Doughty Centre Corporate Responsibility

Cranfield UNIVERSITY
School of Management

NON-FINANCIAL PERFORMANCE METRICS FOR CORPORATE RESPONSIBILITY REPORTING REVISITED

by

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A Doughty Centre for Corporate Responsibility Working Paper

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Abstract

Rapidly growing interest in Corporate Responsibility (CR) has led to a large increase in firms reporting their CR activities and the inevitable comparisons of performance that follow. Along with growth in CR performance reporting has been an increase in standards and benchmarking, and the financial community has shown interest in whether there is any evidence of association between CR performance and Corporate Financial performance.

This paper summarises academic and practitioner literature relating to the use of non-financial metrics for the monitoring and recording of corporate social and environmental responsibility performance. Significant themes are reviewed and current standards are identified, along with benchmarking initiatives. The paper also includes some literature related to CR leaders, who have pioneered CR activities in major corporations, identifying their philosophies to ensure chosen CR programmes deliver value to multiple stakeholders as well as shareholders.

The paper concludes that, in spite of the considerable amount of literature defining CR standards, benchmarking initiatives and academic studies of CR performance, there are still several gaps in our knowledge. These gaps include how the CR information is used by stakeholders and investors, how CR agendas impact on corporate value and risk, and the basis of how competing CR projects may best be evaluated through appraisal techniques and criteria, and subsequent progress monitoring. Answers to these missing or incomplete strands will have a significant influence on the future development of non-financial CR metrics.

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FOREWORD – DAVID GRAYSON

This is the first "Working Paper" from the Doughty Centre. It has been written by Dr Malcolm Arnold from Cranfield. Malcolm has not had any previous engagement with the Corporate Responsibility field. He completed his doctorate at Cranfield in summer 2007, on the impact of mergers and acquisitions on corporate value. Malcolm kindly volunteered to produce a literature review paper, when we started last summer, to scope a new research project with the European Academy for Business in Society (EABIS) and the European CSR Alliance on non-financial performance metrics and their use by businesses and by the investment community.

We asked Malcolm to see what the academic literature was telling us about the use of non-financial metrics and Corporate Responsibility reporting. With minimal guidance and coming fresh to the subject, he has created an excellent synthesis – particularly of what is happening in the Anglo-Saxon world.

Inevitably, as discussions progressed last autumn between research funders, other business schools and stakeholders, the focus of the new research has been refined. Rather than try to modify Malcolm's paper to reflect the refined research project, we are tabling it now as a working paper on which to build.

In the coming months, through a mix of further academic literature reviews; surveys of consultancy and practitioner publications; and through original research in the field with companies and the investment community, and those seeking to influence both on the development of new performance metrics, we will be developing the analysis.

In particular, we need to give much more coverage to non-UK developments; to understand the state of knowledge and the state of play in the investment community; and to focus more on how some companies are already proactively communicating their non- or extra-financial performance metrics, to the investment community.

Meantime, we hope Malcolm's working paper will help colleagues to refine the research agenda.

David Grayson

January 2008

1. Introduction

The well established practice of reporting on a company's development and progress in purely financial terms has been challenged for some time on the grounds that financial figures alone cannot fully represent and reflect the impact a corporation has on other stakeholders[1] and society. More recently the argument has also been strengthened by public concerns over the impact of commercial activities on the environment.

Over the past 15 to 20 years there has been a large volume of research on what is now known as Corporate Responsibility (CR)[2] and is also known as Corporate Social Responsibility, Corporate Sustainability and Sustainable Business. The growth in research activity is matched by a large increase in the number of companies reporting progress and their Corporate Responsibility Performance (CRP)[3], in both annual reporting statements and also on their internet websites.

The concept of extending company reporting to include non-financial aspects of performance has popular support from stakeholder communities and society in general, in addition to some institutional investors and shareholder groups. Researchers have attempted to define a theoretical framework of corporate social responsibility and also to find empirical evidence in support of, or to challenge, the theory. There have also been academic challenges, and arguments along the way. This paper reviews the academic and consultancy literature related to, and includes an overview of, current standards for corporate social and environmental performance reporting.

This paper examines the current progress relating to the completeness, suitability and workability of knowledge and practice relating to current CRP reporting. It essentially reviews academic literature and documented practice for answers to three questions:

- **Q1**. What is the present state of knowledge, theory and practice?
- **Q2**. Is current CRP reporting meeting stakeholder, shareholder and investor needs?
- **Q3**. Are there theoretical or empirical links between CRP reporting practice and market forces or other self-regulating mechanisms?

Current CRP reporting practice is examined and looks at what is being reported by companies, the extent to which companies are presently involved, what comparative non-financial indices currently exist and how well these meet stakeholder, shareholder and investor needs. The paper finally looks at where and how current practice may be improved, identifying areas where current

[1] This paper distinguishes between shareholders and investors, and other stakeholders. The word stakeholder in this paper is used to cover those parties that have an effect on, or are affected by the operations of the company, but excludes shareholders and investors. Stakeholders in this paper cover, for example, employees, customers, suppliers and the general public. The reason for applying this distinction is that shareholders and investors already have a well-developed supply of financial information relating to their ownership and investment contract position. In this sense shareholders are better served than other stakeholders by financial reporting. CR reporting has been developed to provide better information to all stakeholders, shareholders and investors. This distinction will allow increased clarity in the discussion.

[2] Corporate Responsibility (CR) in this paper includes both social and environmental responsibility, and is used as a general term to refer to all corporate social and environmental responsibility activities and policies.

[3] Corporate Social Performance (CRP) is the performance reported for CR policy and programme matters.

knowledge of theoretical linkages with CR is substantially incomplete and which may benefit from further research.

1 Review of literature and standards

CR has grown out of a commonly perceived view that corporate financial reporting alone does not allow stakeholders and society to judge the wider contributions, or not, that a company makes to society and the environment. CR is concerned with identifying and reporting the wider contribution made by corporate citizens to stakeholders and society as a whole.

Since the 1970s there have been opposing views about CR and whether it is a legitimate activity for companies. Supporters take the view that a responsible corporation should balance the needs of all its stakeholders with the need to make a profit and rewarded shareholders. Stakeholders include, for example, employees, customers, and suppliers. When environmental impacts of corporate activities are included, the list of stakeholders increases and often includes the general population, at least within a specific region, but can be thought to be global with contributions to CO_2, carbon footprints and global warming, for example.

CR research is of an interdisciplinary nature, and the academic research reviewed in this paper is drawn from many academic disciplines, including Sociology and Ethics in Business, Climate and Environmental Studies, Strategic Management, Corporate Governance, Marketing, and Financial Economics.

1.1 Key Areas of Debate

Much of the literature can be grouped into three fundamental debates, which have taken place over the past 20 or so years: -

- Discussions on whether it is legitimate for companies to be involved in CR.
- Discussions on whether the concept of triple bottom line (TBL) for reporting economic, social and environmental performance is realistic and workable.
- Discussions on whether there are any linkages and relationships between the triple bottom line reports and conventional stock market and financial performance.

The first of these debates has substantially concluded. The academic discussion on the second (TBL) has reached a plateau, but the debate is very much alive in business and society. They are both briefly described below as they contain valuable arguments and conclusions that are still pertinent to the focus of this paper. The third debate continues about links between CRP and conventional financial performance, and is also explored.

1.1.1 Company involvement in CR

Those having views opposed to CR being introduced into business argue that the only objective for a corporation should be to lawfully pursue profit for the benefit of its shareholders, following the theory of the growth of the firm (Penrose, 1959). The wider responsibility for the general welfare of society lies with

governments, democratically elected (or not), and not with corporations. Governments make laws for the purpose of improving the welfare of society and with which corporations are required to comply. For example, Friedman (1970) argued that the only social responsibility of business was to increase profits for the benefit of its shareholders, and corporate executives investing assets in arbitrarily[4] chosen "socially responsible" projects reduced money available for owners, employees, customers and suppliers.

However the argument need not be simply about a zero sum game of diverting funds from one stakeholder to another. Wood (1991) revisited earlier CR research from the 1970s and 80s, and integrated and reformatted the various earlier CR models. Wood clarified and defined the principles of Corporate Social Performance (CSP), and identified CSP processes and outcomes. She defined corporate social responsibility as: -

> *a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.*

She also defined principles as processes and outcomes of CSP, and these definitions have endured over time, forming a conceptual basis for much of the subsequent research.

Wood's reformatting of the CSP model revealed new research questions that needed to be addressed. These questions were initially of a sociological nature, but subsequent work has developed along more diverse research strands ranging over marketing, operations and supply chain, organisations and financial aspects.
Rappaport (1998) describes a valuation model based on a simplified discounted cashflow valuation principle. He proposes seven value drivers that are fundamental to the creation of shareholder value:

- Sales growth rate
- Operating profit margin
- Tax rate
- Fixed capital investment
- Working capital investment
- Planning horizon/forecasting period, and
- Required rate of return

It follows that if CR strategies also act to deliver improvements to these value drivers, then shareholder value will be created while also allowing improved CR performance to be achieved. Figure 1 shows how CR might be used to improve each of the Rappaport drivers to increase value.

[4] The company executives do not have a democratic mandate from stakeholders or society on which to base their choice.

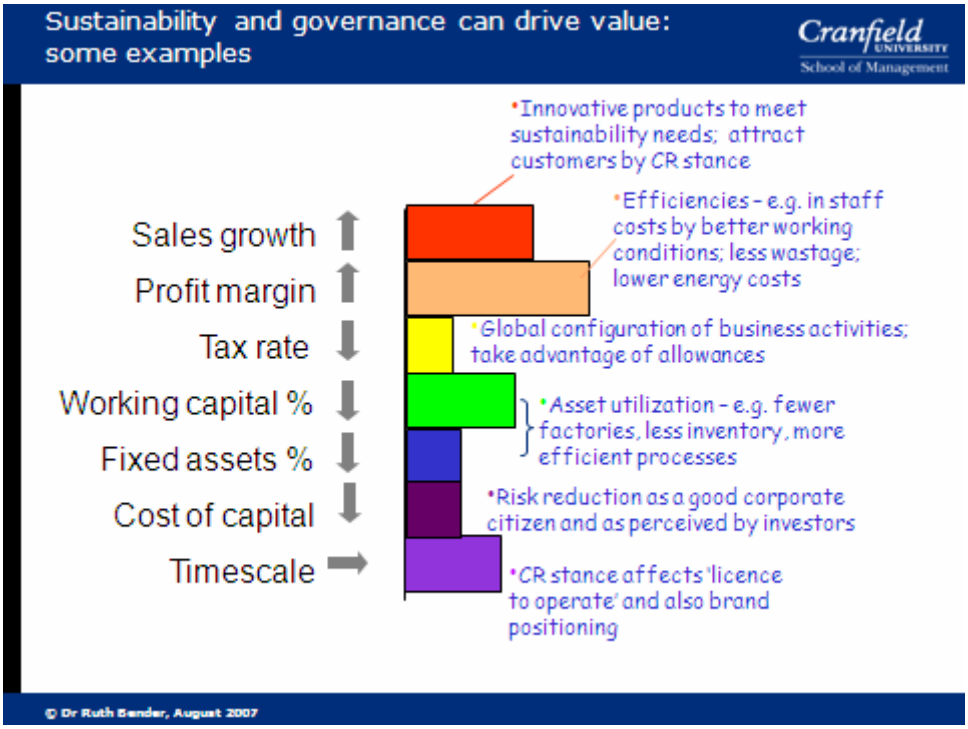

Figure 1: How CR Agendas may Improve Value through Rappaport's Value Drivers[5]

Some researchers have pursued elements of the Rappaport's value driver theory in the context of the effect of CR policies. Attention has focused on searching for evidence that CR strategies might be linked with improvements in value drivers. Researchers have established links between CR and single value drivers, or their proxies. The CR links associated with sales growth, corporate image and reputation (see for example, Fryxell and Wang, 1994, Hammond and Slocum, 1996), and impact on the marketplace (see for example, Brown and Dacin, 1997, Menon and Menon, 1997, Sen and Bhattacharya, 2001, Holmes and Moir, 2007) have been studied. On cost reduction and improved operational performance aspects, the effect of CR in making the company more attractive to young higher calibre employees and hence more able to attract talent (for example, see Turban and Greening, 1997) has also been studied.

More direct links between CR and financial performance have also been investigated (for example, see Graves and Waddock, 1994, Klassen and McLaughlin, 1996, Waddock and Graves, 1997, Russo and Fouts, 1997, Hillman and Keim, 2001, McWilliams and Siegel, 2000, 2001, Lo and Sheu, 2007). The links with financial performance are covered in more depth in section 2.1.3 below. The findings suggest that the CR can potentially create value for a firm. Increasingly companies have responded to this belief by increasingly adopting CR agendas and publishing CRP reports.

The role of large corporations in the business/society relationship has changed over time, particularly as industries have consolidated and many corporations have become much larger and become global players. Large corporations have considerable political and social power in addition to their economic power.

[5] Source: Lecture slide by Dr Ruth Bender, Cranfield School of Management.

Unlike ordinary citizens, who are roughly equal in terms of social, civil and political rights, large corporations may not share these rights in the same proportions, but have gradually increased their power, influence and control over the rights of ordinary citizens to become at least as important as governments. They are responsible for the social conditions of many people in their employment and supply chains, as well as the well-being of customers who use their products. This aspect of corporate citizenship was explored by Matten, Crane and Chapple (2003) who concluded that because of the continual increase of their influence and power over social rights, large corporations need to be held accountable for their impact on society in more than the conventional financial terms contained in statutory annual corporate reports.

The points of tension between the need to balance stakeholder needs with maximising shareholder value are summarised and explored by Margolis and Walsh (2003). They examined the CRP link with Corporate Financial Performance and concluded that "we first need to understand how a corporation's efforts benefit society…", and "…then to question corporate social performance and competing conceptions down to their very roots".

Thinking related to the accountability of large corporations for their impact on society and the environment has changed. Corporations have been forced to rethink the part played by CR reporting in communicating how best they balance the needs of meeting both shareholder value maximisation and the wider requirements of other stakeholders. Sundaram and Inkpen (2004) reviewed corporate objectives and concluded that the objective of maximising shareholder value is still valid. By looking to maximise sustainable longer-run shareholder value other stakeholder interests will also be served. They reject the view that managing actively to meet the fiduciary needs of their shareholders is incompatible with the interests of stakeholders. They argue that failings commonly attributed to maximisation of shareholder value have less to do with shareholders than the nature of contracts, and that the failures would occur whether the corporation was managed for either shareholders or stakeholders.

Organisations have also responded to the pressure for increased CR by innovating and adapting in their organisational structures, and supply chain and operational processes to meet developing needs (for example, see Drumwright, 1994, Greening and Gray, 1994, Swanson, 1995, Klassen and Whybark, 1999, Galunic and Eisenhardt, 2001, van Marrewijk and Werre, 2003).

Some companies have seized the opportunities that CR reporting presents for promoting a socially responsible attitude. This has been used to enhance their corporate brands and re-position the company, its activities, brands and products or services into a more attractive position in the marketplace, which they hope will result in improved sales revenues. (See for example, Fryxell and Wang, 1994, Brown and Dacin, 1997, Menon and Menon, 1997, Sen and Bhattacharya, 2001, Holmes and Moir, 2007). The use, and arguably abuse, of this approach is discussed more closely in sections 2.1.2 and 3 below. However, many companies with environmentally hazardous operations (for example, companies in the oil industry) or companies with product safety issues (for example, companies in the tobacco industry) have adopted CRP reporting to build an image of a responsible attitude to business in the minds of their stakeholders. They emphasise many positive CR aspects in their company

reports, helping them to improve their oftenbattered public image. However, this has raised the question of whether these are cynical public relations attempts to overcome valid and serious criticism of their products and operations, and whether CRP reports from such companies undermine some of the values of CR.

1.1.2 Reporting, Disclosure and Triple Bottom-Line (TBL)

The concept of the triple bottom-line was first coined by Elkington (1994) to report company performance of CR activities. This proposed that both social and environmental responsibility should each be reported in a "bottom-line" broadly similar to the approach used for financial statements. The three bottom lines are sometimes referred to as "people, planet and profit". However while the basic concept has intuitive appeal for reporting performance and progress, it does have some serious issues in terms of making the social and environmental bottom lines consistent, comparable and meaningful for general reporting purposes and use by stakeholders, shareholders, investors and society.

Making social or environmental disclosures in any form is voluntary, and researchers have investigated the determinants for companies choosing to disclose (Roberts, 1992). Roberts developed a model based on stakeholder theory and concluded that stakeholder political power, prior economic performance, and strategic posture towards certain social issues were positively linked to CSR disclosures, while widespread shareholding was not significantly related to CSR disclosure.

The content of, and media use for, corporate responsibility disclosures is also a matter of choice by companies. Esrock and Leichty (1998) investigated the widespread use of internet web pages and the content contained in disclosures. They found that most companies use their website disclosures for image building, but few use the medium either for public consultation or public agenda setting. "Good deed" social responsibility issues are almost always communicated, while technology or environmentally sensitive sectors also provide information about how they "cause no harm". The predominant model of corporate web page disclosure is of top-down information-push, and there is little two-way communication between the organisations and their stakeholders. Similar findings (Neu, Warsame and Pedwell, 1998) also applied to environmental disclosures where the disclosures highlighted positive environmental actions and obfuscated negative environmental effects.

More recent work (Brammer and Pavelin, 2006) has expanded the understanding of factors associated with company decisions to make voluntary environmental disclosures and the decisions regarding the quality of those disclosures. The findings for large UK companies indicate that larger, less indebted companies with dispersed ownership are more likely to make environmental disclosures. The quality of the disclosure is positively linked to firm size and corporate environmental impact. However, there is considerable variation across industry sectors. These findings are broadly in agreement with and complement the earlier work related to social disclosure (Roberts, 1992).

While we have some understanding of factors that motivate companies to make disclosures, and the quality of those disclosures, there seems to have been little

research into what the various stakeholders actually value in disclosures and how they use them.

Attempts were made in the late 1990's to introduce some reporting frameworks and standards that would help eliminate some of the earlier difficulties of inconsistency and utilising disclosures for image building. This initiative led to the first Global Reporting Initiative Sustainability Reporting Guidelines being released in 2000. This and other reporting standards are still developing and are discussed later in section [1.2.1.1]. While they have made a strong contribution to the format and reported content, some principles of TBL reporting are still being questioned.

MacDonald and Norman (2004) reviewed earlier research and critiqued the concept and development of TBL reporting. They attempted to identify and clarify how the three "bottom lines" were expected to be formatted and used. They argue that it is not possible to produce social and environmental bottom lines with a similar rationale or application as for the financial bottom line. The fundamental absence of a social or environmental "currency" allowing exchanges of value, leads to issues with measurement, aggregation, ranking and weighting factors of importance. As a result, social and environmental bottom lines cannot be produced with one bottom-line figure that can be meaningfully used for tracking of a company's progress and inter-company comparisons. Pava (2007) responded to the critique, agreeing with MacDonald and Norman (2004) that there has been no substantive academic discussion about what must be disclosed, can be disclosed and what must not be disclosed to stakeholders. Pava, however, dismisses the argument concerning aggregation, citing that financial statements use a number of indicators and metrics, and the so-called "financial bottom line" in reality is more complex than one single figure. Pava does agree with MacDonald and Norman that there are limitations to TBL but argues that the difficulties surrounding aggregation are not very different from financial reporting, where in practice there is more than one bottom line (e.g. income, profit, cash flow, balance sheet assets etc.). Pava also agreed that some corporations are using TBL reporting solely to cynically improve their battered corporate or industry image (e.g. some cigarette manufacturers) rather than a balanced attempt to inform stakeholders of progress on business ethical matters. MacDonald and Norman (2007) responded to Pava (2007) arguing that the multiplicity of measures needed to evaluate ethical performance cannot be compared to the handful of standard measures of financial performance reporting.

The discussion on the TBL outlines the need for a better understanding of the factors required for each ethical bottom line, the amount of possible appropriate aggregation and what items must, can, and should not be disclosed to stakeholders. Continuing development of standards in this area could improve the usefulness of TBL reporting for stakeholders and investors.

Interest and pressure from society rises for better disclosure and reporting, to cover social and environmental impacts of corporate activities. To address this trend, Magness (2003) comments, from a Canadian accounting perspective, on the issues involved when extending financial accounting statements to reflect environmental issues, the difficulties of introducing economic valuations of environmental issues into accounting statements, and the balance required

between the need to provide information for stakeholder use against the cost of preparing the information. The extension of financial accounting standards to cover environmental impacts would help overcome some of the issues surrounding voluntary disclosure (e.g. whether companies choose to report, and the use of disclosure for image building). However, the questions surrounding the choice of economic valuation methods, and how best to meet the diverse user needs and multiple stakeholder interests, present some fundamental obstacles to financial accounting standard development in this area. These findings support the view that we still have little understanding of the diverse user needs of stakeholders, and what their information needs are from company disclosures.

The academic debate around the principle of TBL has reached a plateau, with acceptance of the overall need. However, the discussion in business and society actively continues around unresolved issues of content and quality of the reports, the need and appropriateness of aggregation, and how the information will be used by stakeholders.

1.1.3 Financial Performance, Shareholder Value, Improved CRP and Sustainable Business Planning

Does empirical evidence exist that shows Corporate Financial Performance (CFP) is associated with improvements in Corporate Responsibility Performance (CRP). This is one of the fundamental questions asked by investors and researchers when considering the effect of CR on companies and their shareholders. The question can be subdivided into two parts; namely, improving understanding of the link between CRP and accounting performance, and improving the understanding of the link between CRP and shareholder value, based on stock market performance for listed companies.

Answers to these questions are essential as successful corporate funding depends on investment analysts being able to fully evaluate the long-term value of a company, taking account of its CR position and policies. Investors attempt to find investments that give the best return for an appropriate level of risk. Therefore, a full understanding of the relationships between CRP, return and risk is essential for investors when making investment decisions, and to decide if responsible corporate behaviour is worth paying a premium for. Weak investment decisions and poor asset allocation degrades financial performance, and reduces the efficient development of the economy overall, so there is wideranging interest in this question.

Many research studies over the past 25 years have attempted to find answers to these questions. Empirical studies fall into two groups. The first group uses event study methodology to investigate the short run share price returns of socially responsible or irresponsible acts, and illegalities by companies (see for example, Klassen and McLaughlin, 1996, McWilliams and Siegel, 1997). The second and more common group of studies looks at the longer run relationship between CRP proxy measurements and financial and/or accounting performance by the company.

The event study group shows an unclear picture of short run returns results. For example, Klassen and McLaughlin (1996) investigated the relationship of

environmental management and short run returns, showing evidence of a positive relationship. However, results from other studies are less clear and methodology has been questioned (see Salinger, 1992, McWilliams and Siegel, 1997 for critiques of studies and methodologies used). In particular, McWilliams and Siegel (1997) had concerns over the width of event windows used and the number of confounding events occurring during the event windows.

Longer run studies based on measures of CRP and accounting measures of financial performance have also not given clear results. Several models have been proposed for links between CRP and CFP. For example, Turban and Greening (1997) found a positive link between CRP and attractiveness of a firm to employees, which could possibly lead to a competitive advantage by being able to recruit better staff. Hillman and Keim (2001) found evidence of a positive relationship between stakeholder management and shareholder value, but a negative relationship between social issue participation and shareholder value. Russo and Fouts (1997) found evidence that economic performance is linked to environmental performance, but the relationship is moderated by growth. Graves and Waddock (1994) concluded that improvements in CRP did not incur penalties in terms of institutional share ownership. Waddock and Graves (1997) found evidence of leads and lags in the relationship between CRP and CFP, suggesting a virtuous circle of events. Slack funds are invested in CRP, which led to subsequent improvements in CFP. This supports the theory that slack resources and CRP are linked, and CRP is linked to future CFP.

The search for an explanation of why the nature of the CRP/CFP link is so elusive has also been a research theme. Pava and Krausz (1996) examined 21 previous studies, together with a controlled group of 53 firms identified as being socially responsible and concluded that "*the relationship between CRP and CFP is complex and nuanced...*" and... *"firms with positive CRP have a financial performance at least on par, if not better than other firms*". McWilliams and Siegel (2000) questioned the specification of econometric models used in some studies, and concluded that results could have been influenced by the omission of R&D expenditures from the models. Their later work (McWilliams and Siegel, 2001) proposed an enhanced theory of the firm to incorporate CR, based on a supply and demand model of CRP which produced a neutral relationship between CRP and CFP when an "ideal" level of CR was present.

With an increasing number of research studies investigating varying aspects of the CRP and CFP link, a number of researchers have attempted to form a consolidated view of previous findings. Using meta-analysis techniques they have consolidated the results of numerous studies to identify the overall picture, and to seek explanations for why the individual studies may have been unable to show consistent results. Griffin and Mahon (1997) used a "vote counting" approach to form an overview of 51 previous studies. Their meta-analysis was reformulated by Roman, Hayibor and Agle (1999). Using substantially the same source data but taking a different view of case categorisation, Roman et al. (1999) provided a modified portrait of the CRP and CFP link. With over 200 measures of financial performance used across the 51 studies, the studies by Griffin and Mahon (1997) and Roman et al. (1999) indicate the difficulty and judgement required in determining a consolidated view of the previous research. Roman et al. (1999) indicate the critical arguments relating to, for example,

categorisation judgements, and a defence of the original approach was given by Mahon and Griffin (1999).
A larger meta-analysis was carried out by Margolis and Walsh (2003) of 127 previous studies, again using a "vote counting" technique. Orlitzky, Schmidt and Rynes (2003), being critical of the "vote counting" methodology, attempted to find a consolidated view of all prior quantitative studies through a more sophisticated statistical meta-analytical methodology using 52 studies (the entire universe of suitable prior quantitative studies) amounting to over 33,000 observations and found that CRP was positively associated with CFP across the studies. Further development of the meta-analytical methodology was introduced by Allouche and Laroche (2005), who also included source studies from the UK and Canada (most of the studies in earlier meta-analyses were from the USA), yielding further new perspectives of the CRP/CFP relationship.

The meta-analyses, while having complementary and mutually supportive results, identified the wide spread of results obtained by the original research studies, and the range of metrics used in attempting to identify the nature of the CRP/CFP relationship. In spite of the diversity, major broad agreements are found in these meta-study conclusions. All of the meta-studies find evidence of a positive link between CRP and CFP, and also of insignificant or mixed results. However the meta-studies did not find any significant evidence of a negative relationship. At the risk of oversimplifying a very complex picture, Table 1 shows a summary of the findings of the five meta-studies based on a simple "vote counting" approach.

Nature of CRP/CFP link	**Griffin & Mahon (1997)**	**Roman et al. (1999)**	**Margolis & Walsh (2003)**		**Orlitzky et al. (2003)**	**Allouche & Laroche (2005)**
			CRP Ind. Var.	**CFP Ind. Var.**		
Positive relationship	**33**	**32**	**54**	**16**	**26**	**43**
Negative Relationship	**20**	**5**	**7**	**0**	**2**	**0**
No significant relationship	**9**	**14**	**28**	**3**	**0**	**39**
Mixed results	**0**	**0**	**20**	**3**	**23**	**0**
Total	**62**	**51**	**109**	**22**	**51**	**82**

Table 1: Summary of the CRP and CFP link from five meta-studies

The message contained in Table 1 is clearly that evidence exists for CR behaviour having a positive or neutral effect on financial performance, while there is little evidence of its having a negative effect. Allouche and Laroche (2005) also indicated that a stronger positive link exists in data from the UK studies than in the other, i.e. mainly US, studies. Orlitzky et al. (2003) and Allouche and Laroche (2005) found evidence to support the "virtuous circle" relationship identified by Waddock and Graves (1997).

In general, findings indicated that the CRP association was strongest for CFP *accounting* measures and weaker for *market based* measures. Social virtue was more strongly associated with CFP than environmental virtue. While there is now clear evidence that there is a beneficial association between CRP and CFP, with little evidence to the contrary, the precise nature of the CRP link with CFP is still unclear, as are the causative mechanisms involved.

Lo and Sheu (2007) investigated the relationship between corporate sustainability, as defined by a firm's inclusion in the Dow Jones Sustainability Indices, with Tobin's q used as a proxy for market value. They found a significant positive relationship between corporate sustainability and market value. This reinforces the findings of earlier work (Pava and Krausz, 1996, Orlitzky *et al.*, 2003) and confirms positive relationships between CRP and CFP, including market value.

It is interesting to note that, to date, the focus of research has been mainly on the relationship of CRP with financial returns, and there has been little or no work to investigate the effect of CRP on financial risk. There is a strong argument that good CR behaviour should reduce the potential for disasters (for example, see Donaldson, 2007), and that low risk is related to high CR reputation (Hammond and Slocum, 1996). If this risk reduction argument is understood and valued by investors it should be reflected in capital market pricing behaviours and in the associated risk premiums of shares. However, Pava and Krausz (1996) found little evidence of a relationship between risk and CRP apart from a weak relationship that market volatility was higher in companies with good CR practices, which does not support the hypothesis of high CRP linked to low risk. This would seem to be an under-explored area in the understanding of the CRP/CFP link.

More recent research has focused on the role of business planning in choosing the best projects for the allocation of assets and funds. Without well-formulated objectives, effective planning and appropriate appraisal techniques it is less likely that desired objectives will be achieved. The shortcomings of conventional accounting statements to inform multiple stakeholders adequately of CRP in a changing world were discussed above in section 2.1.2. For similar reasons conventional business plans and project appraisal techniques which focus on a limited financial view also need examination and development if wider stakeholder benefits are to be forthcoming. Continuing adherence to financially based business plans and appraisal methods may stifle potentially valuable projects that bring additional social and environmental benefits, and enhance CRP.

Examples of the change of approach in planning and appraisal are contained in work by Wang and Lin (2007) and Moir, Kennerley and Ferguson (2007). Wang and Lin (2007) proposed a methodology for evaluating CR activities based on TBL accounting mechanisms and a sustainability optimisation model. Moir et al. (2007) tested a conceptual framework for assessing the impact of CR on firm value, and found that much of the difficulty of trading off CR with financial performance was due to a lack of understanding of how CR issues can affect drivers of value. For the framework to be effective, company managers need to understand both CR and financial management.

Other authors take the view that CR represents an additional strategic option which if fully exploited could increase a firm's competitive advantage. Grayson and Hodges (2004) describe a process to identify CR opportunities and embed actions into the firm which led to increased competitive advantage. Porter and Kramer (2006) reinforce this approach, distinguishing between reactive and strategic CR actions in a firm. They argue that while concentration on reactive CR (i.e. attending to impacts of their value chain on society and the environment, or public relations exercises) produces good citizenship, it falls short of the real opportunities for a business to create value through strategic CR actions. For CR actions to be classed as strategic they go further than being best practice: it is the small number of activities which position the firm as doing things differently from their competitors to reduce costs and improve service to customers which deliver value to both the firm and society in areas which are closely shared and of mutual concern.

The expected link between CR and competitive advantage will only deliver value if a strategy is successfully implemented, and CR will be only one factor in that strategic mix. This could help explain why the search for empirical evidence of a CRP/CFP link so far, has delivered mixed results. Further work on the refinement of the decision-making, and evaluation principles and processes could strengthen the future search for links between CRP and CFP.

1.2 Standards available

A number of voluntary standards have been developed. These are either reporting and disclosure standards for reporting corporate social and environmental performance or certification standards, defining responsible corporate behaviour and business practices. The key standards and their spheres of influence are briefly reviewed below. The aim in this section is to simply list the key standards with a brief outline of the areas of interest and influence. This is not an exhaustive technical study of the standards, how they relate to each other, where they may need strengthening or where overlaps may exist.

The standards have been divided into two sections:

- those aimed at standardising the format and content of CRP reporting and disclosure,
- those certification standards laying down responsible social and environmental business processes.

These standards are voluntary and, when adopted, are in addition to national statutes. Generally they go further in responsibility terms than national statutes, but this varies by industrial sector and legal jurisdiction.

1.2.1 Reporting and Disclosure Standards

Reporting and disclosure standards exist to bring uniformity and best practice to the format and production of CRP reports, improving communication so investors and stakeholders may be better informed, and more able to carry out comparisons. The needs of stakeholders and investors vary by industry and

country, so CRP reporting standards can be complex in order to deal with the needs of many users.

1.2.1.1 Global Reporting Initiative (GRI) – G3

This very comprehensive standard was initially launched in 2000 and the latest GRI standard update was issued in 2006 (latest version is G3). It is aimed at global CRP reporting use and claims to be the *de facto* global reporting standard with over 1000 company users of the standard globally. Details of the standard are available on the GRI website[6]. The standard provides reporting on economic, social and environmental performance through 79 indicator metrics covering environmental, human rights, labour and work practices, product responsibility, and economic and social aspects of a company's performance. The indicator metrics and approach have been developed through extensive and ongoing consultation with corporations and stakeholder/users.

1.2.1.2 AccountAbility - AA 1000

AA 1000 is a series of principle-based reporting standards to ensure CRP reporting quality and provide assurance through audits. It aims to improve the quality of, and confidence in, disclosures. Details of the standards can be found on the AccountAbility website[7]. The standard is auditable and is intended for international use. It is claimed to be complementary to GRI G3 reports, and can be used to enhance reports.

1.2.1.3 London Benchmarking Group (LBG)

LBG[8] has developed a global standard for the measurement of Corporate Community Investment (CCI), called the LBG Model. The LBG intends that the model should be used for international reporting use, and it aims to allow measures of comparability and benchmarking of CCI to take place. The aim is to promote best practices and improve communication to stakeholders. This standard goes further than providing just a reporting standard by also incorporates benchmarking. Other benchmarking reports and comparative studies are discussed later in section 3.1 below.

1.2.2 Certification Standards of Social and Environmental Responsibility

These standards provide CSR processes that lay down a minimum standard of responsible corporate behaviour relating to defined areas of social and environmental issues and concerns. The general method of operation is by certification/accreditation of company processes after they have achieved an audited level of compliance with the standard. Certification and compliance with these standards can be disclosed and reported in CRP reports.

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[6] Latest version of the standard is available via the Global Reporting Initiative website at http://www.globalreporting.org
[7] AccountAbilty website at http://www.accountability21.net
[8] LBG website at http://www.lbg-online.net

1.2.2.1 Social Accountability International - SA 8000

This is a standard of Socially Responsible Corporate behaviour focusing on human rights in the work place. The standard works through certification/accreditation of organisations and is auditable. The standards are for use internationally, and can ensure a socially responsible supply chain through certification and compliance of a chain of corporations, even if this supply chain stretches across national boundaries. Details of the standard can be found on the SAI website[9].

1.2.2.2 The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) aims to improve the working life of working people across the world, and has set a minimum labour standard for people working for suppliers of companies who adopt the ETI code of conduct[10]. Using the ETI code of conduct throughout a supply chain can ensure decent working conditions for the people producing the end product.

1.2.2.3 Investors in People

Investors in People aims to improve business performance by development of a company's employed workforce. It produces a standard process[11] for development of a company's workforce. Investors in People operates through process compliance, training/audit and certification/accreditation for users to be entitled to use the logo.

1.2.2.4 ISO 14000 series

The ISO 14000 series of standards[12] are concerned with providing an effective framework for managing environmental risk, and are for use by corporate operations that carry a risk of environmental damage from a failure of their operational processes. By complying with the ISO 14000 series standards and seeking certification, the company puts in place an effective environmental risk management policy and process. Adoption of this standard can reduce a company's operational risks and has a knock-on effect on financial market risk. It is therefore useful to investors assessing investment risk for a company and for benchmarking.

1.2.2.5 Soil Association

The Soil Association produces standards[13] for the production and processing of organic food. They specify what growers and farmers can and cannot do or use, if they want to have their produce classed as organically grown. Growers and farmers who comply with the standards can become Soil Association Certified and can market their produce accordingly.

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[9] Social Accountability International website at http://www.sa-intl.org
[10] Latest version of the standard available via the ETI website at http://www.ethicaltrade.org/Z/lib/base/index.shtml
[11] Latest version of the standard available via Investors in People website at http://www.investorsinpeople.co.uk/standard
[12] Latest version of the standard available via BSI Online website at http://www.bsonline.bsi-global.com
[13] Latest version of the standard available via Soil Association website at http://www.soilassociation.org/

1.2.2.6 Forest Stewardship Council

The Forest Stewardship Council (FSC) produces standards[14] for environmentally responsible and sustainable use of forest. Their system relies on their Chain of Custody approach. Timber producers and manufacturers using timber can apply for certification that they comply with the FSC policies, and have processes that track products from FSC certified sources. The end user product can then be marketed as certified as compliant with FSC policies.

1.2.2.7 Marine Stewardship Council

The Marine Stewardship Council (MSC) aims to find a voluntary solution to over fishing, and produces a standard[15] for well-managed and sustainable fishing. Certification is via approved certification agencies worldwide. Fish from MSC certified fisheries can be marketed with the MSC certified logo.

1.2.2.8 The Good Corporation Standard

This certification standard[16], developed by the Good Corporation in conjunction with the Institute of Business Ethics, certifies adoption of good business ethics by a company. It was established in 2001 and is revised and updated every three years (latest update and revision 2007). It consists of 65 process and policy requirements covering a company's approach to employees, customers, suppliers and contractors, community, environment, shareholders and management commitment. Company membership is renewed by annual reassessment. While language and terminology adopted in this standard is associated with ethics, the content and principles overlap those of CR.

1.2.3 Summary of Literature Review and Standards

This section has identified the following salient points with regard to the degree of knowledge about CR in the business environment and on CRP reporting and disclosure:

- Legitimacy has been established for businesses to embrace the principles of CR and to manage for the benefit of stakeholders, shareholders and investors.
- Voluntary social and environmental reporting and process standards have been produced by consultation and consensus seeking between business, stakeholder groups, shareholders and investors. These standards are currently in voluntary use by many corporations.
- Business disclosure is presently characterised as being top-down, information-push driven and is more likely to be of an image building style and less likely to be a balanced disclosure.
- There appears to have been little research outside standards development groups, about what the needs of stakeholders, shareholders and investors are with regard to CRP reporting and disclosure.
- Empirical evidence shows a positive link between CRP and CFP. However, this is based on profit, earnings and market returns. There has been little

[14] Latest version of the standard available via the FSC website at http://www.fsc.org/en/
[15] Latest version of the standard available via the MSC website at http://www.msc.org/html/content_504.htm
[16] Latest version of the standard available via the Good Corporation website at http://goodcorporation.com

investigation into the link between CRP and risk and whether the hypothesis of increased CRP is linked to lower risk.

- The principle of TBL appears to have been academically accepted though discussion continues in business and society about the concept and practical issues associated with
  - the degree of aggregation possible or appropriate,
  - difficulties of economic valuation of CR activities,
  - what must be, can be and must not be disclosed to stakeholders, shareholder and investors.
- Research has commenced on the role of the business case and planning the optimum mix of expenditures that includes CR activities.

2 Consultancy Studies and Reporting Practices

Consultancy studies have been grouped into three parts. The first group gives information on which companies are producing CRP reports and how they compare on performance and report quality. The second group contains descriptive studies that give insights into reporting practices used by companies. The third group contains some material from interviews and addresses by prominent industrial leaders giving their perspectives on CR.

2.1 Reporting and comparative studies

CRP reporting is voluntary and with a number of standards available there are a large number of options for reporting. The chosen approach can depend on a company's social and environmental policies, industry and national or global footprint. To indicate the current degree of CRP reporting by large UK corporations listed on the London Stock Exchange (LSE), companies forming the FTSE100 Index were checked for use of one of three CRP reporting standards (through the LBG, GRI and AA1000 websites' lists of clients). The FTSE100 companies represent around 80% of the total market capitalisation of all companies listed on the LSE and the results are shown in Table 2.

Breakdown of FTSE 100 Companies by CRP Reporting	Number of companies
Companies using:	
London Benchmarking Group Model	47
AccountAbility – AA 1000	20
Global Reporting Initiative	42
Number of companies adopting standards:	
None adopted	37
1 standard adopted	30
2 standards adopted	23
3 standards adopted	11

Table 2: CR Performance reporting by FTSE100 Companies (Sep 2007)

Over 40% of FTSE100 companies use the LBG and GRI standards and around 20% use AA1000. Overall 37% of FTSE100 companies appear not to have yet adopted a CRP reporting standard, while around 34% of FTSE100 companies have adopted two or more CRP reporting standards. This gives a broad indication of the spectrum of adoption of CRP reporting by large UK companies.

A number of comparative studies have been carried out, many with the purpose of producing annual reports, benchmarking studies and league tables able to track improvements. The nature and salient aspects of these studies are discussed below. These studies also indicate which companies are active in disclosing and reporting their CRP.

2.1.1 CR Index

The CR Index is an annual CR benchmarking league table provided by Business in the Community[17] with reports dating from 2003. Participation is voluntary with 120 of the UK's largest companies taking part in the 2006 report. It compares CR performance on a number of CR aspects and provides participants with a feedback report to help them continue to improve. The data for the benchmarking are provided by questionnaires, reflecting the GRI social and environmental reporting categories, which are completed by each participating

[17] Reports are available from the Business in the Community website at http://www.bitc.org.uk/what_we_do/cr_index/past_index_results.html

company. The process and systems are audited externally. The CR Index report is published annually in May.

2.1.2 The Global Reporters Survey of Corporate Responsibility Reporting

SustainAbility produces a series of biennial reports[18], in partnership with Standard and Poor's and UNEP, which survey and rank the leading 50 companies globally on the quality of their non-financial CRP reporting. Reports are available from 1993 with the present series starting in 2000 (1993, 95, 97; 2000, 02, 04 and 06). The 2006 report identifies a large proportion of newcomers to the top 50 and reports on the dynamic nature of the content as interest in CR increases and more firms develop CR agendas.

2.1.3 Carbon Disclosure Project

The Carbon Disclosure Project[19] produces a detailed annual league table of companies related to data about their carbon footprints and risks from carbon emitting activities. There are a range of reports available via their website dating back to 2003 (CDP1) for various geographic areas. The latest study (CDP5) launched in 2007 is analysed in three separate reports for FT500 and S&P500 companies and Asia. An annual questionnaire survey collects data from companies on a voluntary and non-verifiable basis. The concept aims to identify best performers within industry groups and thereby stimulate movement towards reduced CO_2 emissions and encourage movement to a low carbon economy.

2.1.4 Narrative Reporting Content in the FTSE100. How does it stack up? Spring 2007.

This report by Radley Yelder (2007) looks at the content and quality of non-financial reporting in the annual reports of the UK listed FTSE100 companies. The report is concerned with all non-financial reporting content, of which CR is only one aspect. The report concludes that quality is variable, and for example, only 15% of companies linked strategy to key performance indicators (KPIs). The report gives summaries by subject area (including Environment and Social, and Employees for CR subjects), as well as critiques of each FTSE100 company annual report. The report highlights common shortcomings as well as strengths.

2.1.5 Race to the Top

This project was initially set up in 2002 by the International Institute for Environment and Development, and details are available on the Race to the Top website[20]. Its aim was to track the social and environmental performance of UK supermarkets and to catalyse change in the UK agri-food sector. The project relied on voluntary involvement to provide data for benchmarking and used seven groups of indices to measure performance on key social, environmental and ethical factors in the industry.

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[18] Reports are available via the SustainAbility website at http://www.sustainability.com/insight/global_reporters.asp
[19] Reports are available via the Carbon Disclosure Project website at http://www.cdproject.net
[20] Race to the Top website at http://www.racetothetop.org

The collection of data for benchmarking and publication relied on voluntary involvement by the project partners, and it was essential that most of the large players continued to take part for meaningful results to emerge. However, in 2003 some of the large supermarkets that were major partners withdrew their support for the project, for various individual reasons. Since the project relied on their involvement for benchmarking to be effective, their disengagement brought the project to a premature close. Information and reports on the project are still available at the website.

2.2 Descriptive Consultancy and Practice Studies Relating to CRP Reporting Practices

This group of studies is provided by consultancy organisations and they contain detailed information about the nature of CR practice. Studies have been identified which have some connection to non-financial reporting. The aim of this section is to build a picture of the documented understanding of CR reporting as currently practised.

2.2.1 The Future of Corporate Reporting "State of Play – February 2007"

This report by Tomorrow's Company (2007a) is the latest in a series stretching back over the last decade, and looks at the future of Corporate Reporting for UK companies following the introduction during 2006 of the EU's Accounts Modernisation Directive and the Companies Act 2006. Some of the changes introduced the ability to produce reports for access over the internet and the introduction of the enhanced Business Review. These changes impacted on the nature of non-financial reporting in company annual reports.

The report concludes that, in future, companies will need to deal with the following issues:

- Reasonable protection for directors relating to the accuracy of forward-looking statements.
- Sending information to shareholders via the internet and email.
- Possible confusion while reporting is harmonised to international standards.
- Possible shift from historic to real-time reporting for published accounts, when it becomes possible through using the internet.
- Possible developments driving external reporting to move towards internal reporting might result in better quality information for general use by investors and stakeholders, as well as managers. This could involve merging of financial and non-financial key performance indicators (KPIs) for example for real-time access by managers, investors and stakeholders.

2.2.2 Taking Shape… The Future of Corporate Responsibility Communications

This report (Radley-Yeldar, 2006), carried out jointly between Business in the Community and Radley Yelder is built on a seminar, "Corporate Responsibility - Ethics, Profits and Materiality" held in London on 15 Nov 2006. It identifies the three key trends in reporting as materiality, stakeholder engagement and integration of financial and non-financial performance, and makes nine predictions on how CR reporting may evolve over the next few years. It is envisaged that many companies will view CR reporting as increasingly important, more prominent, merging into parts of the annual report, and used to report on the wider accountability to stakeholders, other than shareholders. CR reporting will also become more important as an internal management tool.

2.2.3 Tomorrow's Global Company – challenges and choices

This report (Tomorrow's Company, 2007b) was compiled by a group comprising leading managers from companies at the head of the CR field. The group make predictions about what tomorrow's global company will look like compared with those of today. A summary of their vision is that the future global company will:

- Create wealth,
- Force change in sustainability,
- Remain in tune with society and be adaptable to meet societal expectations,
- Leverage technology to deliver sustainable products and services,
- Provide returns to investors that are not at odds with benefits delivered to other stakeholders,
- Communicate to win the support of investors and stakeholders by aligning short- and long-term goals and integrating financial and operational performance with social and environmental impacts,
- Have strong values leading to consistency in operations and appealing to the best talent,
- Have people who use initiative and creativity to earn loyalty of customers and suppliers,
- Be fiercely meritocratic with opportunities for people from all backgrounds, and its leaders will originate from anywhere, not just from the country where it is headquartered,
- Show respect for the people, communities and governments it works with,
- Join with other companies to advocate change in public policy allowing the power of the market to work for society's good,
- Join with other companies when necessary to set voluntary standards and self-regulation to ensure responsible, ethical and sustainable behaviour in industries,
- Communicate vigorously with all its stakeholders using consistent internal and external communications.

2.2.4 KPMG International Survey of Corporate Responsibility Reporting - 2005

This survey report (KPMG, 2005) investigates the degree and nature of CR reporting by global and large national companies. The sample of companies

includes the largest 250 companies of the Fortune 500 (G250) and the top 100 companies (N100) in 16 countries, giving a global sample of 1600+ of the largest companies.

The survey finds CR reporting has enjoyed a growth trend since 1993, with a substantial increase from 2002 to 2005. In 2005, 52% of G250 and 33% of N100 companies issued separate CR reports, while annual financial reports containing some CR information were issued by 64% of G250 and 41% of N100 companies. Since 1993 the content of CR reports has changed from mainly environmental reporting to having greater emphasis on social, economic and environmental reporting. This is now the mainstream approach with currently G250 companies (68%) and N100 companies (48%) following this approach. While most N100 and G250 companies issue separate CR reports, there is an increase in companies reporting CR information in their annual report. Nationally, Japan and the UK issue the highest number of separate CR reports (80% and 71% respectively). Industries with high environmental impact lead in CR reporting, but in the financial sector CR reporting has doubled from 2002 to 2005.

The survey also identified business drivers for CR reporting, the content of reports and the methods used to select items for discussion in the reports. The most common content decisions were based on the GRI guidelines, while about one third of companies invited stakeholder feedback. Discussion of social and economic issues is more superficial than environmental issues, possibly because of the lack of clear social indicators. The wider economic impacts of their business, as opposed to financial aspects such as profits, were discussed by only a minority of companies. Supply chain (80% of reports) and climate change (85% of reports) aspects were mentioned, and between a quarter and one third of reports contained an independent assurance statement.

2.2.5 Corporate Social Responsibility – Institute of Directors (IoD) Member Opinion Survey – 2002

This survey of IoD members' views on CSR (Lea, 2002) is weighted towards Small and Medium Enterprises (SMEs) due to the nature of the sample used. However, it indicates that larger companies were more likely to consider CR issues and to make public reports than SMEs and those in manufacturing were more likely to consider CR issues and report on them. The survey also indicates that the prevailing view (in 2002) of IoD members was not in favour of the introduction of compulsory CR reporting.

Since the report was published in Dec 2002, CRP reporting amongst companies worldwide has increased from 1482 companies in 2002 to 2235 in 2006[21]. The picture may therefore have changed in the UK over this time. However, the underlying message about the views of IoD members on CR/CRP, and difference in propensity to report CRP between SMEs and large companies indicates there are still a large number of smaller companies which do not report on CR but which claim to have involvement in CR activities without reporting formally in public.

[21] Source: *Ethical Evangelists*, Management Today, Oct 2007 p37.

2.3 Other Studies and Perspectives from CR Leaders

This section collects and examines interviews, profiles, and speeches that give an insight into how leaders in the field of CR operate. The aim is to highlight key principles, values, objectives and behaviour employed by them.

2.3.1 Sir Mark Moody-Stuart – Anglo American

Sir Mark Moody-Stuart has been a key figure and promoter of CR over many years. He became Chairman of Anglo America, a multinational company in the mineral extraction industry in Dec 2002. Prior to that, he held senior roles with Shell and has lived and worked in many countries. As such he has significant experience at senior levels in the business of international operations in the oil and mineral extraction industries. He is at the helm of a company that has a considerable impact on environment and society in the countries in which it operates, and is acutely aware of the realities of such operations and their impacts. From interviews and addresses since 2002 (for example, see Macalister, 2003, Balfour, 2005, Moody-Stuart, 2006) it is possible to form a picture of the salient points which guide Sir Mark Moody-Stuart as he leads businesses forward.

In his keynote address to the International Institute for Sustainable Development (IISD) "People Planet and Profits" (Moody-Stuart, 2006) he identified the three strands of sustainable development – economic, environmental and social – as not the sole responsibility of any one company, government, labour organisation or NGO, but demanding cooperation from different sectors of society working together responsibly within society with a shared purpose. He acknowledged, however, that if the economic strand is not under control it very quickly rises to the top of the priorities, and some stakeholders consider this often places overriding emphasis on the economic strand. Cooperation on activities is a key enabler, rather than adopting the adversarial position often traditionally adopted between some social groups, governments and business. When there isn't a common shared social or environmental purpose (for example where corruption is endemic) sustainable development becomes very difficult to achieve, and he compares examples of development in Nigeria with examples in Malaysia and Oman. He questions what social and environmental activities corporations should, and should not, become involved in, and what principles should guide their selection. His main reason for choosing to engage in social and environmental activities is when activities are mutually beneficial to the society where the company operates. In this way the company and the society it depends on for skills both develop together. He finds, for example, the issue of whether his company should be involved in wider human rights activities to bring pressure on some governments very difficult, but believes this could be too wide a subject for involvement even where his company operates within a country of concern. He believes that for cooperation to be effective trust must be built between the social groups involved, and very open reporting is central to building that trust. In this sense widely adopted metrics such as GRI are extremely valuable tools for monitoring and communicating progress. In interviews with Business Week Online (Balfour, 2005) and the Guardian (Macalister, 2003) he also discusses his view on when

and where he may become involved in activities to fight HIV/AIDS. Moody-Stuart sees health and education as being two major areas where local cooperation between corporations and society can be mutually beneficial.

2.3.2 Mervyn Davies – Standard Chartered

Mervyn Davies has spent most of his professional life in banking and is CEO of Standard Chartered. The banking sector does not have the obvious direct impact on society and the environment that some other industries have. However, Standard Chartered, which mainly operates in countries with developing economies in Asia and Africa, has identified that blindness and HIV/AIDS have a massive negative impact on the economic development of the societies in which Standard Chartered operates. Davies explains his approach in his speech (Davies, 2006) to the British Chamber of Commerce in Pudong, China on 3 Nov 2006. He has embedded the CSR values in the business and developed two major CSR activities to help cure blindness and reduce the impact of HIV/AIDS through improved medical attention in these countries. He also explains his concern about climate change, particularly with the need to provide energy for the economic growth needed for political stability in countries such as China and is keen to encourage cooperation on tackling climate change. Davies sees CR as part of a management philosophy (Davies, 2007a), and he points to the increased enthusiasm and interest young people have in working for Standard Chartered, with 50% of graduates employed citing Standard Chartered's reputation for CR as the reason for choosing to join Standard Chartered rather than competitors.

Davies also has a different view on the economic strand of sustainable development. He is aware that there is significant interest around the world in the principle-based approach to financial regulation used by the Financial Services Authority (FSA) in the UK. The FSA approach is generally favoured compared to the rule-bases approach of the Securities Exchange Commission (SEC) in the USA, and is thought to be one of the reasons that London has grown to be the main global financial centre. In an article for The Banker magazine Davies (2007b) explains the importance he associates with the establishment of an international school for financial regulators by increasing the understanding of regulatory practice in the developing international financial markets. Davies has been appointed to Chair the International Centre for Financial Regulation, which is currently under development.

2.3.3 Wulf Bernotat – E.ON

Energy companies have an obvious impact on the environment. In addition, the security of energy supplies is crucial for the long-term sustainable economic development of our society. Bernotat (2007) is CEO of German electricity producer E.ON and discusses his views on strategic issues for sustainable energy development. He takes the view that renewable energy sources (e.g. wind and solar) and reduction in waste of energy by consumers can play an important part in our future energy plans. However, improved efficiency and carbon reduction in conventional electrical generation, and careful examination of the role for nuclear generation will also be essential developments. Bernotat identifies that the size of electricity generators is a strategic issue, as they need

to have sufficient scale to deliver both the technological improvements necessary to move to a reduced carbon society and also to have sufficient negotiating power to deal with the extremely large gas and oil producers.

It is interesting to note that Bernotat's CR perspective on dealing with environmental issues largely depends on implementing strategic technological change, through energy security emission costs and allows more conventional financial appraisal tools to be used in business planning. In theory this should make it easier to handle the massive capital investment decisions needed to deal with climate change issues.

2.3.4 Marianne Barner - IKEA

Barner (2007) is Director of Corporate Communications and Ombudsman for the Child at IKEA and she identifies salient CR strategic issues for the Swedish furniture manufacturer. The company has banned the use of certain chemicals from its production and product range, and is making rigorous attempts to eliminate child labour from its global supply chain. They have formed partnerships with NGOs such as Save the Children, UNICEF, and WWF. IKEA has a strong CR focus on its supply chain and has reduced the number of suppliers to allow better control over product specification adherence, while also developing long term relationships with suppliers. IKEA is also designing energy saving into its distribution stores, and looking at improvements to reduce CO_2 in home delivery transport. On energy usage IKEA intends to reduce consumption by 25% and buy entirely from renewable energy sources.

Barner admits the hardest task in becoming a socially responsible company has been communication to their people, and that it takes longer to become a socially responsible company than managers usually expect.

3 Discussion

Tomorrows Global Company (Tomorrow's-Company, 2007b) depicts a view of a future corporate organisation with a social and environmental conscience. This view appears to be shared with many corporate leaders if the rapid expansion in CRP reporting is a guide. A significant proportion of large companies are becoming involved in CR and reporting their progress. However there is still a minority of large companies that have yet to become involved in CR or report any progress.

A number of certification and reporting standards are now available and help enormously by providing a framework for reporting. GRI, the *de facto* reporting standard, has been, and continues to be, developed through a very large consultation and consensus building exercise with companies, investors and global stakeholders. GRI is a standard based on consensus covering the many declared stakeholder needs. Ongoing consultation and development could focus on the usefulness and materiality of the reported information. Companies, stakeholders, investors and shareholders may find benefits if the flexibility of the reporting format were to be maximised to accommodate the considerable variation between companies and industries. A danger exists in reports being so inclusive and all-embracing, that the content and complexity increases to a point

where it becomes difficult “to see the wood for the trees”. The need for inter-company comparability over time is large and a balance needs to be struck with increasing detail and complexity.

The concept of triple bottom line format, covering “people planet and profit” is increasingly used for reporting and is embodied in the GRI reporting standard. How this concept can be developed further to maximise its utility for all stakeholders, investors and shareholders is an ongoing discussion within society and business. However, the importance of CRP reporting should not be underestimated in realising value from CR activities. CRP reporting is a vital part of communications with stakeholders, informing them of what is being done by companies and the progress being made. However, it was disappointing to see that in Narrative Reporting Content in the FTSE100 report (Radley-Yeldar, 2007) only 15% of companies linked their strategy to reported KPIs, suggesting that companies have some way to go to improve the utility of the information they provide. This finding is particularly worrying if the value creation potential of CR is linked through competitive advantage to strategic CR activities (Porter and Kramer, 2006). It suggests tracking of progress on strategic activities is either not taking place, the results are poor and companies are avoiding reporting them, or possibly, the results are not being reported because of commercial confidentiality issues. Whatever the reason, key information for evaluating progress and value is absent from reports. The importance of progress of strategic CR activities is reinforced by the approaches described in speech and interview material from key CR leaders. It is also clear from those leaders that the strategic content of their CR agendas is very specific and tailored to each company’s operations and market position, and therefore it should not be assumed CR is a “one size fits all” subject when examining empirical evidence.

Companies with a CR agenda are using both paper and electronic website publishing for communicating their CR reporting, though in future it is expected there will be an increasing trend in the use of electronic media. Most companies with CR programmes will have a CR report section on their websites, with a smaller number also producing a CRP section within their statutory Annual Reports. CR reports tend to be quite extensive. When combined with Annual Reports they tend to be in a summary form with reference to the website for the full details. The majority of companies use their website CR reports in a top-down information-push style, with only a small minority using their websites interactively to collect views and opinions from stakeholders. This would appear to be a lost opportunity for fine-tuning CR agendas and improving CRP reporting content and practice to align better with stakeholder needs and views.

While the GRI reporting standard development is based on seeking consensus, there is little direct evidence from stakeholders to confirm that the standards are delivering what stakeholders want and need. For example, the benchmarking and league tables focus on ranking companies by overall reporting quality, using index formulae developed by the rating organisations. However, with the exception of the Carbon Disclosure Project, there is little evidence of benchmarking on performance in specific areas of concern, where specific agencies or NGOs associated with an area of concern carry out ranking of the company contributions. In short, there seems to be a greater focus on benchmarking of reporting activity rather than on benchmarking of the results achieved by companies in a particular area of concern. It is interesting to note

that the Carbon Disclosure Project uses questionnaires to collect data, rather than using previously reported CR information by corporations. This suggests that the information being reported presently is not entirely suitable for use by some stakeholders, in spite of the consensus approach adopted for standards development.

There is some doubt, after the premature close of Race to the Top, about whether voluntary benchmarking could work as a self-regulating mechanism within an industry. There appears to have been little research into self-regulating market mechanisms involving CRP, though this is an important aspect to develop if companies want to minimise future government regulation.

Turning to the question of whether CRP is associated with CFP, academic evidence from empirical studies has some inconsistencies but on balance it tends to support the existence of a positive link. However, there is still a lack of a generally accepted theory connecting CR activity and financial performance. The empirical evidence of a link between CR and accounting performance is stronger than for market price performance. The matter is confused by the large number of metrics involved with both CR and financial reporting which could be used directly or as proxies. Many of the financial and non-financial metrics are affected by non-CR activities, and it is difficult to isolate the impact of CR activities from other marketing and operations activities of a company. For example if a CR activity repositions a brand, it is difficult to isolate and measure the CR contribution to the repositioning from other marketing activities. Further confusion arises from the possibility that financial performance may lag CR activities. Without a model(s) of a causal relationship between CRP and CFP it seems unlikely that hypothetico-deductive methodologies alone will reveal a much-improved quantitative understanding better than that which we have currently.

Two strands of investigation that could lead to an improved model of a causal relationship between CRP and CFP have only been explored briefly in the literature so far. The first strand relates to the Rappaport value drivers approach (Rappaport, 1998), which could lead to a better understanding and identification of CR factors related to corporate value. The second strand relates to the proposed insights (Porter and Kramer, 2006) linking the undertaking of a few key strategic CR activities to the development of competitive advantage. This strand also encapsulates work on seizing corporate opportunity (Grayson and Hodges, 2004) offered through selective and focused CR agendas. The merging of the two strands could yield a model that aids understanding of how CR can create corporate value and lead to an improved understanding of the quantitative relationships involved.

Finally, when considering the link between CRP and CFP, the effect of CR on risk must be taken in to account. If corporate risk is reduced by an effective CR programme, a company's shares may represent a better investment even if the shareholder return remains unchanged. There have been few, if any, studies on the relationship between CR programmes and risk, or the mechanisms that might be in play through which the capital markets might be able to assess the CR contribution to reducing risk. Again a model of the causal relationships between CR and risk may help the search for empirical evidence of a link.

4 Conclusions and Areas for Future Research

The aim of this study was encapsulated in the three questions posed in section 1. This research has identified that a considerable amount of academic and consultancy literature exists relating to corporate social and environmental responsibility. Standards are available both for process compliance in a number of key CR areas, and for reporting of CR activities by companies. Studies have examined evidence of the benefits of CR agendas and programmes to society and companies, the content, quality, and methods used for reporting corporate CR activity and progress. However there are several gaps in our knowledge.

The first gap in knowledge relates to how stakeholders, shareholders and investors make use of reported CR information and whether the present standards meet their information needs. Future research could be beneficial by clarifying stakeholder, shareholder and investor uses of reported CRP information and what unfilled needs exist. This would help to define more clearly the content and format of the triple bottom line approach to reporting. Some of the questions that need answers are:

- How do stakeholders, shareholders, and investors use the information provided by existing reporting standards?
- What are the key reporting strands, are they adequately covered by standards and, if not, what additional strands and standards would be needed?
- Do existing standards tessellate, overlap or have holes between them?
- Do the standards and the format of non-financial metrics allow for adequate aggregation and comparison?
- Is there sufficient quantification of CR performance and are the non-financial metrics well defined?
- What information must be, can be and must not be disclosed in CR reports?

The second area where we have an incomplete understanding is the way CR agendas impact on corporate value and risk. This understanding is vital not only to investors, but to managers in evaluating benefits arising from their CR programmes. There are some early studies that identify a framework for connecting CR activities to obtaining a competitive advantage. However, at present there is little clear agreement on the causal relationships between CR activities and corporate value. Further research linking and developing existing knowledge would be beneficial to the establishment of a model of the causal relationships between CRP and financial performance and corporate value. Following the establishment of a better model, there is an improved chance of identifying empirical evidence in support of a link between CRP and CFP.

One area that seems to have been largely overlooked by researchers in any systematic way is an understanding of the association between CRP and risk. This understanding is needed to complete the understanding of how CR activities can impact on the value of a company and reduce risk. While there is some anecdotal evidence of the damage that lack of prior CR can do after a disaster event has taken place, there is little or no quantitative understanding of the impact of CR programmes on corporate risks and investors' perceptions of the

changes in risk profiles of companies with CR agendas. This is an area where further research could deliver benefits to our understanding of how CRP impacts on investor perceptions and ultimately company value.

Finally, investment in Corporate Responsibility agendas, like other strategic investments, are most likely to yield benefits to stakeholders, shareholders and investors only when the strategy is well conceived, the programme is well planned, implementation is sound, and ongoing progress is monitored against a plan. The effectiveness of the management team is central to these activities being carried out well. One key area of management need is for a better understanding of how competing projects can be compared, and what appraisal criteria and techniques should be used. The choice of non-financial metrics for the appraisal, and subsequent monitoring of progress, will need to align with value drivers. Solutions in this area could flow from work on the causal relationships between CRP and CFP, discussed above. In this aspect of CR management, we need a better understanding of how managers appraise, plan and monitor CR projects at present and how it should be done in future. It is important this area is not overlooked bearing in mind the possibility that in future, internal and external corporate information should become more consistent and aligned, with identical data being used by stakeholders, shareholders, investors and managers. For this reason a better understanding of how managers use CR information and non-financial metrics is an important dimension to be considered in the overall picture.

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