parts of institutional theory could be applied, but they are not presented in more detail in this paper.

Through the aforementioned theories, corporations can be viewed as planning their operations in order to respond to the demands of shareholders and other stakeholders by providing useful information to stakeholders' decision-making. At the same time corporations aim at gaining, maintaining or repairing their state of organisational legitimacy. Thus CSR can be viewed as strategic tactic, which aims at convincing the wider society of that an organization is a legitimate institution. Finally, from institutional theory's perspective, corporations can be seen to operate within the institution of global business where actions and operations undertaken are motivated on the basis of other organizations' similar actions and the widely held perceptions of what is acceptable and even necessary, in order to belong and to succeed in a particular business field.

The purpose of this paper is to explore the relationship with environmental and social disclosure and financial market performance not so much for the relationship itself but from an educative perspective. As Murray et al. (2006) present, their study, which has served as a model study for this one, was motivated "not by a concern to understand better how investors' already high returns might be bettered (e.g. increasing the amount of disclosure) but rather to explore how the alleged potential of financial markets to contribute to social responsibility and sustainability might be engaged". Thus the paper seeks to bring out in the open the contradiction between two such traditional extremes as contributing in the long-run to the collective well-being of the

surrounding natural environment and society and aiming at short term profit maximization of individual shareholders. In an ideal world these two goals would be possible to achieve at the same time but since we are not living in that world (and never will) the goal should be to find compromises between the two in a way that will best contribute to both economic growth and sustainable development in a long run.

This study is considered important because it emphasizes the new role of business in society, corporations openly reporting on the impacts and effects of their activities to surrounding environment and discharging their accountability to society in which they operate. As sustainability is clearly continuing to develop from a trend to a widely accepted goal for future in these times of the threatening and on-going climate change and global warming, businesses and investors will have to welcome this new role of companies and learn to appreciate all efforts made to move from unsustainable towards more sustainable way of doing business even if this would happen on the expense of shareholder short term wealth creation.

In addition, the empirical part of the study is conducted with Finnish and Swedish data, which brings a Nordic country specific aspect along and moreover some of the companies included in the study have taken on the GRI reporting practice within last few years which has significantly affected the scope and depth of reporting.

To gather up the purpose of this paper, the main goal is divided to the following sub-goals:

- presenting the definitions, development and the current state of sustainability accounting and reporting,
- presenting the theories behind CSR reporting and the most significant initiatives and guidelines affecting sustainability reporting practice at the present moment,
- presenting the concept of market efficiency in order to explain why the amount of information disclosed could affect market performance,
- empirically examining the relationship between CSR reporting and companies financial market performance,

- presenting conclusions based on the results of empirical testing to evaluate the current state of CSR reporting in Finland and Sweden as well as investors' attitudes towards CSR reports.

### **1.3 Construction of the study**

The study is constructed as follows: the first chapter presents an introduction to the subject as well as the research problem and the approach. The second chapter presents five different research directions relating to corporate social responsibility reporting and the relationship between reporting and shareholders.

The third chapter focuses on the definitions and general concepts relating to sustainable development and corporate social responsibility. It also presents some international regulations, standards and guidelines concerning CSR. The fourth chapter thereafter concentrates on corporate social responsibility reporting by presenting a brief history of CSR reporting as well as the current state and some future prospects for reporting. In chapter four, also the GRI reporting guidelines are introduced. The fifth chapter talks generally about the financial markets and presents the concept on market efficiency which serves the purpose of understanding why the amount of reporting might be of importance to investors.

The sixth chapter begins the empirical part of the study. First, the data gathering and analysis methods are presented along with descriptive statistics of the actual data. Also the statistical tests used in the study are introduced. Chapter seven presents the findings of the empirical testing and chapter eight concludes the study with some general conclusions, the future prospects of CSR and CSR reporting, the findings of the study, limitations of the study and some implications for future research.

## **2. PREVIOUS RESEARCH**

The field of corporate social responsibility research is very wide and it has been often stated to be also complex due to the fact that the concept of CSR itself has numerous definitions in different contexts (for example depending on the industry and country of origin), CSR is still more or less a voluntary approach mainly concerning larger companies, and CSR reporting lacks consistency among regulations and guidelines. (Ullman 1985; Griffin & Mahon 1997; Gray 2005).

In this chapter, the most significant research directions regarding CSR reporting and the relationship between the reporting and company financial market performance are presented in order to provide an overall picture of the broad field of CSR studies and to provide adequate ground for the becoming study.

### **2.1 Drivers of CSR reporting**

There exists a wide spectrum of both, theoretical and empirical studies with the purpose of finding the main reasons, drivers behind taking CSR into company agenda. Deegan (2002) has made a rather comprehensive list of the motivations behind CSR disclosure based on earlier research:

- compliance with legal requirements
- economic rationality (business advantages)
- a belief in accountability or a responsibility to report
- desire to comply with borrowing requirements
- compliance with community expectations
- as a result to threats of organizational legitimacy
- managing stakeholder groups
- to attract investment funds
- to comply with industry requirements
- to forestall efforts to introduce more onerous disclosure regulations
- to win particular awards

(Deegan 2002, p. 286-288).

From the above list one can also derive the theories that have been most applied in studies aiming to describe and explain why companies act and report on CSR issues voluntarily, when no legislation or regulation directly requires them to do so. These theories are the already mentioned political economy theory, legitimacy theory, stakeholder theory and user utility theory. The theories will be presented in more detail in chapter 4.

Political economy theory has been applied for instance in studies by Guthrie and Parker 1990, legitimacy theory is has been applied by Guthrie and Parker 1989, Patten 1992, Deegan, Rankin and Tobin (2002) and O'Dwyer (2002).

In their study, Guthrie and Parker (1989) used historical and content analysis research methods to investigate the CSR disclosure policies of a major Australian company over a 100-year period through the medium of its annual report to shareholders. The analysis of the study failed to confirm legitimacy theory as the primary explanation for CSR in that particular corporate case and the writers suggested that political economy of accounting theory may have proved to be a better alternative.

Patten (1992) examined the effect of the Exxon Valdez oil spill on the annual report environmental disclosures of petroleum firms other than Exxon. The study found a significant increase in such disclosures after the oil spill and thus the results did support the legitimacy theory arguments claiming that social disclosures can be viewed as a method of responding to the changing perceptions of a corporation's relevant publics.

Deegan et al. (2002) examined the social and environmental disclosures of the same company analysed by Guthrie and Parker to ascertain the extent and type of annual report social and environmental disclosures over a 14-year period, and whether such disclosures can be explained by social contract and legitimacy theory. The results of statistical testing of relationships between community concern for particular social and environmental issues (as measured by the extent of media attention), and company's annual report disclosures on the same issues led support to legitimating motives for a company's social and environmental disclosures.

O'Dwyer (2002) interviewed senior managers of public limited companies in attempt to understand their motivations for social disclosure. The perspectives given by the interviewees suggested that while CSD may

occasionally form a part of a legitimacy process, it is still widely perceived as being incapable of supporting the achievement of a legitimate state.

Stakeholder theory has been most popular in explaining motivations for CSR. It has been used for example by Ullman (1985) and Roberts (1992). Ullman reviewed earlier research in the field in order to develop a framework consisting of the relationships between corporate social performance, social disclosure and economic performance. The purpose of Ullman's model was to predict corporate social activity based on a stakeholder theory of strategic management.

Roberts (1992) used Ullman's model to empirically test the ability of stakeholder theory to explain one specific corporate social responsibility activity – social responsibility disclosure. His results did support Ullman's application, finding that measures of stakeholder power, strategic posture, and economic performance are significantly related to levels of corporate social disclosure.

Several studies have also combined the aforementioned theories in order to be able to explain the differences in industry, country or size variables. (Gray, 2005).

## **2.2 CSR/FP relationship studies**

As presented above, in the list of possible motives for adopting CSR, economic rationality, the possible business advantages of CSR have led to a huge amount of studies examining the relationship between the corporate social responsibility (measured with varying methods, like CSR indices) and financial performance (either profitability or market performance). In fact, according to Margolis and Walsh (2001), over 122 published studies (i.e. Narver (1971); Alexander & Bucholz (1978); Aupperle, Carroll & Hatfield (1985); Waddock & Graves (1997); Tsoutsoura (2004)] have empirically examined the relationship between the two.

Salzmann, Ionescu-Somers & Steger (2005) provide a review of the theoretical frameworks and instrumental studies on the CSP/FP studies. The results have been inconclusive, suggesting both positive and negative relationships and no relationship at all. The inconclusiveness of the results can be, according to

Salzmann et al. (2005), attributed from shortcomings in the methodologies such as the use of a wide variety of measures, lack of effort to empirically test definitions and concepts, lack of significance testing and control for interaction with other variables, inadequate sampling techniques and the use of a variety of financial performance measures. In the absence of an accepted measure of corporate social responsibility, different researchers have developed their own measures, which make comparisons difficult. (Hall & Rieck, 1998).

### **2.3 Information releases and share price responses**

One direction of research has examined investor reactions to either good or bad news in the field of corporate responsibility by using event study methodology. As the efficient market hypothesis suggests that financial markets are "efficient" that is share prices reflect all known information and therefore are unbiased in the sense that they reflect the collective beliefs of all investors about future prospects, investors reactions for company's responsible and irresponsible actions should be shown in share prices.

In accordance with the efficient market hypothesis company expenditures beyond minimum legal responsibilities could be interpreted either as an inefficient use of resources, or as a sign of good and forward looking management and as a sign of reduced risk of future liabilities. (Lorraine et al. 2004). Thus these studies aim either at finding support for hypothesis or possibly claiming that financial markets do not care about CSR.

Spicer (1978) attempted to determine the financial characteristics of companies with good and bad pollution control records. He examined the possibility of an association between pollution control and profitability, asset size, risk and the price/earnings ratio. The study concluded that more profitable, larger companies tended to have better pollution control records, were awarded higher price/earnings ratios by the market and were considered less risky by investors.

Blacconiere and Patten (1994) found that, from a sample of 47 firms, companies with extensive environmental disclosure prior to the Bhopal disaster in 1984 experienced a less negative market reaction to the disaster than their counterparts in the chemicals industry who communicated very

little about environmental matters. The authors saw one possible reason for this result to be the expected increase in regulatory costs following the disaster causing a negative intra-industry market effect.

Wood and Jones (1994), in Hall & Rieck (1998), found that ten of eleven event studies from 1979 through 1992 show significant drops in share prices following announcements of socially irresponsible events.

Hall & Rieck (1998) themselves examined the impact of voluntary positive corporate social actions on shareholder wealth in form of abnormal returns. Findings of the study included that the announcement of corporate donations had a significant positive effect on stock prices. However no other announcement of voluntary corporate social action was found to have a significant impact on shareholder wealth, specifically those firms engaged in recycling or social policy issues.

Lorraine, Collison & Power (2004) examined in the UK context, whether publicity (either good or bad) about environmental performance affects companies' share prices. Specifically, the study looked at publicity about fines for environmental pollution as well as commendations about good environmental achievements. The results indicated that there is a stock market response to such news especially for details on fines—typically up to one week after news is published. A cross-sectional analysis indicated that the share price response was mainly a function of the relative fine imposed on the firm; other explanatory variables such as environmental performance news or sector membership were unsuccessful in explaining variations in the market responses.

Use of event-study methodology, has at times been criticised for being too simplifying and not valid for general CSR research purposes (Harrison & Freeman 1999).

## **2.4 CSR reporting**

The amount and content of corporate social and environmental reporting has been of interest to many due to the voluntary nature of the reporting and lack of uniform legislation and standards. Reporting practices have been examined

among others by Niskala & Pretes (1995), Adams, Hill and Roberts (1998), Newson & Deegan (2002), Idowu & Towler (2004), KPMG (2005).

Niskala and Pretes (1995) analyzed changes in environmental reporting practices among large Finnish firms between 1987 and 1992. Their sample consisted of 75 Finnish corporations drawn from the largest firms in the most environmentally sensitive industries. The results indicated marked changes in environmental reporting practices. As in 1987, slightly over one quarter of the firms analyzed disclosed environmental information in their annual reports, while in 1992 this number had risen to nearly one half of firms. Most of this disclosure was in qualitative, rather than in quantitative or financial, form. The authors concluded by noting that there exists an influence of environmentalism on Finnish corporate environmental reporting, policy and accounting practice.

Adams et al. (1998) examined a sample of 150 annual reports from six European countries by using content analysis. Their results indicated that company size, industrial grouping and country of domicile all influence corporate social reporting patterns. The study found that 'super-large' companies are significantly more likely to disclose all types of corporate social information. Industry membership was found to be related to the decision to report environmental and some employee information, but not to ethical disclosures. In addition, while size and industry membership were important in all six countries, the amount and nature of information disclosed varied significantly across Europe.

Newson and Deegan (2002) explored the social disclosure policies of large Australian, Singaporean, and South Korean multinational corporations by conducting two large international surveys on global expectations in 1998 and 1999. The results of testing indicated a minimal association between global expectations, as represented by the two surveys, and social disclosure policies of the corporations. Consistent with previous research, country of origin and industry of operation was seen to significantly influence disclosure practices.

Idowu and Towler (2004) conducted a comparative study of the contents of CSR reports of different industry UK companies. The study found two distinct practices on CSR reporting, namely separately issued reports and devoted sections on annual reports for CSR matters. All companies included in the survey had recognized the benefits for making their CSR policies and

activities known. The main perspectives reported were found to be environment, community, market place and workplace.

The large multinational audit, tax and advisory company KPMG has conducted a total of five corporate responsibility reporting surveys since 1993. The surveys analyze trends in CR reporting of the world's largest corporations, including the top 250 companies of the Fortune 500 and top 100 companies in 16 countries. Survey explores trends in CR reporting, both regionally and by sector. It also investigates the drivers for corporate responsibility; discusses issues related to CR reporting, and provides some insight into the contents of the reports.

The main findings in 2005 KPMG survey were the change in the type of CR reporting which has changed from purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting. Also although the majority of companies in most countries still issue separate CR reports, there has been an increase in the number of companies publishing CR information as part of their annual reports. (KPMG, 2005).

In Finland since 1996, the Ministry of the Environment has arranged a yearly contest for evaluating the scope and quality of social and environmental reporting of Finnish companies and public sector units. Comparing the reports aims at increasing the public interest towards social and environmental responsibility as well as enhancing the quality of reporting. The contest of the year 2006 evaluated the information reported on the basis of the GRI guidelines. In 2005, there were 46 reports to be evaluated whereas in 1996, the first year of the contest, there were only 12 participant reports.

## **2.5 Disclosure, stakeholders and market performance**

In addition to just examining what and how the companies report, also the effect and usefulness of these reports on their intended audience have initiated many studies. This decision-usefulness research aims at finding out for example whether investors use CSR information in making their investment decisions. The studies have employed variety of methods to investigate the actions, attitudes and behaviours of individual investor as well as aggregate financial market response. (Murray et al 2006). Apart from investors and shareholders, some studies have examined the attitudes of other

stakeholders such as customers, suppliers and non-governmental organizations (Deegan 2002).

There exists evidence both for and against the the argument of CSR disclosure usefulness. Epstein and Freedman (1994) addressed the question whether individual investors demand social information and if they do what type of information they want and what implications this has for information suppliers. By using a survey to 246 individual investors, they found that non-institutional shareholders were interested in having their companies report on certain aspects of social activities. They also found a stronger demand for information about product safety and quality and about the company's environmental activities. Furthermore, the majority of the shareholders also wanted the company to report ethics, employee relations and community involvement.

In the early days of CSR disclosure Belkaoui (1976), Ingram (1978), and Anderson and Frankle (1980), in Epstein and Freedman (1994) all examined market reaction to social disclosure in general. Belkaoui and Anderson and Frankle both concluded that the market reacts to social disclosures. Ingram found that the market reaction was a function of the type of industry, the type of disclosure and the sign of the firm's excess earnings in the year of disclosure and the year of disclosure.

On the other hand, traditionally many studies have still assumed that investors remain only interested in maximizing their returns and therefore concentrate only on information with possible financial impacts. As Milne and Chan's (1999) results on a study of social disclosures decision-usefulness indicated that from a sample of sophisticated users (accountants and investment analysts) social disclosures did not elicit any more than 15% switch in investment funds. Thus, Milne and Chan suggested that corporate social disclosures do not make much of a difference to investor's decision-making since the information provided in these disclosures is mostly non-financial.

Richardson et al (1999) developed a model of the process linking corporate social responsibility to capital market responses. Their model recognized that corporate social responsibility behaviors and the disclosure of information about those behaviors can impact on capital market processes, have cash flow consequences for the firm and affect the discount rate used by investors to

value that stream of cash flows. This model, however, was not tested empirically.

Murray et al. (2006) conducted their study by using two data sets; CSEAR database to provide the social and environmental disclosure component and the stock market returns earned by the largest UK companies. They performed a series of statistical tests in order to detect possible relationship in either the cross sectional or longitudinal data. In the end, no direct relationship was found between share returns and disclosure. However, the longitudinal data revealed a convincing relationship between consistently high (low) returns and the predilection to high (low) disclosure.

Myllylä (2006) examined in her Master's Thesis, the effect of CSR reporting to the market value of Finnish companies listed in Helsinki Exchange during 2001-2005. She used a data obtained from LTT tutkimus Oy which had been collected for the purposes of an annual CSR reporting contest among Finnish companies. The data consists of indices which describe the amount of CSR reporting by companies. As the other descriptive Myllylä used P/E and P/B for the stocks of the companies. Results of the study indicates that the amount of reporting had grown 18% in 2001-2003. On the basis statistical testing, connection between CSR and the share value was not found. Although data for the year 2003 revealed a slightly negative relation between the variables.

### 3. CORPORATE SOCIAL RESPONSIBILITY

#### 3.1 General definitions of sustainable development and CSR

In 1987, the term sustainable development (SD) got its most known definition, when due to increasing concern about the effects of economic development on health, natural resources and the environment the United Nations published the so called Brundtland Report, also known as 'Our Common Future'. The report defined SD as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs." (WCED 1987). Later on the 1995 UN World Summit on Social Development further defined this term as "the framework for our efforts to achieve a higher quality of life for all people," in which "economic development, social development and environmental protection are interdependent and mutually reinforcing components."(UN 1995).

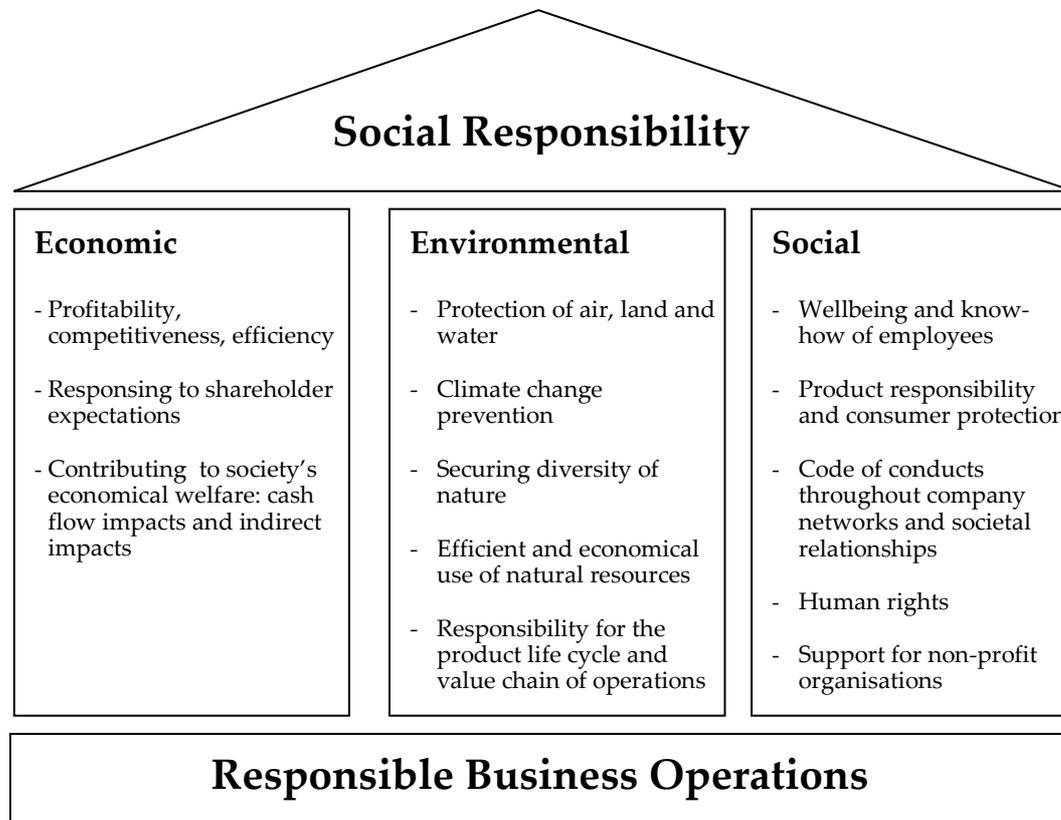
Corporate social responsibility (CSR) is the responsibility businesses take for their impacts to the surrounding society and stakeholders (Niskala & Tarna 2003). Thus CSR can be understood as the contribution that businesses give to sustainable development. The World Business Council for Sustainable Development (WBCSD), after working with stakeholders around the world, more precisely has defined CSR as 'the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life' (WBCSD 2006).

European Commission defines CSR as "the voluntary integration of social and environmental concerns in the enterprises' daily business operations and in the interaction with their stakeholders". (EC, 2001). The nature of these concerns, naturally, differs between companies operating in different industries in different countries and depends on the individual characteristics of the business practised. Companies' social responsibilities will also most likely be viewed very differently in a decade's time as by then society's expectations will have changed.

The basic ideas however, as showed above sum up to seeking to provide the best outcomes for the both the human and natural environments both now, and into the indefinite future. From a business perspective the best outcome, growth and profitability should be achieved together with 'win-win-win'

situation, where business, society and environment all benefit instead of one winning on the others expense.

The following picture illustrates CSR and its' dimensions.



Picture 1. Corporate social responsibility (modified from Niskala & Tarna 2003: 20.)

### 3.2 The three dimensions of corporate social responsibility

For the moment, a mutual understanding among different parties has been achieved concerning the central areas of corporate social responsibility. These areas are economical, social and environmental responsibility (Niskala & Tarna 2003:19). These three dimensions of CSR together form the 'Triple Bottom Line' (TBL) approach which was first established by John Elkington (1997).

The main idea of TBL is that for an organisation to be sustainable not only must it be economically secure, but at the same time it must minimize its negative environmental impacts and act in conformity with societal

expectations (Henriques & Richardson 2004). Often, the TBL is used as synonym to refer to corporate sustainability or CSR and likewise since TBL is seen to cover the main issues of sustainable development from a company's perspective. However, it is not seen as a comprehensive concept that covers all dimensions of sustainable development or CSR (Henriques 2004). Nevertheless, the triple bottom line has been well received and widely adopted term in the field of corporate responsibility and it is often used as basis for example sustainability or corporate social responsibility reporting.

### **3.2.1 Economic dimension**

According to Steurer (2005) the key economic issues within CSR and in business overall are

- the financial performance of a corporation
- the long-term competitiveness of a corporation and
- a company's economic (financial) impact on stakeholder groups.

Economic sustainability calls for doing business in a way that enables the company to continue for an indefinite time. For that purpose, it needs to exhibit sufficient cash-flow and persistent return to shareholders. It also needs to maintain or improve future competitiveness and company performance and deal with the impact it has on particular stakeholder groups. (Steurer, 2005; 270).

In other words, economical responsibility refers to the traditional bottom line – in order to succeed a company must be financially secure and profitable. A company should meet the expectations of the owners and it should participate to society's economic wellbeing as a product or service provider, employer, tax payer and provider of social security. An economically responsible company calls for efficient, profitable and competitive business which thereafter gives the basis for social and environmental responsibility. No unprofitable or poorly run company can do well on the other dimensions of CSR. (Niskala & Tarna 2003; Confederation of Finnish Industries 2006)).

As some examples of economic irresponsibility, one can mention for instance the accounting scandals we witnessed in the beginning of the millennium, as well as numerous cases involving insider trading, bribes or corruption.

However, as a consequence from the highly improved flow of information within the world today, the effects of all economical activity (responsible or irresponsible) reach out faster and further than before. The matters affecting the way a company makes its profit are now being valued differently and thus these 'all means necessary' –approaches are no more acceptable in making that profit. Moreover commitment to ethical in addition to economical responsibility is being valued as a commitment to long term success and credibility. (Rohweder 2004; 98.)

### **3.2.2 Social dimension**

Social responsibility means being accountable for the social effects the company has on people. Again these effects can be either direct or indirect. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into 'human capital' and the relations with stakeholders, both internal and external. This includes the people within the company, in the supply chain of the company, in the community the company operates in and as customers of the company. Thus social responsibility refers to the management's obligation to make choices and take actions that will contribute to the welfare and interests of society as well as those of the organisation. (European Commission, 2001; Niskala & Tarna, 2003).

Company's internal social responsibility refers to e.g. recruitment, training, working conditions, health and safety and management-employee relations. A company which takes its responsibility beyond legal requirements pays significant attention to human resource policies, the wellbeing and education of staff and neither tolerates nor practices human rights violations or discrimination. Personnel and working conditions throughout the whole supplier chain are usually considered as most important areas of social dimension. As one major challenge for companies today is to attract and retain skilled workers, investing in social dimension of CSR is likely play an important part in obtaining and maintaining motivated and profitable work force. (EC 2001; Rohweder, 2004)

The external social responsibility covers e.g.

- product responsibility
- consumer rights
- best practices within a company network and

- relations with the operational environment.

The responsibility over products and services is mostly legislated but from a voluntary perspective it covers e.g. knowing and informing the health- and safety implications of products, avoiding harmful substances, appropriate product labeling and other product information, truthful marketing and advertising, systematic approach to consumer reclamations and taking care of consumer rights in e-commerce. (Rohweder 2004: 103.)

Social responsibility related to consumer rights covers the expectations the consumers have for the company's products. The consumers expect that companies produce products and services which they want and need in an efficient, ethical and environmentally efficient manner. Companies should aim at building lasting relationships with customers by focusing on understanding what the customers need and want and providing them with superior quality, safety, reliability and service. (EC, 2001).

Best practices within a company network refer to the relationships and contracts the company has with its business partners and suppliers. A responsible company works closely with its business partners and selects its suppliers carefully. In the long run building relationships may result in fair prices, terms and expectations along with quality and delivery. It is also important to make sure that all parties within the company network follow and respect the relevant rules and legislation and even the codes of conduct. (EC, 2001).

Finally, social responsibility is also about the integration of companies in their local and global setting. Companies contribute to their communities by providing jobs, wages and benefits and tax revenues. A company can also cooperate with a small community where it operates through participating in local decision-making and by giving donations or helping for instance with the infrastructure. At global level the multinationals have gained well enough power to participate in global discussions and direct the state of the global economy for example through their investment decisions. (Rohweder 2004: 104).

One significant issue relating to relations with the community is restructuring and downsizing. It is also an issue which concerns both, internal and external stakeholders. In Europe, as well as in Finland some relatively heavy

restructuring have taken place within past years either in forms of a factory closure or a significant cut in the work force. Such restructuring may involve a serious economic, social or political crisis on community and therefore the restructuring should be done in a socially responsible manner. The company should attempt to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions. (European Commission, 2002). Therefore managing change and adapting to change are also important challenges within the social dimension.

### **3.2.3 Environmental dimension**

Environmental responsibility refers to the responsibility that one has for their surrounding ecological environment. From a company's perspective the environmental dimension includes the environmental impacts, the negative effects occurring in the surrounding natural environment. Steurer (2005) outlines the aspects of environmental dimension to include

- resources
- emissions
- environmental damages and risks.

The goal is to maintain natural capital to certain degree by using non-renewable and renewable resources responsibly. The responsible use should be carried throughout the production cycle, i.e in procurement, product design, production, distribution/logistics and consumption.

The issue with emissions is to avoid all kinds of emissions into water, air, soil and neighbourhoods to a certain degree, again throughout the whole product cycle. Finally a company should avoid any environmental damages and destruction and irrevivable risks (like the loss of biodiversity and climate change) to a certain degree. (Steurer, 2005; 270).

Rohweder (2004) divides the environmental impacts to direct and indirect. Direct responsibility refers to all environmental problems and risks and use of natural resources caused by a company itself. These direct impacts can be managed by planning and implementing operations which aim at minimizing the use of resources and the amount of waste. This can also be good for the business by reducing energy and waste-disposal bills and lowering input and de-pollution costs (EC, 2001).

Indirect environmental responsibility then again follows for instance from outsourcing and long supply chains. The company should therefore also establish environmental policies which it requires from its co-operational parties. In this way the environmental responsibility can be stretched out to include the whole value chain and life cycle of the product. (Rohweder, 2004).

### 3.3 International regulations, standards and guidelines concerning CSR

More helpful than the rather brief (or non-existing) national legislation for companies wanting to report on their social responsibility issues, have been the various international regulations, guidelines and standards from international governmental, business and non-governmental organizations which give varying instructions in both scope and the level of detail on what issues to be included in the CSR agenda.

These standards, according to Oakley and Buckland (2004), serve two purposes. In part, they are practical guidance and measurement that allow good practice to be understood and repeated. But they are also about providing focus to a still-developing movement. Corporate sustainability standards “provide a vehicle to articulate what organizations of the 21st century should be about”. The very process of developing standards is as important as the resulting standards themselves since it draws in the views of different stakeholders. (Oakley & Buckland in Henriques & Richardson 2004).

Based on their characteristics, standards can be grouped as follows: (Oakley & Buckland 2004)

- **principles based standards:** set out broad principles of behavior but do not specify how they are to be achieved or how conformity with them can be assessed (e.g. UN Global Compact, OECD Guidelines for Multinational Enterprises)
- **performance standards:** are concerned with what the organization actually achieves, varying from specific targets to outlining indicators against which organizations should report (e.g. ISO-standards, AA1000)
- **process standards:** outline processes that an organization should follow in order to improve its performance, provide practical guidance

but do not prescribe performance levels (e.g. EMAS, Global Reporting Initiative which is presented in more detail in the next chapter)

- **hybrid standards:** combine elements of the three previous (e.g. FTSE4GOOD, SIGMA- indices)

### **3.3.1 Principle based standards**

The most salient of these international principle based standards according to Niskala, Vahala & Lovio (2004) are the OECD Guidelines for Multinational Corporations, Corporate Governance- guidelines, the UN Global Compact and the European Multistakeholder Forum on Corporate Social Responsibility.

#### **3.3.1.1 The Global Compact**

The Global Compact is a collaborative venture within the United Nations which initiated in 1999. The operational phase of the Compact was launched in 2001 with senior executives from some 50 major corporations and the leaders of labor, human rights, environmental and development organizations. The objectives of this collaboration include mutual understanding and a growth in the ideas and practices of corporate citizenship. (UNGC, 2006).

The Compact encompasses ten principles drawn from the Universal Declaration of Human Rights, the International Labor Organization's Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development. These principles cover topics on human rights, labor and environment. Those companies that support the Global Compact commit themselves to act on the principles in their own corporate domains, to integrate the principles into corporate strategy, and to demonstrate this integration in practice. The Compact also invites the participants, on an optional basis, to work with the UN and its agencies in partnership projects. (Holliday et al. 2002, UNGC 2006).

#### **3.3.1.2 OECD and responsible business**

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct

consistent with applicable laws. The guidelines include recommendations in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering governments have committed to promote them among multinational enterprises operating in or from their territories. (OECD 2000; 2006).

Corporate Governance refers to the principle of organizing the business in such way, that it takes into consideration every stakeholder group's interest. The concept covers all the processes by which companies are directed and controlled. OECD's Corporate Governance –guidelines were published in 1999. The purpose of the guidelines is to bring together the principles of good corporate governance which promote the transparency of business.

The guidelines are based on the view that good corporate governance helps to ensure that companies take into account all their different stakeholders as well as the communities they operate in. The main responsibility of the board of directors is towards the owners of the company. This promotes the efficient use of the capital and maintains the investors' trust towards the company.

The OECD guidelines of Corporate Governance support the previously discussed Guidelines for Multinational Enterprises. The application of corporate governance guidelines is voluntary. In Finland the Ministry of Commerce and Industry has published its own recommendation on dealing with corporate governance in state owned companies. In addition the Financial Supervision of Finland has published its own standard which deals with the principles of internal control and risk management as well as organizing proper internal control and risk management system in companies under its supervision. (Niskala et al. 2004).

Helsinki Stock Exchange (HEX), the Finnish Central Chamber of Commerce and Confederation of Industry and Employers published in 2003 renewed Corporate Governance –guidelines on listed companies governance and control systems. The goal of the guidelines is to standardize the operating systems of listed companies, improve transparency, standardize the information given to investors and shareholders and to make the flow of information more efficient. Thus the guidelines complete the legislation on the

governance practices. The Stock Exchange has also taken the guidelines as part of its regulations concerning listed companies. (Niskala et al. 2004).

### **3.3.1.3 The European Multistakeholder Forum on Corporate Social Responsibility**

In 2001 the Commission of European Union published the so called green book about promoting corporate social responsibility within EU. In 2002 it published a communication "Corporate Social Responsibility: A business contribution to Sustainable Development" (COM(2002) 347). The communication is aimed among others to companies, industry, commerce and consumer organizations as well as labor market organizations in EU countries.

According to the report in promoting CSR on international level, one should base the development on the international guidelines, initiatives and contracts such as the OECD guidelines and the Global Compact. The Commission also recognized the need to develop coherent principles and interpretation about the appliance of these international initiatives and tools at EU level.

European Multi Stakeholder Forum on Corporate Social Responsibility was founded in 2002 as was suggested in the green book and the communication. The Forum strives to construct a unified approach at EU level to the promotion of CSR. It also aims at plotting the issues requiring more attention. The Forum has four main themes: improving the level of knowledge, CSR in small and medium size organizations, CSR practices and tools and the development of CSR. (EC 2002).

### **3.3.2 Performance standards**

Some performance standards are for example the AA1000 guidelines and ISO 9000 and ISO 14000 series.

#### **3.3.2.1 The AA1000 guidelines**

The AA1000 guidelines are developed by AccountAbility, a non-profit, membership organization established in 1995 to promote accountability and responsible business practices, and the broader accountability of civil society and public organizations. The AA1000 guidelines provide guidance on how to establish a systematic stakeholder engagement process that generates the

indicators, targets and reporting systems needed to ensure its effectiveness in impacting on decisions, activities and overall organizational performance.

The AA1000 Series is a set of standards, guidelines and user notes based on observed and achievable practice and it is intended to provide the basis for improving the sustainability performance of organizations. Underlying the AA1000 Series is the principle of inclusivity, which recognizes the right of stakeholders to be heard and the obligation of organizations to respond.

The AA1000 guidelines are comprised of

- AA1000 Purpose and Principles
- AA1000 Framework for Integration
- AA1000 Assurance Standard
- AA1000 Stakeholder Engagement Standard

The AA1000 standards are developed to work compatibly with other key standards in the area, such as GRI and financial accounting standards. Therefore the AA1000 Series does not include a reporting standard, a management systems standard or any normative performance standards, since these areas have already quite comprehensively taken on by other standard setters. (AccountAbility, 2006).

### **3.3.2.2 The ISO environmental standards**

The International Standards Organisation (ISO) has developed an extensive range of standards. The ISO 9000 and ISO 14000 families are among ISO's most widely known standards. ISO 9000 and ISO 14000 standards are implemented by some 887 770 organizations in 161 countries. ISO 9000 has become an international reference for quality management requirements in business-to-business dealings, and ISO 14000 is enabling organizations to meet their environmental challenges. (International Organization for Standardization, 2006).

The ISO 9000 series is concerned with "quality management". This refers to what the organization does to fulfill:

- the customer's quality requirements, and
- applicable regulatory requirements, while aiming to

- enhance customer satisfaction, and
- achieve continual improvement of its performance in pursuit of these objectives.

ISO 14000 is a series of standards on environmental management. It provides a framework for the development of an environmental management system and the supporting audit program. The main thrust for the development of ISO 14000 came as a result of the Rio Summit on the Environment held in 1992. (ISO 2006). Both ISO series are often referred to in other guidelines which deal with CSR and environmental management.

### **3.3.3 Process standards**

#### **3.3.3.1 The EU Eco-Management and Audit Scheme**

The EU Eco-Management and Audit Scheme (EMAS) is a management tool for companies and other organizations to evaluate, report and improve their environmental performance. The scheme has been available for participation by companies since 1995 on a voluntary basis. (Council Regulation (EEC) No 1836/93 of June 29 1993). The scheme helps the participating organization to take into account environmental issues in all of its operations. By taking on EMAS the organization commits itself to

- compliance with environmental legislation and regulation
- continuing improvement of the level of the environment protection
- public reporting on environmental issues

Independent auditor (environmental accreditor) verifies the functionality of the system and confirms the information presented in the report. This brings along credibility towards the environmental actions of a company. When an organization is registered as EMAS participant, it becomes EMAS certified and is allowed to use the EMAS logo for communication and marketing purposes. (Finnish Environment Institute, 2006).

EMAS consists of the environmental system which is in accordance with ISO 14000 standards as well as of the EMAS report (environmental report). With the EMAS system an organization recognizes the direct and indirect environmental impacts of its actions, products and services, such as emissions, waste, energy and resource consumption. In the next phase the organization sets out goals and objectives for the reduction of harmful

environmental impacts and decides on the procedures for achieving those goals.

By following the implementation of the goals organization can prove the improvement of the level of environment protection. Openness and reporting the environmental information are an essential part of EMAS and since the reports have to be verified, they are easy to be used in stakeholder communication. (Finnish Environment Institute, 2006).

### **3.3.3.2 Global Reporting Initiative's Reporting Guidelines**

Global Reporting Initiative's Sustainability Reporting Guidelines are the most comprehensive set of CSR reporting guidelines established so far. The Global Reporting Initiative (GRI) was founded in 1997 in response to the need for accepted framework for CSR reporting. Convened by the Coalition for Environmentally Responsible Economies (CERES), in partnership with UN Environment Program (UNEP), the GRI is seeking common ground on which to build a consistent reporting framework. Specifically, the mission of the GRI is "to develop and disseminate globally applicable reporting guidelines for voluntary use by organizations reporting on the economic, environmental, and social dimensions of their activities, products and services" (GRI 2006). The goal of GRI is to bring up sustainability reporting to the same level with annual financial statement reporting.

GRI Guidelines are built in co-operation with a large and diverse group of stakeholders. The draft of the guidelines was exposed to a group of stakeholders interested in sustainability reporting in March 1999. A total of 21 companies, representing diverse countries and multiple industry sectors, tested and provided comments on the draft guidelines. At the same time, hundreds of additional comments were provided by external stakeholders, representing perspectives from human rights, accountancy, government, business and labor organizations and from multilateral, international, environmental, and religious organizations.

As a result of this consultative process, the June 2000 Guidelines represented a major step toward a generally accepted, global framework for sustainability reporting at the organizational level. A second revision process was launched in 2001, involving the work of 120 experts organized into 10 working groups focused on revising and improving the sustainability performance indicators

with aid from 31 companies and an network of more than 2500 stakeholders from 60 countries. (Holliday, Schmidheiny & Watts 2002).

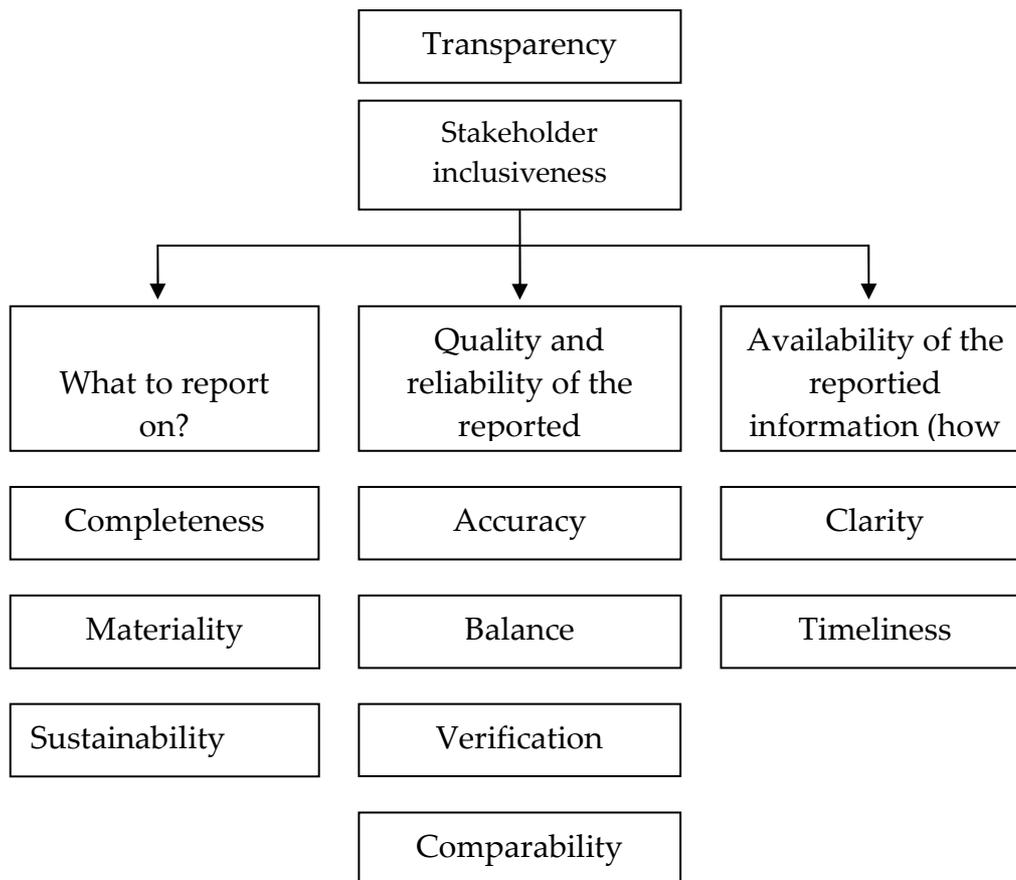
GRI's revised Sustainability Reporting Guidelines were released in 2002. Since then hundreds of organizations (839 registered in database when writing this) have used the Guidelines as the basis for their reporting, and thousands of stakeholders have used information in reports issued by the organizations they are interested in or have a relationship with. Based on feedback from practitioners from reporting organizations and from report user groups, GRI designed a process to update and improve the 2002 Guidelines. The third generation of GRI Guidelines, known as G3 were launched in fall 2006. These guidelines are the result of nearly a year's worth of research, development, and consensus-seeking by multi-stakeholder working groups, each assigned to focus on different parts of the guidelines. (GRI 2006).

GRI is based on developing the the level of reporting stage by stage. This progressive approach to GRI reporting is considered reasonable since most organisations are just beginning their CSR reporting and are thus not able to provide a comprehensive GRI report due to undeveloped systems for collecting and organizing the information or other reasons. (Niskala & Tarna 2003: 108).

Thus an organization may state on the first page of their report, that they follow the GRI guidelines and principles, even if they yet couldn't give comprehensive information on all areas of sustainable development. After all, application of GRI guidelines is a voluntary process but still committing oneself to reporting according to the guidelines is a clear indication that a company is aiming to improve it's reporting towards the full scope GRI (Rohweder 2004: 219).

GRI defines the general reporting principles to be followed in CSR reporting. These principles form the basis for reporting, they define contents of reporting, quality control and reliability as well as presenting information.

The general reporting principles are:



Picture 2. The general principles of GRI guidelines.

GRI guidelines also define the content and structure of the report. According to GRI the report consists of five sections;

- the vision and strategy of the organisation
- the profile of the report
- governance practices and management systems
- content indice
- economical, social and environmental indicators.

According to GRI the vision and the strategy of the organisation should be stated so that the strategic operations and future challenges within all three dimensions of CSR are clear. The vision and the strategy should be related to both direct and indirect economical, environmental and social impacts. The strategy should form a basis for the governance, management systems and key ratios and indicators.

The purpose of the profile is to give the reader a picture of the organisation as a whole as well as a comprehension about the contents of the report and the scope and comprehensiveness of the information reported.

The section on governance practices and management systems gives information about the principles which help the organisation to carry out the vision and the strategy related to CSR, and helps to manage the social impacts of its operations. GRI also defines stakeholder interaction as a central part of corporate governance.

Content indice aims at helping finding information in reports and thus enhancing the comparability of information between companies. Content indice is also a tool for the reporting organisation which helps at comparing the level and scope of the report towards GRI guidelines. The report must also have a statement by the organisation's board of directors or CEO's signed statement on the report being written out according to GRI guidelines. (Rohweder 2004: 220.)

GRI divides the responsibility indicators according to triple bottom line. In addition the indicators are divided to core and additional indicators. Core indicators are selected so that they are essential for majority of reporting organisations and are of interest to majority of stakeholders. If some of the core indicators is left out from a report, the reason for that must be reported. Companies are also encouraged to report additional indicators which measure the best practices of e.g. social responsibility. Additional indicators can also relate to some specific issues which are of interest to central stakeholder groups. (Rohweder 2004: 220).

To conclude on the various standards, guidelines and initiatives, the following table presents the most significant initiatives and guidelines and shows their connection with the three dimensions of corporate social responsibility as well as their role (whether a contract, principle based, control system based or focus on reporting) in promoting CSR.

Environmental		Social			Economical	
Own actions	Product responsibility and value chain	Personnel	Human rights	Community and social influence	Improving economic well-being	Business success
<b>International contracts, declarations and co-operation bodies</b>						
		ILO			OECD	
EC multistakeholder forum						
			AA1000			Corporate Governance
<b>Operational principles and policies</b>						
UN Global Compact, OECD Guidelines for multinational corporations						
ICC sustainable development			Amnesty International			
<b>Control Systems</b>						
ISO 1400, EMAS		AA1000, SA8000				
<b>Reporting</b>						
GRI						

Table 1. Corporate Social Responsibility initiatives and guidelines. (Niskala et al 2004).

#### 4. CORPORATE SOCIAL RESPONSIBILITY REPORTING

Corporate social responsibility reporting (or sustainability reporting) refers to the process in which an organisation gives an account of issues related to corporate responsibility and corporate sustainability over a particular reporting period. The report is meant for both, internal and external use. (Rohweder 2004: 211). Thus CSR reporting is both; a strategic management tool as well as a communication process between a company and its stakeholders (Niskala & Tarna 2003).

CSR reporting gives information about the organisation's interactions with its social and ecological environment. The report should clearly state, what are the companies' carried out efforts in a particular field of responsibility and how do these efforts affect on overall sustainable development and how are these effects planned to be treated. Thus CSR reporting strongly highlights accountability and transparency in reporting. (Rohweder 2004). This is achieved through telling not only the state of the affairs but also the plan of action for future performance and development.

As a way of communication, CSR reporting is much like traditional financial statement reporting. However, financial accounting (and reporting) traditionally deals with financial, monetary unit measure whereas in sustainability accounting and reporting central is the use of non-financial performance indicators to measure the environmental, social and economic dimensions of sustainability (Lamberton, 2005). This is because financial units of measurement are not necessarily suitable for capturing social and ecological impacts, which require an array of measurement tools to capture nature's multiplicity and the social equity dimension of sustainability. Qualitative tools, such as narratives to describe an organisation's social and environmental impacts, form a critical part of sustainability accounting and reporting (Lamberton 2005, Lehman, 1999). Also the GRI Sustainability Reporting Guidelines utilize a wide array of non-financial indicators to measure performance toward the goal of sustainability.

CSR reporting is a process which brings together different functions within an organisation. Successful reporting requires co-operation between investor communications, finance department, personnel department, environmental management, research and development and departments responsible for

relations with society. The role of accounting is mostly related to the technical realization of the actual report - collecting and organizing the data to be reported. However, compared to traditional accounting, accounting for CSR takes on the externalities of business which traditional accounting ignores (Gray, 2001).

Before an actual CSR report can be published, the process of reporting involves a significant amount of initial planning and preparing. The company has to bring the responsibility issues to part of the daily operations and not before the activities their self are well-managed and under proper control, they can be reported. Believable reporting requires monitoring of the activities and results. The indicators showing progress towards set targets need to be established according to the needs of the stakeholders and the needs of the company itself. International standards and guidelines are a good help in choosing the indicators and the issues to report about. (Rohweder 2004).

According to Niskala & Tarna (2003: 86-87), the process of reporting can be divided into five stages: defining the objectives of reporting, planning the report, drawing up the report, distribution of the report and collecting and analyzing feedback.

Defining the objectives of reporting relates closely to the commitment the company is willing to make towards sustainability, meaning that the more responsible company, the more challenging objectives. Thus the bases for the objectives are always the company's own operations and the sought-after level of responsibility. The planning stage is mostly about setting up a schedule, resources and detailed contents. Drawing up the report is a stage where the information is collected and revised to the final form. (Rohweder 2004: 217.)

CSR reporting is a continuous process in which the information is gathered throughout the reporting period. In the process feedback is also continuously collected and evaluated in order to improve the reporting process and the actual report. Especially feedback from the stakeholders helps in evaluating the significance of the issues being reported to external parties. External assurance then again brings up some improvement suggestions concerning management and reporting processes as well as the quality and reliability of the information. (Niskala & Tarna 2003: 88).

#### 4.1 The history of CSR reporting

Even though corporate social responsibility might seem like a recent trend due to its raised profile in past five to ten years, the first reports concerning corporate social and environmental responsibility were established already in the late 1960s. Rachel Carson's book 'Silent Spring', published in 1962, brought for the first time the impacts of corporations' actions on environment to the public domain. The first wave of reporting emerged as a defence towards the public concern and pressures that rose from understanding that these environmental impacts and natural resource demands have to be limited.

In the 1970's, a Nobel-winning economist Milton Friedman made his famous statement on CSR: 'the only social responsibility of a company is to increase its profits and the wider social development is the responsibility of governments, not businesses'. Majority of businesses at time agreed with Friedman's view and companies were not seen as having any obligations to use the scarce resources on something that will not be profitable for the company and thus will not maximize owner's wealth. In late 1970's and early 80's, CSR had to step aside while the market pressures were forcing companies to downsize, cut back labour protection, the treatment of suppliers and to delay investment in environmentally friendly equipment or processes. (Zadek, Pruzan & Evans, 1997). Also the hike in oil prices, economic recession and change in political climate towards a focus on short term financial results for business reversed the development of social and environmental accounting and reporting and the companies stuck only to annual financial statements.

However, later on during 1990's due to major environmental disasters such as Bhopal, Tshernobyl and Exxon Valdez, which again raised the public concern over environmental problems, the large multinationals were placed under scrutiny about their environmental responsibility. Thus the companies were forced to take the environmentality back to the agenda. In 1987, as 'Our Common Future' brought along the concept of sustainable development and emphasized even more the role of businesses in solving environmental problems, a wider recognition among companies spread that new, more sustainable production technologies and products are needed in addition to just focusing on preventing disasters. Businesses began to be more competitive with their response to these demands of sustainability and

companies activated more systematic environmental accounting, auditing and reporting practices. (Elkington 2004; Niskala & Mätäsaho 1996). Some companies operating in environmentally sensitive sectors began to publish additional information relating to environmental issues in their annual statements or even separate environmental reports.

Even though the interest in environmentality left the social side of corporate responsibility aside for a while, as the mid 1990's brought along again the waves of downsizing and moving production to lower cost countries, large multinationals, especially in the textiles industry came under increased public scrutiny about their supplier and labour policies, accused 'sweatshops' and relationships with the communities they operate in. One by one, these high-value brand companies yielded to pressure and adopted a variety of routes that committed both to broadly similar codes of conduct and also to the principal of external verification. For them at the time reporting about the impacts on the society they operate in seemed like the only option to defence themselves against public pressure groups. (Zadek, Pruzan & Evans, 1997)

The environmental agenda of the 1990's was largely defined by emerged regulations such as the United Nations Agenda 21 and the development of sustainable development accounting methods, European Community's, 5<sup>th</sup> action program which emphasizes commitment to sustainable development as well as EMAS, eco-management and audit scheme. Environmental Protection Agency (EPA) in the United States started the development of environmental cost accounting. All these led to the emergence of the environmentally conscious corporation which commits itself to innovations, life cycle assessments, environmentally friendly production and products. (Niskala & Mätäsaho 1996: 29.)

As the latest wave of in the field of corporate social and environmental responsibility reporting has been the growing recognition that sustainable development will require profound changes in the governance of corporations and in the whole process of globalization, this puts a renewed focus on government and civil society. Now, according to Elkington (2004), in addition to the compliance and competitive dimensions, the business response will need to focus on market creation. (Elkington, 2004). Most leading edge companies have realized that there exists competitive advantage in being more responsible and reporting about it.

Today the previously separate reports (annual, environmental, social) are more and more being integrated to sustainability reports which cover all three dimensions. The importance of these TBL reports can, according to Gray (2001) be justified by the society's need for sufficient amount of information which enables sustainable decision-making. For this purpose traditional financial reports do not provide enough information. With CSR reports a company can show their progress towards the goals of sustainable business.

#### **4.2 Current state of reporting**

Majority of CSR reporting still remains voluntary even though during past few years some countries have legislated some mandatory issues to be reported, either as a part of annual statement or in separate reports. It is assumed (e.g Niskala & Tarna 2003) that the amount of mandatory CSR reporting is growing. Well-managed stakeholder relationships and providing the stakeholders with information about the threats and opportunities relating to a company's operations and environment, whether ecological or social, is becoming more and more important to several stakeholders.

At the EU level, in 2003 European Union accepted a change to the financial statement directives where the role of the annual report was expanded to include also significant personnel and environmental issues (2001/453/EY). The Finnish Accounting Act also requires companies to include material non-financial issues in their directors' report of the annual/financial report and refers to guidelines for good practice. In addition the Finnish Accounting Standards Board (FASB) issues guidelines that deal with the disclosure of environmental expenditures and environmental liabilities as a part of the legally required financial accounts to the extent that the environmental information may have material consequences on the financial position of the company.

In the future it is likely that small and medium sized companies will keep focusing on complying with laws and regulations by providing the required disclosures related to significant environmental and social issues. Then again larger publicly listed companies are more likely to move towards integrated reporting. The companies will provide even more comprehensive annual reports where they present their performance in all dimensions of

responsibility as well as future prospects for development, as according to the GRI Sustainability Reporting Guidelines.

### **4.3 Theoretical Background for voluntary CSR reporting**

Since only so much CSR reporting is required by law in most countries, many researchers have attempted to explain the voluntary reporting through different theories. Four separate, and sometimes combined theories which have mostly been applied in CSR studies, are; political economy theory, organizational legitimacy theory, stakeholder theory and user utility theory. (Gray, 1995).

#### **4.3.1. Political economy theory**

Political economy theory draws on economics, law and political science in order to understand how political institutions, the political environment and capitalism influence each other. Thus the theory revolves around the power conflicts that exist within society and the struggles that occur between various groups within the society (Deegan, 2002).

Companies and CSR can be linked to the theory based on the power relationships. As much as taking care of the well being of societies and the environment is traditionally seen as the responsibility of governments, not companies, the growing power that corporations possess both due to their vast resources and large influence, has forced them to take part along the political institutions to being responsible.

#### **4.3.2. Organizational legitimacy theory**

Legitimacy theory relies upon the notion of a social contract and on the assumption that managers will adopt strategies, inclusive of disclosure strategies, that show society that the organisation is attempting to comply with society's expectations (Deegan et al. 2002). In the social contract the firms agree to perform various socially desired actions in return for approval of its objectives and other rewards, and this ultimately guarantees its continued existence (Guthrie and Parker, 1989).

According to O'Dwyer (2002), the legitimacy theory views corporations as social creations, whose existence depend on the willingness of the wider society to endure and support them. Therefore the companies prepare strategic tactics which aim at convincing the society that an organization is a legitimate institution. Thus corporate social disclosures can be seen as one such tactic for changing or controlling the public perceptions.

Organizational legitimacy theory also views organizations as continuously establishing balance between the social values and operations within the organization and the social norms and acceptable behaviour in the larger social environment. Organizational legitimacy is said to be both, process and state, which means that organizations either work with gaining, maintaining or repairing legitimacy. All the actions mentioned involve communications between the organizations and its various relevant publics, such as stakeholders, media and government. Social values, expectations and perceptions of these publics have an influence on the strategic postures of the company. Thus disclosing CSR information can be seen as a reaction to factors and pressures in a company's environment. Thus the legitimacy theory suggests that by disclosing social and environmental information with or in addition to annual reports, organizations can seek either passive acquiescence or active support for its operations. (O'Dwyer 2002).

With the legitimacy theory, strongly linked is the concept of accountability which refers to the principle of providing the society the information about which it has a right to know. For example to what extent the society's principles and tenets are being compiled with and how its environmental resources are being looked after by the companies. Reporting on CSR issues can be about the discharge of that accountability. Such reporting will allow the society and the stakeholders in particular to judge the extent to which the organizations are meeting the duties placed upon the organization and the extent to which they are – or are not- meeting the standards that they set for themselves or claim for themselves. (Henriques & Richardson 2004).

#### **4.3.3. Stakeholder theory**

As originally detailed by R. E. Freeman (1984), stakeholder theory attempts to ascertain which groups are stakeholders in a corporation and thus deserve management attention. Stakeholder theory recognizes that there are other parties apart from shareholders involved, including governmental bodies,

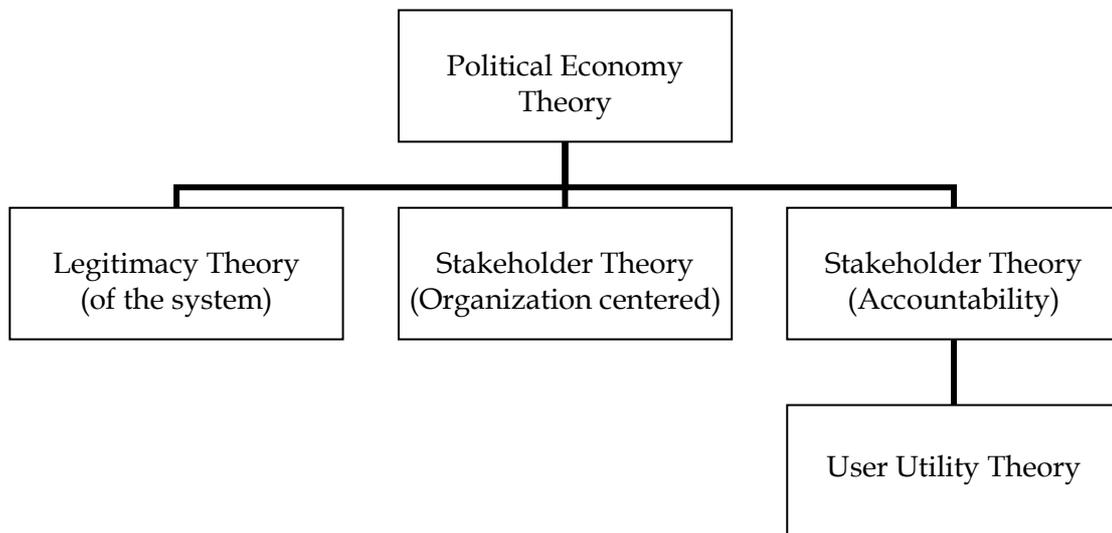
political groups, trade associations, trade unions, communities and associated corporations. This view of the firm is used to define the specific stakeholders of a corporation as well as examine the conditions under which these parties should be treated as stakeholders.

Gray, Owen & Adams (1996) define a stakeholder as “any human agency that can be influenced by, or can itself influence, the activities of the organization in question”. Stakeholder theory Gray et al. present as an explicitly systems-based view of the organization and its environment which recognises the dynamic and complex nature of the interplay between them. How a company selects its stakeholders (and thus chooses to manage them through CSR) is a strategic choice by the company (same as according to legitimacy theory). However, for a number of companies today and for many non-company organizations it is not simply a matter of identifying which groups influence one’s profitability and working to influence those. There are an increasing number of values-based companies to whom there is a goal beyond profitability. (Gray, Owen & Adams 1996).

#### **4.3.4. User utility theory**

The user utility theory perceives the motivation for social disclosures arising from the need of information users; disclosures are made simply because they are useful for decision-makers. Traditional financial statement user groups such as investors may find social and environmental disclosure information useful for their decision-making and by providing this information the companies are fulfilling their decision needs. (Milne & Chan 1999). Utility theory has been used as basis in many studies concerning the usefulness of accounting and other information to company’s stakeholders.

To draw some conclusions of the theoretical framework used in this study, it must be said that the theories to some extent draw on the same perspectives and thus are interrelated. Gray, Kouhy & Lavers (1995) state that stakeholder and legitimacy theories are overlapping perspectives which are set under the assumptions of political economy theory. To clarify the theoretical framework, figure 2 presents the systems based theories for CSR reporting



Picture 3. Theoretical framework. Modified: Gray, Owen & Adams (1996); Purushothaman, Tower, Hancock & Taplin (2000)

The user utility theory best supports the purpose of the current study, because the usefulness of the CSR information is examined from a particular stakeholder groups, investors, point of view. However it is important to also understand the relationship of the utility theory and the other theories in order to be able to explain and understand business engagement to CSR as a whole.

## **5. FINANCIAL MARKETS AND CSR**

### **5.1 Market efficiency**

In order to understand why a company's financial market performance could be somehow affected by information the company provides concerning its social and environmental impacts, one needs to come familiar with the concept of efficient markets. By market efficiency, in theory of finance, is meant that the price of stocks, derivatives and other financial instruments is correct based on the information available for the investors. (Brealey, Myers & Allen 2006: 337.) Moreover, besides pricing the instruments to reflect their true value, the efficient market hypothesis assumes that the price should adjust to a change in the market situation so that the price reflects the net present value of future returns. Thus on basis of past and present information available for investors the price of a particular stock should also include future prospects for returns.

There are several factors affecting the level of market efficiency. For instance the amount of investors and an easy access to the markets without significant trading costs are some important efficiency enhancing factors. Information, however, is the single factor most improving efficiency. The markets possess an information system which provides the investors with information about the available investment projects and their prices. Newspapers, television, internet and other media provide this information too but not as in real time as the market place does. (Brealey et al. 2006: 354).

The development of growing investor information demands and thus investor communications has been a by-product of internationalization of the owners of companies. Especially in the US and other Anglo-Saxon countries investors have become more active in their demand for approaches towards the companies and thus the companies have been forced to provide better communications towards their owners.

### **5.2 Mainstream investment and CSR**

Problematic from this study's perspective is the nature of traditional financial markets. As it has been stated before; the markets are rather short-termist and aim at profit maximization. Mainstream investors focus on financial statement analysis, financial ratios, dividends, operating cash flows, new equity issues

and capital financing. They are also highly interested in the earnings estimates and growth rate projections. Therefore even though the market efficiency hypothesis suggests that all information available should be included in the share price, in practice it usually is just the certain type of information which affects the investment decisions – the type that has clear financial impacts.

What comes to CSR reporting, from a mainstream investors' perspective, CSR information does most likely not bring any significant news to his attention if he does not see the connection with the reported information and the value of the stock. One major problem with CSR reporting from an investor's point of view is thus the quality of the reported information. The reporting methods and measures used are different from the traditional financial measures, and that makes the information harder to analyze and compare.

As Milne & Chan (1999) found, CSR information fails to communicate sufficiently precise and direct impacts on the firm's risk and return relationship, and is therefore largely ignored by analysts. Moreover, historically, according to Hancock (2004) mainstream investors have unquestioningly accepted the claim that excellent environmental and social performance could be achieved only at the cost of lower financial returns for both companies and investors. Therefore, environmental and social factors have been seen at best irrelevant to the financial risk/ return equation and, at worst, actually injurious to it, and thus they should not be considered as part of the investment analysis.

However, as the business climate has been and continuously is changing and the benefits of CSR are being promoted more, the amount of CSR information provided by the company can and should tell about the company's commitment to its responsibilities. It could also at the same time tell about well managed, corporate governance-oriented, innovative organization which combines economic success with being responsible and thus by far should be an organization appreciated by the investment community. In a well-managed responsible company, the risk for unexpected negative events is smaller and therefore corporate responsibility can be seen as a factor affecting the value of the company. (Rohweder, 2004:11).

Also Lydenberg (2005) concludes that, when fully informed by reliable data, markets become more efficient, generate trust, and create long-term wealth. In

the past century, the financial markets in the United States and around the world have benefited greatly from requirements for extensive disclosure of financial data. Similarly, today financial markets have an opportunity to improve their efficiency, trust, and wealth-creating capabilities by systematically integrating social and environmental data. Stocks will then be priced with a fuller accounting for their risks, intangible assets, and wealth-creating potential. (Lydenberg, 2005: 43).

Even though the mainstream investors might not yet appreciate the CSR information reported by companies, there already exists a growing body of evidence in academic finance supporting this investment case for CSR (see i.e Hancock, 2004). Incorporating CSR information to investment processes is seen to be a valuable tool for assessing

- difficult-to-predict risks
- intangible assets
- quality management, and
- the potential for long-term wealth creation (Lydenberg, 2005).

Past years have also led to the growth of socially responsible investing (SRI), which combines investors' financial objectives with their concerns about social, environmental and ethical issues'. (Eurosif, 2006)

### **5.3 The context of financial system**

What need to be considered in the context of this study in relation to studies conducted in the UK and U.S for example are the differences between market based and banking based financial systems. In mentioned countries, where previous studies have mainly taken place, the financial systems are dominantly market based whereas in Finland and Sweden they are traditionally banking based. This difference has a significant influence to the relationship between investors and the companies. In banking based system, the risks are lower and thus investor protection is better and therefore investors do not need to be so alert what comes to information concerning the company. (Brealey et al. 2002).

In market based system then again, risks are higher and the share prices are highly dependent on the available information. Also as the investor protection is not standing on as solid ground as in banking based system, unfortunate

events such as the sadly famous Enron and Parmalat may take place leaving the shareholders empty handed thinking where did it all go wrong. Thus in market based systems more emphasis is put on the transparency and accountability, for example by demanding more disclosure and more information to protect the investors. The difference in financial systems also partly explains why the Finnish legislation for example is not putting more demands for CSR reporting – the position of investors is seen as relatively secured as it is as the banks providing financing for smaller and medium sized companies take care of the risk assessments and operate close enough to the companies.

## 6. DATA GATHERING AND ANALYSIS METHODS

### 6.1 Data gathering

The empirical part of this study is based on the largest (measured by turnover) Finnish and Swedish companies listed in the Nordic Stock Exchange. The Finnish companies were selected from the annual 'TE 500' – listing in *Talouselämä*- magazine's web service and the Swedish companies were selected from a similar listing of the 'largest Swedish companies'. In the end sample consisted of 80 companies; 47 Finnish and 33 Swedish. The initial sample was supposed to include only Finnish companies but while gathering the data it became clear that the sample needed to be expanded to include more companies which report relatively large amount of CSR data. Thus the Swedish companies were included due to rather similar environmental and social profile with Finland as well as more or less the same economic conditions.

The companies were divided in three sector-groupings based on their general environmental profile. This means that for instance companies with high environmental profile have to pay most attention to environmental and sustainability issues whereas low profile companies' interactions with the environment are much less affective. The descriptive statistics for the sample are shown in table 2.

The data was gathered over a six-year period between 2001 and 2007. The somewhat small quantity of the companies included in the study can be justified by the fact that CSR reporting in general is still in its infancy among majority of companies and in keeping with prior research (i.e Murray et al 2006) it is still mostly the largest companies who provide such disclosure voluntarily whereas smaller companies only report the mandatory issues. Adding more companies to the sample would not have brought any additional value to the results since the amount of CSR reporting even in the smaller companies included in the sample was rather small or nonexistent. The main goal of the study is more to examine whether large disclosures lead to improved share price performance instead of whether non-existent disclosure leads to deteriorated performance.

The data needed for the statistical testing comprised of two sets. Firstly, the amount of CSR information in annual reports and separate environmental or

CSR reports, and secondly, the share returns for the year following the publishing of those reports. Also the turnover of companies was used as a size variable.

The CSR data was gathered using a method of content analysis, where the text or content of a piece of writing is codified into various groups or categories, depending on the selected criteria (Weber, 1988 in Hackston & Milne 1999). Content analysis is a widely used method in CSR reporting studies (see i.e Niskala 1996, Idowu & Towler 2004, KPMG 2005). In this study the amount of CSR reporting was measured by the amount of pages dedicated to information related to personnel, environment, society or CSR in general. The amount of pages has also been used e.g. by Gray et al. (1995) and Adams et al (1998). All annual reports and separately published environmental, CSR or sustainability reports of the companies included in the sample were examined from years 2000 to 2006. The lag in reporting naturally led to organizing the data so that the disclosure concerning year 2000 is published in 2001 and thus the share returns are calculated at the end of 2001 and so on.

The annual and CSR reports were obtained mostly from the companies' web pages and examined in PDF format. The parts of the report to be included as CSR information had to be clearly captioned as CSR, sustainability, personnel or environment. The amount of reporting was measured at the accuracy of  $\frac{1}{4}$  of a page which was seen to be sufficient for the purpose of the study. Pictures, diagrams and tables were included in the measurement since their importance is seen as significant from the information users' perspective. It is more likely, that the reader will pay attention to diagrams and tables and pictures before reading the actual text provided (Unerman, 2000). In the end, the CSR data gathering provided data component over a six-year period for altogether 80 companies allowing both longitudinal and cross-sectional examination of the development of the amount of CSR reporting.

The share price data was obtained partly from ETLA's financial statement – database and partly from Datastream database as well as from Nordic Stock Exchanges' web service. The share prices were obtained from both the year before and the year the disclosure took place. Since the reports concerning year 2000 for example are published in the first quarter of 2001, the share returns relating to the reports were computed as in end of 2001. In addition since the CSR disclosures from year 2006 were included in the study, the share prices which were used to compute the share returns for 2007 were

taken as end of April 2007. Surely this means that the share price performance period for 2007 differs from other years, but this was not seen as a major limitation for including the 2006 CSR disclosures in the study.

The share returns were computed as follows:

$$R_{i,t} = \ln \left( \frac{P_{i,t}}{P_{i,t-1}} \right) \quad (1)$$

where  $R_{i,t}$  is the return earned by company  $i$  in the year  $t$ ,  $P_{i,t}$  is the price of share  $i$  at the end of year  $t$ ,  $P_{i,t-1}$  is the price at the start of the year.

The following table presents some descriptive statistics of the sample. Altogether 80 companies were included in the statistical analysis. The companies were divided in three sector groupings according to the general environmental profiles of the different sectors as categorized in the Nordic Stock Exchange. Sector group one includes companies from sectors with 'high environmental profile', such as industrials and materials, total 38 companies. The second group has 31 companies from such sectors as consumer staples, consumer discretionary and information technology. The third group is comprised of companies operating in sectors with 'low environmental profile' such as telecommunication services and financials. The table also presents a size variable, namely average turnover measured in millions. CSR mean refers to the mean number of pages devoted to CSR disclosures by companies in different sector groups and finally, the mean share return and standard deviation for share returns are presented.

<b>Sector name</b>	<b>No of firms</b>	<b>No of obs</b>	<b>Turnover mean</b>	<b>CSR mean</b>	<b>Return mean</b>	<b>Return std deviation</b>
1 Industrials & materials	38	256	4 516	15,22	0,11	0,40
2 Consumer staples & discretionary, IT	31	212	3 586	9,64	0,04	0,43
3 Telecom services, financials	11	77	4 709	5,69	0,15	0,36
All	80	545	4 185	11,63	0,07	0,41

Table 2. Descriptive statistics for the variables categorized by sector groupings.

From the table it can be seen, that sector group 1, namely the one with the highest environmental profile has CSR mean of 15,22 which is clearly the highest of the three groups. Accordingly sector group two has a mean of 9,64 pages devoted to CSR information whereas the third group, with the lowest environmental profile has a CSR mean of 5,96 pages. The overall mean for CSR pages is 11,63. The share return means for the sector groupings are 0,11, 0,04 and 0,15 respectively, with an overall mean of 0,07.

## 6.2 Statistical testing

The statistical testing in this study was directly influenced by the prior work in the field and in particular by Murray et al (2006). Overall three tests were performed and the data was used in un-transformed as well as in grouped form.

In the first series of tests the un-transformed data was used as an exploration of the hypotheses concerning the likely associations between CSR reporting and share returns. First Pearson correlation coefficients were calculated. The coefficients examine the linear relationship between the variables being studied (Aczel, 2002; 458). The correlations were estimated between returns and the amount of CSR reporting across the whole sample, for the different sectors and for every year from 2001 to 2007.

The second series of tests involved grouped data with the companies categorized in groupings based on the returns (high, medium, low) and the disclosure (small, medium, large). Chi-square test of association was conducted with the grouped data in order to examine whether a non-linear relationship exists between the groupings of two variables.

$$\chi^2 = \sum_{n=1}^3 \sum_{m=1}^3 \frac{(O_{n,m} - E_{n,m})^2}{E_{n,m}} \quad (2)$$

where  $O_{n,m}$  is the observed frequency for row and columns and  $E_{m,n}$  is the expected frequency for row  $n$  and column  $m$ , based on the null hypothesis of no association examined.

Third, a general linear model was fitted to share return data to investigate whether interactions with disclosures can explain returns. The following equation was estimated:

$$Y_{i,t} = \beta_0 + D_i + \beta_1 X_{i,t} + \beta_2 S_{i,t} + \varepsilon_{i,t} \quad (3)$$

Where  $\beta_0$  is a constant term,  $D_i$  is a dummy variable for each year,  $X_{i,t}$  is CSR,  $S_{i,t}$  is the natural log of the turnover variable of  $S_{i,t}$ ,  $\beta_1$  and  $\beta_2$  are regression coefficients, and  $\varepsilon_{i,t}$  is the error term.

## 6. FINDINGS OF EMPIRICAL STUDY

The statistical analysis was conducted by using the SPSS statistical software. Table 3 presents the Pearson correlation coefficients for the association between annual returns the amount of corporate social responsibility reporting. Across the whole dataset, the correlation is quite minimal (0,02) and across the examined years the correlations are negative up until year 2003 and positive thereafter but overall very small ranging from -0,22 to 0,14. Thus the test of null hypothesis that these correlations are equal to zero cannot be rejected at the significance level of 0.05. The p-values are all greater than that. Based on the correlation coefficients it seems obvious that no linear association exists between share returns and the CSR disclosures. Although, if significance level 0.10 was to be used, the negative correlations for years 2002, (-0,22) and 2003 (-0,21) could indicate an inverse relationship between the variables, which could mean that the higher level of CSR disclosure would have had a negative effect on the share price performance.

	<b>Correlation</b>	<b>p-value</b>
Total sample	0,020	0,638
Sector 1	-0,010	0,877
Sector 2	0,024	0,731
Sector 3	0,188	0,102
2001	-0,051	0,642
2002	-0,219	0,056
2003	-0,206	0,068
2004	0,117	0,284
2005	0,007	0,951
2006	0,138	0,218
2007	0,043	0,704

Table 3. Pearson correlation coefficients between share returns and the amount of CSR disclosure.

Table 4. presents the Chi-squared statistics from investigating whether a non-linear relationship existed within the data. The purpose for the Chi-square tests was to examine whether large CSR disclosures could be related with high returns because investors value such disclosures. The initial plan was to

categorize both variables to three categories, but while conducting the tests it became clear that the data was not large enough for Chi-square testing since the expected cell counts for each category should be five at minimum. Thus the test for the whole data was conducted with a 3\*3 table and the tests for each sector and year were conducted with only two categories (low, high/small, large) by using a 2\*2 contingency table.

The test results do not give a strong support to the hypothesis of large disclosures and high returns. The p-values are all clearly above the level of significance and thus the null hypothesis of no association cannot be rejected. Only the chi-squared value for the whole data (7.89) has a p-value that is significant, but only at the 10 percent level (0,096).

	<b>Chi-squared</b>	<b>p-value</b>
Total sample	7,89	0,096
Sector 1	0,02	0,990
Sector 2	0,00	0,985
Sector 3	2,66	0,103
2001	0,11	0,739
2002	0,04	0,846
2003	0,11	0,746
2004	0,00	0,987
2005	0,62	0,432
2006	0,90	0,343
2007	0,01	0,932

Table 4. Chi-squared test statistics for the association between returns (low, high) and the amount of CSR disclosure (small, large).

Table 5. presents the results from the analysis of variance of share returns on the factor year, and on the covariates of CSR reporting and size. The output was obtained by estimating the general linear model for equation (3). The table presents the sum of squares for the different variables as well as the F-ratios and p-values.

Source	Sum of Squares	df	F	Sig.
Corrected Model	12,767	8	11,113	0,000
Intercept	0,457	1	3,179	0,075
Size	0,150	1	1,048	0,307
CSR	0,001	1	0,010	0,919
Year	12,439	6	14,437	0,000
Error	76,687	534		
Total	92,404	543		
Corrected Total	89,454	542		

R Squared = ,143 (Adjusted R Squared = ,130)

Table 5. Output from fitting a general linear model to explain the share return data.

From the table it can be seen that year is the only variable with significant influence on the share returns. Other variables and least of all CSR do not have small enough p-values for their influence to be significant. It seems clear, that during the time period studied, the financial performance of the companies was influenced by factors such as the general trends in financial markets which vary over years. The estimated model has an adjusted R squared value of 13 percent which indicates that nearly 90 percent of the share returns variance is explained by other factors than the ones included in the model.

The last table (5), presents the estimated parameters for equation (3). From the table it can be seen, how the variance of the dependent (share returns) can to some limited extent be explained by the year factor.

Parameter	B	Std. Error	t	Sig.
Intercept	0,129	0,106	1,210	0,227
Size	-0,014	0,014	-1,024	0,307
CSR	0,000	0,001	0,101	0,919
[Year=2001]	-0,083	0,062	-1,343	0,180
[Year=2002]	-0,223	0,061	-3,645	0,000
[Year=2003]	0,226	0,061	3,734	0,000
[Year=2004]	0,031	0,060	0,520	0,603
[Year=2005]	0,221	0,060	3,667	0,000
[Year=2006]	0,145	0,061	2,402	0,017
[Year=2007]	0	.	.	.

a. This parameter is set to zero because it is redundant.

Table 6. Parameter estimates for dependent variable Ret.

The above results from the statistical testing clearly indicate no relationship between the studied variables, share returns and CSR reporting. Based on earlier research, no strong relationships were expected either. Nevertheless, some conclusions from the results can be drawn. At least for now, the financial markets do not assess companies on the basis of their commitment and reporting to corporate social responsibility. The dominant perception of investors who only pay attention to financial information or information with possible financial impacts still holds and thus shareholders are most likely not the primary stakeholder groups for which CSR reports are aimed at. The motives behind extensive reporting cannot be explained by the user utility theory so that the investors would be considered as the main user group.

Moreover, theories better suitable to explain the findings are the legitimacy theory and stakeholder theory or a combination of the two. The companies which already publish rather extensive CSR or sustainability reports want to discharge their accountability towards all stakeholders, not just shareholders and investors.

As accountability can be defined as 'identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information\* (Gray, 2001; 11.) and stakeholder of an organization is anyone who can influence or is influenced by an organization, thus, by reporting on their commitment for social and environmental responsibility in addition to traditional financial responsibility the companies are discharging that accountability and legitimizing their operation in societies. Companies want to be seen as attractive employers and trustworthy business partners. No business needs attacks towards its operations and reputation whether by customers, activists or its own employees. They rather want to inform all stakeholders on how responsible the company is and where it wants to be heading with that responsibility.

## 7. CONCLUSIONS

During past couple of years sustainable development has been strengthening its position as one of the central future challenges of our generation. As climate change has been proved to be actual and stronger than once thought, the question no longer remains whether a problem exists, instead the focus is on what to do about it. We are being faced with a question of changes in our own individual value systems as well as in the value systems of companies and other institutions. Ethical values need to be brought up to the same level with economic values.

The major role of corporations in wealth creation and the footprint associated with the wealth creating process makes the responsibility of corporations inevitable. Many arguments concerning the degree and proper responses associated with such responsibility have and can be made, but there should be little argument about the fact itself. The global future is without a doubt closely linked to the corporate future and as such, corporate social responsibility should no longer be considered as an option; it is a reality. According to White (2005) the core question facing companies today is 'how to harness the full potential of business to serve the public interest while preserving and enhancing core assets — creativity, innovation and competitive drive' (White, 2005; 9). Thus the key lies in mutual goal of both profitable and more sustainable businesses.

The history of CSR can be explored either through the overall concept of CSR which has been around and evolving for nearly four decades, or from an individual company's perspective as it begins to take it's responsibility on the agenda. Either way, the approach to CSR can be divided into three phases with different focuses. In the first phase companies do what is legally required and charitable. The second phase focuses on what is financially justified and the last and most recent phase focuses on what is morally expected of the company by its stakeholders. The initial birth, further development and recent increase in CSR reporting - covering the economic, environmental and social dimensions of CSR - is linked to this demand for greater accountability and transparency of companies. Key stakeholders today not only expect businesses to take account of their social and environmental impact, but also want to be informed on how they are performing.

Despite the increased reporting, companies' approaches to CSR reporting are still varied as was noticed while gathering the CSR data for the empirical part of this study. Even in the largest top 40 listed companies in Finland and Sweden CSR reporting varied from rather comprehensive integrated annual and sustainability reports constructed according to GRI reporting guidelines to a brief mention of the amount of personnel or environmental policies in annual report.

The purpose of this study was to explore and define the concepts of corporate sustainability and corporate social responsibility reporting. The first part of the study concentrated on previous studies in the field, the concepts of sustainability and CSR, the standards and guidelines concerning CSR and the theories behind CSR reporting. Also the concept of market efficiency was briefly discussed together with the relationship between contemporary mainstream investment and CSR.

The question addressed in the second, empirical part of the study was; 'do investors care about the CSR reporting of largest Finnish and Swedish companies so that their appreciation of a larger amount of reporting could be seen through improved share price performance'. Motivation behind the question lied in the conclusions from previous studies in the field where the financial community is seen as a key driver for CSR reporting. However, as the results from the series of statistical testing indicate, the answer is no, they do not. Reporting is not appreciated through traditional rewards – increased share returns. Thus there still seems to be a contradiction between the investors' increasing demand for CSR disclosure and the appreciation of this disclosure because the study found no evidence of proven links between the price sensitivity of the social and environmental data.

As long as this seems to be the case, it is rather understandable that there is only so much the majority of companies are willing to do what comes to corporate social responsibility. The scope of CSR will most likely be kept at a level which is considered just meeting the general stakeholder expectations but if the costs are exceeding benefits, the company will not go any further in being responsible.

The problem, as many CSR critics point out, is that as long as CSR reporting is a voluntary active and not legally required and regulated, most companies

will stay out of the additional reporting. Many businesses still regard CSR reporting with suspicion, fearing that more transparency could lead to more instead of fewer questions. Glossy statements by management on the company's CSR policies and practices are not sufficient to gain the trust of stakeholders. Many see reporting as an add-on, for which companies can choose what they report on the basis of what looks best on the outside. Therefore more standardized reporting as well as verification of the reports needs to be established and so far it seems that GRI guidelines are becoming generally accepted framework for that purpose.

Still, for now, GRI guidelines are mostly adopted by the largest 10 % (or less) of companies which leaves the rest 90 % of reporting to a significantly lighter level (if existing at all). However, GRI has already been working on a modified set of GRI guidelines suitable for small and medium sized companies. These guidelines should be available for use in the nearby future and the guidelines should ease the adoption of CSR reporting for majority of companies not yet involved with CSR. (GRI, 2006).

Despite the lack of statistically significant findings of this study, there still remain many interesting topics for future research in the field of CSR and CSR reporting. However, as with the current study as well as many previous CSR studies, there are some limitations which need to be recognized concerning the data and analysis methods. The major limitation for the current study probably is the use of the amount of CSR reporting as a predictor of financial performance. The problems relate to both, data gathering and reliability and validity of the data.

From the user of the CSR information's perspective, the amount of CSR may not be the most suitable measure as more information is always not a guarantee of 'better responsibility' or effective progress towards it. Also more transparency does not always entail more awareness. For the reporting to be effective, the data needs to be relevant or material to the business objectives, meaningful for the stakeholders and show progress over time. The identification of material issues to report on is not always an easy task, as different stakeholders can have different views on the significance of the same sustainability disclosure. (White, 2005).

For the purposes of this study, however, the overall amount of CSR information reported was seen to be a sufficient variable, but within future, it

would be interesting to examine for instance investors' responses to the quality of reported specific, most relevant or material pieces of CSR information. Also of interest would be how the first time adoption of GRI guidelines is received by different stakeholders and especially by shareholders and investors.

Also the use of share returns as the other variable can be criticised. The major limitation concerns the cause-and-effect relationship between the studied variables. The share price of a company is affected by so many factors, not least by the general trends in the stock market and the yearly company performance and therefore it is quite difficult to separate the effects of a particular factor from the overall performance.

All in all, to conclude on this examination of corporate sustainability and CSR, even though the results from this study did not give any support to the optimistic thought that investors would particularly appreciate companies which openly report about their corporate social responsibility, the future prospects of responsible companies seem rather good.

The leading edge companies have already managed to turn sustainability to competitive advantage. They have seen the benefits that come along with commitment to more responsible business together with the opportunities which lie ahead. It seems that CSR and CSR reporting are here to stay, as Niskala (2003), White (2005) and many others strongly believe. People want information on corporate social and environmental issues so that they can answer the question whether corporations today are creating true wealth. Because the shift in the balance of power toward corporations is unlikely to reverse in the near future, it is equally unlikely that the demand for CSR data will disappear. (Lydenberg, 2005).

Moreover, measuring, collecting and reporting the data is likely to keep on evolving in order to serve the stakeholders varying needs better. CSR reporting will be more and more integrating with annual reporting within the future and CSR reporting will probably become more legislated than it currently is. Hopefully, companies will be valued more through their triple bottom line instead of the traditional financial bottom line.

Thus the great challenge for companies already greatly involved in CSR is to prove others, not yet involved, how responsibility can be promoted, managed and measured in practice. (Rohweder 2004:246).

Another great challenge for all promoters of corporate social responsibility is how the powerful institution of financial markets can be persuaded to act in more socially and environmentally sensitive ways. Hopefully, to quote Allen White (2005) on the future of CSR “with the right mix of wisdom and will, the next decades may well witness a turn away from the deleterious effects of single-minded shareholderism toward next-generation CSR that meets the dual goals of prosperous corporations and prosperous societies” (White, 2005; 10).

## BIBLIOGRAPHY AND REFERENCES

- AccountAbility (2006). The AA1000 Series. Available at: <http://www.accountability21.net/aa1000/default.asp>. Visited 12.12.2006
- Aczel, Amir (2002). *Complete Business Statistics*. McGraw-Hill.
- Adams Carol A., Wan-Ying Hill & Clare B. Roberts. (1998). "Corporate Social Reporting Practises in Western Europe: Legitimizing Corporate Behaviour?" *British Accounting Review*. 30, 1–21
- Alexander, Gordon J. & Rogene A. Buccholz. (1978). Corporate social responsibility and stock market performance. *Academy of Management Journal*. Vol. 21 No. 3. 479-486.
- Anderson, J. and A. Frankle (1980), 'Voluntary Social Report: An Iso-Beta Portfolio Analysis', *Accounting Review* 55, 468–479.
- Aupperle, Kenneth E., Archie B. Carroll & John D. Hatfield. (1985). An empirical examination of the relationship between corporate social responsibility and profitability. *Academy of Management Journal*. Vol. 28. No. 2. 446-463.
- Bebbington, Jan. (2001). Sustainable development: A review of the international development, business and accounting literature. *Accounting Forum*, 25(2), 128–157
- Belkaoui, A. 1976. The Impact of Disclosure of the Environmental Effects of Organizational Behavior on the Market. *Financial Management*, (winter): 26-31.
- Belkaoui, A. & Karpik, R.G. (1989). 'Determinants of the corporate decision to disclose social information', *Accounting, Auditing and Accountability Journal*, No. 1, pp. 36–51.
- Blacconiere W, and Patten D. (1994). Environmental disclosures, regulatory costs, and changes in firm value. *Journal of Accounting and Economics* 18(3): 357-377.

- Brealey, Myers & Allen. (2006). *The Principles of Corporate Finance*. Irwin/McGraw-Hill.
- Carson, Rachel (1962). *Silent Spring*, Houghton Mifflin, Mariner Books.
- Center for International Earth Science Information Network (2006). *Environmental Sustainability Index 2005*. Available at: [http://sedac.ciesin.columbia.edu/es/esi/ESI\\_2005\\_PressRelease.pdf](http://sedac.ciesin.columbia.edu/es/esi/ESI_2005_PressRelease.pdf)
- Confederation of Finnish Industries (2006). Corporate responsibility – practices in Finnish industry. Available at [http://www.ek.fi/ek\\_suomeksi/ajankohtaista/tutkimukset\\_ja\\_julkaisut/ek\\_julkaisuarkisto/2006/Corporate\\_resnsibility\\_eng.pdf](http://www.ek.fi/ek_suomeksi/ajankohtaista/tutkimukset_ja_julkaisut/ek_julkaisuarkisto/2006/Corporate_resnsibility_eng.pdf)
- Elkington, John. (1997). *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* Oxford: Capstone
- Elkington, John (1999). Triple bottom-line reporting: Looking for balance. *Australian CPA*, (March), 19–21.
- Elkington, John. (2004). 'Enter the triple bottom line' in Henriques & Richardson. (2004). *The Triple Bottom Line, Does it All Add Up? Assessing the sustainability of business and CSR*. London. Earthscan.
- Environmental Sustainability Index. 2005. Center for International Earth Science Information Network 2006. Available at <http://sedac.ciesin.columbia.edu/es/esi/downloads.html#data>. Referred 27.3.2006.
- Epstein, Marc J. and Marie-José Roy. (2001). "Sustainability in Action: Identifying and Measuring the Key Performance Drivers". *Long Range Planning* 34 (2001) 585–604.
- Epstein, Marc J. & Marie-Josée Roy. (2003). "Making the Business Case for Sustainability: Linking Social and Environmental Actions to Financial Performance". *JCC* 9 Spring 2003
- European Commission (2001). 'Green Paper Promoting a European framework for Corporate Social Responsibility'. (COM(2001)366).

- European Commission (2002). The report on the Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development. (COM (2002) 347)
- Deegan, Craig. (2002). The legitimising effect of social and environmental disclosures. *Accounting, Auditing & Accountability Journal*; 2002; 15, 3;.
- Deegan, C., Rankin, M., Tobin, J. (2002), "An examination of the corporate social and environmental disclosures of BHP from 1983-1997: a test of legitimacy theory", *Accounting, Auditing & Accountability Journal*, Vol. 15 No.3, pp.312-43.
- Finnish Accounting Act. (1336/1997).
- Finnish Environment Institute (2006). EMAS – järjestelmä. Available at: [www.environment.fi](http://www.environment.fi). Visited 12.12.2006.
- Finnish Ministry of Trade and Industry. (2006). Corporate Social Responsibility. Available at: <http://www.ktm.fi/index.phtml?l=en&s=888>. Visited 12.12.2006.
- Freeman, R.E. 1984. *Strategic Management: A Stakeholder Approach*. Maryland: Pitman.
- Friedman, Milton (1970). 'The Social Responsibility of Business is to Increase its Profits'. *The New York Times Magazine*, September 13.
- Gray, R.H., Bebbington, J., Walters, D. (1993), *Accounting for the Environment*, Paul Chapman Publishing, London.
- Gray, R., Kouhy, R. & Lavers, S. (1995). 'Methodological themes: Constructing a research database of social and environmental reporting by UK companies', *Accounting, Auditing & Accountability Journal*, Vol. 8, Iss. 2, pp. 78-101.
- Gray, R.H., Owen, D., Adams, C.A. (1996), *Accounting and Accountability; Changes and Challenges in Corporate Social and Environmental Reporting*, Prentice Hall, Hemel Hempstead.

- Gray, Rob. (2001). "Thirty years of social accounting, reporting and auditing: What, if anything, have we learned?". *Business Ethics: A European Review*. Vol. 10, No. 1, p. 9-15.
- Gray, Rob (2005). Taking a Long View on What We Now Know About Social and Environmental Accountability and Reporting. Conference paper.
- GRI (2006). G3 online. Available at <http://www.globalreporting.org/ReportingFramework/G3Online/>.
- Griffin, Jennifer & John F. Mahon (1997) 'The Corporate Social Performance and Corporate Financial Performance Debate: Twenty-five Years of Incomparable Research', *Business and Society* 36.1 (March 1997): 5-31.
- Guthrie & Parker (1990). Corporate social disclosure practice: a comparative international analysis. *Advances in Public Interest Accounting*. 3
- Hall, Pamela L. & Robin Rieck. (1998). The Effect Of Positive Corporate Social Actions On Shareholder Wealth. *Journal of Financial and Strategic Decisions*. Vol. 11 No. 2 Fall 1998. p. 83
- Hancock, John. (2004) *Investing in Corporate Social Responsibility: A Guide to Best Practice, Business Planning and the UK's Leading Companies*. London, GBR: Kogan Page, Limited.
- Harrison, Jeffrey S. & Edward Freeman. (1999). Stakeholders, Social Responsibility, and Performance: Empirical Evidence and Theoretical Perspectives. *Academy of Management Journal*. Vol. 42, No. 5, p. 479-485.
- Hackston, David & Markus Milne (1996). Some determinants of social and environmental disclosures in New Zealand companies. *Accounting, Auditing & Accountability Journal*. Vol. 9. Iss. 1. p. 77-108
- Harrison, Jeffrey S. & Edward Freeman. (1999). Stakeholders, Social Responsibility, and Performance: Empirical Evidence and Theoretical Perspectives. *Academy of Management Journal*. Vol. 42, No. 5, p. 479-485.

- Henriques, Adrian & Julie Richardson. (2004). *The Triple Bottom Line, Does it All Add Up? Assessing the sustainability of business and CSR*. London. Earthscan.
- Holliday, Charles O Jr., Stephan Schmidheiny & Philip Watts. (2002). *Walking the Talk: The Business Case for Sustainable Development*. Sheffield. Greenleaf Publishing Ltd.
- Idowu, S.O. and Towler, B.A. (2004). 'A comparative study of the contents of corporate social responsibility reports of UK companies'. *Management of Environmental Quality: An International Journal*, 15:4, 420–437.
- Ingram, Robert W. (1978) 'An investigation of the information content of (certain) social responsibility disclosures'. *Journal of Accounting Research* 16: 270-285.
- International Organisation for Standardization (2006). ISO 9000/ ISO 14000 In Brief: Understanding the Basics. Available at: <http://www.iso.org/iso/en/iso900014000/understand/inbrief.html>. Visited 12.12.2006
- KPMG Global Sustainability Services. (2005) KPMG International Survey of Corporate Responsibility Reporting 2005. KPMG International.
- Laine, Matias. (2005). "Meanings of the term 'sustainable development' in Finnish corporate disclosures". *Accounting Forum*. 29 (2005) 395–413
- Lamberton, Geoff. (2005). "Sustainability accounting—a brief history and conceptual framework". *Accounting Forum* 29 (2005). 7–26
- Lorraine N. H. J., Collison D. J. & Power D. M. (2004). An analysis of the stock
- Lydenberg, Steven. (2005). "Social and Environmental Data as New Tools". *The Journal of Investing*, Vol. 14, No. 3, 2005. p. 40-46.
- Margolis, J. D., & Walsh, J. P. (2001). *People and profits? The search for a link between a company's social and financial performance*. Mahwah, NJ: Lawrence Erlbaum and Associates.

- Milne, M. J. and Chan, C.C. (1999). "Narrative corporate social disclosures: how much difference do they make in investment decision-making?". *British Accounting Review*. Vol. 31. No. 4. pp.439-457.
- Murray, Alan, Donald Sinclair, David Power & Rob Gray. (2006). Do financial markets care about social and environmental disclosure? Further evidence and exploration from the UK. *Accounting, Auditing & Accountability Journal*. Bradford. 2006. Vol. 19, Iss. 2.
- Myllylä, Ulriika (2006). *Yhteiskuntavastuuraportointi ja sen vaikutus osakkeiden markkina-arvoon suomalaisissa pörssiyrityksissä*. Pro Gradu-thesis. Helsinki School of Economics.
- Narver, J., 1971. Rational management responses to external effects. *Academy of Management Journal* March, pp. 99–115.
- Newson, M., and Deegan, C. (2002), "Global expectations and their association with corporate social disclosure practices in Australia, Singapore, and South Korea", *The International Journal of Accounting*, Vol. 37 No.2, pp.183-213.
- Niskala M and Pretes M. (1995). Environmental reporting in Finland: a note on the use of annual reports. *Accounting, Organisations and Society* 20 (6): 457-466.
- Niskala, Mikael and Kaisa Tarna (2003). *Yhteiskuntavastuun raportointi*. Gummerus Kirjapaino Oy. Jyväskylä.
- Niskala, Mikael, Karoliina Vahala & Marjut Lovio. (2004). *Vastuullisen yritystoiminnan kansainväliset suuntaviivat ja eteneminen Suomessa*. MONIKA-neuvottelukunta selvitys. Available at: [http:// www.ktm.fi/files/14432/monika2\\_2004.pdf](http://www.ktm.fi/files/14432/monika2_2004.pdf)
- Oakley, R. & Buckland, I. (2004) What if Business as Usual Won't Work? In *The Triple Bottom Line: Does it all add up?* A. Henriques & J. Richardson (Eds). Earthscan, London, UK, pp. 131-141

- O'Dwyer, Brandon. (2002). Managerial perceptions of corporate social disclosure: An Irish story. *Accounting, Auditing and Accountability Journal*. pp. 406-436.
- Patten, D. M. (1992). The relation between environmental performance and environmental disclosure: A research note. *Accounting, Organizations and Society* 27(8): 763-773.
- Richardson, Alan, Welker, Michael & Hutchinson, Ian R. (1999) Managing Capital Market Reactions to Corporate Social Responsibility. *International Journal of Management Reviews* 1 (1), 17-43.
- Roberts, R. W. (1992) Determinants of corporate social responsibility disclosure. *Accounting, organizations and society*. 17 (6)
- Rohweder, Liisa (2004). *Yritysvastuu – kestävä kehitys organisaatiotasolla*. WSOY. Porvoo.
- Salzmann, Oliver, Aileen Ionescu-Somers and Ulrich Steger. (2004). "The Business Case for Corporate Sustainability: Literature Review and Research Options". *European Management Journal* Vol. 23, No. 1, pp. 27–36, 2005.
- Spicer, Barry H. (1978). Investors, corporate social performance and information disclosure: An empirical study. *The Accounting Review*. Vol. 53. No.1. p. 94-111.
- Steurer, Reinhard, M. E. Langer, A. Konrad & A. Martinuzzi (2005). "Corporations, Stakeholders and Sustainable Development: A Theoretical Exploration of Business-Society Relations". *Journal of Business Ethics*. 61. pp 263-281.
- Thomson, Ian & Jan Bebbington. (2005). Social and environmental reporting in the UK: A pedagogic evaluation. *Critical Perspectives on Accounting*, 16(5), 507–533.
- Trotman, Ken T. & Graham W. Bradley. (1981). 'Associations between social responsibility disclosure and characteristics of companies', *Accounting, Organizations and Society*, No. 4, pp. 355–362.

- Tsoutsoura, Margarita. (2004). Corporate Social Responsibility and Financial Performance. Working Paper Series. University of California, Berkeley.
- Ullman, Arieh A. (1985) Data in search of theory: a critical examination of the Relationships Among Social Performance, Social Disclosure and Economic Performance in U.S Firms. *Academy of Management Review*. July 1985: 10 (3). p. 540.
- United Nations. (1995). Report of the World Summit for Social Development. Available at <http://www.un.org/esa/socdev/wssd/agreements/index.html>.
- United Nations Global Compact. (2006). About the GC. Available at [www.unglobalcompact.org](http://www.unglobalcompact.org). Cited 8.5.2006.
- Waddock S.A, and Graves SB. (1997). The corporate social performance-financial performance link. *Strategic Management Review* 18: 303-319.
- Warhurst, Alyson. (2005). "Future roles of business in society: The expanding boundaries of corporate responsibility and a compelling case for partnership". *Futures* 37 (2005) .151–168
- White, Allan (2005). " *Fade, Integrate or Transform? The Future of CSR*". Business for Social Responsibility. Available at: [http://www.bsr.org/CSRResources/ResourcesDocs/BSR\\_200508\\_Allen-White\\_Fade-Transform.pdf](http://www.bsr.org/CSRResources/ResourcesDocs/BSR_200508_Allen-White_Fade-Transform.pdf)
- Woodward, David, Pam Edwards & Frank Birkin. (2001). "Some Evidence On Executives' Views Of Corporate Social Responsibility". *British Accounting Review* (2001) 33, 357–397
- WCED. (1987) 'Our Common Future: Report of the World Commission on Environment and Development'.
- World Business Council for Sustainable Development. (WBCSD). (2006). *Corporate Social Responsibility*. Available at [www.wbcsd.org](http://www.wbcsd.org). Cited 8.5.2006.

WCED. World Commission on Environment and Development (1987). *Our Common Future*. Oxford. Oxford University Press.

Zadek, Simon, Peter Pruzan & Richard Evans. (1997). *Building Corporate Accountability: Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*. London. Earthscan Publications.

Zadek, Simon. (2001). *The Civil Corporation: The New Economy of Corporate Citizenship*. London. Earthscan Publications.