



PHD

## Corporate Social and Environmental Reporting: A User Perspective

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# Corporate Social and Environmental Reporting: A User Perspective

Renfred Wong

A thesis submitted for the degree of Doctor of Philosophy

University of Bath

School of Management

April 2011

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## **Abstract**

Most extant studies of corporate social and environmental reporting (CSER) tend to examine the volume of CSER by companies. In contrast, the significance of this thesis lies in its focus on key stakeholders who are users of CSER and their needs. The perspectives of multiple key stakeholders, including investing, procuring and campaigning stakeholders, are investigated with respect to what they perceive to be valuable social and environmental reporting in supporting decision making.

This thesis also goes beyond CSER and examines social and environmental reporting from other sources, including but not limited to reporting arising from private meetings between companies and stakeholders and information about companies' social and environmental impact or performance from information intermediaries. Stakeholder perceptions on the value and the qualitative characteristics of social and environmental reporting have been sought through semi-structured questionnaire with individuals drawn from the key stakeholder groups. Consistent with stakeholder theory, it is expected that stakeholder needs may vary.

The findings in this thesis support a hypothesised relationship between the value of social and environmental reporting and information qualitative characteristics. Other key findings show that the availability of social and environmental reporting affects stakeholders' extent of use of social and environmental reporting and that the drivers for the value of information and the extent of use of information are different.

The findings present important implications for both company managers and policy-makers. Company managers are better informed concerning stakeholder information needs. Thus they are better equipped to make decisions about the extent, scope and form of CSER. Furthermore, this thesis enables policy-makers to assess whether CSER requirements under current regulatory mechanisms reflect stakeholder needs. Finally this thesis has contributed towards enriching literature in the CSER area.

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# CHAPTER 1

## Chapter 1 – Introduction

Social and environmental information about companies from different sources has become increasingly important in supporting stakeholder decision making. There has been much media attention on the role of companies in combating climate change and abating the emissions of greenhouse gases. Developments of late have emphasised the importance of social and environmental reporting to different stakeholders (HMSO 2006a, HMSO 2006b, HMSO 2008a). There has also been increasing academic research on the importance of companies being forthcoming with their impacts on the environment and society in general and companies disseminating information of such impacts through engaging in corporate social and environmental reporting (CSER).

The central conceptual framework of this thesis draws on a framework of the decision usefulness of information, which in turn extrapolates the framework for the reporting of corporate financial information that has been constructed by financial reporting standards bodies which outlines the desirable qualitative characteristics of good financial information. This thesis explores stakeholder perceptions of social and environmental reporting and recognises that stakeholders draw on information from multiple sources to support decision making. It also recognises that stakeholders have diverse needs for information, and thus a multi-stakeholder view is adopted in gauging stakeholder perceptions. This research examines, inter alia, stakeholder perceptions of the value of information, the qualitative characteristics of information and the role of external assurance as a means to enhance the credibility of CSER.

This research adds to the extant literature on social and environmental reporting by providing evidence of stakeholder perceptions of the value and the qualitative characteristics as well as the extent of use of social and environmental reporting. It is argued here that there has, to date, been a lack

of consideration of the understanding of stakeholders' use of CSER in decision making. This research, based on a stakeholder focused empirical study, therefore goes some way to fill this gap. The findings in this thesis have strong practical implications for companies and policymakers. The empirical findings, drawn on stakeholder perceptions, can be used to inform companies as to what information stakeholders would like to see reported by companies, and enable companies to attain more decision useful reporting in light of these perceived information needs. The findings can also be used to inform policymakers in refining existing legislations that affect the nature of information that companies should be required to report and the ways CSER should be reported, perhaps in the form of key performance indicators, in light of stakeholder preferences as suggested in the findings.

This introductory chapter will provide a brief definition of the value and the extent of use of information, the various sources of social and environmental reporting and outline the qualitative characteristics of information that will be used to explain information value. The aims and objectives of this thesis will also be outlined, followed by a chapter summary.

## **The Value of Different Types of Social and Environmental Reporting**

Stakeholders need to make decisions by drawing on social and environmental reporting from various sources to improve their decision making. Here it is recognised that social and environmental reporting stems from many sources and that different sources of social and environmental reporting contribute to stakeholder decision making. Information contributes towards decision making through its display of various qualitative characteristics of information. Company reporting in the form of the annual report and accounts is often considered to be the primary source of communication between a company and its stakeholders and most extant studies on CSER examine information originating from corporate reporting (Deegan and Rankin 1999, Tilt 2008). However, increasingly, the importance of other media of corporate

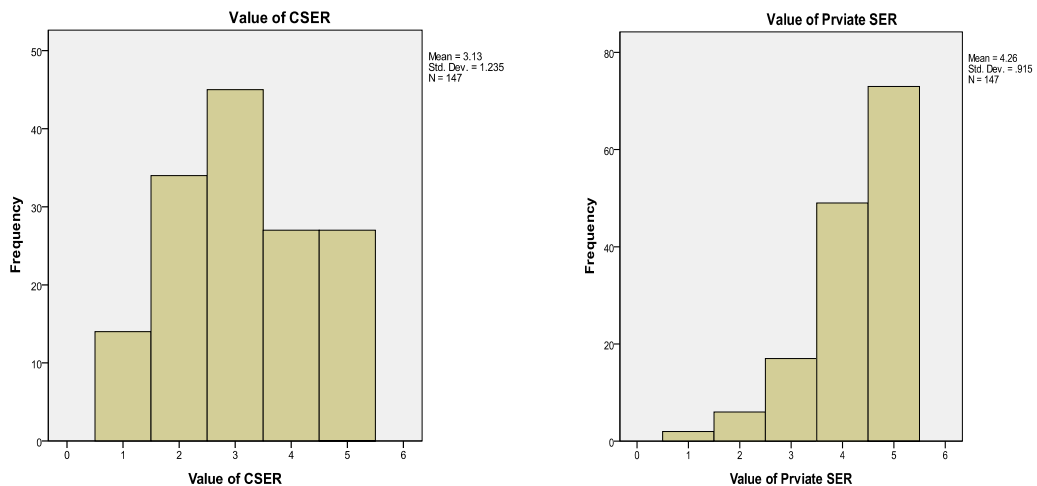
communication is also being recognised (Solomon and Solomon 2006, Clatworthy and Jones 2008).

To facilitate stakeholders in decision making, companies strive to make use of a variety of media to get vital information across to stakeholders. This research investigates the information needs of three stakeholder groups: investing, procuring and campaigning stakeholders. It is recognised that stakeholder needs are rather difficult to meet. The major concern of most (though most probably not all) investing stakeholders is shareholder value. Purchasing stakeholders are most concerned with making the best commercial decisions in respect of buying goods and services based on specific criteria. Campaigning stakeholders make decisions based on various ethical and moral considerations. Their different work objectives are translated into different reporting needs and different needs for assurance.

Apart from corporate reporting, stakeholders also draw on other sources of information to inform decision making. Other sources of social and environmental reporting include meetings with companies and specialist social and environmental reporting providers, including responsible investment indices providers and social and environmental reporting assurance providers. The general media will also provide reports of social and environmental reporting about companies which may be of use to stakeholders such as campaigning organisations who tend to observe the actual behaviour of companies. In this research stakeholder perceptions of the value of different sources of social and environmental reporting are being examined, as different users may find social and environmental reporting from different sources useful for decision making. At the same time it is important to gauge the views of multiple groups of stakeholders. A review of the existing literature indicates that most empirical studies that have taken a stakeholder perspective tend to examine the views of investing stakeholders. Consistent with a finding in an extant study that the views of non financial stakeholder groups should be sought to improve the communication of social and environmental reporting to stakeholders (Solomon and Darby 2005), the views of multiple stakeholders should be sought.

Stakeholders make decisions based on information from various sources which may have different qualitative characteristics such as relevance, freedom from bias, clarity, comprehensiveness, comparability and timeliness. None of the qualitative characteristics alone can be expected to provide a perfect indication of the value of information. This has important implication for this research in that some information qualitative characteristics may be more important than the others depending on the purpose for which information is being used. Consistent with previous work in which the quality of information refers to a perception of users, not an objective view of the information, users are expected to base their actions on their perceptions of the information quality, which may not be the information’s actual quality (Jennings 1987). In other words there may be an expectations gap between perceived and actual quality. This perceived quality or ultimately perceived information value bears strong implications for the analysis in this study.

**Figure 1 – Distribution of Value Perception Scores for CSER and Private Social and Environmental Reporting<sup>1</sup>**

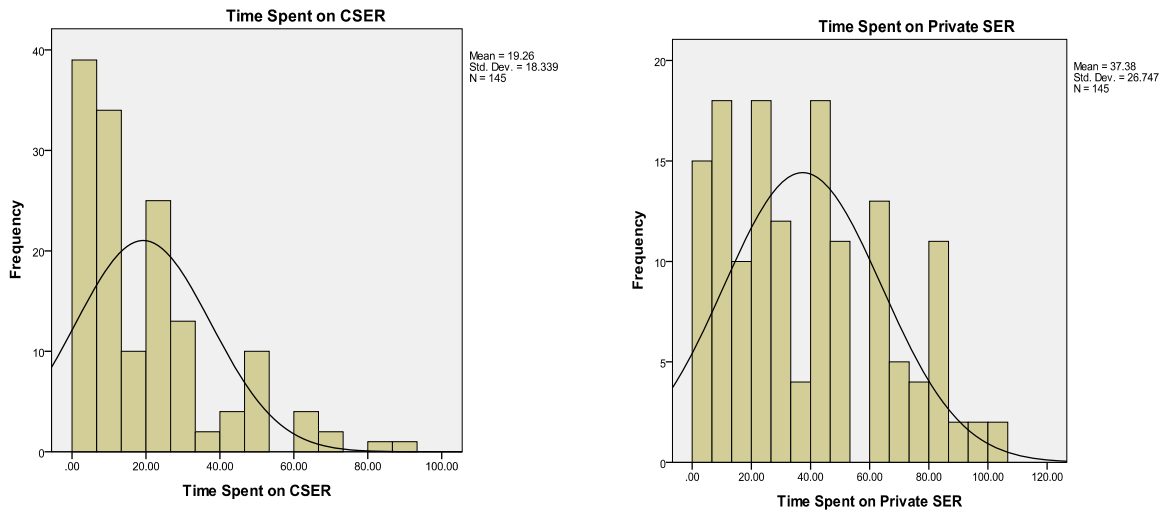


Note: 1 – Not valuable; 5 – Very valuable

<sup>1</sup> Figure 1 and Figure 2 are derived from data collected in an empirical study that forms part of this thesis. They are included in this chapter only for illustration purposes. Other findings that are informed by the data will be discussed in greater detail in the data analysis chapters. CSER is taken to mean publicly available corporate reporting while private social and environmental reporting refers to information obtained in private meetings between stakeholders and the companies.



**Figure 2 – Distribution of Percentage of Time Spent on CSER and Private Social and Environmental Reporting**



### **The Extent of Use of Various Types of Social and Environmental Reporting**

It would be logical to assume that in order to make better decisions stakeholders will try to use as much valuable information as possible by spending as much time on it as they can. However, it is recognised that users of information may not be able to spend as much time as they would desire on certain types of information that are seen as highly valuable towards decision making. Figure 2 above shows that the extent of use of CSER and private SER more or less has the same pattern of usage in terms of the relative amount of time spent. However Figure 1 shows that stakeholder perceptions of the value of private SER seem to be skewed toward a much higher mean value. Most stakeholders surveyed think that private SER is extremely valuable (score equals 5 on the Likert scale). In other words information that is seen as valuable by stakeholders ultimately may not be used to an extent that reflects their perceived value. This suggests that value perceptions and the extent of use of information may not be driven by the same factors. Here the amount of time stakeholders spend on types of information is considered a representation of the extent of use of information in stakeholder decision making. Whether specific information will ultimately contribute towards

decision making is not solely dependent on its embodiment of desirable qualitative characteristics but also whether it is available to stakeholders. Some types of corporate information may very well be perceived as valuable by users in decision making but ultimately may not be used much (in terms of time spent) towards making decisions. Such a situation can occur when the valuable information is not available to the stakeholders who make decisions. Certain types of corporate social and environmental information, for example information arising from private disclosures may only be made available to selected stakeholders who possess specific characteristics that are seen as crucial by the disclosing companies to their survival. This bears important implications for this thesis as one of the foci of empirical analysis is to show that some information types may be seen as decision useful but they have not been made available to all stakeholders by the companies.

While the value and the extent of use of social and environmental reporting may seem paramount to stakeholder decision making, there is relatively very little empirical work examining social and environmental reporting practices from the perspective of stakeholders (Solomon and Solomon 2006, Owen 2008). Though it is claimed that companies' social and environmental reporting is not regarded as of much value if it is not focused on the needs of stakeholders whom the reporting organisation is affecting (O'Dwyer et al. 2005b), and that much interest in using social and environmental reporting has been shown by stakeholders, most of the research in social and environmental reporting is conducted from the perspective of the reporting companies, or a managerial perspective, a distinction that was drawn in a previous study (O'Dwyer et al. 2005b). The manager-focused literature examine the motivations of companies engaged in CSER and the firm specific characteristics that may influence the level of reporting and the potential benefits associated with engaging in CSER. Some extant studies also examine the process of corporate accountability through engaging in social and environmental reporting and explore its potential in contributing towards sustainability (Milne et al. 2009). The relative lack of empirical work that is centred on stakeholders' needs raises an important question on what stakeholders

perceive as valuable social and environmental reporting that supports decision making and what factors influence such perceptions of value.

## **The Qualitative Characteristics of Information**

The value of information that is crucial to stakeholder decision making can in fact be explained by a set of information qualitative characteristics (Solomon 2000). This is consistent with some of the normative frameworks that have been put forward to help companies report social and environmental information (GRI 2006). It is suggested in a previous empirical study that social and environmental reporting can shadow financial reporting in terms of borrowing from the financial reporting framework, in particular the elements of information qualitative characteristics therein (Solomon 2000). There is a tradition of research rooted in defining valuable financial accounting information in terms of the qualitative characteristics such information displays (Solomon 2000). Defining the quality of information in terms of five or so qualitative characteristics and in terms of the use of information is ends focused (Taylor 1986). In this way, the decision usefulness of social and environmental reporting is examined with reference to stakeholders' perception of information qualitative characteristics. It is important to bear in mind that any criteria for the assessment of the value of information in environmental reports is highly subjective (Walmsley and Bond 2003). Nonetheless normative frameworks have been developed to provide guidance to companies on CSER (GRI 2006) and there seems to be substantial borrowing from the extant financial reporting frameworks with respect to defining useful information and explaining the elements that contribute to information being useful. Therefore in this research stakeholders' perceptions of the qualitative characteristics of information will be examined, in an attempt to explain stakeholder perceptions of the value of social and environmental reporting.

## **Aims and Objectives**

The purpose of this research is to examine the determinants of stakeholder perceptions of the value of, and the extent of use of, social and environmental reporting in stakeholder decision making. Thus this work aims to add to extant knowledge and theory and provide insights on the perceptions of social and environmental reporting by stakeholders and guidance to managers and policy makers with respect to the information needs of stakeholders.

### *Aim*

*To investigate from a stakeholder perspective the perceptions of social and environmental reporting about companies from various sources in supporting decision making.*

Specifically, this is driven by an attempt to provide an answer to the following research questions –

1. How valuable is social and environmental reporting in supporting stakeholder decision making?
2. How is the value of social and environmental reporting in stakeholder decision making determined?
3. To what extent is social and environmental reporting of various sources used in supporting stakeholder decision making?
4. How is the extent of use of social and environmental reporting in stakeholder decision making determined?
5. What information content do stakeholders find useful in CSER?
6. In what format do stakeholders prefer CSER to be presented?
7. Is there a difference across different stakeholder groups in information preferences?
8. What determines the use of CSER assurance?
9. What type of assurance provider do stakeholders prefer?

## Objectives

In order to provide an answer to the above research questions, the following objectives are proposed –

1. To identify themes in extant literature and gaps therein.
2. To develop a conceptual framework that models stakeholder perceptions of the value of social and environmental reporting and provides a set of hypotheses.
3. To carry out empirical research using semi-structured interviews with investing, procuring and campaigning stakeholders to test the conceptual framework and resultant hypotheses through employing a suitable research design with appropriate research methods on data collection and data analysis.
4. To assess whether the findings provide support to the hypotheses and thus the conceptual framework.
5. To make suggestions for future research.

## **Original Contributions**

This thesis seeks to fill the gaps of knowledge regarding stakeholder perceptions of social and environmental reporting about companies. This thesis complements existing literature in the social and environmental reporting area by supplying empirical evidence of stakeholder perceptions of the value, the qualitative characteristics and the extent of use of social and environmental reporting. This research extends and clarifies the work of previous researchers by developing a model that predicts stakeholder perceptions of the value of social and environmental reporting, to be explained by information qualitative characteristics. This research surveys the perceptions and views of multiple stakeholder groups using a range of CSER materials that extend beyond the annual reports and accounts. This is deemed to be a significant contribution in considering the relative dearth of studies in the social and environmental reporting field that have been

conducted from a stakeholder perspective, or are restricted in their focus of analysis to company annual reports.

This research also has implication for companies and policymakers. The findings can be used to inform policymakers in refining existing legislations that affect the nature of information that companies should report and the ways social and environmental information should be reported, perhaps in the form of key performance indicators, in light of stakeholder preferences suggested by the findings. This research not only seeks to provide guidance to policy makers but also to provide guidance to corporate managers as to stakeholder preferences in CSER. The empirical findings drawing from stakeholder perceptions in the thesis can be used to inform companies as to what information stakeholders would like to see reported. The findings can inform companies of the diverse needs of stakeholders and enable companies to attain more decision useful reporting of corporate social and environmental information in light of the information needs of stakeholders as suggested by the findings.

## **An Overview of This Thesis**

In the next chapter (Chapter 2) a review of the extant studies in corporate social and environmental reporting will be provided. Findings of the review indicate that much of the theoretical discussion in the CSER area has centred on experts' views on how CSER can be used to augment corporate accountability and how such reporting can help attain sustainability. Also many existing studies have been conducted from a managerial perspective to explore how CSER can help companies attain benefits. In terms of empirical contribution, many studies have examined issues in the CSER area by focusing at the level of the firm and by analysing the contents of company annual reports. In short, it is contended that there is a gap in the CSER literature for empirical studies to be undertaken from stakeholder perspectives.

Drawing on the findings of a review of the CSER literature, Chapter 3 sets out a conceptual framework on stakeholders' use of social and environmental reporting from various decision-making sources. By applying the financial reporting framework that has been put forward by the International Accounting Standards Board (IASB), based on desirable qualitative characteristics of information, a conceptual framework that predicts the perceptions of the value of social and environmental reporting by stakeholders has been set out. A second model that investigates the extent of use of social and environmental reporting to support stakeholder decision making has also been developed. This is determined by the value and the availability of information. Finally, Chapter 3 sets out propositions to be developed into hypotheses for empirical testing.

The main purpose of Chapter 4 is to develop and explain the research methodology of this thesis. First, it explores and identifies the researcher's epistemological position. Second, issues relating to the research methodology are examined. Finally, issues relating to ethical considerations that are relevant to this research are discussed.

Chapter 5 to Chapter 8 are the four empirical chapters in this thesis. All the empirical chapters draw on the findings from semi-structured interviews with investing, procuring and campaigning stakeholders using a questionnaire as the survey instrument. Using a quantitative research methods approach, Chapter 5 draws on the data to explain stakeholders' value perceptions of social and environmental reporting with perceptions of information qualitative characteristics. The findings suggest that, inter alia, many of the information qualitative characteristics, in particular relevance, freedom from bias, timeliness and comparability, do predict stakeholders' perceptions of information value. Chapter 6 adopts a quantitative approach and draws on the data to explain stakeholders' extent of use of social and environmental reporting, or the proportion of time that stakeholders invest in social and environmental reporting, to be explained by stakeholder perceptions of information value as well as information availability. The main findings suggest that overall information value and availability do predict stakeholders'

extent of use of information. Chapter 7 explores stakeholders' use of information supplied by assurance providers arising from engagements to provide a third party opinion on a given company's CSER. The main findings indicate that the more a stakeholder values CSER, the more inclined the stakeholder is to use CSER assurance. Similarly the more a stakeholder perceives CSER to be free from bias, the less likely the stakeholder is to use CSER assurance. Finally, using a grounded theory approach, Chapter 8 explores stakeholders' preference in CSER reporting in terms of report contents. The main findings indicate inter alia that stakeholders prefer to see information on companies' performance against quantifiable targets that are related to the natural environment.

Chapter 9 provides a summary of the main approaches, findings and contributions of this thesis. It highlights the findings of the review of literature and the key elements of the conceptual framework as well as important empirical findings with reference to the limitations of the empirical studies. The limitations of this research as well as suggestions for future research in this area will also be discussed. Chapter 9 will also put forward the major implications of the empirical findings for academics, policy makers and managers.





## CHAPTER 2

## **Chapter 2 – Literature Review**

### **Introduction**

This chapter will review the theoretical and empirical studies that are relevant to the reporting of corporate social and environmental information, presenting the main ways in which corporate social and environmental reporting (CSER) has been academically researched in recent years. This chapter identifies key articles in the study of CSER, highlights the contributions of existing studies and discusses possibilities for future research. This chapter does not purport to cover each and every piece of academic work ever conducted and published on CSER and thus in no way can be construed as an exhaustive review of the extant literature on CSER. Rather, the intention is to identify the key themes and issues as well as interesting methodological issues that have arisen in the theoretical studies and empirical studies that cover CSER. The criteria for including journal articles in this review will be discussed. This chapter will provide a foundation for the remaining chapters of this thesis.

The aims of this chapter are to –

1. evaluate the theoretical and empirical contributions and identify limitations in terms of methodology and contents of existing research
2. review existing research on CSER
3. by taking into account the limitations identified, develop a research agenda for this thesis that will add to the richness of the literature in the field.

This chapter is structured as follows. First, an introduction to the study of CSER will be given and then the method applied in the literature survey will be outlined. Next the key themes and contributions from the existing literature will be discussed, followed by a discussion of the empirical studies, in particular the sample characteristics and the research methods adopted in the study of this review. That will be followed by a detailed discussion of the existing

empirical studies that are conducted from the perspective of stakeholders rather than the reporting firms. The implications for future empirical work will conclude this review. The implications will be outlined with reference to conclusions that are drawn from the theoretical contributions from extant studies and a development of the methodology for future work.

## **Research on Company Reporting of Social and Environmental Information**

Corporate social and environmental reporting<sup>2</sup> (CSER) has drawn much attention in academic research in recent years (Adams 2004, Adams and Evans 2004, Milne and Gray 2008, O'Dwyer et al. 2005a, O'Dwyer et al. 2005b, Solomon and Solomon 2006). This is evidenced by the growth in the number and diversity of academic and practitioner publications regarding CSER. For example, one of the most popular bibliographical databases of management publications, namely the Business Source Premier Database (hosted by EBSCO), displayed the following numbers of articles on performing a search using keywords "corporate reporting" (2,816), "environmental reporting" (1,149), "social and environmental reporting" (653), "sustainability reporting" (752), and "social reporting" (600) as of 22 March 2009. Factors that have contributed to an increasing interest in CSER include the incorporation of the reporting of environmental, employee and community matters in the Companies Act 2006 (Porter 2009), the increasing public concern about climate change and concern over the extent of companies discharging accountability to non-financial stakeholders (Kolk et al. 2008), and the value of such reporting in supporting stakeholders in making decisions (Walker and Brammer 2009).

### **Methods of Literature Review**

To attain a methodical review of the relevant existing studies a review of the methods that have been used previously is considered essential. Of the

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<sup>2</sup> It is unclear as to the exact date the term corporate social and environmental reporting was coined. However, the first prominent use of the term is in a review article by Gray et al (1995b) in *Accounting, Auditing and Accountability Journal*.

various approaches that have been applied in the past, many of them involve using electronic databases of bibliographical references. For a field of academic interest that is relatively well defined and small, it is possible, at least theoretically speaking, to set out to identify all the contributions that have been made. For a field of academic interest that is not so well-defined, a review is necessarily selective (Gray and Bebbington 2000). Such a review can involve sampling relevant studies on the basis of certain conceptual or methodological assumptions (Gray 2001), reviewing salient articles that have been published in a given journal that is considered significant in a given discipline (Gray 2002), or reviewing studies in several important peer reviewed journals according to the judgment of the author (Gray and Bebbington 2000, Parker 2005). The sampling of relevant studies can also be conducted by reviewing important studies that were published in relevant journals of the field, structured with a division according to time periods as the author sees appropriate (Mathews 1997a), or searching for relevant studies by using key words in an electronic bibliographical database and determining the relevance of the studies with reference to predetermined criteria (Orlitzky et al. 2003).

The area of CSER has seen studies stemming from a plethora of approaches, perspectives and theoretical orientation, which has ultimately contributed to the diversity of the extant literature. For the purpose of reviewing the relevant studies in this thesis, a two step approach has been applied. First, searches based on keywords for relevant studies were performed in an electronic bibliographical database. Second, this literature review has been restricted only to those studies that are relevant to one specific area, namely CSER. Such a two step approach will allow a focus on the breadth of the studies in the area that is central to this literature review and enable the identification and an in depth review of contributions from studies that have been published in the relevant salient journals.

Reviewing studies in journals that have high impact factor scores is one possible option that has been considered. The Social Science Citation Index (SSCI) publishes impact factors of a number of peer reviewed journals. Such impact factors are generally considered to be an indicator of the influence of

peer reviewed academic journals, and are deemed to be important for the future development of disciplines (Stigler et al. 1995). However, a few prominent journals that have included salient articles in the area of CSER have not been included in the SSCI, for example, Accounting, Auditing and Accountability Journal, Accounting Forum, and Critical Perspectives on Accounting. Each of these journals is considered to be a leading edge interdisciplinary accounting research journal (Owen 2008, Parker 2005). Important studies on CSER are also found in journals like Accounting and Business Research and British Accounting Review, though such journals are neither included in the SSCI nor often cited as leading edge accounting research journals.

As pointed out by Gray et al (1995a), CSER has many synonyms including but not limited to corporate social reporting, corporate social disclosure, corporate social and environmental disclosure, social responsibility disclosure and reporting, and social audit<sup>3</sup>. For the purposes of reviewing key studies and identifying key issues and themes in CSER, it is possible to assume that any differences in nomenclature will not render any significant effects on the findings.

According to a study in which a summary of 16 articles that used different methods to rank academic accounting journals was given (Bonner et al. 2006), it was found that five journals rank consistently within the various studies as being within the top international accounting research journals. These top five journals include Accounting Organizations and Society (AOS), Contemporary Accounting Research (CAR), Journal of Accounting and Economics (JAE), Journal of Accounting Research (JAR), and The Accounting Review (TAR). Deegan and Soltys (2007) reviewed the contents of the above five journals over an 11 year period (1995 to 2006), with a view to identifying articles that have examined any themes or issues that fall within the definition of social accounting research. It was found that with the exception of AOS, there has been an absence of social accounting research in the other four journals.

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<sup>3</sup> According to Elkington (1997), the purpose of social auditing is for an organisation to assess its performance in relation to society's requirements and expectations (p.88).

Therefore limiting the search for studies that are relevant to CSER in accounting journals that are usually perceived as top quality journals is unlikely to shed any light on the state of research on CSER. In considering that some studies relevant to CSER have been published in non accounting journals, for example, Journal of Business Ethics, it seems that CSER has the potential of being a cross over between the disciplines of accounting and business and society.

It was therefore decided that an alternative method to identifying important journals/studies from purely accounting journals should be pursued. Keyword searches on an electronic bibliographical database were performed and then the search results (studies) were checked for their relevance to CSER as well as for conformance to the definition of social and environmental reporting as put forward previously (Deegan and Soltys 2007). The process of identifying relevant studies will be discussed in greater details below.

Only studies published in journals that can be found on the Academic Journal Quality Guide published by The Association of Business Schools (ABS) in March 2010 have been included in this analysis<sup>4</sup>. The list of academic journals compiled and regularly revised by the Association of Business Schools is generally regarded as an authoritative list that only includes academic journals that have significant impact on the furthering of any academic inquiry. First, relevant studies were identified through computer searches using the keywords as identified previously by a quick survey of keywords. Such keywords were provided by the authors of many of the key studies in this area. On average approximately 1,200 results were yielded depending on the exact keyword used. The keywords used include “corporate reporting”, “environmental reporting”, “social and environmental reporting”, “sustainability reporting”, and “social reporting”. For example, the keywords “environmental reporting” yielded 1,149 articles for the period from 1973 to 2010. Second, the relevance of the studies was further gauged according to the following criteria: 1. The subject of investigation has to be concerned with

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<sup>4</sup> This criterion is applied in the review of literature relevant to the area of CSER with the understanding that significant studies in non ABS listed journals will not be overlooked in the subsequent discussion.

the reporting of social and/or environmental information by companies. 2. All retrieved studies were checked for conformance to Deegan and Soltys's (2007) definition.

All the identified studies were then analysed in terms of their conceptual approaches and methodology. The studies were firstly given a label as being either a theoretical study or an empirical study. Then, the focus of inquiry of the academic studies was identified by examining the research questions as set out in the articles in conjunction with the keywords given by the authors. The empirical studies were further divided into categories according to the way the studies were conducted: for example, by content analysis of corporate reports; by analysing data collected via the administration of survey instruments or questionnaires; by conducting interviews or experiments with subjects; by conducting a review, or; providing anecdotal comments on extant studies. It appeared reasonable to expect that many, if not most, of the empirical studies were supported by theory and that they would have made contributions to extant theories. Thus many papers could have included both theoretical and empirical elements. It was necessary to schematise a way of logically classifying relevant journals for further analysis. Though it is important that this initial classification has to be supported by a certain degree of logic, an element of judgment and subjectivity is considered inevitable.

## **Literature Review on CSER**

This particular section reviews relevant studies that have the reporting of social and environmental information by companies as their central focus of inquiry. Table 1 and Figure 3 show the distribution of articles by journal and by year respectively. The review will commence with an overview of the methodologies employed in the relevant empirical studies, followed by a discussion of the theoretical issues explored, and finally by a discussion of the findings of the earlier studies.

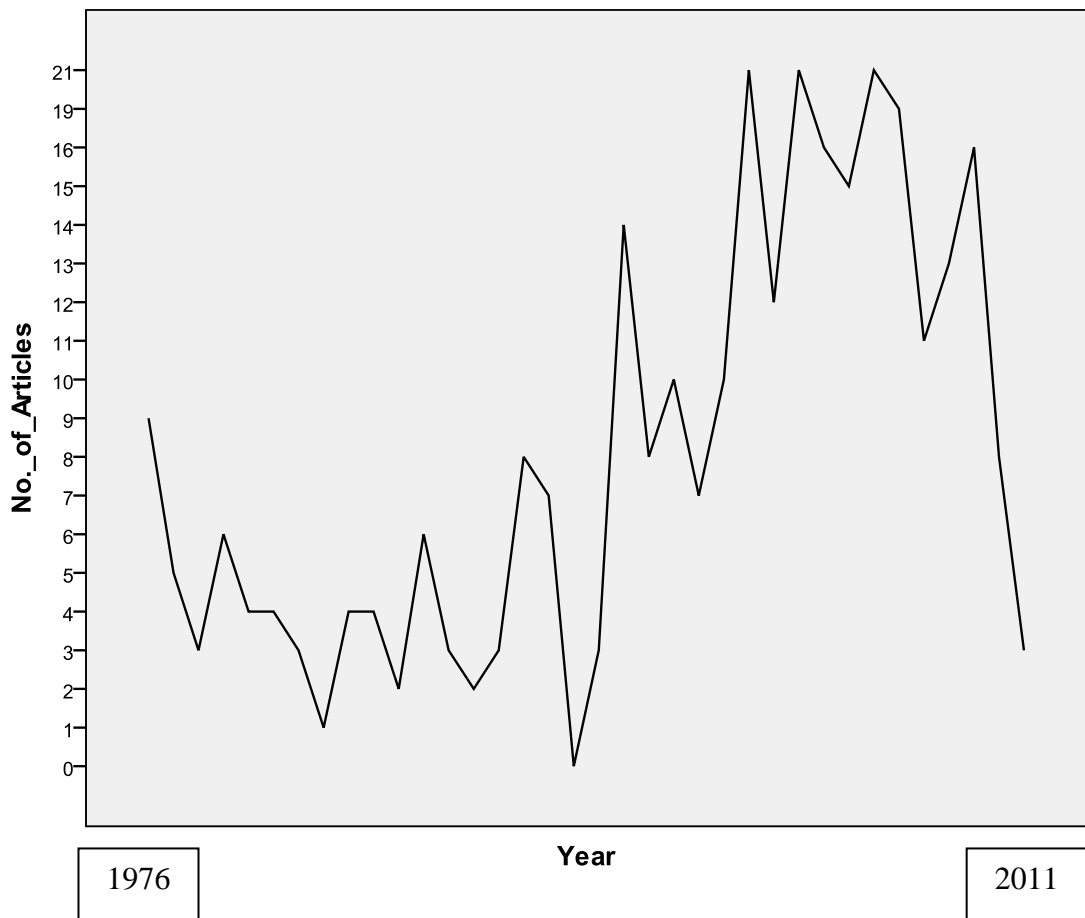


**Table 1 - Number of articles addressing corporate social and environmental reporting by journal title from 1976 to 2011**

<b>Journal Title</b>	<b>No of Articles</b>
ABACUS	2
Academy of Management Review	2
Accounting and Business Research	10
Accounting Forum	33
Accounting Horizons	2
The Accounting Review	7
Accounting, Auditing and Accountability Journal	61
Accounting, Organizations and Society	56
Applied Economics	1
Auditing: A Journal of Practice & Theory	1
British Accounting Review	16
British Journal of Management	1
Business Ethics: A European Review	5
Business Ethics Quarterly	2
Business Strategy and the Environment	13
California Management Review	3
Corporate Communications: An International Journal	1
Corporate Governance	2
Corporate Social Responsibility and Environmental Management	1
Critical Perspectives on Accounting	10
Ecological Economics	1
The European Accounting Review	11
Financial Management	1
International Journal of Accounting	4
International Journal of Auditing	1
International Journal of Management	1
International Journal of Management and Decision Making	1
Journal of Accounting, Auditing and Finance	1
Journal of Accounting and Public Policy	6
Journal of Accounting Literature	2
Journal of Accounting Research	2
Journal of Advertising	1
Journal of Business Ethics	23
Journal of Business Finance & Accounting	3
Journal of Business Research	1
Journal of Environmental Economics and Management	1
Journal of Marketing Communications	1
Journal of Supply Chain Management	1
Long Range Planning	1
Managerial Auditing Journal	4
OMEGA: The International Journal of Management Science	1
Organization & Environment	1
Public Management Review	2
Qualitative Research in Accounting and Management	1
Strategic Management Journal	1
	<b>302</b>

It is noted that the number of relevant studies in each journal can be quite significantly different, with the bulk of relevant studies concentrated in Accounting, Auditing and Accountability Journal (20%), Accounting, Organizations and Society (19%), Accounting Forum (11%) and Journal of Business Ethics (8%).

**Figure 3 – A Graphical Representation of the Annual Number of Relevant Studies Published in Selected Journals**



The UK Corporate Report was published in 1975. The Corporate Report was the first document published by a UK professional body that specifically looked at the needs of different users of accounting information reported by companies. Subsequent to the publication of the Corporate Report, the first group of CSER studies published coincided with the founding of Accounting, Organizations and Society, an influential UK accounting journal (attained in 2008 a 5-year impact factor of 2.75 for journal citation).

Figure 3 shows the number of published studies in selected journals from 1975 to 2011. Some variability in the number of journal articles published over those years has been observed and some of the variability can perhaps be explained by institutional changes and related increases in academic interest. The Global Reporting Initiative (GRI) developed and published the first reporting framework for company social and environmental information in 1999 and AccountAbility also launched the AA1000 framework in 1999. At the governmental level in the UK, the Department for Environment, Food and Rural Affairs (DEFRA) published a set of key performance indicators to help companies manage and reporting environmental information in 2006 (HMSO 2006b). In the same year the Companies Act 2006 (HMSO 2006a) was enacted and new requirements for quoted companies to report on environmental, employee and community matters as necessary were put in place. All the above developments could have inspired academic work on CSER over the years. However a decrease in the number of published studies in this area has been observed since 2009. It appears that the enactment of the Climate Change Act (HMSO 2008a) in 2008 and the publication of a draft version of guidelines for companies to report on energy use in 2009 by Department of Energy and Climate Change have not helped sustain the number of published academic studies in this area. However, with the onset of the reporting requirements for UK companies as part of the carbon reduction commitment energy efficiency scheme in 2011, academic interest in CSER may well be renewed in the near future.

### Overview of Theoretical Studies

It is suggested that much of the research in CSER is conducted from the reporting companies' perspective, or a managerial perspective, a distinction used by O'Dwyer et al (2005b), with an emphasis on examining company annual reports employing a content analysis methodology (Unerman 2000). Also, there are very few studies that examine CSER from a stakeholder or

non-managerial perspective, with studies considering if CSER has the potential to influencing users' decision behaviour being rare exceptions (Dierkes and Antal 1986, Harte and Owen 1987). The information in Table 2 suggests that many of the studies that have made theoretical contributions were conducted from an expert author's perspective. An expert author's perspective typically goes beyond examining CSER as a way to communicating corporate information with a purpose, either from the company management's perspective or from an information user's perspective. An expert author's perspective usually involves views that advocate for example the use of CSER as a means to further causes such as improved societal welfare (Lehman 2001) and possibly enable companies to contribute towards broader global sustainability issues (Gray 2006a). The theoretical contributions of studies as described in Table 2 will be further explored in the next section.

**Table 2 - Theoretical Studies in CSER: Number of Articles According to Managerial and Non-Managerial Perspectives**

	<b>Managerial Perspective</b>	<b>Non-Managerial Perspective</b>	<b>Expert Perspective</b>
<b>Accounting Journal</b>	<b>10</b>	<b>1</b>	<b>79</b>
<b>Non Accounting Journal</b>	<b>11</b>	<b>4</b>	<b>13</b>
<b>Total</b>	<b>21 (18%)</b>	<b>5 (4%)</b>	<b>92 (78%)</b>

### Overview of Empirical Studies

Table 3 shows the number of studies that were conducted applying a methodology that involves analysing company annual reports and otherwise. Methodological issues of the relevant previous studies will be further discussed in the section on research methods of the empirical studies that are relevant to this review.

**Table 3 - Empirical Studies in CSER: Number of Articles Involving and Not Involving Content Analysis**

	<b>Studies that Involve Content Analysing Company Annual Reports</b>	<b>Studies Not Involving Content Analysing Company Annual Reports</b>
<b>Accounting Journal</b>	<b>82</b>	<b>61</b>
<b>Non Accounting Journal</b>	<b>26</b>	<b>16</b>
<b>Total</b>	<b>108 (59%)</b>	<b>76 (41%)</b>

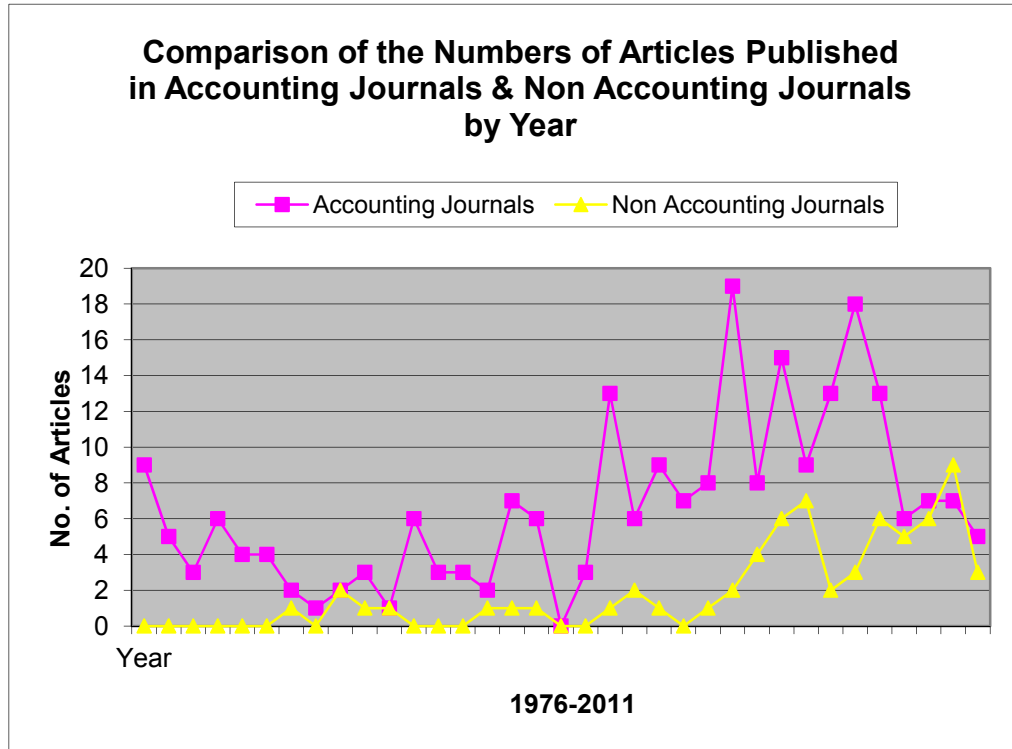
Referring to Figure 4, a downward trend of published studies on CSER in accounting journals<sup>5</sup> has been observed, and incidences of such studies being published in non accounting journals<sup>6</sup> have outnumbered the number of studies in accounting journals towards 2011. According to the information in Table 2, among the theoretical studies in CSER, only four percent of them were conducted from a non managerial perspective, 18 percent from the managerial perspective, and the remaining conducted from expert perspectives. The information in Table 3 indicates that 59 percent of the studies used a methodology that involves analysing annual reports.

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<sup>5</sup> In this review, accounting journals refer to peer reviewed academic journals that cover the disciplines of accounting and auditing.

<sup>6</sup> In this review, non accounting journals refer to peer reviewed academic journals in the area of management that have a focus on business ethics and/or strategic management.

**Figure 4 – Comparison of the Numbers of CSER Articles Published in Accounting Journals and Non Accounting Journals**



### **Research Methods in Relevant Empirical Studies**

This section will discuss the research methods used in empirical studies on CSER. The discussion will centre on approaches that researchers have used in measuring variables and studying the phenomenon of CSER in general. A break down of studies employing quantitative and qualitative approach, and a break down of the studies according to a broad time orientation can be found in Table 4. The information presented in Table 5 shows the geographical location of the subjects, the levels of analysis and the units of analysis in the empirical studies examined.

**Table 4 – Research Methods & Research Strategies**

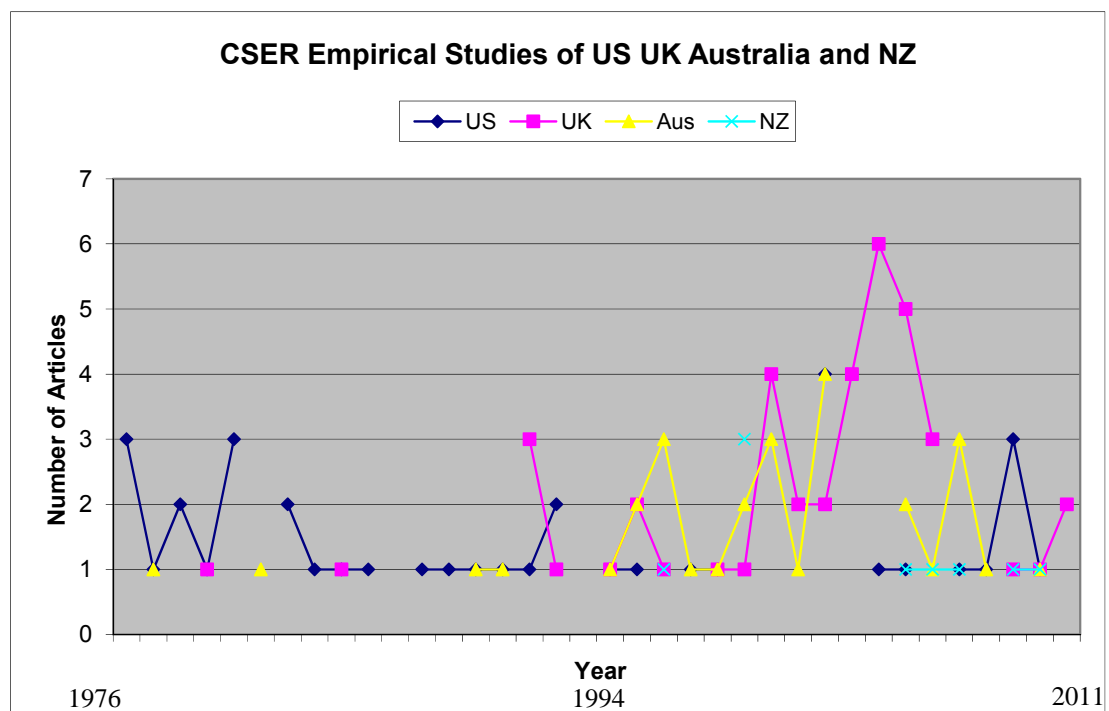
	<b>Research Methods – Data Analysis</b>	<b>Research Strategies (Time Orientation)</b>	<b>Research Methods - Data Collection</b>
	Quantitative (95)	Cross sectional (153)	Annual Report Analysis (108)
	Qualitative (62)		Questionnaire (36)
	Mixed (27)	Longitudinal (31)	Interview (21)
			Archival data (16)
			Experiment (8)
			Case study (10)
<b>Total</b>	<b>184</b>	<b>184</b>	<b>199*</b>

\* including studies that employ more than one method.

Table 4 provides additional information of the 184 studies which have been identified earlier in Table 3, which is a part of the 302 studies in Table 1. The information in Table 4 indicates that by and large relevant existing studies show a balanced mix of qualitative and quantitative studies, with a slight bias toward adopting a quantitative approach (95 studies or 52 percent of the 184 studies identified). 83 percent of the studies were conducted employing a cross sectional time orientation. Such a strategy provides a clear snapshot of a company’s CSER at specific points in time. Most studies (108) employed an approach that involves the analysis or examination of company annual reports. A more detailed discussion on the methodology of content analysis will follow in the latter part of this chapter. In studies where the opinion or perception of subjects was to be recorded, various methods were used, including experiments (8) and survey questionnaires using both open ended questions and closed ended questions (36). Of the studies that involve the collection of data through administering questionnaires, 27 studies adopt the use of Likert scales in designing closed ended questions in the survey instrument. For closed ended questions one of the more prominent methods of gauging perception is through the use of Likert scales (Bebbington et al., 1994; Brooks,

1980; Buzby and Falk, 1979; Chenhall, and Juchau, 1977; Cho et al, 2009; Cooper et al, 2005; Cormier et al., 2004; Deegan and Rankin, 1997; Deegan et al., 1995; 1996; Dunk, 2002; Firth, 1984; Harte et al., 1991; Hoque, 2005; Jaggi and Zhao, 1996; Kuruppu and Milne, 2010; Milne and Chan, 1999; O'Dwyer et al., 2005b; Solomon, 2000; Teoh and Shiu, 1990. It is considered to be particularly useful when a nuance of respondents' perception or opinion is to be captured.

**Figure 5 – Frequency of CSER Empirical Studies of US, UK, Australia and New Zealand**



Sample Characteristics and Methodology

The information in Figure 5 and Table 5 shows that the majority of the studies were carried out in the US (38), the UK (42) and Australasia (39). One interesting trend is that over the years, the numbers of studies based in the US has decreased while studies based in the UK, Australia and New Zealand are on the rise (see Figure 5). Most of the earlier empirical studies in the CSER area that were conducted before 1990 were US studies that have a sample



size of 200 or above. In contrast to those studies, the average sample size of empirical studies conducted since 1990 is about 100. A distinction between the earlier studies that applied a survey methodology of distributing survey questionnaires by post to gauge stakeholders' information needs (Chenhall and Juchau 1977, Benjamin and Stanga 1977) and more qualitative studies that have adopted the research method of semi structured interview (Solomon and Solomon, 2006) is necessary. Because of the resources that different research methods entail, quite understandably, a study that is based on mass mailing of postal questionnaires will have a higher number of observations than a study based on intensive one to one interviews.

Table 5 below outlines the characteristics of the samples in the relevant existing empirical studies that were conducted from both the perspectives of information providers and information users. Studies adopting a stakeholder, or an information user's perspective, will be discussed in detail in a separate section in this chapter.

**Table 5 – Characteristics of Samples in Relevant Empirical Studies by Location, Industry, Level and Unit of Analysis**

<b>Geographical Location of Subjects</b>	<b>Industry Sector</b>	<b>Level of Analysis</b>	<b>Unit of Analysis</b>
Australia (30)	Environmentally sensitive (18)	Firm (157)	Corporate report* (108)
Canada (7)		Individual (22)	
Germany (5)	Various (111)		Firm & individual (4)
Ireland (5)			
New Zealand (9)			
Spain (5)			
UK (42)			
US (38)			
Multiple (32)			
Others (14)			

\* includes the use of secondary data (e.g. CSEAR database currently held at St. Andrew's University) which is compiled using a content analysis methodology on company annual and social reports based on a numeric count of either words, sentences, or proportion of pages that is devoted to the reporting of company social and environmental information.

<sup>^</sup> includes examining archival financial and survey data, surveying views of preparers of information and different users of information.

### *Level of analysis*

Information in Table 5 shows that 157 out of the 184 empirical CSER studies (about 85 percent) were conducted with a view to examining CSER at the level of the organisation or the firm. Such organisations include investment or financial services companies, universities, campaigning organisations, and companies engaging in production of goods, for example the extraction and refinement of petroleum. Such studies examine the possible relationships between tendency to engage in CSER and the characteristics of the disclosing firms. It is suggested that of the empirical studies that have been examined, only very few of them (about 18 percent) were conducted solely with the individuals as the focus of the study. This raised an important question on the extant knowledge in the current body of literature in CSER area regarding stakeholders' or information users' preferences and information needs. Studies that were conducted from a stakeholder's perspectives will be examined in greater details in a separate section that follows.

### *Unit of Analysis*

In the study of CSER, studies that are based on the analysis of company annual reports seem to have informed much of the existing body of literature. Many researcher in the CSER area regard the company annual report as a discrete unit that is observable and measurable, elements of which are coded and counted for the purpose of informing an analysis in empirical studies of CSER (Unerman 2000). The information in Table 5 shows that 108 studies (about 59 percent) were carried out employing an approach that involves analysing the contents of company annual reports. Content analysis of corporate reporting involves the measuring of CSER in terms of the number of characters, words, or sentences, appearing mainly in company annual reports as well as the application of a predetermined coding scale to represent

researchers' judgment of the quality of the reporting (Unerman 2000). While it has been a popular approach and has produced many influential studies over the years (Aerts and Cormier, 2009; Archel et al., 2009; Chen and Bouvain, 2009; Islam and Deegan, 2008; Perego, 2009; Tate et al., 2010; Tilt, 2008), such a method is not without its shortcomings. Possible limitations associated with a research approach based on content analysis include, inter alia, the measuring of CSER in terms of number of characters, words, or sentences may result in non narrative disclosures being ignored (Unerman 2000). Also, many researchers have assumed company annual reports to be the de facto medium in CSER (Deegan and Rankin 1999, Magness 2006, Neu et al. 1998, Rockness and Williams 1988, Tilt 1994, Tilt 2008) and as a result the focus was on the disclosures in company annual reports. However, an exclusive focus on annual reports is likely to show only part of the picture of CSER practices (Unerman 2000). Much empirical research suggests that social and environmental information about companies is also being disclosed via other media (Guthrie and Parker 1989, Harte et al. 1991, Moerman and Van Der Laan 2005, Roberts 1992b, Zéghal and Ahmed 1990). Therefore to capture the full picture, it is necessary to look at other media of disclosure of social and environmental information such as private social and environmental reporting, information from third parties such as information providers and the general media.

### **Issues and Themes in Relevant Studies**

CSER has been investigated using a range of conceptual and theoretical approaches. A managerial slant in existing research in CSER has been identified (Bebbington et al., 2008; Milne, 2002; Perrini, 2006; Unerman, 2008; Woodward et al., 1996) and a paucity of studies in stakeholder perspectives in social and environmental accounting observed (Owen, 2008; Owen et al., 2000). There are also studies that were undertaken from an expert's point of view aiming to examine if CSER has the potential to contribute to a more sustainable state of the world (Burritt 2002, Gray 2006a, Gray 2006b, Milne et al. 2006, Milne et al. 2009). Some of the ways to contribute towards

sustainability include companies voluntarily becoming more accountable (Adams, 2004; Fiedler and Lehman, 1995). The constructionist nature of corporate reporting (Everett and Neu 2000) is also highlighted and at times it is argued that radical changes need to be effected before any true accountability can take place (Tinker and Gray 2003).

Issues and themes emerging from the relevant studies will be discussed in terms of the following three perspectives:

- Experts' Perspective – what CSER should be about
- Firms' (Managerial) Perspective – why would there be a need to report
- Stakeholder (Non-Managerial) Perspective – why would CSER matter to them

#### Experts' Perspectives

#### Sustainability

The interests regarding companies engaging in the reporting of non financial information stem from a much wider concern regarding a global sustainability crisis. As pointed out in a seminal publication, the extent of human impact that has been accelerated by the development of capitalism has taken its toll on the natural environment (Elkington, 1997, p.20). Such concerns that have been brought about by the impact of human and corporate activities on the environment are reiterated in the Stern Review (2006) that calls for an examination of the relationship between humans and the natural environment (Stern, 2006). It is suggested in extant research that CSER can be a way for firms to discharge corporate accountability as well as accountability toward the environment (Elkington, 1997; Gray et al, 1996; Hopwood et al, 2005).

A perceived threat of corporate activities to the environment as well as the potential of corporate reporting to mitigate corporate impact may have stimulated research interest in this area at the first place (Jones, 2010).

However there are different views as to the usefulness of corporate reporting in mitigating corporate impact on the environment and in supporting sustainable development as a broader concern. Sustainability is taken to mean a desired state, and sustainable development is the process through which that state is attained (Gray 2006a). Sustainable development is commonly defined as development which meets the needs of the present without compromising the ability of future generations to meet their own needs (UNEP 1987). Some researchers tend to oppose environmental accounting and auditing, and the disclosure and the reporting of information is generally being regarded as insignificant in terms of its potential in rendering impact on sustainability, which is a much wider concern (Mauders and Burritt 1991, Gray 2006a). They find it inappropriate to value the environment (Mathews, 1997b), or more generally speaking, they find sustainability a concept very difficult to operationalise. Sustainability is a planetary if not a spatial concept whose application at the organisational level is difficult at best (Gray and Milne 2002). Furthermore some researchers hold the belief that any further growth of human activities will only lead to destruction due to the inherent ecological limits (Milne et al, 2009), implying that any efforts at sustainability reporting would quite likely be futile.

There are also researchers who see the possibility of accepting that sustainable development can be built on the current political economy and the current financial reporting paradigms. In that case sustainable development is a relative rather than an absolute theoretical concept (Jones, 2010). This implies that sustainable development can be examined without polarisations (Hopwood et al., 2005), which is consistent with earlier ideas of human being's relationship with the natural environment (Colby, 1991). The idea of maintaining a steady state or sustainable societies can be seen as a possible middle ground (Milne et al., 2009). In that case sustainable development can be seen as a pragmatic compromise between the needs of the natural environment and the importance of economic growth (Gray, 2010b). A step forward is to identify sustainable development with growth, of which economic growth "is seen as part of the solution...increased information, changing values...are the best means to achieve sustainable development" (Hopwood

et al., 2005, p.42). It is suggested that communication from companies on sustainable development can be part of an engagement to resolve economic production / expansion and perceived ecological limits. Sustainability reporting can be used to show that companies adhere to ecological values (Everett and Neu, 2000; Livesey and Kearins, 2002) which may increase financial return and reduce risk for shareholders (Milne et al., 2009). In fact it has been pointed out that a feasible way to proceed forward with firms discharging accountability towards sustainability is to accept that the issue is rooted in current economic, social and political conditions, under which practical environmental indicators, such as sustainable performance indicators, can be operationalised (Jones, 2010).

There is the idea that companies should engage in reporting to stakeholders beyond the conventional financial bottom line: they should report on three bottom lines that matter to the planet as a whole, namely the social, environmental and economic bottom lines. It is suggested that “triple bottom line” (TBL) reporting is a way to help firms attain sustainable development (Elkington, 1997, p.73). Such a view takes into consideration the importance of firms discharging corporate accountability via reporting (Gray et al., 1996) and implies that sustainability can be achieved through corporate reporting. Such a view is not dissimilar to the view of Hopwood et al. (2005) that increased communication from companies can help achieve sustainable development. In this way companies’ sustainability discourse can be integrated with their business discourse and a “good for the environment and business position” can be put forward (Tregidga, and Milne, 2006, p.231). However it has also been pointed out that it can be very challenging to attain sustainable development because it confronts the basic economic model of the world that runs through conventional accounting (Tinker and Gray 2003). It is observed that many reports titled sustainability reports include little or no financial or economic information and such reports differ little from social and environmental reports (ERM, 2002). Apart from including financial issues, a true sustainability report should also address ecological issues such as ecological footprint (Deegan et al, 2006a). It is stated that there are only a handful of such reports internationally (Gray, 2005). Perhaps owing to the

above challenges, questions have been raised regarding whether accountability will actually bring us closer towards sustainability (Gray, 2010a).

To date the development of stakeholder oriented sustainability reporting frameworks is mostly modelled on the TBL reporting framework as put forward by Elkington (1997). In academic research TBL reporting has been treated more or less as a synonym of sustainability reporting (Deegan et al., 2006a; 2006b; Milne et al., 2009). In practitioner literature it is recognised that the framework developed by the Global Reporting Initiative is also modelled on the TBL framework (Moneva et al., 2006). It is indicated in extant studies that the GRI framework is probably the most widely used sustainability reporting framework (EC, 2009; Isaksson and Steimle, 2009). However it is remarked that it has been very difficult to gather any evidence that suggests any possible connection between corporate behaviour (including corporate reporting) and planetary sustainability (Gray, 2010a).

Sustainability reporting can also be seen as a process through which both companies and stakeholders engage in a dialogue. Such a dialogue can help reduce financial risk for shareholders and possibly risks for other stakeholders (Milne et al., 2009). This seems consistent with an earlier view that there is a business case for sustainability (Oberndorfer, 2004). Sustainability reporting can also be part of a dialogue between firms and stakeholders who are jointly attempting to make sense of an issue (Tregidga and Milne, 2006). Alternatively such a dialogue can be a way to attain more corporate accountability through engaging with stakeholders (Owen et al., 2001). Perhaps more importantly the dialogic nature of such reporting can be an opportunity for both parties to engage in learning (Gond and Herrbach, 2006) which can potentially change behaviour, both of companies and stakeholders (Bebbington and Gray, 2001; Bebbington et al., 2007; Buhr, 2007; Solomon and Darby, 2005; Thomson and Bebbington, 2004; 2005). The transformative nature of dialogue is based on Freire's (1996) idea that a genuine dialogue should lead to a transformation of reality, including removing any obstacles between companies and stakeholders. As such accountability to stakeholders could be increased through the process of dialogue or reporting. This seems

consistent with the view that the principal concerns of CSER should be motivated primarily by desires to change current practice (Gray et al, 1995a) and that CSER is a means or a process that involves stakeholders.

The effectiveness of sustainability reporting as a form of corporate reporting in discharging accountability towards the natural environment has been contested. Sustainability reports are found to be only produced by a significant minority of the world's largest companies (KPMG, 2008). In an earlier study contradiction and confusion in sustainability reporting discourse are found and it is observed that discourse put forward by environmentalists may be marginalising the economics based discourse which underpins most Western societies (Livesey, 2002). However such a threat is seen as far from imminent in a more recent New Zealand based study which finds that the environmental element is rather weak in the sustainability discourse which is dominated by an economics based discourse (Milne et al, 2009). Also it is suggested that in sustainability reports often sustainability has been used as a misnomer to represent environmental management and an aspect of social responsibility (Gray, 2006a; 2006b; Young and Tilley, 2006)

There are also problems inherent to this developing accounting or reporting framework that might have hindered its effectiveness. First, there is no apparent way to balance performance on one dimension or pillar as suggested in Elkington (1997) against another. Sustainability reporting can often be seen as privileging the economic dimension of the three pillars of sustainable development (Livesey, 2002). Second, little is known about the basis against which firms' social performance and environmental performance can be gauged (Gray 2006a). Since, in the first place, TBL is a questionable operationalisation of sustainability, and the judgement of whether any firm is producing a satisfactory TBL report is certainly not an easy task, it is suggested that few if any firms can claim to be reporting on sustainability (Gray 2006a). It is even felt that TBL reporting cannot be considered as an approach to corporate reporting on sustainability and it has been regarded as a mis-representation of key issues on sustainability and a failure to acknowledge that the financial element will always be the major concern in



any bottom line reporting (Gray and Milne 2004). Apart from that, the vast majority of current sustainability reporting is company based and partial, where data is selectively reported so that users often find it difficult to estimate a reporting firm's social and environmental performance (Gray 2006b). It has long been observed that new models of reporting may be more suited for companies to report on the environment (Bebbington, 2007). At one point in time it was seen as necessary to mandatorily require companies to include environmental and social information in the form of narrative reporting and disclosures in annual reports but the legislative attempt was aborted in 2005 (Cooper and Owen, 2007). Lately the trend of requiring companies to engage in environmental reporting seems to have been partly revived through the Climate Change Act (HMSO, 2008a) which mandatorily requires companies to report on carbon emissions under the Carbon Reduction Commitment.

Perhaps due to the imperfections of the public corporate reporting on sustainability other means of reporting between companies and stakeholders have emerged. For example recently a stream of research on private sustainability reporting has surfaced. Private sustainability reporting is found to be institutional investors driven, mostly by concerns of financial risk and risk management and no attempt is made to frame the dialogue in a language of social responsibility or accountability (Solomon et al., 2011). This is in contrast to an earlier finding of a mixed discourse displaying concerns for risk and ethics in private reporting (Livesey and Kearins, 2002). However this more recent finding is consistent with the prediction of the growing power of institutional investors which is brought about by institutional changes (Miles et al, 2002). In fact corporate communication via private meetings is an important area of investigation in this thesis that will be explored later.

### CSE

The discussion in the preceding section centres on sustainability and TBL reporting which implicitly suggests the possibility for companies to attain some sustainability related ideal through corporate reporting (Gray, 2010b). From

this section onwards the focus of this literature review will be on studies that suggest some value of corporate reporting (for example to help companies discharge accountability) or decision usefulness for certain stakeholders who are the targets of corporate social and environmental reporting. The preceding section is focused on a specific type of corporate reporting that often can be seen as inappropriately named (Gray, 2006a; Gray, 2010a). As such from this point onwards a change of terminology that will be used in the discussion is deemed appropriate. Attention will be shifted to CSER which in some cases might have been carried out in the spirit of the TBL framework that aims to contribute towards sustainable development. Some researchers are known to have accepted that CSER can be built on the current financial reporting paradigm (Jones, 2010) perhaps by adding a green dimension to the accounts (Mathews, 1997b). Though such a view may be consistent with the assertion that the margins of accounting are always changing (Miller, 1998) it might not be construed as helpful in theory building. It has been remarked that to date there is “no universally accepted theoretical framework of corporate social accounting” (Hackston and Milne, 1996, p.78) and the need for more academic enquiry on environmental reporting is also reiterated in a more recent study (Hopwood, 2009). This literature review aims to review studies that offer insight which may ultimately contribute towards theoretical development.

### Accountability

One of the reasons for firms to engage in CSER is to discharge accountability. Accountability is construed as a relationship between any stakeholder and a firm that entails moral obligations and duties between them (Lehman, 1995, p.396). A more recent definition from AccountAbility reads “Accountability is acknowledging, assuming responsibility for and being transparent about the impacts of your policies, decisions, actions, products and associated performance. It obliges an organisation to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and be answerable to stakeholders for decisions, actions and performance. It includes the way in which an organisation governs, sets

strategy and manages performance” (AA1000, 2008b, p.6). For those who are more accepting of the current system and who are willing to operate within its confines (Tinker et al. 1991), corporate reporting is considered to be a means for a firm to be accountable and it is suggested that the notion of accountability should be extended to include company reporting of environmental information (Fiedler and Lehman 1995). There is a collection of studies on how companies can attain accountability through the disclosure of information. The discharge of accountability is predicated on the notion that interested parties, or societal constituents, together with firms make up the political economy (Guthrie and Parker 1990, Gray et al. 1996). Researchers of this tradition see the possibility of firms using disclosures of social and environmental information to be more accountable to stakeholders (Adams 2002, Adams 2004, Adams and Evans 2004).

Thus it implies that any stakeholder will have an inalienable right to information. Historically corporate reporting is mostly construed to be an act for a firm to be accountable to financial stakeholders, but the Corporate Report of 1975 seems to have increased the general attention to a firm’s accountability towards other stakeholders as well (Bedford 1976). In other words, the notion of accountability has been extended beyond the traditional approach of attaining accountability through financial reporting to include other information such as social and environmental reporting (Fiedler and Lehman 1995). Environmental reporting is thus essential to satisfy the accountability relationship and to alter corporate consciousness (Lehman 1995). Accounting and the reporting of information can even be construed as an emancipatory concept (Gallhofer et al., 2006; Gray, 1992; Thomson and Bebbington, 2005). It can be a means to a democratic pathway (Lehman 2001) that helps to expose, enhance and develop social relationships through a re-examination and expansion of established rights to information (Gray 1992). As a result of stakeholder involvement in the clarification and the interpretation of CSER or similar organisational communication, a democratic pathway could be opened up and the role of accounting could be changed (Lehman 2001). Though CSER can be used as one of the channels of communication for companies to engage in a dialogue with stakeholders, it is recognised that it would likely be

challenging to reach a consensus that would serve the interests of all stakeholders (Unerman, 2007).

There are two broad views about the state of the political economy that involve accountability, of which the differing views of Tinker et al. (1991) and Gray et al. (1995a) can be construed as representative. Some would view society as a political economy that no true accountability to societal constituents can be attained through firms engaging in accounting practices (Tinker et al. 1991). It is because such a reporting relationship is characterised by inherent conflict and an unequal distribution of wealth and power (Archel et al. 2009), with firms being an advantaged group and many stakeholders being a collectively disadvantaged group. Since this is not a contest between equals (Tinker et al. 1991), in that between the reporting firms and various stakeholder groups there exists an economic power differential, it is difficult to envisage that the dominating corporations will ever be truly accountable to many stakeholders.

There are researchers who take a less pessimistic view on CSER attaining corporate accountability towards stakeholders. Such researchers often urge others to secure a position that is close to accepting the status quo, where the ambition is neither to destroy capitalism, nor to refine, deregulate and/or liberate it (Gray et al. 1987, Gray et al. 1988). The crux of CSER examined under this tradition is that firms engage in reporting so that they will be perceived as operating legitimately by key stakeholders, or stakeholders that firms consider to be important or instrumental to their survival, so that firms can continually draw on resources that are critical to their survival (Archel et al. 2009, Deegan 2002). This is considered to be closer to the theoretical orientation that firms voluntarily report CSER in return for benefits.

There are different ways of gauging the extent of a firm having discharged accountability to stakeholders through engaging in reporting. CSER can be evaluated against extant standards, for example GRI's sustainability reporting framework to assess the quality of corporate reporting of social and environmental information. For example Adams (2004) finds that simply telling companies what they should report on is in no way adequate to ensure

accountability. CSER in this instance shows a serious lack of completeness and a lack of full disclosure in terms of corporate social and environmental impact. Similarly, Adams and Evans (2004) conclude that CSER in general displays a lack of completeness and thus a lack of credibility. Such findings are often used to justify the call for more regulations on CSER which are considered necessary to improve the quality of CSER (O'Dwyer 2000, Gallhofer and Haslam 1997, Mathews 2004a, Hess 2008). Such findings can also explain some researchers' view that there is a need for robust and independent assurance on CSER (Dando and Swift 2003), though there are also studies that find that assurance seems to have added little value to CSER in general (O'Dwyer and Owen, 2005; 2007).

There is a collection of studies that largely rests on the notion that if a firm's accountability is in question, that firm should be held accountable to stakeholders by an organisation that is external to the firm in question (Dey et al. 2009). It is often implied that those firms whose accountability is in question have not tried to proactively provide CSER on their own volition. In cases where firms are not actively engaging in CSER, an account will be created for them by others external to those firms, for example by an NGO, in the form of silent accounts or shadow accounts, or social exposé (Dey et al. 2009). The creation of silent or shadow accounts is considered to be the first step in developing CSER at full force (Mathews 2004b). Shadow accounts and silent accounts are used to characterise a range of accounting techniques that are produced by parties other than the companies that the reporting is about, for example a social and environmental account on Shell produced by an NGO with or without Shell's knowledge. Such accounts have been referred to previously by a number of different terms, including social audits (Medawar 1976), counter accounts (Gallhofer et al. 2006), silent accounts (Gray 1997), social accounts (Cooper et al. 2005), reporting-performance portrayal gap analysis (Adams, 2004), de-industrialisation audits (Harte and Owen 1987) and shadow accounts (Gray 1997). Gray (1997) proposes that social and environmental reports could be compiled using information disclosed by companies in their annual reports; it is considered that these silent accounts were part of the voice of a reporting firm.

### *A Different Perspective*

There are studies that seem to have shed only little light as to how the theorising on sustainability reporting or CSER should be advanced. It has been remarked that some of the researchers that hold a deep green position (rejecting the value of corporate reporting in attaining sustainability due to the incompatibility of economic growth and ecological limits) have moved on from environmental accounting to sustainability in general (Mathews 1997b) and research of that nature is beyond the scope of this thesis. The position of the deep green theorists can be compared to that of the work of critical theorists found in CSER literature (Gray et al. 1996). Critical scholars in CSER often take the view that society is full of inequalities and conflict (Tinker et al., 1991). It is stated that for researchers who accept the way that society is structured at present as a given they are in effect ignoring the inequalities (Puxty, 1991). Acknowledging the potential value for firms to engage in CSER will facilitate the use of CSER as a corporate tool for legitimation (Owen et al, 1997) but not as a challenge to the inherent inequalities in society (Cooper and Sherer, 1984). It is suggested that the philosophical underpinnings in some of the work (Everett and Neu 2000) do not seem to have contributed to any frameworks of incremental improvement (Mathews 2004b). It is because this approach to CSER often involves proposals to destabilise or reject existing systems without any accompanying implementable courses of actions and does not appear to be particularly helpful towards theory building (Parker 2005). For researchers who elect to take a less categorical view about change and society, there is a broad range of views regarding CSER that spans from accepting the status quo to aiming for fundamental change (Unerman and Bennett, 2004). However there is little evidence that any practical proposal to improve reporting practice has been put forward

### *Firms' Perspective – Why supply CSER?*

The notion that an increasing number of companies are supplying CSER is an indication that there are numerous reasons for firms to engage in such reporting. Such an increase has been observed in both academic literature and practitioner literature. It is stated that the idea of social accounting is certainly growing (Rasche and Esser, 2006) and that it is increasingly popular for firms to report on aspects of the social impact of their operations (Buhr, 2007). A report finds that 64 percent of the top 250 companies of the Global Fortune 500 provide corporate social responsibility reports (KPMG 2005). It is also reported that 37 percent of investment managers worldwide predict that socially responsible investment (SRI) performance indicators will become mainstream disclosures within five years, while 73 percent of this group predicts that these indicators will become mainstream disclosures in 10 years' time (Ambachtsheer, 2005). It seems that the growth of SRI is driving CSER and is encouraging companies to supply information. While advocates of CSER have put forward transparency, communication, and accountability as the main reasons for firms to engage in CSER, the growing number of studies on legitimacy theory suggest that CSER is often a means to attain organisational goals (Kuruppu and Milne, 2010).

It has long been recognised that no well developed theory of social disclosure exists (Trotman and Bradley, 1981, p. 355). Therefore CSER can be investigated from theoretical perspectives that are seen as useful in explaining the occurrence of CSER. An investigation of why companies engage in CSER can possibly be approached from an economic (which will be discussed in a separate section) or an ethical standpoint (Cetindamar & Husoy, 2007). Such a classification is similar to Gray et al (1995)'s suggestion that CSER can be examined in two theoretical perspectives, namely economics oriented (including studies drawing on the Positive Accounting Theoretical perspective) and social and political theories. It is suggested that in attempting to explain why companies engage in CSER many studies have employed political economy theories (Campbell et al., 2003; Collison et al., 2003; Cormier and Gordon, 2001; Darnall et al., 2009; Deegan, 2002; Deegan and Blomquist, 2006; Deegan and Gordon, 1996; Dowling and Pfeffer, 1975; Gray et al.,

1995a; Gray et al., 1996; Guthrie and Parker, 1990; Maignan and Ralston, 2002; O'Donovan, 2002; Owen et al., 2001; Tilt, 1994; 2007).

The political economy perspective sees accounting reports as social, political and economic documents which serve as a tool for firms to construct, maintain and legitimise arrangements which ultimately affect the firms' private interests (Guthrie and Parker, 1990). The perspective of political economy can be further sub-divided into two branches. The first one is much more closely related to ethical concerns and is sometimes called normative stakeholder theory. In this perspective a company is an organic organism that is a party to a social contract with other members of society (Holder-Webb et al., 2009). Part of this social contract dictates that firms should have an obligation and responsibility towards different stakeholder groups (Spence et al., 2001) and such responsibility may be discharged through corporate reporting. The idea of social contract driving corporate financial reporting has been put forward some decades ago (Ramanathan 1976) and the idea has been borrowed for corporate social reporting (Gray et al, 1988). Underpinning the idea of social contract is the need for firms to maintain a license to operate (Guthrie et al., 2006; Jenkins & Yakovleva, 2006; Little, 2001). The licence to operate is also related to the use of community resources by companies. There is a view that society provides corporations with the authority to use natural resources as well as other community resources but corporations actually have no inherent rights to these benefits (Mathews 1993). That is why companies should be accountable to society (Benston, 1982) and reporting is a way to discharge such accountability (Gray et al., 1996). This particular perspective is closely related to normative stakeholder theory which believes that all firms have unmitigated moral responsibilities towards all the stakeholders concerned (Donaldson and Preston, 1995; Freeman and Reed, 1983; O'Dwyer, 2005; Stoney and Winstanley, 2001). Thus under this perspective firms are required to engage in CSER for all stakeholders regardless of demand.

It is suggested that positive theory building is often seen to be making much more progression than normative theories (van Oosterhout, 2005) and in contrast ethical or normative theory building, in particular in the CSER area is



not seen to have advanced much. The normative interpretation of a social contract of business with society seems difficult to substantiate. Such a view claims that a firm does not have an unchallenged right to exist (Deegan et al. 2002, Mathews 1993). The social contract can be construed as the non-legislated societal expectations that are beyond the legal requirements that underpin a conventional contract (Gray et al. 1995a). The social contract can best be regarded as a quasi-contract because there is no true meeting of the minds, or consent, between those who decide to form businesses and the members of the society in which they do so. Since consent is not the basis for any alleged social responsibilities, the normative base of social contract or legitimacy theory is not considered well founded (Hasnas 1998). However, social contract can still be used as a concept to explain and predict CSER behaviour empirically. Such an application will be examined in greater details later in this chapter. In any case, the further exploration of any work along a normative vein will be beyond the scope of this thesis.

CSER can also be investigated from a political economy perspective that has a more managerial orientation. Under such a perspective generally speaking firms engage in CSER for instrumental reasons. Engaging in reporting can be a way to appease societal constituents (Idowu and Towler, 2004) and meet the needs of important stakeholders to maintain a steady flow of resources that are critical to organisational survival or to attain tangible benefits. In an earlier publication it is suggested that in corporate reporting firms often see substance as less relevant or less important than the perception of people reading the reports (Guthrie and Parker, 1990). CSER is known to be used as a marketing communication tool to augment customers' loyalty to the brands (Sweeney and Coughlan, 2008). This is congruent with an earlier view that organisational impression management is often driven by economic concerns (Hooghiemstra 2000). In a 2002 survey of top executives of multinational firms it is found that non financial measures are seen as more important in creating long term shareholder value than financial performance metrics (PWC, 2002). It seems that the financial bottom line is still an important driver in CSER.

It has been remarked that since there is increasing public interest to understanding practices of companies it is in the interest of firms to engage in reporting (Kuruppu & Milne, 2010). In particular it has been reported that indicators of success should include non financial accountability (KPMG, 2001). In other words it is generally believed that meeting the information needs and demands of stakeholders will ultimately culminate in a financially rewarding outcome for the reporting companies. The analysis of CSER under this perspective draws on institutional theory, legitimacy theory and managerial stakeholder theory. Institutions may imitate others' best practice to gain legitimacy from societal constituents while the attainment of legitimacy is often undertaken with designated stakeholders in mind.

### *Institutional Pressures*

Companies may converge on a form of CSER due to institutional pressures to follow the practice of their peers. Accounting represents one form of institutionalised practice within organisations (Covaleski et al., 1996). In general, institutional theory is concerned about the forms that firms can take and explain as to why firms in a certain area or sector may display similar characteristics and form (Larrinaga-Gonzalez, 2007) and institutional theory can be used to explain accounting rule choice (Carpenter and Feroz, 2001). It is indicated that institutional theory helps to explain accounting practice in organisations and society (Hoque & Alam, 1999) since firms may need to demonstrate their compliance with and adherence to the expectations, norms and beliefs that are valued by societal constituents in order to gain the support of society and hence attain legitimacy (Scapens, 1994). That is why in examining the external reporting practices of companies as part of the institutional practice (Rahaman et al, 2004) one should be mindful that ultimately firms are striving for a state of legitimacy and societal support. In a recent UK study it is found that companies value being included as members of the FTSE4Good index due to peer group pressure (Collison et al, 2009). To be included in the index firms are required to engage in CSER adequately.

In a case study based in Bangladesh, it is found that pressures from multinational consumers have compelled local apparel suppliers to initiate organisational communication to dispel concerns of unacceptable labour practices (Islam and Deegan, 2008). It is also remarked that in order to obtain funds from international bodies like the World Bank, some developing countries may be compelled to adopt accounting and reporting practices as required by the World Bank in order to be eligible for loans (Neu and Ocampo, 2007). In a 2004 case study it is found that managers are inclined to adopt institutional practices that will help them maintain or enhance stakeholders' perceptions of organisational legitimacy and such an inclination to imitate is also applicable to corporate social responsibility practices (Unerman and Bennett, 2004).

#### *A Quest for Legitimacy*

The study of CSER through the lenses of legitimacy theory often involves at the same time the analysis of reporting practices according to the managerial branch of stakeholder theory. It is because the targets of reporting will often be societal constituents or stakeholders that companies want to please, and specifically they would usually be stakeholders who have control over resources, making it difficult to draw a distinction between the drivers and the implications of legitimacy theory and managerial stakeholder theory (Holder-Webb et al., 2009). In any case the studying of CSER through employing the legitimacy theoretical perspective is still an underdeveloped body of literature (Deegan, 2002; Tilling, 2004; Tregidga et al., 2007). The concept that is central to legitimacy theory is social contract, suggesting that the survival of a firm is dependent on the extent that it can show that its actions are legitimate. One such action may well be by engaging in CSER (Hooghiemstra 2000). This form of social contract is a form that is weaker than the one that is being associated with normative stakeholder theory as the element of an obligation to report to all stakeholders does not seem to be present. Many researchers in the area of CSER tend to adopt the view that shareholders is only one of the many groups that contribute to companies (Balmer et al., 2007), and thus companies are required to meet the expectations of other important contributors or stakeholders as well. Reportedly the view that shareholders

have privilege over other stakeholders has been challenged (Orts and Strudler, 2002). It is suggested in a previous study that from a reporting company's perspective, the extent and the content of CSER can most successfully be explained by legitimacy theory and stakeholder theory (Reverte 2009). In other words it is to the companies' interest to provide information that supports stakeholders on which the companies depend in making decisions. In this sense there is a need to couch legitimacy theory in stakeholder terms (Holder-Webb et al., 2009).

Firms may attempt to attain legitimacy through communication or reporting. Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman 1995). It can also be seen as a resource on which a firm relies on for continued existence (Dowling and Pfeffer, 1975; O'Donovan, 2002). Such a view is consistent with the resource dependence theory which suggests that firms will strive to maintain a supply of vital resources that are critical to organisational survival (Salancik, 1979). In a more recent UK based study, findings suggest that many firms manage corporate communication such as CSER to ensure a supply of critical resources (Hasseldine et al., 2005) which confirms an assertion in an earlier study that targeted disclosures can be one of the ways or strategies to manoeuvre legitimacy (Oliver 1991). Findings in a recent study confirm that in corporate communication firms do employ CSER as legitimating strategies (Van Staden and Hooks, 2007). Legitimacy also is a key consideration in the management of risks to the reputation of firms (Bebbington et al, 2008) and firms are seen to try to attain reputational benefits through communication (Kuruppu and Milne, 2010).

In examining CSER from a legitimacy theoretical perspective it would be apposite to reiterate a distinction that has been drawn between legitimacy and legitimation (Lindblom, 1994). Legitimacy is a condition while legitimation is a process. Legitimacy exists when the value system of a firm is aligned with the value system of the society at large and any disconnection between the two may lead to a threat to the firm's legitimacy (Lindblom, 1994). What underlies

legitimacy theory is the notion of the social contract. A social institution operates in society via a social contract whether expressed or implied (Shocker and Sethi, 1974). Moreover it is also suggested that an institution must meet the twin tests of legitimacy and relevance by showing that other societal constituents require its services and that the institution has approval from those constituents (Shocker and Sethi 1974, p. 67). A similar idea is also reiterated in a later study that companies are increasingly being compelled to incur expenses to repair or prevent damage to the physical environment, and to ensure the health and safety of consumers and employees and to be mindful of the welfare of the community at large (Tinker and Niemark, 1987). In a case study of the tobacco industry, it is found that British American Tobacco uses CSER as a management strategy to attain legitimacy (Moerman and Van Der Laan, 2005). Findings in other studies suggest that firms increase CSER when faced with increased public pressure (Cho & Patten, 2007; Deegan & Rankin, 1996). In particular in a joint US Canadian study using KLD data, companies are found to be using CSER as a legitimising tool. Other empirical studies employing a legitimacy theoretical perspective also find that firms would often need to justify its existence or continued operation to the community in which it operates (Deegan, 2002; Deegan and Rankin, 1996). One mechanism for companies to attain, restore or manipulate legitimacy is through the public disclosure of information which is a form of organisational communication (Dowling and Pfeffer, 1975; Lindblom, 1994). A finding in a longitudinal study of UK companies confirms that UK companies have been engaged in the legitimating practises/ strategies as outlined in Lindblom (1994).

Lately in the study of CSER from a legitimacy theoretical perspective a new focus that centres on the effects of CSER on managing the risks to the reputation of companies has emerged (Bebbington et al., 2008). Reputation can be regarded as a more nuanced understanding of some of the attributes that can be associated with organisational legitimacy (Unerman 2008). It has been previously suggested that CSER can be seen as an outcome of as well as a part of reputation risk management (Co-operative Financial Services, 2003; Friedman and Miles, 2001; GRI, 2006; Hasseldine et al., 2005; KPMG,

2005; Toms, 2002). Bebbington et al. (2008)'s management of organisational reputation seems to be building on the idea of image restoration strategy that has been put forward earlier (Benoit, 1995). This is consistent with the idea that organisational communication, in particular in the form of CSER, may be used as a mechanism for image building (Woodward et al., 2001). Many studies may not have indicated explicitly that reputation is the driver for legitimation but legitimacy and reputation have been treated as interchangeable terms in work of accounting (Chalmers and Godfrey, 2004) as well as in social accounting (Deegan, 2002).

Findings in many extant studies seem to indicate a legitimating purpose of CSER. In an early study of the extent of social reporting of a US company over 80 years, it is found that the variation in disclosures may be associated with changing expectations from other societal constituents (Hogner 1982). In an Australian study Deegan and Rankin (1996) examine changes in the environmental reporting policies of companies around the time of proven environmental prosecutions. It is found that prosecuted companies disclose significantly more positive environmental information in the year of prosecution than any other years. Those companies also disclose more environmental information relative to companies that are not prosecuted (Deegan and Rankin, 1996), quite possibly to counter and deflect attention away from their environmental wrongs (Kuruppu and Milne, 2010). In a study of the association between CSER and the perceived concerns held by pressure groups, a positive association is found between environmental disclosures and environmental pressure group membership and that such disclosures are mostly self laudatory (Deegan and Gordon, 1996).

The propensity to engage in CSER is also being associated with general attention in society on the reporting companies. In a study of environmental disclosures of North American petroleum companies subsequent to the Exxon Valdez incident in 1989 which was one of the most serious oil spills in history, it is stated that due to the threat to the legitimacy of the entire oil industry, all the companies in the industry responded by increasing the amount of environmental disclosures in their annual reports, which is consistent with

predictions from a legitimacy theoretical perspective (Patten 1992). The change of disclosure practice around times of significant incidents that are industry specific is again observed as a strategic manoeuvre by firms in a more recent study (Deegan et al., 2000)

Media attention in particular may also lead to increased CSER. In a longitudinal study of a large Australian company, positive correlations between media attention and CSER are observed (Deegan et al., 2002). It is suggested that, inter alia, general media can be a source of information that can be relied upon. In a Canadian study of 44 companies, it is found that companies that are more reliant on communicating through press releases tend to disclose more environmental information voluntarily (Magness 2006). This confirms the finding of an earlier study on the ability of the media in focusing societal concern on corporate environmental performance and thus in increasing environmental disclosures in the annual report where positive association is found between levels of media attention and levels of disclosure (Brown and Deegan, 1998). In an interview based study in 1999 with senior executives of three Australian companies, it is found that the media is perceived as powerful in shaping public expectations and corporate reporting is one way to eradicate misconceptions perpetuated by the media (O'Donovan 1999). The effect of the general media on firms increasing the level of CSER is also examined in a more recent study where firms are found to be disclosing more information on responsible business practices as a response to increased media scrutiny (Islam and Deegan, 2010).

However in some studies CSER cannot be explained satisfactorily by applying legitimacy theory. For example in a longitudinal study of UK companies covering over 20 years, mixed results are found and legitimacy theory is not considered totally adequate in explaining CSER (Campbell et al., 2003). In a survey based study involving chief financial officers only limited support is found for the applicability of legitimacy theory (Wilmshurst and Frost, 2000). In an interview based study in Ireland involving 27 large companies, managerial motives for engaging in CSER are only sometimes found to be consistent with a legitimacy theoretical perspective. Though in an earlier US study Hogner

(1982) explains the change in the volume of disclosures as a response to a firm perceiving a change in what is expected by society, the perception accuracy of companies has been called into question. Campbell et al (2003) suggests that a firm's perception of the size of legitimacy gap affects the volume of disclosures which is a matter of perception accuracy. A relatively low level of disclosure can be attributed to the company being a poor judge of society's opinion of it. Also, apart from the possibility that some companies may not see CSER as a way to narrow or close legitimacy gaps, companies may refrain from attempting to regain legitimacy through disclosure as such attempts might be treated with suspicion, perhaps rendering them futile (Ashforth and Gibbs, 1990). Interestingly, in a recent study the idea of reduced legitimacy is put forward (Tilling and Tilt, 2010). This provides a tentative explanation for the negative relationship between CSER and stakeholder resources. Such an idea can also be found in an earlier study of the South African mining industries (de Villiers and van Staden, 2006) where reduced disclosures are observed as a legitimising strategy. It is indicated that reduced disclosures may happen when a firm changes from a phase of gaining or extending legitimacy to a phase of maintaining legitimacy. Disclosures can be seen as futile as a legitimisation effort when managers move from a defence phase to a loss phase (de Villiers and van Staden, 2006)

The mixed evidence may suggest that a legitimacy theoretical perspective may not be totally adequate in explaining CSER. However the weight of the evidence indicates that the legitimacy related motivation to engage in CSER has led to more CSER in recent years, and if increased reporting is a way to attain increased accountability (Gray et al, 1996), this could have culminated in increased accountability (Hopwood et al, 2010). Furthermore the concept of attaining legitimacy with specific stakeholders is useful in examining CSER from a managerial stakeholder perspective which will be discussed below.



### Managing Stakeholders

CSER can also be investigated by studying the choice made at the firm or organisational level with a view to meeting the expectations of important stakeholders. Under this perspective there is no stipulation as to whether information should be provided to whom, or what information should be provided. However information or reporting is seen as a way that companies are meeting the needs of stakeholders whom are seen as important enough to continued organisational survival and existence. In stating that more academic inquiry needs to take place to develop theories for corporate social responsibility, Ullmann (1985) suggests that strategic posture in light of stakeholder power provides a basis for companies to respond to demands for environmental information (Ullmann 1985). Many extant studies support the view that CSER is managed by companies strategically (Deegan and Gordon, 1996; Deegan et al., 2000; Neu et al., 1998). It is suggested that stakeholder groups will be managed according to the interest of the organisation, and the more important the stakeholder to the firm the more effort will be undertaken to manage the relationship (Gray et al., 1996). This is consistent with the view that firms may report instrumentally (Livesey, 2002) and that firms will alter their CSER practice according to their perceptions of stakeholder power (Magness 2006). In some extant studies firms are found to be more proactive and attentive towards powerful stakeholder (Bailey et al. 2000, Buhr 2002). Selectively attending to the needs of stakeholders may culminate in some effect on firms' financial performance (Reynolds et al., 2006).

The practice of CSER has been associated with firms' perceptions of stakeholder power. Firms' perceptions of stakeholder information needs that are related to measures of power are found to explain to an extent levels of CSER (Roberts, 1992b). In a longitudinal study of Canadian companies covering 10 years it is found that firms seem to be more responsive to the concerns of financial stakeholders rather than environmentalists (Neu et al., 1998). This suggests in situations when resources are limited firms would choose to meet the needs of more powerful stakeholders at the expense of

stakeholders that are seen as less important. In a Canadian study involving 44 companies it is found that companies who have a high profile do engage in more CSER when stakeholder power is high (Maigness 2006). In a more recent case study that involves a major trade association in Bangladesh, CSER is found to be influenced by the perceived demand of major international customers and CSER is employed as a tool to build up an image of enlightened labour practices and cultivate customer good will to avoid actions such as boycotts (Islam and Deegan, 2008).

### *Positive Accounting Theory Based Perspective*

For firms to engage in CSER, the above section seems to suggest economic concern is the ultimate driver. Gaining legitimacy from stakeholders is often seen as an important incentive but there are studies which focus on more tangible economic benefits. The perceived economic benefits are often construed as the best argument for a business case for firms to engage in CSER. Previous studies seem to suggest that by engaging in CSER firms can achieve better prospects in the financial market (Al Tuwaijri et al., 2004; Dowell et al., 2000; Orlitzky et al., 2003; Reynolds et al., 2006; Waddock and Graves, 1997a; 1997b).

One theoretical perspective suggests that political costs drive companies to engage in reporting. Political costs are costs that are associated with increased taxes and product boycotts (Watts and Zimmerman, 1978). Politicians have the power to influence wealth redistributions in companies through taxes, regulations and subsidies (Watts and Zimmerman 1978), and through doing so, government policy determines market structure and changes cost structure through regulations and subsidies (Schuler et al. 2002). Consequently, firms respond in different ways as coping strategies (Rehbein et al. 2009). To counter such pressure from politicians, it is suggested that companies employ devices like social responsibility campaigns, government lobbying and selection of accounting procedures to minimise reported earnings (Watts and Zimmerman, 1978, p.115). In particular, regulatory threats are considered to have driven firms to disclose information voluntarily,

as an example of adopting practices that are consistent with the aims of a broader social movement (Reid and Toffel 2009) so as to reduce the likelihood of adverse political actions and the associated political costs that are required to counter the political actions. Findings of an Australian study suggest that firms engage in CSER to forestall regulations (Deegan and Blomquist, 2006), perhaps by pacifying regulators and a similar finding is observed in a case study of the tobacco industry (Moerman and Van Der Laan, 2005). Country specific legal environments also seem to be a factor in CSER. In a 1999 study in which a cost and benefit approach is explicitly adopted, it is found that firms are more likely to engage in CSER in Canada rather than the US, as Canada is generally seen to be less litigious (Cormier and Magnan, 1999).

Firms of a certain size and in certain industries are seen as more likely to engage in CSER. Larger firms are often seen as disproportionately exposed to reputation and political costs (Watts & Zimmerman, 1986). The overall empirical evidence suggests that there is a firm size effect on CSER though the evidence may seem mixed (Cowen et al., 1987; Deegan and Gordon, 1996; Patten, 1991; 1992, Roberts, 1992b). In particular in a US study of company annual reports that involves 128 firms, findings suggest that firm size and the industrial sectors the firms are in tend to influence disclosures but profitability does not seem to have any such effect (Patten 1991). In a more recent study mixed evidence is found regarding the effect of size on reporting frequency and emphasis in the reporting but a size effect is observed on the reporting format choice (Holder-Webb et al., 2009). The evidence on industry effect is equally mixed: such an effect is not found in some empirical study (Cowan et al., 1987) but it is present in others (Deegan and Gordon, 1996; Waddock and Graves, 1997b). In a study of environmental disclosure practices in the annual reports of UK companies, it is found that oil companies disclose more compared to companies operating in other industries. In a US study Roberts (1992b) builds on the work of Patten (1991) by analysing CSER of Fortune 500 companies and finds that disclosures are positively related to the political contributions made by the company and by company size, profitability and debt to equity ratio. In another US study where environmental disclosures in the chemical industry are examined, it is hypothesised that firms

in some industries, such as the chemical industry, regardless of their profitability tend to attract public attention. The study was conducted as a follow up to the Union Carbide Bhopal Disaster in India and a possible rise in regulatory costs. Findings of the study suggest that disclosures signal lower environmental risks to investors (Blacconiere and Patten, 1994). The mixed evidence in terms of size and propensity to report might be attributed to the questionable relevance of financial size in studies of CSER. It has been suggested that the idea of firm size may be less relevant than political presence and public visibility (Gray et al., 1995a). The mixed evidence perhaps suggests empirical work could be carried out using alternative sources of data.

Some researchers are concerned that the economic and agency theory approaches to CSER are attempts to impose an economic based conception of agency onto a non economic communitarian issue (Parker 2005). It has been put forward that Watts and Zimmerman's Positive Accounting Theory can be contrasted with other theoretical perspectives that are more open, or more systems-based in orientation. Positive Accounting Theory typically considers the relationship between very few stakeholder groups: managers (agents), owners (principals), debt holders and the government, and generally ignores other stakeholder groups (Deegan 2002, van Staden 2003). Watts and Zimmerman's Positive Accounting Theory posits that the choice of accounting method and decisions regarding any voluntary corporate disclosures predicate on the assumption that managers are self-interested and their only concern is to maximise their own wealth. Apart from the threat of imminent regulation and the externally imposed political costs, it does not seem to consider other influence of the institutional superstructure. Specifically it does not consider the processes that contribute to the formation of rules, norms, and routines that guide social behaviour and their influence on firm behaviour (Deegan 2002). This particular theoretical perspective has been found to be advocating a morally bankrupt view of the world (Gray et al., 1996).

### *CSER as a Reaction to Demand for Information*

Apart from the above reasons, firms are also found to engage in CSER as a response to increasing public demand for information. A general interest to understanding the practices of companies seems to have increased (Kuruppu and Milne, 2010). Stakeholders are increasingly seen to pressurise companies to produce more information on environmental issues (ACCA, 2007). Institutional changes also mean that fiduciary duty has increased for investment managers (Kinder, 2005). The growth in socially responsible investment (SRI) seems to be driving CSER (Miles et al., 2002; Solomon and Solomon, 2006; Sweeney and Coughlan, 2008) as institutional investors demand more information, if not greater accountability (SIF, 2006). In a study based on interviewing social and environmental reporting managers in the UK, the findings indicate that investors are an important group that are targeted by managers of the reporting companies, confirming the observation in previous reports published by UNEP/Sustainability and KPMG that investing stakeholders are seen as the main targets of reporting as they are critical to firm success (Spence, 2009). In fact it is stated in an empirical study that the demand for social and environmental disclosures from mainstream institutional investors is acting as the catalyst for companies to improve the quality and quantity of disclosure (Solomon and Solomon, 2006, p.574). At the same time a demand for information also comes from other stakeholders such as consumers (Sweeney and Coughlan, 2008). The prevalence of rankings and screens also puts pressure on companies to report (Waring and Edwards, 2008) if they want to be included in a reputable index that would attest to their exemplary firm performance (Knox et al, 2005).

A demand for information implies that information is useful. One approach to gauge the usefulness of information is by examining reactions to CSER, for example by looking at the reaction of share price to CSER. The underpinnings of such an approach are derived from capital market research which is founded on the efficient markets hypothesis (EMH). EMH assumes that relevant corporate information will be absorbed into share prices without bias.

In other words relevant information will lead to a reaction in the investing community and the reaction will be captured by share price movement. In fact most early empirical studies in CSER have a focus on financial stakeholders, if not predominantly on shareholders. Early US studies find positive reaction of share price to different forms of social and environmental disclosures (Anderson and Frankle, 1980; Belkaoui, 1976; Ingram, 1978; Jaggi and Freedman, 1982). In a study where positive share price reaction is found in relation to firms showing responsibility by making available pollution control information, the idea of ethical investors is highlighted (Belkaoui, 1976). Another US study also confirms Belkaoui (1976)'s finding that the stock market reacts favourably to corporate pollution control information (Jaggi and Freedman, 1982). In a study of US firms' disclosure of socially responsible practices, a much higher volume of shares trading is observed for firms who have not signed up to the Sullivan Principles compared to firms who have signed up around the announcement date (Patten, 1990).

In studies of stock market's reaction to CSER, apart from gauging investors' reaction to information originating from the companies, some previous studies look at information stemming from non corporate sources. For example in a 1983 US study, researchers examine share price reaction to information compiled by the Council on Economic Priorities which is an organisation that provides rankings on companies' social and environmental performance. Findings suggest that the stock market is more likely to react negatively to companies identified as having low rankings (Shane and Spicer, 1983). In a study that is focused on a major environmental incident that involves US companies, a smaller stock market reaction is found for companies that have made available more comprehensive environmental information in their annual reports before the incident, compared to companies whose environmental reporting is seen as less comprehensive (Blacconiere and Patten, 1994).

In a more recent US study in which both corporate and non corporate information is examined, it is found that share price reaction is typically lower for companies who disclose negative environmental information in their annual reports, compared to companies who are seen as polluters but do not disclose

such information in their annual reports (Freedman and Patten, 2004). It has been pointed out that it might be problematic to gauge stock market reaction to CSER contained in company annual reports as it might be difficult to pinpoint with precision whether the reaction can only be attributed to the environmental information or if the reaction can possibly be attributed to other information (Lorraine et al, 2004). Indeed in a UK based study using information from a CSER database (information gathered by content analysing company annual reports) and stock market returns, no direct relationship between share returns and disclosures can be found (Murray et al., 2006). In Lorraine et al's UK based study where non corporate information is used, publicity about fines due to environmental infractions as well as commendations about environmental achievements are examined in relation to share price movement. Only limited evidence in relation to lagged market reaction to bad environmental news can be found.

It would appear that most empirical studies on CSER prior to 2000 are US based and focused on capital market reactions that are attributable to CSER and thus are rather limited in scope (Holder-Webb et al., 2009). Many US studies set out to examine the effect of CSER (including a subset that examines corporate social performance, or CSP) on corporate financial performance (CFP), typically measured in terms of accounting data, financial market data and very rarely perceptions of users of information. A fine distinction is drawn here between CSER and corporate social and environmental performance as there can be a disconnection between the two. Firm's actual social and environmental practices can be rather different from what is found in any corporate reporting. Such a situation is referred to as decoupling (Dillard et al., 2004). Firms may engage in CSER as a means to keep up appearances. In any case CSER that indicates good environmental performance may not lead to a desirable financial market outcome for firms. In a study of listed Swedish companies based on analysing quarterly financial statements, a negative relationship between environmental performance and the market value of equity is found (Hassel et al., 2005). This may suggest that companies that have a high rating in terms of environmental performance are not valued highly by investors. A review of extant US studies also

indicates mixed findings. In reviewing 109 US studies, a positive relationship between CFP and CSP can be found in 54 studies, a negative relationship is found in seven studies and the remaining studies showing mixed findings or non significant relationships (Margolis and Walsh, 2003). In the UK similar findings have been observed. In a study surveying 58 UK firms in environmentally sensitive sectors it is found that though a broad agreement that external stakeholders attach importance to environmental communication, shareholders are thought to be the least interested stakeholder group (Collison et al, 2003). The weight of the evidence suggests mixed findings and perhaps the need for an alternative approach to studying CSER.

### Stakeholder Perspective

It has been observed that CSER is a complex phenomenon that cannot be explained satisfactorily by a single theoretical framework and that perspectives informed by legitimacy theory and stakeholder theory might best be viewed as mutually enriching theories. In a review study of social and environmental accounting (SEA) research, a paucity of studies investigating stakeholders' perspectives on SEA has been observed (Owen 2008). As at 2008, the works of several authors (Gray et al. 1997, Tilt 1994, O'Dwyer et al. 2005a) were considered as the sum of the total work conducted from a stakeholder perspective in that area (Owen 2008). Stakeholders will use reliable and relevant CSER to help them make decisions. In this way information asymmetry can be alleviated and stakeholders can improve on decision making. Stakeholder theory recognises that different stakeholder groups will have different views about how a company should be managed. It is therefore important to study the views of multiple stakeholder groups, and only in this way can firms be better informed as to how to respond to the information needs of different stakeholder groups.

It has been remarked that in studying CSER, decision usefulness shall precede accountability (Solomon 2000). CSER should take stakeholder interest into account (Zadek and Raynard 1995) and stakeholders'



requirement of social and/or environmental information should be gauged (Azzone et al. 1997). The potential for social reporting to be decision useful for information users has been examined (Harte and Owen 1987), and decision usefulness is considered to be a user defined concept, as stakeholders will likely evaluate CSP and reporting differently depending on own interest (Wood 1991). A review of CSER literature supports the view that CSER should be studied along some more specific dimensions, perhaps through examining key information qualitative attributes (Lamberton 2005). For information to be valuable, first of all it has to be making a difference to users in decision making, whereas the accountability aspect in CSER studies has not satisfactorily resolved the issue of deprived information rights arising from power inequality between the various parties (Parker 2005). Several researchers have studied the value of CSER by looking at the characteristics that underpin the information, for example, completeness and comparability (Adams 2004, Adams and Evans 2004, O'Dwyer and Owen 2005, O'Dwyer and Owen 2007, Kolk et al. 2008) and relevance (Cormier et al., 2005; Lamberton, 2005). Information has to be first and foremost valuable in supporting stakeholders in making decisions. Any purported accountability relationship between a reporting entity and a non financial stakeholder may not be particularly clearly defined since the necessary contractual relationship that underlies a relationship of accountability may not be there.

There are a few studies that examine CSER from a stakeholder perspective. Such studies examine stakeholders' perceived usefulness of CSER (Deegan and Rankin 1997, Harte et al. 1991, Milne and Chan 1999, O'Dwyer et al. 2005b, Teoh and Shiu 1990) and perceived attributes in CSER (Kuruppu and Milne 2010, O'Dwyer et al. 2005b, Solomon and Solomon 2006, Solomon 2000, Tilt 1994). It has been remarked that CSER is not regarded as of much value if it is not centred on the needs of all stakeholders upon whom the accounting organisation has an impact (O'Dwyer et al. 2005b). Stakeholders' needs and preferences regarding CSER are therefore considered important. The important studies that were conducted from a stakeholder perspective will be investigated in detail in the next section.

## **User Studies: Studies Conducted from a Stakeholder's Perspective**

This section examines in detail empirical CSER studies that are conducted from a stakeholder's perspective and highlights the significant findings of those studies. Only studies that have explicitly gauged or examined the views of stakeholders are included here. In other words studies such as those that investigate the effect of accounting or disclosure variables on share price reaction have not been included. Considering the importance of corporate reporting being able to meet the needs of users of information, it is surprising that there is relatively little work that examines stakeholder perceptions of social and environmental reporting. It has been suggested in a review study (Owen 2008) that the following studies (Tilt 1994, O'Dwyer et al. 2005a, Gray et al. 1997), together with a few other recent studies (Solomon and Lewis 2002, O'Dwyer et al. 2005b, Solomon and Solomon 2006) that are representative in this area are considered as the sum of the total work conducted from a stakeholder perspective. The majority of empirical studies that have been reviewed earlier discuss what CSER should be and investigate the motivation for companies to engage in CSER but not stakeholder perceptions of CSER.

Table 6 and Table 7 provide information on 33 empirical studies that were conducted from the perspective of stakeholders in the studying of CSER. The 33 studies form part of the total number of relevant studies that have been identified in Table 1, Table 4 and Table 5. Since studies that have taken a stakeholder perspective are salient but rare, it is considered critical to review such studies in greater details. Table 6 provides information on the type and the number of subjects studied in the 33 stakeholder oriented empirical studies. Table 7 provides a summary on the type of stakeholders studied. Although the views and perspectives of different groups of stakeholders have been surveyed, it seems that most researchers were concerned with the views of investment and financial services professionals. The views of campaigning organisations or non governmental organisations (NGO) were surveyed in only seven studies, and only one from the viewpoint of consumers or procuring stakeholders. Important findings arising from those studies will be discussed in the following section.

**Table 6 – User Studies in Social and Environmental Reporting and Sample Size**

Year	Author	Respondents	Sample Size
1976	Hendricks	Investment analysts	91
1977	Benjamin & Stanga	Financial analysts	515
1977	Chenhall & Juchau	Investors	476
1978	Buzby & Falk	Mutual fund presidents	102
1979	Buzby & Falk	Chief finance officers	292
1979	Firth	Financial analysts	46
1980	Belkaoui	Bank officers & accountants	225
1981	Schreuder	Company employees	1347
1984	Firth	Financial analysts	46
1985	Rockness	Financial analysts & NGO	128
1990	Teoh & Shiu	Institutional investors	38
1991	Harte, Lewis & Owen	Fund managers	11
1992	Perks, Rawlinson & Ingram	University finance officers	26
1994	Epstein & Freedman	Investors	246
1994	Tilt	NGO	59
1996	Deegan & Gordon	NGO	22
1997	Deegan & Rankin	Shareholders & research analysts	118
1999	Chan & Milne	Investors	73
1999	Deegan & Rankin	Shareholders & analysts	118
1999	Milne & Chan	Investment analysts	50
2000	Solomon	Fund managers & NGO	267
2001	Friedman & Miles	Fund managers	14
2002	Milne & Patten	Investors	76
2002	Solomon & Lewis	Fund managers & NGO	267
2005	Cooper, Taylor, Smith & Catchpole	Students – part time employees	1735
2005a	O'Dwyer, Unerman & Bradley	NGO	8
2005b	O'Dwyer, Unerman & Hession	NGO	28
2006	Solomon & Solomon	Fund & investment managers	21
2008	Holm & Rikhardsson	Investors	98
2008	Rikhardsson & Holm	Investors	94
2009	Cho, Phillips, Hageman & Patten	Web users – consumers	102
2010	Kuruppu & Milne	Prospective employees	71
2011	Solomon, Solomon, Norton & Joseph	Institutional investors	20
<i>Total Number of Studies: 33</i>			

**Table 7 – Stakeholders Examined in User Studies**

Stakeholder*	Number of Articles
Investment or financial services professionals	26
Purchasers or consumers	1
Campaigning organisations	7
Job applicants / employees	3

\* There are four studies who studied more than one stakeholder group.

## User Studies – Decision Usefulness of CSER

Of the user studies that examine stakeholders' perceptions of the usefulness of CSER, most studies find CSER decision useful (Belkaoui 1980, Buzby and Falk 1978, Chan and Milne 1999, Chenhall and Juchau 1977, Cho et al. 2009, Deegan and Gordon 1996, Deegan and Rankin 1997, Deegan and Rankin 1999, Firth 1984, Friedman and Miles 2001, Holm and Rikhardsson 2008, O'Dwyer et al. 2005a, O'Dwyer et al. 2005b, Perks et al. 1992, Solomon and Lewis 2002, Solomon and Solomon 2006, Teoh and Shiu 1990, Tilt 1994). Some studies find that CSER is of limited or moderate usefulness for the information user (Harte et al. 1991, Kuruppu and Milne 2010, Milne and Chan 1999, Milne and Patten 2002, Rikhardsson and Holm 2008) and that CSER is decision useful but inadequate (Solomon and Solomon 2006); and that it is of low credibility and insufficient (Tilt 1994). As a result of the inadequacies of public information, private social and environmental reporting has been developing to complement public reporting (Solomon and Darby, 2005; Solomon and Solomon, 2006; Solomon et al, 2011).

The information in Table 8 that follows shows a way by which information qualitative characteristics of CSER can be used to explain the perception of value in CSER by stakeholders. Many studies examine either the potential value of CSER to stakeholder decision making (Deegan and Rankin 1997, Harte et al. 1991, Milne and Chan 1999, Teoh and Shiu 1990) or stakeholders' assessment of the presence of information attributes in CSER (Kuruppu and Milne 2010, Rockness 1985, Solomon and Solomon 2006, Tilt 1994) but not both. The former group of studies look at stakeholder perception of information needs and confirm that CSER is being considered in decision making but do not systematically examine how information needs can better be met, for example in terms of explaining the decision usefulness of information by qualitative characteristics of information (Solomon 2000), for example in terms of information being relevant (Solomon 2000) and fair and balanced (Kuruppu and Milne 2010). A few studies that examine stakeholders' assessment of the presence of information attributes in CSER

attempt to investigate information decision usefulness in terms of comparability (Solomon 2000, Solomon and Solomon 2006, Rockness 1985), reliability (Kuruppu and Milne 2010, Rockness 1985, Solomon 2000) and fairness (Kuruppu and Milne 2010), but at present only one study has encompassed most of the major qualitative characteristics of information (Solomon 2000). In that study, in examining the general value of CSER, elements of the framework for reporting financial information have been adapted for CSER, and it is recommended that the usefulness of CSER can be explained by the qualitative characteristics of information that have been used in studying information in financial reporting.

**Table 8 – Studies that examine the value of CSER and its qualitative characteristics**

	Sample Size	Perceived Usefulness	Comparable	Relevant	Credible	Sufficient	Understandable	Reliable	Faithful	Error & Bias Free	Accurate	Fair & Balanced	Timely	Complete
Deegan & Rankin (1997)	118	√												
Harte, Lewis & Owen (1991)	11	√												
Kuruppu & Milne (2010)	71				√			√			√	√		
Milne & Chan (1999)	50	√												
O'Dwyer, Unerman & Hession (2005)	28	√			√	√								
Rockness (1985)	128		√					√						
Solomon (2000)	267		√	√			√	√	√	√			√	√
Solomon & Solomon (2006)	21		√											
Teoh & Shiu (1990)	38	√												
Tilt (1994)	59				√	√	√							

In the very few studies that look at social and environmental reporting from a stakeholder perspective, studies are usually focussed on one specific stakeholder group, for example investors (Solomon and Solomon 2006), and campaigning organisations (Tilt 1994). In fact out of the 33 studies that focussed on the information needs of stakeholders as users (see Table 7), 26 of them surveyed the views of stakeholders that were related to the provision of capital to firms, for example investment analysts (Hendricks 1976), presidents of mutual funds (Buzby and Falk 1978), bank officers (Belkaoui 1980), shareholders (Deegan and Rankin 1997), potential investors (Chan and Milne 1999). Seven studies surveyed the views of campaigning organisations or environmental pressure groups (Deegan and Gordon, 1996; O’Dwyer et al., 2005a; 2005b; Rockness, 1985; Solomon, 2000; Solomon and Lewis, 2002; Tilt, 1994), and only four surveyed the needs of more than one stakeholder groups (Cho et al., 2009; Rockness, 1985; Solomon, 2000; Solomon and Lewis, 2002). To attain better understanding of stakeholders’ use of information, and considering that different stakeholder groups may have different information needs, it is vital that the views of multiple groups of stakeholders should be gauged and preferences of several stakeholder groups be examined in one study.

**Table 9 – Research Methods in User Studies in Social and Environmental Reporting**

<b>Research Methods - Data Analysis</b>	<b>Number of Articles</b>	<b>Research Methods* - Data Collection</b>	<b>Number of Articles</b>
Qualitative	6	Experiment	10
Quantitative	22	Survey instrument – questionnaire	20
Mixed	5	Interview	4

\* Including studies that employ more than one research method.

The information in Table 9 above shows that the user studies on the information needs of stakeholders that have been examined in this review represent a mix of qualitative and quantitative studies, with 22 studies adopting quantitative research methods, thus showing a bias towards quantitative methods. In addition, 20 out of the 33 studies have used questionnaires as the survey instrument to collect data for analysis, with 16 of the 20 studies applying closed ended questions in the form of Likert scales.

The average sample size of the user studies is 159. Studies adopting a quantitative methodology with a sample size close to 300 or above are mostly US based studies that were carried out before the 1980s that typically involve the sending of postal questionnaires to potential respondents. Looking at the trend portrayed by the studies reviewed, Cooper et al. (2005) is clearly an exception since it has a sample size of 1,735. Cooper et al.'s (2005) study of the experience of university students in Glasgow engaging in part time employment while pursuing full time education concurrently is meant to be an innovative form of social accounts (Cooper et al. 2005). A social account in this context is an account of the experience of engaging with organisations by less economically powerful stakeholders, an account provided independent of the organisations by external parties. The external and thus more reliable account will help engender a more just society. In any case the sample size in Cooper et al. (2005) seems to be an outlier. On the whole, studies that were based on a methodology that employed interviews (Friedman and Miles 2001, O'Dwyer et al. 2005a, Solomon and Solomon 2006) usually had a smaller sample size. More quantitatively oriented studies had larger samples (Benjamin and Stanga, 1977; Buzby and Falk, 1979; Chenhall and Juchau, 1977; Schreuder, 1981; Solomon, 2000; Solomon and Solomon, 2006). Studies that mostly conducted questionnaire surveys (Deegan and Rankin 1997, Deegan and Rankin 1999) had a sample size that is in between the two extremes. This seems consistent with the resource requirements associated with the different research methods used. Most studies that were carried out since mid 1990s were studies that used either an experimental survey approach (Chan and Milne 1999, Milne and Patten 2002, Holm and Rikhardsson 2008, Rikhardsson and Holm 2008, Kuruppu and Milne 2010) or employed



interviews (Friedman and Miles 2001, O'Dwyer et al. 2005a, Solomon and Solomon 2006), usually with a sample size below 100. In any case, an identifiable trend in sample size in CSER user studies carried out in the past two decades is that the sample size is typically below 100. Taken together with the observation in the last paragraph where the views of multiple stakeholder groups should be studied, a study that includes a more substantial sample size seems apposite.

The relative paucity of user studies in the CSER area has warranted an examination of the need to conduct an empirical study that examines the perceptions and preferences of multiple groups of key stakeholders who use CSER. Consistent with the view that CSER can shadow corporate financial reporting in terms of adopting the reporting framework of information qualitative characteristics (Solomon 2000), it seems apposite that a study that encompasses both stakeholders' perceptions of the decision usefulness of CSER and stakeholders' perceptions of the qualitative characteristics in CSER should be conducted.

## Conclusion

In this section the major findings of this review will be reiterated and the implications of those findings for future research will be discussed. There are several key findings arising from this review. First, many studies were conducted from the perspective of the management of the reporting companies, and in comparison, very few studies were conducted from a stakeholder perspective. Second, many empirical studies have adopted a methodology that involves studying activities at the level of the firm, collecting and analysing data extracted from company annual reports. Third, of the few studies that examine CSER from a stakeholder or user's perspective, only the views of investing or financial services professionals were sought. To complement existing work and enrich the body of literature, research in CSER can also be conducted in a more user focused direction with less focus on analysing company generated reporting.

The phenomenon of companies reporting CSER can be studied from the perspective of the information supplying entities and the stakeholders who use such information to support decision making. A user need based approach was endorsed in 1975 for corporate reporting (Bedford 1976) but as at 2010 there still exists a relative paucity of studies that are based on stakeholders' perspectives. The majority of studies attempted to explain as to why firms are motivated to supply CSER, perhaps because that could possibly lead to a lower political cost (Deegan and Hallam 1991), to pre-empt regulatory threats (Reid and Toffel 2009), and to attain legitimacy (Aerts and Cormier 2009) by using a content analysis methodology. It has been remarked that fieldwork studies that venture beyond the confines of a legitimacy based approach have more to offer (Owen 2008). There is relatively very few existing work that examines CSER from a stakeholder perspective, though CSER has been found to contribute towards stakeholder decision making. Investigating CSER in terms of its value in supporting stakeholder decision making seems more relevant than ever as it has been observed that a greater demand for CSE information that supports

stakeholder decision making has brought about more reporting. A demand for information implies its decision usefulness.

There are very few existing studies that examine the perceptions of stakeholders regarding either the value of CSER or the information qualitative characteristics of such reporting. A review of the stakeholder oriented studies in the previous section indicates that, inter alia, most of the stakeholder studies seem to have focused on gauging the views of economically more powerful stakeholder groups and the effect of CSER on investment decision behaviour (Belkaoui, 1980; Chan and Milne, 1999; Hendricks, 1976; Holm and Rikhardsson, 2008; Milne and Chan, 1999; Milne and Patten, 2002; Rikhardsson and Holm, 2008). Among those stakeholder studies, the only notable exception is the study that employs an investment research set up to see if CSER affects the decision of potential employees (Kuruppu and Milne 2010). Consistent with a previous finding that the views of less heard of stakeholders regarding SER should be sought (Solomon and Darby 2005), a study that systematically examines the determinants of the value of CSER of different stakeholder groups and stakeholder perceptions on information qualitative characteristics will add to the existing literature.

#### *Towards an Agenda for Future Research – Theory Building*

It is suggested that an all encompassing unitary explanatory social and environmental accounting theory is not only a mirage but cannot deliver the richness of insights that is needed to explain this complex and changing field of research and action (Parker 2005). Studies in CSER have drawn on theories from a number of theoretical traditions. It is likely that this interdisciplinary research area will continue to prosper in that direction in the near future. A theoretical framework can possibly be constructed drawing on constructs in different disciplines – the instrumentality of stakeholder management and the information qualitative characteristics framework in corporate reporting. Consistent with the tradition in companies reporting financial information that the value of information is being evaluated along

dimensions of information qualitative characteristics (FEE, 2000; Solomon, 2000), a focus on how such elements of information qualities can be taken to represent the value of information to stakeholders will help build a conceptual framework for the reporting of social and environmental information. Work along this line will complement the existing reporting frameworks that have been put forward by GRI and AccountAbility.

Stakeholders' extent of use of information in social and environmental reporting or the proportion of time that they invest in information from different sources will also be studied. It will be studied in a model that emphasises accessibility to information gathering opportunities being made available by companies. By examining different stakeholder groups in one study, the phenomenon of different stakeholders having different access to information from particular sources will be drawn out. In this way, attempts can be made to theorise on the issue of availability of a particular source of information and access to such information by stakeholders.

#### *Towards an Agenda for Future Research – Methodology*

To attain better understanding of the reporting of social and environmental information, a user focused methodology that embraces the gauging of perception of the value of information beyond only one source (company annual report) and from several stakeholder groups in one study is necessary. Firms are found to disclose social and environmental information via various media. Providing CSER via annual reports or standalone social and environmental reports is only one of the many means. Annual report is far from the only medium (Guthrie and Parker 1989, Harte et al. 1991, Moerman and Van Der Laan 2005). Stakeholders have found information from other media of disclosure valuable in supporting decision making, for example information intermediaries (Healy and Palepu 2001), responsible investment indices (Walmsley and Bond 2003), external and independent assurance providers (Darnall et al. 2009) the general media (Aerts and Cormier 2009), as well as

information arising from private communication opportunities with companies (Solomon and Solomon 2006).

Research in social and environmental reporting in general can be taken one step forward if a user focused approach can be adopted. An approach motivated from the perspective of the decision usefulness of information in general to stakeholders will help redress the imbalance of the existing repertoire which is characterised by studies conducted from the reporting firms' perspective. After all, as remarked by researchers previously, CSER is not regarded as of much value if it is not centred on the needs of all stakeholders upon whom the accounting organisation has an impact (O'Dwyer et al. 2005b). Since different stakeholder groups have different objectives to attain, it is important to recognise that different stakeholder groups will likely have different information needs for decision making.

Therefore any future study should go beyond content analysing company annual reports and strive to examine stakeholders' perceptions of the value of information from other sources. Also, since few existing studies supply clear evidence as to how CSER is used by stakeholders and that most studies have failed to articulate what stakeholder groups are the intended users of the CSER (Milne and Patten 2002), any future study should be conducted with a view to examining the perceptions of information decision usefulness of discrete and multiple stakeholder groups.

The next chapter will focus on building a framework of decision usefulness of CSER through a discussion of the attributes of information, the contents of reporting and processes such as assurance that would add to decision usefulness in stakeholder decision making.

## CHAPTER 3

## **Chapter 3 – Development of Conceptual Framework**

### **Introduction**

Stakeholders require social and environmental reporting (SER) about companies to make informed decisions about investment, procuring and campaigning activities. Earlier chapters have emphasised the growing importance of SER and the demand for social and environmental information. This information can be obtained from a variety of sources including corporate reporting, private meetings with companies, third party research information providers and the general media. This raises key questions about the value that users place on information from different sources and the importance of different sources of SER to the decision making process.

The development of the conceptual framework in this chapter draws on the conclusions of the previous chapter. Stakeholders demand SER for decision making – thus it is important to understand the information needs of stakeholders to enable companies to attain better and more stakeholder oriented reporting. Decision useful information is taken to mean information that is seen as valuable to decision making by stakeholders. The value of information is determined by a combination of qualitative characteristics.

In this chapter two models are developed. The first model explores the relationship between information qualitative characteristics and the value that stakeholders place on any source of information. It is recognised that the ultimate perceptions of value of information is underpinned by a range of qualitative characteristics of information. Such a relationship has long been recognised in the framework for financial reporting. In fact it has been suggested that the financial reporting framework can be used as an infrastructure for companies to report social and environmental information (Solomon 2000).

In the second model, the relationship between the extent of use of the different types of information and their perceived availability is then explored in a second model of stakeholder decision making. Stakeholders may want to spend as much time as possible on valuable information they may not be able to do so owing to restrictions placed on information sources. In other words how important a type of SER may potentially be towards decision making depends on how much time stakeholders can spend on it, which may or may not reflect the perceived value or decision usefulness of the information.

This chapter is structured as follows. Following the introduction, the decision usefulness (value) of information will be discussed, followed by the extent of use of information. The various sources of SER and the qualitative characteristics of information or information attributes will be outlined. A set of research questions will conclude this chapter.

## **Decision Usefulness of Information**

A main conclusion of the previous chapter is that since the early 1970s limited empirical studies have been conducted to investigate the needs of stakeholders in relation to SER. Increasing public interest to understand firms' social and environmental practices has been observed which underlies a necessity for firms to meet stakeholder information needs (Kuruppu and Milne, 2010). It can even be seen as a business case for companies to meet the information needs of stakeholders who are concerned with corporate social and environmental issues (Co-operative Bank, 2007; Friedman and Miles, 2001). It is reported that 90 percent of the respondents in a study claim that their perceptions of reporting companies have been influenced by the companies' social and environmental reporting (KPMG, 2008). For companies to meet stakeholder information needs in a satisfactory way it is salient that better understanding in this area should be attained.

It has been mentioned in extant literature that CSER should be examined from a stakeholder decision making perspective. CSER is not regarded as of



much value if it is not centred on the needs of all stakeholders upon whom the accounting organisation has an impact (O'Dwyer et al. 2005b). Firms seem to have a pressing need to understand and meet stakeholder information needs (Edgley et al., 2010), perhaps because firms need to better report information with a view to "inform or influence its target audience" (Mathews, 1984, p.204). Also the gathering of information and production of reports incur costs for companies, it is only when a demand for CSER can be ascertained it will be justifiable to be asking companies to supply such information (Epstein and Freedman, 1994). It would make business sense for companies to better understand and meet stakeholder information needs.

Information is decision useful if it makes a difference in a decision (Young 2006). Many financial reporting frameworks stipulate that the fundamental objective of the reporting of corporate information is to provide information about the reporting entity that is useful to stakeholders in making decisions (see for example FASB, 2008). Earlier work suggests that the role of accounting should move from maintaining historical records to being a salient part of business decision making (Trueblood 1958). An important aspect of the Corporate Report (1975) lies in its emphasis on the salience of corporate reporting meeting users' information needs and being useful to stakeholders (Bedford 1976, Renshall 1976). Therefore information should be reported for a purpose, ultimately facilitating and supporting stakeholders in making decisions (Young 2006). The value of information is seen to be derived from its use to improve on resource allocation decisions (Kihlstrom 1974). In making decisions, stakeholders evaluate the alternatives that will eventually result in a choice among the alternatives which drives the demand for information (Libby 1981, Puxty and Laughlin 1983). Consistent with extant frameworks on the reporting of companies' financial information, since the value of information ultimately affects the quality of decisions, information users should be concerned with the value or usefulness of information. Since stakeholders draw on SER to support decision making, decision usefulness seems to be a suitable criterion for making a judgment about the value of information. This judgment of value is underpinned by the following assumptions (Williams 1987). First, accounting information is assumed to be

a description of identifiable but not directly observable entities. Such entities are objects that can be represented by information. Second, the entities are goal directed. Third, decision usefulness in relation to firms or entities is a nested concept. In other words decisions depend on the outcomes of other decisions. That is, managers report information as a response to a firm's goals, and stakeholders make decisions on the basis of the information reported by managers.

Despite the importance of understanding stakeholder information needs there is relatively little academic literature on stakeholder perceptions of SER, and when there is, much of that has a focus on why firms would report or supply CSER but not why stakeholders would demand such reporting (Brennan et al., 2009, p.823). And in studies where stakeholder perceptions are examined in most cases only investment related subjects are examined. Thus little is known about the influence of CSER beyond investment decision making (Kuruppu and Milne, 2010). It is important to recognise the need to differentiate stakeholders into more than one group in studies of stakeholder information needs (Milne and Patten, 2002). It is also important to recognise that apart from investment related decisions, stakeholders may demand CSER in order to make other decisions. For example in a survey commissioned by KPMG and Sustainability (2008), 55 percent of respondents are found to be using CSER to make consumption choice decisions and 30 percent of the respondents are found to be making public action decisions based on such information. This support the finding in an earlier study where more attention on the information needs of less economically powerful stakeholder groups should not be neglected (O'Dwyer et al., 2005a). The use of CSER beyond investment purposes is also confirmed by a finding in a more recent report published by Co-Operative Bank (2009) that the idea of ethical purchasing is well established among consumers.

For academic studies that are conducted from a decision usefulness perspective findings may seem mixed but overall they tend to suggest CSER is decision useful but inadequate. In a study that examines the use of behavioural indicators by investment analysts in decision making, it is found

that many of the subjects in the study do consider behavioural indicators in their decision making and those indicators ultimately affect their decisions (Acland, 1976). It is also found in the same study that many indicators have formed the basis of narrative interpretation of information. This seems to have confirmed a rising trend in the usefulness of narrative disclosures which culminated in the government's attempt to introduce a mandatory operating and financial review (OFR) (Solomon and Solomon, 2006). The legislative attempt was aborted but the UK Accounting Standards Board (ASB)'s Reporting Standard<sup>7</sup>: Operating and Financial Review has set out best practice principles and guidelines (Deloitte, 2010). The findings of a survey commissioned by a private investment consulting company suggest that 37 percent of investment managers predict that socially responsible investment performance indicators will become part of mainstream disclosures in five years' time, while 73 percent of the managers predict that the indicators will become part of mainstream disclosures in ten years' time (Ambachtsheer, 2005).

An early study seems to have established that investing stakeholders can reasonably be construed as users demanding some form of corporate social and environmental information. A survey questionnaire was administered to examine, inter alia, the attitudes of information users towards the availability of CSER (Buzby and Falk, 1978). The findings suggest that users do not consider the availability of information adequate. Some subsequent studies seem to suggest that the inclusion of CSER is a welcomed addition by investors. In a study of investor perceptions of the relative importance of items of disclosure, findings seem to support a strong demand for CSER (Epstein and Freedman, 1994) which in turn are consistent with findings in an earlier study where stock market reactions in relation to CSER are observed (Shane and Spicer, 1983). In a US study of the usefulness of social responsibility information to investors, results suggest that firms that do not sign up to a set of responsible business principles have higher unexpected trading volume than signing firms around the announcement date (Patten,

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<sup>7</sup> The Reporting Standard was first issued in 1993 and subsequently revised in 2003 and 2006 (Deloitte, 2010).

1990). In a survey based study in Australia that involved not just shareholders but other stakeholders as well, it was found that the subjects surveyed consider environmental information to be material to decision making (Deegan and Rankin, 1997). In a 2005 study of Swedish companies it was found that environmental information is decision relevant to investors (Hassel et al., 2005). In two other studies of investor perceptions applying a decision experiment approach CSER was found to be affecting investment decisions, and hence decision useful to investors (Holm and Rikhardsson, 2008; Rikhardsson and Holm, 2008). These more recent studies confirm the findings of other researchers that there is a significant demand for corporate environmental information (Berthelot et al., 2003).

However not all empirical studies find CSER to be decision useful. Some empirical studies have found CSER to be of limited or no decision usefulness. In a study that examines investor perceptions regarding the importance and usefulness of financial and non financial information and its effect on investor equity transaction decisions, it is found that company reputation in terms of community standing and indication of employee morale is only of moderate importance to investor decision making (Chenhall and Juchau, 1977). Similarly, in a study that employs a questionnaire survey approach to examine the perceptions of investment analysts regarding the importance of a mocked up annual report that contains corporate information on corporate social responsibility and employee matters, it is found that such information is only seen as moderately important (Firth 1979). In another study of financial analysts' perceptions it is found that they only consider corporate social and environmental information of moderate importance and no relationship is found between voluntary disclosures and the assessment of stock market risks in general (Firth 1984). Similarly in a study of ethical investors' evaluation of environmental information in company annual reports it is found that the reporting in general does not meet their information needs (Perks et al, 1992). In a rare study of the perceptions of NGO stakeholders, findings suggest that CSER is often not seen as credible and thus not very decision useful (Tilt 1994). In a more recent study employing a decision experiment approach, environmental disclosures are found to be of limited decision usefulness to

investors (Milne and Patten, 2002). In a study of institutional investors it is found that CSER may be decision useful but not adequate in supporting decision making and thus other avenues of information need to be sought (Solomon and Solomon, 2006).

There are several reasons why CSER might be of limited decision usefulness. Consistent with the suggestion of Mitchell et al (1997) that companies do not see all stakeholders as of equal salience and thus they tend to treat stakeholders differently, companies may not be inclined to engage in corporate activities such as reporting that is aimed at relatively unimportant stakeholders. Instead, they would focus on stakeholders of high salience. More salient stakeholders typically consist of shareholders, many of whom would likely be “interested in profits rather than ethics” (Campbell et al., 2003, p.576). Indeed a negative relationship between environmental performance and the market value of equity is previously found (Hassel et al., 2005). In an extant UK study it is also found that shareholders are probably the least interested stakeholder group in corporate environmental communication (Collison et al., 2003). A review study examining relationships between corporate financial performance (CFP) and corporate social performance (CSP) in 109 US studies finds that a positive relationship between CFP and CSP can only be found in 54 studies (Margolis and Walsh, 2003). The possible lack of incentive to provide quality CSER coupled with a general lack of regulation governing CSER might have resulted in CSER of limited decision usefulness.

Despite the mixed empirical results there seems to be a growing trend of demand for CSER by stakeholders. In an empirical study of the views and information needs of investment professionals, preliminary evidence seems to suggest an increasing demand for CSER (Friedman and Miles, 2001). A more recent report suggests that 85 percent of the respondents in that report state that their perceptions of companies have been altered by CSER, with 85 percent of the respondents claiming that they have developed a more positive perception of the firms. The evidence supports that CSER is actively being used in decision making. In this thesis the potential decision usefulness of

information is examined through stakeholders' perceptions of the value of information.

## **Different Stakeholder Decisions**

It has been remarked that the overall impression is that over the last 30 years, CSER has become increasingly decision useful (Solomon and Darby 2005). Recent developments in the institutional framework have emphasised the importance of SER to decision makers and external stakeholders such as institutional investors, socially and environmentally conscious customers and campaigning organisations in making decisions (Wilmshurst and Frost 2000). Such developments seem to have highlighted the importance of SER and contributed to academic interest in this particular area. A previous finding suggests that different stakeholder groups can present different interests and needs, including information needs (Neville and Menguc, 2006). Also in order to build on the suggestion that different user groups may have different perception on the materiality of different issues (FEE 2000), and by implication user needs may be different across different groups, this thesis adopts the view that stakeholders can use the same information to make different decisions.

To support the decision making of investing stakeholders, the growth of socially responsible investment needs to be supported by a similar growth of CSER. It is suggested that CSR disclosures are more heavily used by investing parties (Holder-Webb et al., 2009). According to the Social Investment Forum (SIF), between 1995 and 2005, professionally managed assets that were invested in socially responsible investment had increased from US\$639 billion to US\$2.29 trillion (SIF, 2006). Institutional investors have come under increasing regulatory, institutional and social pressures to take into consideration the social performance of companies in investment selection (Cox et al, 2004; Miles et al, 2002; Solomon, 2008). Pension funds in the UK have been subject to pressures to consider aspects of business social responsibility in investment decisions. Pension funds have to fulfil legal

requirements to state their investment principles and subsequently to identify the role of social, environmental and ethical considerations in investment planning (HMSO 1999). In 2001, Morley Fund Management announced that it would vote against the resolution to adopt the report and accounts of any FTSE 100 company that did not produce a separate environmental report (Skorecki 2001). The increasing scrutiny of social and environmental activities and impacts of companies has been creating a demand for information.

Sustainable procurement has generated much discussion that has prompted responses among governance bodies at various levels. The growth in demand for responsibly produced and sources goods has fuelled a demand for CSER (Holder-Webb et al., 2009). Companies need to be mindful of consumers' needs for product information and CSER may lead to increased brand loyalty and result in marketing advantages (Sen and Bhattacharya, 2001). In a US study it is found that most potential consumers who have been interviewed express positive attitude towards socially responsible firms (Mohr et al., 2001). It has been observed that many customers demand information from potential suppliers on their social and environmental performance before entering into agreements (Unerman and O'Dwyer, 2010). Customers or consumers are motivated to look for information that reveals aspects of products before purchase, for example, the quality of a product, and to avoid high costs associated with information seeking (Rieh and Danielson 2007, Walker and Brammer 2009). In this connection customers are expected to be mostly concerned with the quality and/or the functionalities of the products/services rather than the corporate social and environmental performance of companies per se. The World Summit on Sustainable Development in 2002 encouraged governments to promote public procurement policies that encourage development and diffusion of environmentally sound goods and services (WSSD 2002). In 2005, the UK government stated its goal to be among the leaders in Europe on sustainable procurement by 2009 (Walker and Brammer 2009).

At the same time, the increasing significance of climate change coupled with greater consumer awareness of corporate social and environmental responsibility has emphasised the reputational risk associated with poor performance. These developments have both focussed the attention and increased the power of NGOs (Brammer and Millington 2004b), which supports the finding of Tilt (1994) that CSER is decision useful to NGOs. Companies are found to be responding to pressures for a strategic approach on corporate social activities (van der Voort et al. 2009). In particular, it has been found that the strength of campaigning organisations has increased steadily over the past two decades (Brammer and Millington 2004a). These developments can be taken as evidence that CSER does possess value to external stakeholders.

There are only a few studies of CSER that were conducted from a stakeholder perspective, and most of them are extant work that examined the information needs of discrete user groups. Of the discrete user groups financial stakeholders seem to be the group whose needs are examined most often. The information need of other stakeholders is a salient issue because other stakeholders can be important users of CSER too (Arvidsson, 2010). As a response to that some studies have emerged over the years. For example, 53 NGO were surveyed regarding the adequacy and potential of CSER in meeting their information needs (O'Dwyer et al. 2005b). Specifically, they use a questionnaire of mostly closed questions on users' demand for CSER and their perception of CSER in Ireland. A finding of their 2005 study indicates that the current CSER practice is viewed negatively by users with regard to its credibility and sufficiency. In another study, 85 NGOs were surveyed and they were found not to view CSER as particularly credible or useful (Tilt 2004). The views of 21 institutional investors were examined by Solomon and Solomon (2006) who found that to most of them, CSER is considered inadequate in supporting decision making. It was previously remarked in a study that from an expert's point of view, there is a general lack of completeness and credibility in CSER for the users (Adams and Evans 2004). In any case it seems that the views of multiple stakeholder groups on the decision usefulness of CSER have not been systematically analysed in earlier



studies. It is suggested that a possible direction for future research is to examine to what extent annual report disclosures and other forms of corporate communication are used by stakeholders other than financial stakeholders (Milne and Patten, 2002)

Stakeholders use information to reduce information asymmetry and to support decision making. It is uncertainty that has prompted decision makers to look for clues, or information, that will help them evaluate decision alternatives. In other words, it is the asymmetry of information that has made information valuable. It is an explicit assumption in this study that in the real world decisions are made by individuals who satisfice, who are decidedly un-rational, but not necessarily irrational (Page 1992). This is consistent with a previous finding that information users' assessment of the quality of information is a subjective judgment that is made without perfect information (Jennings 1987)

## **Institutional Developments**

The potential for CSER to be decision useful for stakeholders has also generated interest at the institutional level. It is argued that CSER reporting standards have been emerging as a response to increasing public concern about corporate social performance (Chen and Bouvain 2009). Corporate social performance can be defined as the configuration of the principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they related to the firm's societal relationships (Wood 1991). There exists legislation as well as normative but voluntary guidance or standards whose aim is to help firms manage and present CSER. It has been put forward that a firm's fundamental economic obligation is firstly refined by laws and regulations, and secondly influenced by social expectations and norms that are not yet codified into law (Carroll 1979, Katz et al. 2001). Statute law and quasi-law (for example, voluntary codes of

practice) represent the major element in society's views on the accountability of organisations (Gray et al. 1997).

Developments in corporate reporting requirements and normative but voluntary guidance seem to have played a part in guiding the evolvement of CSER. The publication of the Corporate Report (1975) by ASSC is often seen as a seminal publication (Ferguson et al, 2011). An important aspect of the Corporate Report (1975) lies in its emphasis on the salience of corporate reporting meeting users' information needs and being useful to stakeholders (Bedford 1976, Renshall 1976), and that corporate reporting should display at least some of the qualitative characteristics such as relevance, timeliness and comparability (Smith 1996). In 1977 a green paper titled "The Future of Company Reports" was published (HMSO, 1977). Inter alia, the green paper outlined plans for companies to be accountable through reporting to not just shareholders but a broader range of stakeholders such as employees, customers and the public. However, the green paper was abandoned by the succeeding Conservative Government in 1979 (Ferguson et al., 2011). Some supranational efforts have also been observed. The publication of the Fifth Environmental Action Programme "Towards Sustainability" by the European Commission in 1992 seems to mark a shift of direction for the Community's environmental policy (Wilkinson, 1997). Inter alia, the report calls on companies to engage in reporting as a way to attain environmental sustainability. Also the Eco-Management and Audit Scheme developed by the EC in 1993 calls for companies in the manufacturing sector to manage their environmental impacts and report on issues and progress (Levett, 1996). The policy and research agenda published by the ICAEW in 1993 contains recommendations for companies to provide information on their environmental objectives, indicating certain initial interest from the professional bodies at an early stage.

In the UK, one of the major legislative milestones that have influenced the decision usefulness of CSER came about in 1999 when an amendment to the Pensions Act 1995 was enacted. As a result trustees of occupational pension schemes are required to disclose in their Statement of Investment Principles

the extent to which social, environmental and ethical issues are taken into consideration in the selection of investments ([www.uksif.org](http://www.uksif.org)). This seems to be the first time that the concept of socially responsible investment has appeared in UK law (Miles et al., 2002). The importance of actively managing risks stemming from social and environmental issues and reporting the progress of doing so externally has also been heightened by the application of some of the recommendations in a report on internal control published by the Turnbull Committee in 1999. Since December 2000 all listed companies are required to state to what extent risk, including environmental and other reputation related risk has been managed (Miles et al., 2002). This is perhaps further complemented by the establishment of FTSE4Good in July 2001. The index assesses companies in relation to their performance on environmental, social and other stakeholder related issues and such assessment is undertaken at least partly based on corporate reporting.

There are other legislative attempts in the UK that have further heightened the importance of including social and environmental issues in corporate reporting. In 2006 the Companies Act (HMSO 2006a) was enacted and as a result of that quoted companies are required to report on matters in relation to the environment, employees and the community to the extent necessary in the company annual reports. Also the Climate Change Act (HMSO 2008a) was enacted in 2008 and a draft version of the guidelines for companies to report on energy use was published in 2009 by Department of Energy and Climate Change. Companies have been required to report their carbon consumption since 2011 as part of the carbon reduction commitment energy efficiency scheme. It is expected that the extent of environmental reporting will increase. On the other hand, the Health and Safety at Work (Offences) Act that became law on 1 January 2009 has created a legal responsibility to protect the health and safety of employees and other people such as customers who may be affected by their work (HMSO 2008b). Higher penalties will be imposed on companies for conduct which creates a risk of personal injury to workers or the general public. This fosters an environment for companies to be more responsible towards employees that may culminate in the reporting of good performance or achievements in this area.

Apart from changes stemming from legislation, CSER is also subject to the influence of reporting guidelines issued by trade associations and government bodies. For example the Association of British Insurers (ABI) first issued in 2001 a set of guidelines to help companies report on social, ethical and environmental risk-related issues. Those guidelines were subsequently updated in early 2003 (Zadek and Merme, 2003) and a set of revised guidelines on Responsible Investment Disclosure was published in 2007 (ABI, 2007). At the governmental level the Department of Environment, Food and Rural Affairs (DEFRA) also published a set of Environmental Key Performance Indicators for UK Business in 2006 (HMSO 2006b). It sets out to provide guidance to companies on ways to manage and voluntarily report environmental information through using key performance indicators. There were also plans to make the Operating and Financial Review (OFR) into law in the July 2002 White Paper. The OFR which was subsequently withdrawn in 2005 would have required companies to provide a fair projection of future events that might affect business and it would have entailed a discussion of information pertaining to employment, environmental, social and community issues (Cooper and Owen, 2007). The UK Accounting Standards Board (ASB) nonetheless published a Reporting Standard: Operating and Financial Review which has set out guidelines for best practice (Deloitte, 2010).

Perhaps motivated by the desire to support user decision making through better and more comparable reporting, there also exist voluntary standards that provide guidance to companies on reporting social and environmental information. The two most discussed sets of guidelines in recent literature are the ones developed by Global Reporting Initiative (GRI) and Institute of Social and Ethical Accountability (ISEA). The *Sustainability Reporting Guidelines* of the Global Reporting Initiative (GRI) provide guidance on reporting company performance which is consistent with the TBL reporting (Elkington 1997). GRI is a co-effort of United Nations Environmental Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES). The declared mission of GRI is to elevate the practices of reporting social and environmental information to a level equivalent to that of financial reporting in

rigor, comparability, auditability and general acceptance. The GRI guidelines are meant to assist companies to report on their social and environmental performance relative to applicable codes and standards. GRI recommends that such reports be independently verified for additional credibility but the guidelines do not cover verification or assurance per se (Willis 2003). It has been reported that in some jurisdictions, for example Sweden, more and more companies are using GRI's *Sustainability Reporting Guidelines*, which have become the de-facto standard for the reporting of social and environmental information (EC 2009). On the other hand, AA1000 was launched by Institute of Social and Ethical Accountability (ISEA). It is a voluntary standard for social reporting and auditing. It also consists of a set of quality principles and of social and ethical accounting process standards. These quality principles and process standards are accompanied by guidelines that identify the relationship between the standards and act as guidance for interpretation (AA, 1999). GRI and AA1000 are the two most discussed guidelines in recent literature (Adams 2004, Adams and Evans 2004, Chatterji and Levine 2006, Göbbels and Jonker 2003, ICAEW 2004, KPMG 2005, O'Dwyer and Owen 2005, Cooper and Owen 2007, Willis 2003, Woods 2003).

## **The Extent of Use of Information**

To understand stakeholder information needs it is necessary to examine the extent of use of SER from different sources. Very little work has looked at the extent of use of SER by stakeholders towards decision making, in particular in terms of the time spent on different types of information. Stakeholders have finite time and they only spend time on information that can best support their decision making. They may identify a particular source of information that is valuable but they may not have much access to that source of information. In other words stakeholders are not able to spend as much time on valuable information as they would have desired. In this thesis the relative amount of time that stakeholders spend on SER of various sources will be examined.

To support stakeholder decision making it is important to recognise that SER from different sources may be of varying degrees of decision usefulness to stakeholders. Corporate reports as a medium of information is generally recognised to be widely available but research evidence does not suggest that they are of particularly high value in terms of supporting decision making, at least for investing stakeholders (Harte et al, 1991). Whereas for private reporting which is recognised as very decision useful (Barker, 1998; Solomon and Solomon, 2006), in particular because information arising from private meetings is timely and focused (Barker 1998). Thus a high demand for private disclosures can be expected. However a high demand for such information can never be satisfied by companies as meetings incur cost and time to arrange and provide. As such companies would exercise much discretion in making time available only for particular stakeholders (Holland, 1998a).

Extant work seems to suggest that private reporting that occurs in meetings between firms and its stakeholders are mostly relevant to the interests of financial stakeholders (Holland, 1998a; 1998b). It is found in a study that institutional investors are the major participants in private reporting (Roberts et al., 2006), and thus it should not be surprising that private reporting has its focus on the interests of shareholders. Among the various financial interests, it has been observed that socially responsible investment has been growing owing to heightened awareness of the possible effects of activities of companies on the environment and other stakeholders (McCann et al., 2003). Much empirical evidence shows that socially responsible investment has become mainstream institutional investment whose portfolios take account of aspects of environmental, social and governance issues (Friedman and Miles, 2001; Solomon, 2010). Institutional investors engage with companies with a view to encourage them to act more socially responsibly as a way to pre-empt risks arising from corporate social and environmental activities (Solomon et al., 2011). It is suggested that time, which is finite, would most likely be reserved for important stakeholders (Holland, 1998a).

In supporting the decision making needs of stakeholders, it has been suggested in extant studies that private SER meeting opportunities between

companies and stakeholders are to be rationed and to be reserved for particular groups. It is claimed in a study that companies should selectively meet stakeholder needs, depending on the extent to which the stakeholders may influence the companies' financial results (Maignan et al, 2005). This is consistent with research findings that firms tend to orient themselves to different stakeholders (Reynolds et al., 2006). It seems reasonable that companies will attempt to restrict the access of non core stakeholders to managers and top executives "to save on managerial time" (Holland, 1998b, p.56). It is because the central cost to private disclosure is senior management time, suggesting that time for senior managers is scarce (Holland, 1998a; 1998b). Further evidence is found in a later study of corporate disclosure that management time is a key cost in supplying private disclosures (Armitage and Marston, 2008). The bulk of the studies that examine private meetings and engagement between stakeholders and companies have a focus on the interests of financial stakeholders (Armitage and Marston, 2008; Barker, 1998; 1999; Holland, 1998a; 1998b; 2005; Marston, 2008). Studies that investigate private reporting in relation to corporate social and environmental information have emerged as a result of a developing awareness of the importance of managing corporate social and environmental impacts over the last decade (Friedman and Miles, 2001; Solomon et al., 2002; Solomon and Darby, 2005; Solomon and Solomon, 2006; Solomon et al., 2011) but they are still the minority in the universe of literature on corporate reporting. At the same time the volume of practitioner literature that examines communication between companies and institutional investors has been growing (Miles et al., 2001; Solomon, 2008; The Carbon Trust, 2006; Trucost, 2009).

There are extant studies that examine reporting companies' perceptions of the potential value of corporate social and environmental information to stakeholders but those studies use the term importance to represent potential information value (Cormier et al. 2004, Wilmshurst and Frost 2000). There are also studies that have examined stakeholder perceptions of the importance of corporate social and environmental information but all those studies use importance as a synonym for the potential decision usefulness of

information. For example in an early study the perceptions of the importance and the usefulness of financial and non financial information are investigated (Chenhall and Juchau, 1977), followed by studies on stakeholders' perceptions of the importance of information in company annual reports (Firth, 1979; 1984). Another early perceptual study concerning CSER investigated the perceptions of employees in Dutch companies and found that CSER is of medium importance and is decision useful (Schreuder 1981). There are some later studies of investors' perceived importance of CSER in a decision making context, including an Australian study (Teoh and Shiu, 1990) and a US study (Epstein and Freedman, 1994). Findings of the former study suggest mixed results while findings of the US study indicate a strong demand for CSER. In a UK study where the perceptions of fund managers regarding ethical investment issues and the relative importance of annual reports among all information sources are surveyed, the study's findings suggest that company annual reports are generally inadequate to support ethical decision making (Harte et al., 1991). In a more recent study of the usefulness of different categories of corporate information, analysts and fund managers are requested to provide responses according to 5 point Likert scales in terms of their perceptions of the importance of the various categories of information (Barker 1999). Similarly, in an Australian study of stakeholders' perception of the importance of environmental information it is suggested that environmental information is material to stakeholders' decision making, though it may not be the most important information (Deegan and Rankin 1997). A more recent study employing a decision experiment methodology also emphasises the importance of environmental information for short term investment decisions (Holm and Rikhardsson 2008). It seems that there is much empirical evidence to suggest that environmental information is value or useful in supporting stakeholder decision making but the issue has not been investigated in terms of the relative time spent.

In this thesis stakeholder perceptions of the decision usefulness of information will be investigated in relation to value perceptions, while the extent of use of information in terms of time spent will be examined in another chapter of data analysis that follows.



## **The Availability of Social and Environmental Reporting**

The extent that stakeholders can spend the time on information that they desire to support decision making is affected by the availability of information. The availability of different types of SER seems to vary. Some SER is generally available and is provided free of charge or for a small nominal fee. For example, information originating from the corporate reporting of social and environmental information and SER provided by the general media respectively. CSER is often provided either as a part of the company annual reports and accounts or as standalone corporate social and environmental reports. Such documents are often made generally available (Guthrie et al., 2004). SER that originates from the general media is also widely available, though providers of such information may require a small subscription fee at times. SER that is provided by a commercial research organisation, such as PIRC, EIRiS and etc, is often available only in exchange for a one time payment or a regular subscription. For SER that arises from meetings between stakeholders and companies, due to the generally high value attached to such information, the demand for such information by stakeholders will most likely exceed what companies are able to supply. As a result the availability of such information is restricted by the companies.

In terms of different stakeholders' access to SER, the major differences are found in SER stemming from research information providers and SER stemming from private meetings. For the former, financial resources are expected to be incurred only on information that stakeholders consider decision useful. For SER that arises from private meetings between stakeholders and companies, companies can be expected to make available such meeting opportunities only to those stakeholders that are seen as critical to the companies' survival. In other words, stakeholder access to information of this nature can be expected to depend on stakeholders' characteristics.

In interacting with stakeholders, including providing vital sources of information that may support stakeholder decision making, firms may apply stakeholder theory as a tool to gauge the importance of various stakeholders. Consistent with stakeholder theory, different stakeholders seem to possess different characteristics which affect their interaction with companies (Jones 1995). A firm's policy on disclosing social and environmental information must be considered in light of stakeholder power (Magness 2006). Often stakeholders that are seen as important by the managers will receive more management attention (Cooper et al., 2001). Thus only some stakeholders are being offered opportunities to attend more private meetings, a medium of information disclosure of which access is controlled when the demand for which exceeds the capacity of companies to supply. In other words SER of this particular source may be valuable but may not be accessible, with access controlled by the reporting companies. The availability of meeting opportunities seems to be restricted to a select group of stakeholders. Holland (1998a) finds that very little qualitative information is voluntarily released into the public domain, and consequently private meetings are considered necessary: the contents of the financial statements are generally well known before the private meetings. Signposted information from private disclosures seems to be more relevant to stakeholder needs.

There has been increasing academic attention on the use of stakeholder power as an attribute which informs managers in rationing scarce resources (Mitchell et al, 1997; Philips, 2004; Vos, 2003). Previous empirical studies suggest that companies may perceive different stakeholder groups to have different degrees of powerfulness (O'Dwyer et al. 2005a, Tilt 2005) and that companies will be more proactive towards more powerful stakeholders (Bailey et al. 2000, Buhr 2002) in terms of their ability to control resources that are key to company survival. The importance or salience of stakeholders can be examined with regard to the presence of relationship attributes that include power, legitimacy, and urgency (Mitchell et al. 1997). For the purpose of this study, the powerfulness of a stakeholder is defined as the extent that stakeholder has control over resources that are considered to be vital to a company's survival. Legitimacy is defined as the extent to which a

stakeholder is considered as socially accepted or socially desirable by society at large. Urgency is defined as the degree of criticality or importance of the relationship or the stakeholder's claim to a company. Since the power relatives of various stakeholders can change over time (Friedman and Miles 2002, Unerman and Bennett 2004), firms are required to continually adapt their information disclosure strategies.

## **Sources of Social and Environmental Reporting**

Social and environmental reporting stems from many sources. Most previous studies on corporate social and environmental disclosures have a focus on SER originating from corporate reporting, or CSER (Deegan and Rankin 1999, Tilt 2008). Though traditionally company reporting is considered to be the main if not the only source of communication between a company and its stakeholders, it is found to be no longer the case with the development of other media of corporate communication (Zeghal and Ahmed, 1990). Companies increasingly try to make use of a full range of media or channels that are other than corporate reporting, to get vital information across to stakeholders. Apart from corporate reporting, there are also other sources of SER, such as meetings with companies. The general media will also provide reports of SER about companies which may be of use to stakeholders such as campaigning organisations who tend to observe the actual behaviour of companies.

Entities external to companies such as responsible investment indices also provide SER about companies as third party sources of SER. Responsible investment indices are a type of representational measures that include the shares of companies that satisfy certain screening criteria (Collison et al. 2009). SER from the above two sources can either be used with convenience as digested information or be juxtaposed with CSER for comparison.

However it has also been noted that publicly available SER is not particularly useful for decision making (Adams 2004, Adams and Evans 2004, Milne and

Gray 2008, Solomon and Solomon 2006). In particular public SER has found to be highly qualitative and incomparable (Solomon and Darby 2005). Stakeholders, as a result, also seek to obtain Information from other sources. In using information different key stakeholder groups are likely to be obliged to attain organisational objectives of a different nature. It is likely that they have different information needs as well. Different information needs may be most appropriately met by information from different sources. Therefore this study needs to explore models that draw on SER from multiple sources. Illustrative examples of different types of information are shown below and then discussed.

**Table 10 – Types of Social and Environmental Reporting with Examples**

<b>Type of Information</b> <i>Information that is -</i>	<b>Examples</b>
Made publicly available by the reporting companies	Company annual reports; standalone sustainability reports; information that is available on the company's website
Provided by reporting companies in group meetings to specified groups of users	Companies to meet with groups of fund managers, analysts or other selected people
Provided by reporting companies in private meetings to specific recipients	Private one to one meetings, usually between companies and institutional investors
Provided by a third party: information intermediaries	Research information providers, e.g. EIRIS, or news service, e.g. ENDS
Provided by a third party: general media	TV, radio, Internet broadcast and print publications.

Information made available publicly by companies

Companies endeavour to communicate corporate information, including social and environmental reporting, to stakeholders mainly through company annual

reports and/or standalone corporate reports of information regarding the companies' social and environmental impacts. Most research on the reporting of corporate social and environmental information indicates that annual report is the most common medium (Deegan and Rankin 1999, Magness 2006, Neu et al. 1998, Rockness and Williams 1988, Tilt 1994, Tilt 2008). Most such studies concentrate on disclosure in the annual reports (Cowen et al. 1987, Guthrie and Parker 1990, Harte and Owen 1992, Roberts 1992a). In many jurisdictions annual reports are required by legislation and are produced on a regular basis by all companies. Using annual reports makes comparisons relatively easy (Tilt 2001). Some users will expect to see a copy of a company's social and environmental report while some will like to see a copy although they will not necessarily expect it (Dawkins and Lewis 2003). It should however be noted that SER originating from companies can be conveyed in a form other than CSER which is publicly available. For example, disclosures of CSE information can be made via private communication channels. The latter will be discussed in greater detail in the next section.

In supporting stakeholder decision making, it is suggested that public information is an important information base (Holland, 1998b, p.46) and the annual report has been identified as being central to corporate communication owing to five productive interactions between annual financial reporting and the private disclosure process (Holland, 1998a): Firstly, the annual reporting cycle has a strong influence on the timing, content, and structure of the private process. Secondly, the annual report creates a minimum disclosure benchmark for private disclosure. Thirdly, information disclosed in the private process creates novel learning opportunities for core analysts and institutions, who are expected to be able to interpret new reports and unexpected events in an informed way. Fourthly, the annual report, as an informed first layer of understanding, becomes a key means to investigate companies and understand their fundamental economic behaviour. Finally, by extending voluntary disclosure in the annual report, companies legitimise private disclosures: private meetings are more about interpreting and explaining the facts that have already been released in the public domain. Publicly available annual reports and private meetings are both parts of a wider disclosure

process (Holland, 1998a). In this way one medium of disclosure of SER seems to complement another medium.

It has been previously remarked that CSER should be seen as useful to stakeholders (Teoh and Shiu 1990). Instead of merely providing an account of information, company reporting should therefore provide relevant information, especially information that is useful in decision making (Sprouse 1963). CSER can be relied upon to support stakeholders in making decisions or performing specific actions (Teoh and Shiu 1990). To support decision making, many stakeholders strive to find accurate and valid social and environmental reporting. In one empirical study it is suggested that annual reports can possibly be perceived as an indicator of a company's attitude towards social and environmental reporting since it is usually the most widely distributed public document produced by the company (Campbell 2000).

The foundation for the ends focused and goals focused approach to supplying and using corporate information was set in 1975 when the Corporate Report was published. The view that company reporting should serve to convey decision useful information to users is underpinned in the ASSC publication of 1975 that the fundamental objective of corporate reports is to communicate information about the resources and performance of the reporting entity that is useful to those having reasonable rights to such information (ASSC 1975). Although the Corporate Report was never fully implemented in any jurisdiction it has at least to an extent influenced the setting of accounting standards and the construction of financial reporting frameworks over the years. It is stipulated by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) that there exists a common set of needs of users and the publication of a general purpose report will suffice to satisfy those needs. Others that may have specialized information needs that go beyond those common needs may command enough power over resources that are vital to the entities to demand information from the entities for added information (this issue will be further explored in the latter part of this Chapter). It has been suggested by some users that using a single set of reports to meet the needs of a wide range of users may not be

appropriate. Solutions put forward include providing different reports for different users or making available the information that users need to assemble their own reports (FASB 2008). Such proposed solutions have raised cost-benefit concerns. For example, it would greatly increase the amount of information that entities must make available. That would increase the costs of providing reports in exchange for benefits that may or may not be realised, especially if most users continue to want general purpose reports.

The accounting standard setting bodies have suggested another purpose of employing decision useful information, which is to assess the stewardship of companies. If we accept the view that finite resources, including natural resources, are only entrusted to companies by society, management is then accountable to the entity's providers of resources, the providers being society at large, for the custody and safekeeping of the resources and for their efficient and profitable use. Any assessment on the stewardship of companies can also be made in relation to users' resource allocation. However, such a view presupposes the existence of a contract between a company and society at large, which is beyond a conventional contract that is recognised formally by the legislative framework of society. Such a view of stewardship is not dissimilar from the view held by proponents of the normative branch of stakeholder theory which is underpinned by assumptions of companies as artificial creations are required to be accountable to society for their action, regardless of whether that accountability is required by society or not. As already explained in Chapter 2, the absence of any formal contractual relationship has made any further exploration of this view difficult.

#### Information provided by companies in group meetings and in private meetings

In social and environmental reporting, apart from corporate reporting, there are other sources of information from where stakeholders can draw support for decision making as above-mentioned. On reviewing some early US studies of CSER a need to look at other sources of information is observed (Holder-Webb et al., 2009). It is suggested that often shareholders are less concerned with legitimacy issues, so social and environmental disclosures

may not be found in annual reports and firms may use other avenues for such disclosures (Campbell et al., 2003). Also due to the level of sophistication of non investing stakeholders annual reports are less likely to be read and as such the proliferation of specialised environmental reports may be a response to this issue (O'Donovan 2002). From a broader perspective, it is indicated that if only corporate reports are examined, there will be a limited understanding of CSER, suggesting that all forms of information that enter the public domain should be examined as part of the accountability structure and all avenues of CSR reporting should be considered (Gray et al., 1995a).

It is stated that there are three ways through which companies communicate with stakeholders: public disclosure (for example company annual reports, standalone social and environmental reports), semi private disclosure (for example less public meetings in groups) and private disclosure (for example private one to one meetings) (Holland 2005). There are only a few research papers that have explored private social and environmental reporting (Friedman and Miles, 2001; Solomon and Darby, 2005; Solomon and Solomon, 2006; Solomon et al, 2011). Most other work concerns the private disclosure of financial information. Such channels include companies meeting with specified groups of institutional investors and analysts and private one to one meetings. In a study that is focused on financial markets, it is mentioned that to improve disclosure activities companies invest extensively in staff and top management time (Holland, 1998a). This is in contrast to an earlier finding that some companies are not seen to devote to information disclosure the careful attention and planning accorded to other corporate activities (Holland, 1998b, p.32). Companies seem content to invest time in less public forms of disclosure due to the perceived benefits of developing close relationships with important stakeholders. It is found that personal contact with senior company management takes the form of carefully planned meetings which are central to a company's strategy for private disclosure (Armitage and Marston, 2008, p.332; Barker, 1999, p.209). In fact it is stated that for a company the most important form of communication involves face to face contact with fund managers and analysts (Armitage and Marston, 2008, p.332). In private meetings companies and stakeholders can cultivate trust



and build confidence (Holland, 1998b, p.41) and stakeholders can communicate their needs to companies (Holland, 1998b, p.47). In private meetings stakeholders can obtain information on management quality. Through less public channels, information from public company reports is signposted and explained by company representatives to stakeholders. Clear information obtained in such a way makes this a unique source of information (Holland, 1998b, p.49). It is also stated that stakeholders usually prefer private one to one meetings to larger analyst meetings and usually in analyst meetings no one is motivated to ask some well researched questions (Holland, 1998b, p.47). This is confirmed by a finding in a more recent study in which group meetings are seen as valuable but not ranked as high as one to one meetings (Marston, 2008, p.33). At the same time companies can choose to alter the voluntary disclosure balance of soft information between semi public (analyst) meetings and private one to one meetings.

In providing private disclosures to stakeholders companies will not release price sensitive information (PSI). Private disclosure is explicitly designed to avoid affecting the market price in a significant or material way: information on the big picture is released and help will be given to improve fund manager and analyst understanding (Holland, 2005, p.261). Companies often place a form of words in the public domain and use the same basic words in private meetings and they manage the private dialogue around the same basic words and claim that they are “saying the same thing in public as in private” (Holland, 1998b, p.49). What stakeholders aim to obtain is soft information, that is, not price sensitive information (Al-Hawamdeh and Snaith 2005). Signposted information from private disclosures seems to be more relevant to stakeholder needs as stakeholders do not need to sift through company reporting to extract the relevant information – such relevant information is pointed out to them by the company representatives. Companies tend to provide guidelines to the effect that in specified group or private meetings they will only disclose information that is either not material or not share price sensitive information, or they will only disclose information that has been previously generally disclosed and will avoid responding to questions in a way that will entail disclosing confidential company information to pre-empt any

allegation of insider dealing (SXR-Uranium-One-Inc 2006). However opportunistic corporate behaviour in this regard has been observed (Holland, 1998b). Companies tend to increase public voluntary disclosure to allow private voluntary disclosure, since both evolve around the “same basic words” (Holland, 1998b, p.49). In fact companies will increase both public information and private information at the same time, with the former being further developed by the latter. More public reporting will stimulate questions and encourage institutional investors to “search for more information in the private dialogue” (Holland, 1998b, p.62).

Empirical evidence indicates that information obtained in meetings is valuable in supporting stakeholders in decision making (Barker 1999). Evidence shows that there is an increasing trend for stakeholders to obtain information from companies that they are concerned with through meetings with senior management and company visits, rather than drawing information from the company annual reports (Clatworthy and Jones 2008). Barker (1998) suggested that formal and direct contacts with senior company management are two of the most important sources of information for fund managers, and that annual report and accounts are the second major source of information. Also, company management is an important source of analyst information, with the company annual report acting as a source of reference (Day 1986). Company reporting, being only one of the few possible sources of information for stakeholders, bears much importance for this study.

Meetings are useful where companies can signpost less visible sources of information, such as sector specific disclosure systems to a wider set of users (Holland 2005). In other words, private meetings are used to expand stakeholder understanding of this public domain information and issues and to explore the impact of external events on corporate performance. Further findings (Roberts et al. 2006) suggest that meetings are a unique source of information for investors about company strategy, executive personalities and relationships and the quality of management, as well as providing an opportunity to track performance in relation to earlier promises (Roberts et al. 2006). This seems to echo earlier findings from Barker (1998) that meetings

with company executives are particularly important to allow fund managers to understand the strategy of the company, and to assess management's capacity to achieve the strategy. Information obtained from this context seems to be much clearer to stakeholders.

The institutional investment community is found to be active in monitoring firms through private meetings between companies and fund managers (Pendleton 2005). Fund managers and investment analysts are found to be stakeholders who have strong interest in having private meeting with companies (Clatworthy and Jones 2008). Private meetings facilitate the disclosure of information on a voluntary basis by companies to supplement information that is already available in the public as part of company reporting or general releases of information. There are mutual benefits to companies and stakeholders that arise from the private SER process (Solomon and Darby, 2005): companies use the private process to inform CSER and preempt investor surprises and they may enhance their reputation and competitive advantage by doing so. A more recent study finds that private reporting is focused on extracting information about risk and about encouraging companies to manage risks in anticipation of events (Solomon et al, 2011). Investors may benefit from the supplementary information gained through private SER. Private meetings are viewed by fund managers as their most important source of information on companies, and information exchanged at these meetings is also considered as of very high quality. Indeed, some fund managers, such as SRI managers, actively pursue positive investment strategies as the basis of investing and then attempting to influence a company on its CSER policies, which can only be facilitated through one to one meetings (Friedman and Miles, 2001). However the process of obtaining information of such high quality is seen by some as costly (Al-Hawamdeh and Snaith 2005). The cost, in terms of time spent, means that managers of the reporting entities will be selective in only offering private one to one meetings to particular stakeholders. This will be explained fuller in a section that follows.

## Information Intermediaries

Information intermediaries, or “infomediaries” in short, are defined as formal organisations that collect and distribute information about companies and social issues and who in turn provide mediated information to audiences (Deephouse and Heugens 2009). Some examples of infomediaries include professional research information provider such as EIRIS and external assurance service providers who review and attest to the CSER of companies. It is remarked that some changes in corporate governance mechanisms will complement social reporting (Hess 2007). By providing such mediated information to stakeholders, infomediaries make remote happenings become observable and meaningful to stakeholders and help stakeholders be informed of matters which they do not directly experience (Deephouse and Heugens 2009). Most of the information that users obtain is mediated through a variety of institutional and individual information sources; there are professionals who specialise as infomediaries, such as socially responsible investment rating agencies (Deephouse and Heugens 2009). Interactions take place between firms and their constituents, mediated by institutional intermediaries; an outcome of such interactions is that interpretations characterised by evaluations of firms relative to their rivals are constructed: such interpretations create preferences for some firms and by definition their products, shares and etc, over others, with favourable interpretations being a source of advantage (Rindova and Fombrun 1999). It is suggested that voluntary disclosure lowers the cost of information acquisition for analysts and hence increases their supply (Bhushan 1989a, Bhushan 1989b, Lang and Lundholm 1993). Firms with more informative disclosures have larger analyst following (Lang and Lundholm 1993). In short, firm disclosures, no matter public or private, are found to be decision useful to information intermediaries.

There is evidence that suggests that information supplied by information intermediaries is valuable in supporting stakeholder decision making (Healy and Palepu 2001). A more recent form of information intermediary is represented by responsible investment indices. FTSE established

FTSE4Good which includes companies that conduct businesses in a more socially responsible manner compared to their peers. To be included in the index companies are required to demonstrate satisfactory performance in relation to the environment, human rights and other social dimensions (Miles et al., 2002). This is consistent with the finding of a later study that firms report information because they would like to be included in a reputable index (Knox et al., 2005), since third party indices like FTSE4Good are seen as important indices that stakeholders consider when making decisions (Marquez and Fombrun, 2005). In fact it is suggested that companies feel the need and pressure to engage in reporting as they are aware that their social and environmental performance is subject to rankings and screening (Waring and Edwards, 2008). For users who find CSER decision useful, responsible indices can be regarded as a complementary source of publicly available information that supplements publicly available corporate reporting. In the capital market, inclusion in responsible investment indices is a strong signal about a firm's commitment to managing environmental and social risk (Harding 2006). The production and the quality of any CSER is often used as one component in the screening process for including or excluding companies in ethical indices (Walmsley and Bond 2003). It is observed that FTSE4Good index has excluded several FTSE100 companies simply because of a lack of information, which could have been provided in corporate social and environmental reports (Skorecki and Targett 2001). This bears strong implication for this study in that stakeholders are expected to take into consideration representational measures such as investment indices when looking for information to support decision making.

### The General Media

In this study, the general media is defined as a group of organisations who are dedicated to producing information for consumption by the general public. Some examples of information generated by such organisations include information generated in the form of broadcasts through television, radio, the Internet, as well as the printed media, for example newspapers.

Research shows that information from the general media tends to support users of such information in making decisions (Deephouse 2000, Fombrun 1996). The general media reduces information asymmetry by providing information to stakeholders: some stakeholders may not have direct experience with a company and they prefer to rely on information intermediaries such as the general media who help stakeholders make sense of companies' complex activities (Fombrun 1996). The media facilitates the distribution of information about companies and it reduces the level of uncertainty about those companies (Capriotti 2009).

Of the very few studies that investigate the value of SER about companies that is drawn from the general media, it is observed that the general media has become an important part of public life as a conduit of important information about companies (Capriotti 2009). It is suggested that stakeholders may draw on SER from the general media to formulate responses in relation to companies' social responsibility activities, for example boycotts of consumer products (King 2008). It is found in two previous studies that mass media can shape (O'Donovan, 1999) and focus (Islam and Deegan, 2010) stakeholders' expectations. Other studies suggest that the general media can be important in influencing public opinion in relation to non financial disclosures by companies (Adler and Milne, 1997; Patten, 2002; Tregidga et al, 2007). In this connection SER from the general media seems to support stakeholder decision making.

Empirical evidence from Aerts and Cormier (2009) also suggests that the general media influence public concerns and such influence on stakeholders' perceptions derives primarily from their ability to focus public attention on the issues and entities that they select to report on. This effect is particularly strong for unobtrusive issues – an issue that stakeholders have little personal contact with, and when stakeholders primarily obtain information about such an issue only from the general media (Ader 1995). Environmental issues are generally perceived as unobtrusive (Ader 1995). Therefore it is likely that social and environmental information about companies remains to be

information that needs interpreting by the general media for stakeholders. This is supported by a recent empirical finding that stakeholders consider CSER to be biased since companies only report on positive events and as a result stakeholders have more trust in newspapers about corporate environmental issues (Kuruppu and Milne, 2010).

The above discussion suggests that stakeholders tend to find SER from different sources valuable, in that SER from the various sources tend to support stakeholder decision making. In the next section the perceptions of value as explained by information qualitative characteristics will be discussed. The discussion will underlie the formulation of propositions.

## **The Qualitative Characteristics of Information**

To meet stakeholder information needs and support stakeholder decision making, some measures that enable stakeholders to assess the quality of CSER are deemed essential. Attempts to incorporate the idea of information attributes from the financial reporting framework into CSER can be found in some extant academic studies as well as practitioner literature. The measures, or elements, of reporting serve to enable stakeholders to compare reporting against some common benchmarks. The easiness of benchmarking seems to be a key consideration of making CSER comparable, and benchmarking in turn would encourage companies to disclose voluntary information (Hammond and Miles, 2004). In other words, a set of qualitative characteristics of information will enable stakeholders to assess the value or the potential decision usefulness of information.

There has been much concern whether stakeholder decision making is adequately supported by CSER. Perhaps one of the contributing factors to low perceived decision usefulness is a lack of regulation that governs CSER. As part of the theorising under the economics oriented tradition, models were created to incorporate CSER data into a financial format (Ullmann 1976) and

there is very little, if any, evidence to support that such models actually worked (Mathews 1997b). In particular, a lack of support from accounting professionals in this area seems to have at least partly contributed to a lack of environmental reporting requirements at present (Deegan et al. 1996). Social and environmental reporting in the UK is being regulated by market forces rather than top down regulations (Hammond and Miles, 2004), and a system that is subject to market forces will work effectively only if firms perceive potential repercussions for engaging in behaviour that is inconsistent with general societal values (Gray et al, 1996). More importantly this system predicated on stakeholders' ability to demand CSER and to assess CSER (Hammond and Miles, 2004), and such ability seems to be supported by evidence of growth in CSER in extant studies (Campbell et al., 2003; Mathews, 1997a; Murray et al., 2006). It is reasonable to assume that companies will find engaging in CSER rewarding only if there are common metrics for stakeholders to differentiate reporting of varying quality.

In examining the decision usefulness of information, there have been attempts in extant literature to distinguish CSER along some dimensions of information quality or value. The value and qualitative characteristics model of information also draws on the Brunswik Lens model (Libby 1981). This stipulates that users of information make decisions on the basis of the information from various sources. At the same time, none of the information qualitative characteristics alone can be expected to provide a perfect indication of the value of the information. This has implications for the specification of the model in that different users may find social and environmental reporting from different sources useful for decision making. Also, some information qualitative characteristics may be more important than the others, depending on the purpose information is being used for. For example in an early study a distinction is drawn between information that is quantitative or narrative (Wiseman 1982). In a study of perceptions of NGO users, CSER is assessed in terms of sufficiency in coverage and ease of understanding (Tilt 1994). In a study of the annual reports of Australian companies, the researchers investigate whether corporate reporting puts the companies in a favourable or not so favourable light, or whether the reporting



is more or less neutral in tone (Deegan and Gordon, 1996). In another study CSER is examined to see whether the reporting is covering a broad or narrow area and thus implying comprehensiveness of coverage (Adams et al., 1998). Reporting that is balanced and free from bias also seems a key concern in a study of Irish company executives' perceptions of CSER (O'Dwyer 2002). Similarly in a study that employed a questionnaire survey to gauge the perceptions of NGO as users of CSER, sufficient coverage of reporting was found to be a key concern (O'Dwyer et al, 2005b). In a UK study of the views and perceptions of 60 corporate interviewees, findings suggest that the quality of CSER can be assessed in terms of whether the reporting is free from bias, clear, comprehensive in terms of coverage of significant issues and comparable (Hammond and Miles, 2004). In a study of private SER in the UK it is suggested that the comparability of information is a concern for stakeholders (Solomon and Solomon, 2006). To date the study that has encompassed the broadest range of qualitative characteristics of information is Solomon (2000), in which stakeholders assessed the potential value of information along the dimensions of comparability, relevance, understandability, reliability, freedom from bias, timeliness and completeness. In a more recent study the need to examine CSER in light of qualitative characteristics is reiterated as it serves two important purposes: to enable users to form an informed assessment of the accountability of the organisation and to formulate a set of metrics to make possible future improvements of CSER (Rawlins 2009).

Frameworks have been reviewed and developed by professional bodies and practitioners with a view to better support stakeholder decision making. In 2008, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have jointly come to propose a new hierarchy of the various qualitative characteristics of information for financial reporting. An increasing interest in the elements and attributes of CSER has also been observed in practitioner literature, most notably those published by the GRI and AccountAbility. According to GRI (2006), CSER should entail characteristics such as clarity, reliability and comparability – information that displays more qualitative characteristics is considered to be more useful to

stakeholders. Information quality is important because it affects the decisions that stakeholders make. Despite claims that the quality of CSER can be measured by its qualitative characteristics, the decision usefulness of specific CSER remains largely user determined: different stakeholders may have different views on the value of a particular aspect of CSER, depending on the use to which it is to be put. Regarding the standards published by AccountAbility, both the AA1000 AccountAbility Framework Standard (1999) and AA1000 AccountAbility Principles Standard (AA1000APS) (2008) which supersedes the AA1000 (1999) publication recognise the importance of information being material, which is defined as being relevant to the decision making needs of stakeholders and information credibility. However AA1000APS (2008) is not so much about the reporting or the documentary information per se but the whole process of discharging accountability by engaging with stakeholders and responding to their concerns.

A framework that defines the decision usefulness of information is characterised by a high level of subjective judgment, and the value of information as seen by stakeholders is a perceived representation of the quality of information (Williams 1987). Information decision usefulness is user defined. Different stakeholders may have different views on the value of a particular aspect of CSER, depending on the use to which it is to be put. In other words, the exact value of information is most likely a user specific perception. Also, users of SER make decisions on the basis of the information from multiple sources. Further, it has been explicitly recognised by the standard setting bodies that the extent to which users' decisions are affected by a particular item of information will be difficult to determine and will probably be influenced by other information attributes too. In other words stakeholders will likely find some qualitative characteristics more important than the others. This bears implications for the specification of the model in that different users may find SER from different sources useful for decision making.

### Relevance

Relevance is taken to mean stakeholder perceptions of the potential usefulness of information (Schamber and Bateman 1996). Information is relevant if it influences stakeholder decisions. Relevance is defined as the quality of information to make a difference for users in decision making. Relevance seems to be regarded as the most important information qualitative characteristic in the reporting of corporate financial information, and arguably social and environmental information. It is because stakeholders should only spend time on using information that is going to affect decision making. It is suggested in a widely adopted reporting framework for corporate social and environmental information, namely the Sustainability Reporting Guidelines of GRI, that relevance is an anticipated end-state of a firm's reported social and environmental information if such information exhibits the six desirable qualities of information as suggested in the Guidelines (GRI 2006). In any case, relevance should be regarded as the driving qualitative characteristic of information in corporate reporting.

The perceptions of stakeholders on SER are gauged in a decision making context in studies that examined the value of SER from a stakeholder perspective (Teoh and Shiu 1990). In a previous study relevance is used to define the quality of environmental disclosure (Cormier et al., 2005) and in another study relevance is taken as a criterion to assessing the value of information (Danastas and Gadenne 2006). Such interpretations are very similar to the idea of relevance in various frameworks for reporting and presenting company information. Since the value of information or its decision usefulness is user defined, it is expected to differ across stakeholder groups. In other words, a given piece of information may be relevant to one stakeholder but not another. This makes relevance the most important information qualitative characteristic of all. Other qualitative characteristics in the conceptual frameworks of company reporting may be important but they only support relevance (FASB 2008). In this study relevance will be assumed to be the most salient of all information characteristics. Information can be relevant to a decision by being not very reliable or not faithful in representation (Williams 1987). In other words, it is possible to make a

decision with information that may not be very reliable, as long as the information is relevant to the decision being undertaken.

In supporting stakeholder decision making relevance seems to be the most important qualitative characteristic as the value of information is derived from its ability to influence a decision. It is consistent with the view that in corporate reporting of information, decision usefulness should take precedence over accountability (Solomon 2000). It is important to note that as suggested by FASB (2008), for financial information, it does not matter how many enhancing qualitative characteristics a piece of information displays; as long as it is not relevant to a decision it should not be considered as useful towards decision making. This bears important implication for this study. Of the various information qualitative characteristics, stakeholders can be expected to find relevance the most important information qualitative characteristic.

### Clarity

In the Sustainability Reporting Guidelines of the Global Reporting Initiative (2006), a defining quality of information is the clarity of information. Information that embodies clarity is valuable information as it readily tells stakeholders what they desire to know. Clarity has a major role in making information understandable. SER that is classified, characterised and presented concisely will likely be information that is of high clarity and thus easily understandable by users of information. SER that is easily understandable will contribute towards stakeholders' comprehension of the information's meaning.

Arvidsson (2010) found that clarity in CSR communication is important and this reinforces the findings of extant studies of the importance of users' ability to understand social and environmental disclosures in order for them to find such information useful (Tilt 1994). Danastas and Gadenne (2006) also highlight among other areas users' ability in understanding CSER in a study of the value of CSER in supporting decision making.

Empirical studies in general draw attention to the extent of users' understanding of CSER, whereas practitioner guidelines such as GRI's Sustainability Reporting Guidelines examine CSER from a slightly different light: it is suggested that CSER should be assessed along the dimension of clarity. Thus the clarity of information will be an information characteristic of interest in this study.

### Free From Bias

Being free from bias is an important quality of information. SER that is free from bias can be depended upon by users to represent faithfully what the information purports to represent or what the information could reasonably be expected to represent (FASB 2008). Information that is free from bias can be expected to reflect a faithful representation which will be valuable to stakeholders.

In the joint conceptual framework project of FASB and IASB (2008), the faithful representation of information has been put forward as the second fundamental qualitative characteristic of information. Faithful representation is defined as information faithfully representing the phenomena that it purports to represent, for such information to be considered useful. Faithful representation can be attained through presenting information that is complete and free from material or major error. Evidence suggests that CSER may not be of much use because of the perceived incompleteness of the information (Adams 2004, Adams and Evans 2004). Thus the fact that any information reported by an entity is a faithful representation of the underlying activities of the company is considered one of the two fundamental qualitative characteristics of information, an attribute that will contribute to the usefulness of information for decision making. In this research the principal element of faithful representation as proposed in the normative reporting frameworks (GRI 2006) will be discussed rather than faithful representation per se (the term being a much more contemporary invention by FASB). The characteristic of faithful representation include elements that can be construed

to denote, *inter alia*, information being free from bias or information being reliable. The dependability of information is also reinforced by balanced and unbiased reporting (Arvidsson, 2010).

Unbiased information tends to be information on which stakeholders can depend or rely. The increased reliability also contributes to the perceptions of the information being credible. However, credibility should be seen as a desired result rather than a fundamental information qualitative characteristic (FASB 2008), and as a perceptual variable but not as an objective property of information (Gradwell 2004). Tilt (1994) and Danastas and Gadenne (2006) attempt to measure the value of CSER by gauging its credibility. Credibility of information to stakeholders is an implicit end state rather than an information qualitative characteristic *per se*.

The quality of information being free from bias is also emphasised by reporting guidelines (GRI, 2006). Under GRI's guidelines, the importance of SER being free from bias is highlighted by the need to subject information to examination. Previous studies suggest that reliability is an important driver in enhancing the value of CSER, to the extent that assurance providers may be hired to verify the reported information so as to enhance any information user's confidence specifically in the information's reliability (Perego 2009, Carey et al. 2000). In considering the important role that freedom from bias plays in establishing information reliability and credibility, freedom from bias will be an information characteristic of interest in this study.

### Comprehensiveness

Comprehensiveness is taken to mean that the coverage of topics in the reporting of information is sufficient to reflect a firm's social and environmental impacts, to the extent that the information is valuable in supporting stakeholders in making decisions. A depiction of a phenomenon is sufficiently comprehensive if it includes all information that is necessary to faithfully represent the phenomena that it purports to represent (FASB 2008). In general, an omission is not considered helpful to users, as it can cause

information to be misleading or even false. In other words, information is complete if it is free from material omission, that is, omission to the extent that it will affect users in making decisions.

In previous studies of the usefulness of CSER, it has often been suggested that information that is a complete or comprehensive representation of a firm's social and environmental performance is information that is valuable in supporting stakeholders in making decisions (Adams 2002, Adams 2004, Adams and Evans 2004). Also it is found previously that completeness has been used as a criterion in assessing companies' environmental information (Walmsley and Bond 2003). Studies on TBL reporting seem to support that companies should be providing a balanced account of their environmental, social and financial performance (Deegan, 2006a; 2006b) and in general a balanced account that covers all material issues is supported by legislative and other normative frameworks, for example the Companies Act (2006), GRI's 2006 Framework and AccountAbility's 2008 Framework.

Any corporate reporting can claim to be faithfully representing the phenomena that it purports to represent if the information contained therein has attained a degree of comprehensiveness in terms of coverage. Therefore the comprehensiveness of information will be studied as an information qualitative characteristic of interest in this study according to stakeholder perception.

### Timeliness

Timeliness means having information available to decision makers before it loses its capacity to influence decisions (FASB 2008). The extent of relevant information being available on a timely basis can increase its potential to influence decisions, or be relevant to decision making. In other words, untimely information can decrease its potential usefulness. However, timeliness appears to be a characteristic that varies according to the perceptions of different users. For example, some information may continue

to be timely to some users long after the date of its initial publication because some users still find it valuable in supporting decision making.

Timeliness as an information attribute that supports stakeholder decision making is seldom examined in empirical studies explicitly. However it is suggested in a previous study that the reason for stakeholders to prefer private communication with companies is that information arising from such engagement is seen as timely, among other good qualities (Barker 1998). Apart from that there are very few studies that examine timeliness specifically as an information qualitative characteristic for CSER. For example, it has been put forward that the lack of timeliness of the data provided in a company's social and environmental report as one of the reasons for CSER assurance providers to give a qualified assurance statement or an opinion on the company information with reservation (Adams and Evans 2004). GRI (2006) has taken a not so dissimilar view on the timeliness of information, which is defined as information being available in time for stakeholders to make informed decisions. In this study, the timeliness of information will be examined as one of the important information qualitative characteristics.

### Comparability

Information is comparable if it enables users to identify similarities in, and differences between, two sets of phenomena. One of the ways to attain comparability is to use similar or the same policies and procedures in collating information and reporting, across time and across companies. It is considered that some degree of comparability should be attained by maximising the fundamental qualitative characteristics (FASB 2008). Comparability is the goal whereas consistency is a means to an end that helps in attaining the goal of comparability. Comparability is not a quality of an individual item of information but a quality of the relationship between two or more items of information. The comparability of information across entities can enhance the understandability of information. In a recent study of Swedish companies' communication strategies, the comparability of information is seen as important (Arvidsson, 2010). However it has been



suggested that the differing reporting styles have limited the comparability of CSER (Beets and Souther, 1999).

For example, if two relevant phenomena are being faithfully represented by two information reporting companies, it means that both representations should naturally be comparable, at least to an extent. In a 2006 study of the JSE socially responsible investment index in South Africa, comparability has been used as a key criterion in assessing the quality of CSER. Indeed it has been part of the Index's methodology in assessing firms' social and environmental performance (Sonnenberg and Hamann 2006). In that study, the comparability of information is taken to be an enhancing factor of a firm's CSER. The meaning of comparability in the context of being an information qualitative characteristic is almost identical to GRI's (2006) definition, which is taken to mean information should be presented in a way that enables users to analyse changes over time both within a reporting entity and across entities. Overall GRI's (2006) Framework and DEFRA's (2006) set of key performance indicators suggest that comparability is an important information attribute. AA1000 may not have explicitly stated that comparability of information is a key concern. However the standard suggests that the reporting process should be ongoing and replicable and that replicability is supported by comparability. Therefore stakeholder perception of the comparability of information is an attribute of interest in this study.

### Content of CSER

The content of CSER underpins the value of information that ultimately supports stakeholder decision making. Given that companies in the UK have been reporting social and environmental information in a largely unregulated environment, the content and the extent of CSER is characterised by much variation (Hackston and Milne 1996, Reverte 2009). It is suggested that different user groups may have different perceptions on the materiality of different issues (FEE 2000) and by implication user needs may be different across different groups. However for reasons that will be explained below it is expected that many stakeholders will be found to show a preference for

environmental information. Some stakeholders, for example NGOs who are dedicated to particular social causes, may have a slightly different preference for information. It is expected that such a difference will not have any significant effect on the findings of this study as a whole. Due to the differing decision that the various stakeholders need to make, decision usefulness of CSER is thus user defined and is subject to the different demand for information by different stakeholders.

The idea that unbiased, balanced and comprehensive reporting will increase the decision usefulness of CSER for stakeholders seems to be enshrined by legislative and other normative reporting frameworks. Overall reporting frameworks seem to be supportive of a balanced reporting of information in both the environmental and social areas but development of late may have created a bias towards mandating companies to provide environmental information. Legislative frameworks (for example Companies Act, 2006) may have outlined broad areas that companies should report on but in general they do not provide further details as to the exact ways that a balanced account can be provided by companies or what should be reported. Other normative frameworks like GRI's 2006 Framework and DEFRA's (2006) set of environmental key performance indicators (KPI) are more explicit in outlining KPI that companies can use to manage information. One of the most explicit reporting requirements stems from the Climate Change Act (HMSO 2008a) as the reporting associated with the Carbon Reduction Commitment is clearly about emissions of carbon dioxide. Though the Health and Safety at Work (Offences) Act (2008) may ultimately encourage companies to report on employee wellbeing information there is no explicit requirement to do so. Voluntary guidance such as GRI's set of reporting guidelines (2006) defines a broader area of reporting: apart from environmental information, it also recommends companies to provide information on the policies and programmes regarding occupational health and safety that have been put in place. In addition, information on occupational injuries, diseases, absenteeism and fatalities that are work related is also recommended.

Despite the stipulations regarding balanced reporting will add to the value of CSER for stakeholders, a preference for environmental information seems to have emerged over the years. Decision useful content of CSER seems to have been shaped by the more recent legislative effort on climate change and the carbon reduction commitment seems to indicate that societal attention on CSER has shifted towards environmental issues. Such a position seems to be reinforced by the suggestion that companies can create more value with less ecological impact through managing eco-efficiency (WBCSD 2000) and by GRI (2006) who has provided comprehensive guidance on how environmental information should be managed and reported. Thus it seems that corporate environmental information as compared to information on other areas of corporate reporting is what stakeholders find useful and what companies are more inclined to report presently.

There is little empirical evidence on whether stakeholders, when provided with both environmental and social information, will prefer one type over another. Evidence so far suggests that investors in general consider that good health and safety performance is an indicator of good company management. Investors are interested to find out if health and safety issues have been given due consideration and proper management in companies (Mansley 2002). Companies have been found to demonstrate their social responsiveness to the communities in which they operate through various means (Berman et al., 1999; Brammer et al., 2006; Wood and Jones, 1995). Companies increasingly invest in community or other socially oriented projects to reduce the risk of being cut off from resources, and investors seem to find communication about such corporate activities decision useful (Petersen and Vredenburg 2009). Further empirical evidence seems to suggest that firms tend to focus attention on reporting on environmental matters, followed by financial and then social matters (Gill et al. 2008). A review of academic research studies in the area of CSER shows that attention is skewed towards environmental issues. In a review of social and environmental accountability research in journals selected by Parker (2005), studies during the period 1988-2003 show that 66 percent of the papers were focused on

environmental issues, with 25 percent on social issues, and nine percent addressing both types of issues in the same paper (Parker 2005).

It has also been suggested that companies rarely proactively seek the information requirements of their report users (Azzone et al. 1997). This means there is much room to examine stakeholder information needs as CSER is becoming increasingly scrutinised as an aspect of corporate social behaviour (Hooghiemstra 2000). Extant evidence shows that companies are inclined to report on strategic issues and perhaps progress towards achieving environmental goals. In a previous empirical study, a mock environmental report was created and companies in Australia and New Zealand were surveyed on what information in the mock report they thought that stakeholders will be most interested in (Milne et al. 2000). Findings suggest that inter alia companies consider information on targets and achievements will be most useful, with stakeholders putting an emphasis on independent assurance (Milne et al, 2000), which seems consistent with a previous finding (Tilt 2007). Another finding is that various stakeholder groups seem to find elements such as future programmes and strategies in CSER useful (Azzone et al. 1997). Better understanding on stakeholders' preference for content will likely have a great impact on what information companies should provide.

The decision usefulness of CSER that only reports on policies and targets without details on achievements has been questioned. Companies are found to report on their policies, plans, targets pertaining to the environment and also the environmental management systems in place (KPMG 1999, KPMG 2002, Jose and Lee 2007). Jose and Lee's (2007) study of 200 largest companies worldwide found that only one fifth of the companies provided explanation to variances between actual performance and targets and only 16% report on actions taken in respect of eliminating variances between targets and actual performance.

Evidence shows that the way information is presented can bear an effect on stakeholder perceptions of a company's performance (Brennan et al. 2009, Hooghiemstra 2000). At present in the UK there does not seem to be much

consensus in terms of best practice reporting requirements. To date, the only specific legal guidance as to how companies should be reporting quantitative environmental information originates from the CRC Energy Efficiency Scheme user guide. The user guide stipulates that, inter alia, data on CO<sub>2</sub> emission should be reported quantitatively. The Companies Act (2006) states that environmental and employee information that is crucial to understanding a company's development or performance can be expressed by using key performance indicators (KPI); factors that support effective measurement of a company's business performance (HMSO 2006a). However no mention is made as to whether such KPI should be quantitative or qualitative or the specific areas that KPI should address. AccountAbility also supports the idea that an accountable organisation will take action to establish goals and standards against which any strategy and associated performance can be managed and judged, and to disclose credible information about strategy, goals, standards and performance to those who base their actions and decision on this information (AA, 2008a). The Reporting Guidelines for UK Business by DEFRA (2006) seems to have placed a strong emphasis on companies reporting quantitative information by using KPI. In fact, it is DEFRA's view that environmental reporting should first and foremost be quantitative (HMSO 2006b). GRI's (2006) Framework seems to see the value of both qualitative and quantitative KPI being applied by companies to manage and report CSER in relation to target, achievement and performance. Further, it appears that GRI is the only one of the few prominent guidance providers who has embraced company practices of providing broad statements of mission and relevant principles and at the same time disclosing organisational goals and performance in the form of performance indicators.

There is very little empirical evidence on stakeholder perceptions of the usefulness of CSER presented as KPIs. Existing guidelines seem to suggest that KPIs are useful in helping companies manage and present information. It has been remarked that the use of KPIs in reporting gives substance to claims of a company's commitment to corporate social responsibility (Smith 2003). KPIs, especially quantitative KPIs, are generally considered to be useful in aiding stakeholders in decision making. In this respect in terms of defining

what would make CSER decision useful, many guidelines seem to share some common ground. Guidelines from GRI, AA1000 and DEFRA all have stated to an extent principles that define useful information. However the emphases of the various guidelines on the form of reporting are quite different. For example the DEFRA guideline makes it an explicit recommendation that all KPIs should convey quantitative information to be of any use (HMSO 2006b). DEFRA considers that 80% of companies are likely to have five or fewer than five KPIs (HMSO 2006b). DEFRA's assertion seems consistent with the caveat on budget constraint, which is applicable to both information suppliers and information users. It is suggested that performance indicators should have two main uses, as an internal decision-making tool, and a means by which to indicate progress to internal and external stakeholders (Grafé-Buckens and Jankowska 2001). In a 2002 report on indicators by Mansley commissioned by the Health and Safety Executive, a finding indicates that investors consider indicators that are comparable between companies, that is, calculated on the same basis, are useful. The view that KPIs that are quantitative in nature will better support stakeholders at making decisions seems to be supported by many previous studies (Al-Tuwaijri et al. 2004, Dawkins and Lewis 2003, Gray et al. 1988, O'Dwyer and Gray 1998, Tilt 2007).

## **The Credibility of CSER and Assurance**

For any information, including CSER to be decision useful it has to be credible and one of the ways to increasing information credibility is to subject the reporting to verification or assurance by an external party. Though not explicitly mentioned as a desirable attribute of information by many CSER researchers and normative frameworks, for example the Sustainability Reporting Framework of GRI, credibility seems rather essential in determining the value of information and supporting stakeholder decision making. In the area of assurance for CSER, assurance can be referred to as "verification" (Power, 1997a) and "audit" (Gray et al, 1991; Harte and Owen, 1987; Lehman, 1999). In this thesis the term assurance will be used in the context

of CSER assurance which is consistent with the terminology used by O'Dwyer and Owen, 2005; Deegan et al, 2006a; 2006b; FEE 2002, 2004, 2005, IAASB, 2004; Jones, 2010; and Simnett et al, 2009.

Some extant studies of CSER have examined the value of information in relation to how credible the information is perceived to be by stakeholders who use the reporting (Kuruppu and Milne, 2010; O'Dwyer et al 2005b; Tilt, 1994). Apart from the more explicitly user oriented studies, other researchers who have examined the credibility of CSER mostly focus on the effects of obtaining external verification or assurance of CSER and what companies would be able to gain by obtaining assurance for CSER. For example companies may benefit internally due to the value of assurance in reviewing internal processes and supporting systems and reporting developments (FEE, 2002; WBCSD, 2000). Apart from benefits that are internal to companies, in some earlier studies assurance to CSER is seen as crucial in helping companies become more responsible towards stakeholders (Maltby, 1995; Owen et al., 2000).

Some academic studies seem to agree that commissioning assurance for CSER is probably the only way to ensure the credibility of information (Adams and Evans, 2004; Epstein and Freedman, 1994; Kolk and Perego, 2010; Neu et al., 1998; Park and Brorson, 2005; Tilt, 2008). This is supported by previous findings that the quality of CSER is questionable (Milne and Gray, 2008) and CSER may be decision relevant but is inadequate in supporting stakeholder decision making (Solomon and Solomon, 2006). In particular concerns are expressed in terms of whether CSER is balanced and free from bias (O'Dwyer 2002). Indeed, it is stated in practitioner literature (ACCA/Corporate Register, 2004) and more recent academic studies that CSER assurance may help organisations escape perceptions of green wash (Simnett et al., 2008). External assurance seems to be able to increase stakeholder confidence in corporate information. An earlier study finds that information in annual reports gain credibility through its proximity to audited financial statements (Neu et al, 1998). CSER assurance can even be seen as an important legitimating process for companies (Solomon 2007). The notion

of stakeholders can rely more on CSER that has been assured is even being compared with the perceptions of the capital market regarding audited corporate financial statement data (Holder-Webb et al., 2009). It is suggested that increased credibility of the information will culminate in improved relationship with stakeholders that may lead to increased stakeholder confidence (Wallage 2000) due to perceptions of enhanced transparency and corporate accountability (Deegan et al., 2006a)

To attain a perception of enhanced credibility from stakeholders may indeed be a motivation for companies to commission assurance for CSER. There has been an increase in the provision of assurance for CSER (Corporateregister 2008, FEE 2004, O'Dwyer and Owen 2007, Perego 2009) since early 2000s. CSER assurance is seen to be growing at a similar pace with social and environmental reporting (Deegan et al., 2006a; 2006b). This suggests that stakeholders may perceive complementary decision making value in both sources of information. The more a stakeholder perceives the value of CSER in supporting decision making, the more he/she would be interested in consulting CSER assurance which validates CSER. An assurance engagement is one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria (IAASB, 2004, p.150). It is found in a 2005 KPMG survey that 30 percent of the top 250 companies of the global Fortune 500 include assurance statements<sup>8</sup> in their corporate social responsibility reports (KPMG 2005). It is suggested that changes in corporate governance including some form of assurance will complement social reporting (Hess 2007). At the same time it has been remarked that CSER assurance is a discretionary and costly activity (Simnett et al. 2009), and for firms who have chosen to commission such an engagement voluntarily, it may be assumed that the benefit of enhanced credibility (IAASB 2004, Tilt 2008) outweighs the costs. It is remarked previously that information does need to

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<sup>8</sup> A distinction between assurance statement and assurance report has been made but it is also suggested there is great variability in the terms used and not all assurance providers will consider the distinction between a report and a statement (Deegan et al., 2006a)



be verified in one way or another to make it credible and thus useful to interested parties (Solomon 2007). Four forms of environmental audit or assurance have been identified previously (Darnall et al. 2009). In the first form the firm does not systematically document and periodically evaluate how its operations and processes affect the natural environment and no audit is carried out. The second form of environmental audit is an internal audit, which is implemented by the firm's internal staff, mainly to determine compliance with laws and regulations, but also to possibly develop recommendations for how a firm can reduce its environmental impacts beyond legal requirements. The third form of environmental audit is external assurance, and the fourth form of environmental assurance uses both internal and external audits. In this research the focus is on the third form, external audit. Under this scenario, a firm hires an outside independent assessor to examine its environmental practices. External audits represent a response to stakeholder demands for independent validation and reporting (Power 1997) and have an appearance of objectivity and independence (Karapetrovic and Willborn 2001) since an independent assessor examines the organisation's environmental practices. External assurance also benefits organisations by enhancing their environmental image and conferring external legitimacy (Solomon 2000).

CSER assurance may potentially be helpful in terms of supporting stakeholder decision making but at present it is voluntary and unregulated. It has been observed that the increase in assurance engagements for CSER is partly the outcome of publication of assurance guidelines or guidance statements issued by professional bodies and practitioners (Deegan et al., 2006b; FEE, 2005). Over the last decade various standards and sets of guidance have come into existence, including the International Standard on Assurance Engagement (ISAE 3000) issued by the International Auditing and Assurance Standards Board which is part of the International Federation of Accountants (IAASB 2004). Other accounting bodies have also made some contribution. The European Accounting Federation (Fédération des Experts Comptables Européens, or FEE) has published a discussion paper, a set of guidance statements and conducted a survey on the subject of assurance for CSER

(FEE, 2002; 2004; 2005; 2006). At the county level the Dutch NIVRA has issued guidance and standards for accountants who provide assurance service on sustainability reporting (Royal NIVRA, 2005; 2007). It is also reported that professional bodies in Australia, Germany, Japan and Sweden have been providing similar support to assurance providers of such engagements (FEE, 2006). On the other hand sets of assurance standards and guidance statements have been published by non profit organisations such as AccountAbility in 1999, 2003, 2008 and the Global Reporting Initiative (GRI) in 2006. In particular it seems that AA1000 Assurance Standard has been adopted by many consultant assurers (Edgley et al., 2010). Generally speaking, the three normative but voluntary guidelines (DEFRA, GRI and AA1000) seem to converge on the importance of the credibility of information. The value of assurance on increasing information credibility is endorsed by the CRC Energy Efficiency Scheme though obtaining assurance is not an explicit requirement.

The usefulness of assurance in furthering the credibility of CSER and thus its decision usefulness seems questionable to some researchers. Overall it appears that many researchers seem to agree that there is a need for assurance (Edgley et al., 2010; Kuruppu and Milne, 2010) and it seems that it is the quality of assurance rather than the need for assurance that is the concern. Evidence of such a need from the reporting companies' perspective can be found in previous studies of CSER which suggest that companies are rather inclined to obtain assurance for such reporting (CorporateRegister.com, 2008; Mock et al., 2007). In a cross country study a rapid evolvement of CSER assurance has been observed (Kolk and Perego, 2010). In most extant literature the value of CSER assurance is judged either in terms of idealised qualities as per guidelines (AA, 2003b; FEE, 2002, GRI, 2006) and / or assessments in academic studies (Ball et al., 2000; Deegan et al., 2006a; 2006b; O'Dwyer and Owen 2005; Simnett et al., 2009). The ability of assurers to deliver increased credibility and thus value for stakeholders has been called into question (Ball et al., 2000; Deegan et al., 2006a; 2006b; Mock et al., 2007; O'Dwyer and Owen, 2005). Many studies seem to find that assurance statements do not add value in terms of supporting stakeholder

decision making because the process of assurance has been captured by an accounting discourse (Edgley et al., 2010) which seems to support earlier claims made by Power (1991; 1994; 1996; 1997a; 1997b). It is important to note that stakeholders will most likely only spend time on information that can help decision making. If assurance statements are not seen as fulfilling a need either because there is no such need or because of low quality assurance then stakeholders will spend their time on other pursuits.

Apart from the failure to provide added value to stakeholders, early CSER assurance has been examined in terms of the general quality of such engagements. In many cases a situation of managerial capture has been observed (Ball et al., 2000; Deegan and Blomquist, 2006; Gray, 2000; Owen et al., 2000; 2001; O'Dwyer and Owen, 2005; Smith et al., 2011). Managerial capture is defined as "management take control of the whole process...by strategically collecting and disseminating only the information it deems appropriate to advance the corporate image, rather than being truly transparent and accountable" (Owen et al., 2000, p.85). One of the main aims of such assurance engagement seems to pre-empt unwanted speculation and mitigate against risks which may inevitably become at some point a public relations manoeuvre to help companies attain legitimacy (Owen et al., 2000). Perhaps that is why a concern that assurance statements can even be misleading to stakeholders has been observed (Gray, 2000).

It has been suggested that the potential decision usefulness of assurance statements can be enhanced by making the process more stakeholder focused. For example assurance statements can be addressed to stakeholders instead of company managers (O'Dwyer and Owen, 2005), and in this way trust may be built and credibility could be improved. Stakeholders may also find the assurance process more credible if they are given opportunities to become more involved. However at present it is not usual to see much stakeholder involvement in the assurance process and there is very little stakeholder input into such process (Edgley et al., 2010). An interesting connection between the need to increase stakeholder inclusivity and to observe and realise the potentially dialogic nature of corporate reporting has

been made in Edgley et al. (2010). This dialogic perspective has been put together based on the work of Thomson and Bebbington (2004; 2005) who examined CSER and CSER assurance from a pedagogic perspective. They contend that CSER assurance has failed as an educative information disclosure process because it is at present anti dialogic, meaning it is not conducive to encouraging stakeholders to pose problems and to question and criticise information they receive from companies. The root cause seems to be that the process is subject to managerial capture and that there is a general absence of stakeholder involvement.

There also appears to be inherent characteristics that may hamper the potential usefulness of assurance. For example much international variation in terms of whether assurance is undertaken at all, and if it is undertaken who is the assurance provider and what process was followed has been observed (Kolk and Perego, 2010; KPMG, 2008). It is observed that CSER assurance is mainly provided by two groups: consultant assurers and accountant assurers and the two groups differ in approach (O'Dwyer and Owen, 2005; 2007). Accountant assurers are seen more as data checkers who are concerned with the integrity of the data while consultant assurers may take a more holistic view in terms of whether the reporting presents a complete and balanced picture of company operations. This is consistent with the observation that any potential to instil credibility seems to be challenged by the extent of the variation in assurance reports, not to mention that the standards used and the reporting criteria covered in the assurance engagements are found to be inadequate (Deegan et al., 2006a; 2006b).

To sum up relatively few empirical studies have examined the demand drivers for the voluntary adoption of assurance and the role of stakeholders in this process (Abdel-Khalik, 1993; Blackwell et al., 1998; Carey et al., 2000; Chow, 1982) and most of these studies investigate voluntary assurance either from an agency cost or information asymmetry amelioration perspective of the firm. Studies of the demand for CSER assurance, which are largely based on managerial perceptions, suggest that firms are more likely to use external assurance under the influence of external stakeholders. Darnell et al. (2009)

find that the incidence of environmental audit is positively related to perceived external stakeholder influence, while Park and Brorson (2005) suggest that companies choose not to seek assurance because of a perceived lack of stakeholder pressure. O'Dwyer and Owen (2005) note the 'general absence of stakeholder participation in the assurance process' (O'Dwyer and Owen, 2005, p.205).

In any case CSER assurance is still in a very early stage of development and there is much potential for it to fulfil the roles that have been assigned to it and crafted by the various bodies who have developed assurance standards and guidance. Good quality assurance will not only enhance the decision usefulness of CSER assurance by reinforcing stakeholder perceptions of the reliability of the reporting, it will also help firms develop transparency and accountability if they are subject to a rigorous assurance engagement (Gray, 2000).

## **Research Questions**

The following research questions regarding social and environmental reporting are derived based on the above discussion. The research questions will inform the formation of hypotheses in the data analysis chapters –

1. How valuable is social and environmental reporting in supporting stakeholder decision making?
2. How is the value of social and environmental reporting in stakeholder decision making determined?
3. To what extent is social and environmental reporting of various sources used in supporting stakeholder decision making?
4. How is the extent of use of social and environmental reporting in stakeholder decision making determined?
5. What information content do stakeholders find useful in CSER?
6. In what format do stakeholders prefer CSER to be presented?

7. Is there a difference between what information stakeholders prefer across different stakeholder groups?
8. What determines the use of CSER assurance?
9. What type of assurance provider do stakeholders prefer?



## CHAPTER 4



## **Chapter 4 – Research Methodology**

### **Introduction**

Further to a review of existing studies in the CSER area and a discussion of the conceptual framework, this chapter aims to discuss three issues that are pertinent to the methodology of this thesis. They are –

1. Epistemological view and ontological view
2. Research Methodology
3. Research Ethics

This chapter is structured as follows. In the first section the epistemological position adopted by the researcher will be discussed. In the second section the research methodology or the combination of techniques that are employed for the purpose of academic inquiry in this thesis will be discussed. In the third section the ethical considerations for this thesis will be examined. A chapter summary concludes.

### **Epistemological and Ontological Views**

Epistemology is the division of philosophy that investigates the origin and nature of knowledge (Spender 1998). The assumptions that arise from one's epistemological beliefs affect the way one conducts an inquiry of knowledge, formulates the research questions and gathers information and data (Easterby-Smith et al. 2002).

Two broad research approaches have been previously identified: the scientific approach and the ethnographic approach (Maylor and Blackmon 2005). Such a distinction is consistent with the two philosophical traditions in social science research, namely, positivism and social constructionism outlined by other

researchers (Easterby-Smith et al. 2002). The scientific approach is typically associated with the testing of research hypotheses that may support presumed relationships of observable phenomena based on statistical regularities (Wildemuth, 1993). Under the scientific approach, instead of attempting to interpret the underlying philosophical underpinnings of research questions, an answer to the research questions will be attempted through data analysis that usually has a quantitative orientation, with significant findings generalised and be applied to aid understanding in other similar contexts (Maylor and Blackmon 2005). In contrast, the ethnographic approach is usually associated with the building of theory through exploring and interpreting data. Interpretive approaches assume that reality is subjective and socially constructed. This also highlights the different views held by researchers under the two broad approaches (Easterby-Smith et al. 2002). A scientific researcher, who is assumed to be independent of the phenomenon being studied, aims to attain generalisation of findings through the testing of hypotheses with statistical techniques. In contrast, a social constructionist researcher will always be immersed as part of the research study and will remain part of what is being studied and observed.

In attempting to provide an answer to the research questions, there are issues that merit careful consideration by researchers. In fact it is suggested that the research questions should drive the application of research methods (Wildemuth, 1993). Four elements of the research process have been identified to assist researchers to ensure the integrity of the research design (Crotty 1998). The four elements that should be carefully considered are epistemology, theoretical perspective, methodology and methods. It is suggested that the logic of research will dictate the elements of a research process (Crotty 1998). For example, this research is associated with a positivist orientation which involves the administering of a survey instrument for the purpose of collecting data which in turn will be subject to predominantly but not exclusively quantitative and statistical data analysis procedures.

This thesis attempts to provide an answer to the research questions by adopting a largely positivist approach and employing a grounded theory

method where appropriate. Such a practice is seen to be acceptable in a paradigm of choices (Patton, 1980) which helps resolve two seemingly divergent methodological approaches. Such a practice can be associated with the approach of post positivism (Hirschheim, 1985). A post positivist approach in research advocates methodological pluralism which embraces the notion that the use of research methods should be driven by the research questions being addressed (Wildemuth, 1993). In extant studies empiricists are known to have adopted mixed methods within a positivist frame by applying grounded theory (Henwood and Pidgeon, 1995). It has been previously identified that many research studies in the social and environmental reporting area have been conducted from a positivist perspective (Deegan and Soltys 2007). It is noteworthy that positivist research is not necessarily quantitative and qualitative is not a synonym for interpretive research in the social constructionist tradition (Myers 1997).

In this thesis many of the research questions are formulated to be examined deductively. Subsequent to the review of the existing studies in the CSER area, the research questions are constructed on the basis of the predictions of the relationships between the variables that are to be examined. As aforementioned some research questions which are the result of a review of literature are to be analysed by applying a grounded theory approach. It is suggested that grounded theory should be treated as a method which can be applied comfortably in most paradigms (Urquhart, 2001). Grounded theory has its roots in the positivist tradition (Glaser and Strauss 1967, Strauss and Corbin 1990) though a subsequent schism within grounded theory has developed (Mills et al., 2007). Grounded theory was conceptualised by Barney Glaser and Anselm Strauss in 1967. This traditional form is sometimes called Glaserian grounded theory (Cutcliffe, 2005) and is seen to have a positivist orientation (Lincoln and Guba, 2005). However Anselm Strauss developed a constructivist version of grounded theory which is seen to be reflexive and grounded in the words and experiences of participants, while acknowledging that the researcher is more than a distant expert (Charmaz, 2000). This approach to grounded theory seems to have been adopted by researchers in the private disclosures area in accounting (Holland,

1998a; Solomon and Darby, 2005; Solomon and Solomon, 2006). One of the contributions of this thesis is the examination of issues in CSER by adopting a positivist approach which is a relatively less used approach in this area of research.

A grounded theory approach has been viewed as particularly appropriate for research into the ethical and social responsibility dimensions of accounting (Solomon and Edgley 2008) where the research questions are more exploratory in nature. For example, such an approach is adopted in a study of private disclosure in which the researcher aims to construct a set of vocabulary which can be used to describe the reporting process (Holland, 1998a). In this research this approach is seen to be particularly well suited to investigate the following research questions –

1. What information content do stakeholders find useful in CSER?
2. In what format do stakeholders prefer CSER to be presented?
3. Is there a difference between what information stakeholders prefer across different stakeholder groups?

To best answer the above research questions which are exploratory in nature, recurring themes should be extracted through semi structured interviews. In doing so it is considered necessary to establish the phenomena to be examined at the beginning which requires the presentation of some literature which is more typical in a deductive approach. Such a practice has been previously identified and seen as acceptable. It is considered necessary to set the scene and perhaps provide a “sneak peek” (Locke, 2001, p.121). As the research develops the initial research questions may need to be amended slightly to ensure that theory and practice will evolve together (Solomon and Darby, 2005) and a framework is not to be forced on the participants from the start. A grounded theory approach that allows reflexivity is considered to be most appropriate. Interviews as a means of research are considered apposite to delve into the social responsibility dimensions of accounting (Parker and Roffey, 1997). By combining theory and results of thematic analyses of

observations from the subjects of study, researchers can perform systematic inductions.

## **Research Methodology**

In this section the research methodology will be discussed. A methodology is a combination of techniques that are employed for the purpose of inquiring into a specific situation (Easterby-Smith et al. 2002). It is considered salient that a rigorous research design be constructed to explore the research questions and to enable a testing of the conceptual framework and the hypotheses developed in the empirical chapters. In formulating an appropriate research methodology, the conclusions drawn from a review of the relevant literature and a discussion of the theoretical framework, from which the hypotheses were derived, have been taken into consideration.

In this section of this chapter, first, the design of the overall research process will be discussed, followed by a discussion on the methods used for data analysis as well as a discussion on non response bias.

### **Overall Research Design**

It has been remarked that institutional developments have highlighted the salience of SER to the decision making of stakeholder groups such as institutional investors, socially and environmentally conscious customers and campaigning organisations (Wilmshurst and Frost 2000). Empirical evidence also suggests that companies tend to consider investing stakeholders, procuring stakeholders, and campaigning stakeholders important to the companies in the reporting of corporate social and environmental information (Collison et al. 2003, Konrad et al. 2006, Stikker 1992, Tilt 2007). Thus the views of stakeholders that represent the three different types of corporate functions outlined above were gathered, these corporate functions include investing activities, procuring activities, and campaigning activities. Stakeholders whose main responsibilities are related to investment or financing activities, including direct involvement with the investment of funds

and the gathering of information that serves to improve on investment decisions are called investing stakeholders. Procuring stakeholders are stakeholders whose main responsibilities include the sourcing and the procuring of goods and services for an organisation. Campaigning stakeholders are stakeholders who usually work in a not for profit organisation and whose main responsibilities include furthering societal causes that are related to the general well being of the natural environment or society as a whole.

#### *Cross sectional study in a single country*

It was decided to examine stakeholder preferences regarding CSER in a single country study, namely the UK. It was anticipated that increasing institutional interest in CSER in the UK might transpire into significant implications for companies and interests in academia. Both the Companies Act 2006 (HMSO 2006a) and the set of Environmental Key Performance Indicators for UK Business by DEFRA were published in 2006 (HMSO 2006b). The former requires companies to provide information on matters relating to environmental, community and employee matters to the extent necessary and the latter sets out to provide guidance to companies on ways to manage and report environmental information. It was anticipated that an empirical study on perceptions of UK stakeholders would better inform UK companies, as well as policymakers, regarding stakeholder requirements of CSER for decision making. The constraints in the form of available time and research funds also have restricted the scope of this study to potential participants in the UK. Any data obtained from participants outside the UK would have served as a basis for comparison and contrast with findings from the UK subjects. However the limited resources have pre-empted an extension of the population frame beyond the UK.

The empirical studies in this thesis set out to gauge the perceptions of stakeholders on CSER practices at the same point in time. A study that surveys the views of stakeholders at the same point in time, or a cross sectional study, will help reveal and identify regularities by making

comparisons of variations across samples (Easterby-Smith et al. 2002). A cross sectional study that examines stakeholder perceptions of the value of SER will help reveal the preferences of multiple stakeholder groups that will bear implication on corporate practices and future policy making. This approach also seems consistent with the majority of extant studies. Of the 170 empirical studies reviewed in Chapter 2 of this thesis, 84% of the studies adopted a cross sectional research approach. Also all the stakeholder perspective empirical studies that have been reviewed in Chapter 2 are found to have adopted a cross sectional approach.

### *Using primary data*

Previous studies indicate that research studies on decision making will likely benefit from primary perceptual data (Yang and Pandey 2009). For the empirical studies in this research, it was decided that data that was collected directly from the participants would be suitable. Using primary data is considered to be a way to increase the rigour of a research study, rather than using secondary data, or data that was collected previous, for a purpose other than the current research studies that are at issue (Nicholson and Bennett 2009). The advantages of using primary data include the following. First, the researcher can exert more control over the entire data collection process, including the selection of subjects and data coding. Second, the way information is gathered can take into consideration how data will be subsequently analysed, and thus the data collection instrument can be designed accordingly. Third, the researcher can have more confidence in the integrity of the data.

Some of the disadvantages of using primary data in research may include the following. First, it is time consuming and costly, consuming resources in the process of data collection. Also subjects may feel the process obtrusive and display social desirability bias – they may give responses that they think will make them look more socially acceptable, at least to the researcher. Concerns over the relationship between the researcher and the subjects may also arise (ESRC 2010). However considering the benefit of using primary

data, and that the quality of the data collected first hand can improve dramatically the rigour of research studies, a decision was made to use primary data in the empirical studies in this research. Some examples of measures that were used to control for possible biases including social desirability bias will be discussed in greater detail in a latter section of this chapter.

### *Telephone survey*

Consistent with an overall aim of this research which is to examine the preferences of stakeholders in using SER about companies, the views of a substantial number of stakeholders from different groups should be sought to augment the representativeness of any findings. It was decided that an approach that surveys the perceptions and attitudes of stakeholders should be adopted, and stakeholders' views should be canvassed using the most cost effective method. It has been remarked that academic inquiries on the decision usefulness of SER about companies must be based on the perceptions of users or stakeholder on using that information (Booth et al. 1987), and that such studies can benefit from adopting an attitude survey approach (Brooks 1980). It has also been remarked that studies that involve interviews and questionnaires or surveys are becoming increasingly common (Brennan and Solomon 2008). Consistent with the overarching research question of this thesis, namely what the determinants of the value of SER are according to stakeholder perceptions, a research approach that surveys the perceptions of users has been adopted.

It was decided that a survey instrument be developed (detailed discussion follows) and be administered to stakeholders who use SER in the form of a telephone interview. It has been remarked that interviewing subjects is considered the most appropriate means of researching ethical and social responsibility dimensions of accounting (Solomon and Darby 2005). Out of the 147 respondents who agreed to participate in the research, the survey instrument was administered to 140 participants through the telephone and to



seven respondents in person, each of them in a face to face interview. The face to face interviews were conducted as a response to the seven participants' requests of not wanting to take part in a survey on the phone that lasted more than five or 10 minutes. Visual aids have been previously used in empirical studies (Groves 1990) and show cards in particular were found to be a common method in assisting participants (Booth and Wood 2008, Francesconi 2005, Ermisch et al. 2009), inter alia, to reduce the cognitive load that the participants have to bear as a result of the information provided to them in the survey instrument. For the 140 respondents who were interviewed via telephone, those participants were aided visually by computers equipped with access to the Internet. The participants were given a hyperlink which gave them access to a set of show cards via the Internet. The respondents who were interviewed by the researcher in person were provided with similar but laminated show cards. The show cards were meant to provide participants with visual aids as some of the prompts in the questions were quite lengthy. It was anticipated that visual aids will provide the participants with an additional medium from which questions that were communicated over the telephone could be visualised, thus reducing the reliance on receiving information solely through listening to the questions. All participants agreed to the above procedure.

There are numerous advantages associated with administering the survey instrument by phone to the subjects. First, a more accurate estimation of the response rate was possible. Once a mutually convenient time has been agreed with the participants, it was only a rare occurrence that potential participants decided not to take part in the study at the last minute. Conducting interviews by phone was preferred to administering survey instruments by post as the latter method is usually associated with a low response rate (Groves 1990). Second, the more interactive nature of telephone interviews, compared to postal surveys, facilitated communication and enhanced understanding between the investigator and the participants. That was considered salient as any ambiguities could have been addressed and resolved instantly. The interactive nature was also augmented with the use of show cards that have been uploaded previously to a website

accessible on a computer with internet access by the researcher, with the web-link made available to the participants prior to the interviews. At the same time the interactive nature of telephone interviews was preferred over the more intrusive face to face interviews. Any possible intrusion to the participants was minimised to reduce any possible effects of social desirability bias. In this research most of the participants did not provide responses with the researcher being physically present at the same location. The more interactive nature of telephone interviews also gave the researcher some control and reassurance over who provided responses to the survey instrument, so that the quality of the responses can be ensured. Third, since one important aim of this research is to collect data from multiple stakeholders who were located in various geographical locations across the UK, administering the survey instrument through telephone was considerably less resources consuming than face to face interviews. Apparently the most economic option was a survey by post. However in view of the possible low response rate and other potential shortcomings such as certainty regarding the quality of responses, a postal survey research method was not pursued. On the other hand, for one researcher to conduct interviews in person with a substantial number of stakeholders would have meant prohibitive expenses in terms of travel costs and time. In conclusion, administering the survey instrument by the telephone was the most sensible option given finite time and funds and taking into account all the potential advantages and disadvantages of the various methods of data collection.

The following section will discuss the development and the piloting of the survey instrument for the empirical studies in this thesis. Previous studies suggest that any investigation of information decision usefulness must be made with regard to the perceptions of information users by adopting an attitude survey approach (Booth et al. 1987, Brooks 1980). Therefore in this thesis a questionnaire has been designed and used as the survey instrument to collect data.

### *Survey Instrument*

In this section the survey instrument that serves to gather data for this thesis will be discussed. It was considered advisable to formulate questions in the survey instrument with reference to relevant previous studies in the CSER area (Kuruppu and Milne 2010, Solomon 2000, Tilt 1994) to ensure a high degree of reliability and validity.

It is suggested that empirical studies on actions stemming from decision making may benefit from perceptual data that are collected as primary data (Yang and Pandey 2009). To successfully gauge stakeholders' perceptions of the various aspects of SER, a survey instrument that consists largely of perceptual measures was devised. It is suggested that perceptual data can often capture the psychological processes pertinent to analysing decision making, and perceptual measures are thus appropriate for research studies on decision making (Yang and Pandey 2009). Inter alia, an important research question in this thesis is "How is the value of SER in stakeholder decision making determined?"

The above research question was formulated by extrapolating concepts of information value in terms of the decision usefulness of information, to be explained by information qualitative characteristics, from longstanding frameworks for preparing and reporting financial accounting information. Such a way of borrowing concepts from financial reporting frameworks seems to have been endorsed by well known organisations, such as the GRI, who has published guidelines for companies to report on social and environmental information with reference to the concepts of information qualitative characteristics that have been widely used in financial reporting. However in the extant empirical literature there is no established ways to measure the concepts of information qualitative characteristics. There are studies that examines if CSER affects investment related decisions (Holm and Rikhardsson 2008), the general usefulness of CSER according to investment professionals (Milne and Chan 1999), and the relative importance of CSER compared to similar information from other sources (Deegan and Rankin 1997), and the

credibility of CSER according to campaigning organisations (Tilt, 1994). It seems that there are no previous studies that have adopted the way that the concept of information qualitative characteristics is to be operationalised in this thesis. Thus care was exercised in constructing the survey instrument, in undertaking the subsequent data analysis, as well as in extrapolating the findings to a wider population.

The first section of the survey instrument contains questions that were designed to evaluate respondents' perceptions of value, the extent of use of information and the qualitative characteristics of different types of SER. In a previous study it is suggested that an attitude survey approach on users should be adopted in studying social reporting (Brooks 1980). One of the more prominent methods of gauging perception is through the use of Likert scales in closed ended questions (Bebbington, et al., 1994; Brooks, 1980; Buzby and Falk, 1979; Chenhall and Juchau, 1977; Cho, et al., 2009; Cooper, et al., 2005; Cormier, et al., 2004; Deegan, et al., 1995; 1996; Deegan and Rankin, 1997; Dunk, 2002; Firth, 1984; Harte, et al., 1991; Hoque, 2005; Jaggi and Zhao, 1996; Kuruppu and Milne, 2010; Milne and Chan, 1999; O'Dwyer, et al., 2005b; Solomon, 2000; Teoh and Shiu, 1990). It is considered particularly useful when a nuance of respondents' perception or opinion is to be captured.

To construct a valid survey instrument, the questions on qualitative characteristics drew inspiration from extant studies (for example Adams et al., 1998; Deegan and Gordon, 1996; Hammond and Miles, 2004; O'Dwyer, 2002) as well as the Sustainability Reporting Guidelines published by the Global Reporting Initiatives (GRI 2006) and the framework for presenting financial information by the International Accounting Standards Board (IASB 2008). Stakeholders were requested to provide perceptual responses on aspects of SER, including its value, its extent of use, and its qualitative characteristics. Some empirical studies have gauged stakeholder perceptions of some of the qualitative characteristics of SER by using 5 point Likert scales. Qualitative characteristics that have been examined include information being error and bias free (Solomon 2000), information being

relevant (Solomon 2000), information being reliable, fair and balanced (Kuruppu and Milne, 2010), information being complete or comprehensive (Solomon 2000), information being timely (Solomon 2000), and information being comparable (Rockness 1985, Solomon 2000). Stakeholder preferences on content were gauged with questions that provided prompts. The guidance on content structure for companies reporting social and environmental information as suggested in existing reporting guidelines has made possible data collection with questions that provided prompts and which involved respondents ordering CSER content element preferences into ranks as well as indicating preferences by allocating points. The adoption of a rank order format and a points allocation format is aimed at reducing a given respondent's social desirability bias. Such a format is considered to be especially functional in the corporate social responsibility research area (Angelidis et al. 2008, Nederhof 1985). The first part of the survey instrument elicited responses with closed ended questions. Responses were recorded by using either Likert scales or as points or percentages allocated by the respondents.

The second section of the survey instrument contains questions on respondents' attitude towards third party SER, for example the use of responsible social investment indices and information from third party assurance providers on company SER. Responses to both topics were recorded on 5 point Likert scales. This section also includes questions on respondents' perceptions of the importance of various elements of the content of social and environmental reporting, respondents' perception of issues concerning business and society and respondents' self assessment of powerfulness. All the questions were closed ended questions except for the last one. One open ended question was included at the end of the section to elicit respondents' views on possible improvements for CSER. The open ended question was meant to capture a more rounded picture of stakeholders' views on CSER. It was anticipated that the open ended question will help elicit information that was not covered in the earlier section of the instrument.

It is considered advisable to include both closed ended questions and open ended questions in the same survey instrument to gather participants' responses (Allison et al. 2002). Both closed ended questions and open ended questions have their advantages (Geer 1991). Closed ended questions are generally less time consuming and thus less expensive to administer. Closed ended questions will impose a degree of uniformity on the data gathered and consequently responses to closed ended questions are easier to code. The more uniform responses will also aid the subsequent data analysis. On the other hand, open ended questions allow the researcher to explore the diverse opinions of the respondents. Open ended questions in general are designed to initiate and sustain a dialogue that captures the more fine grained data that closed-ended questions such as Likert scale based questions may overlook (Geer 1991). Open ended questions were also meant to capture general comments and the richness of responses that were unable to be captured by predesigned Likert scales. Open-ended questions allow subjects to make comments with minimal restriction and hindrance. Open ended questions can serve to pre-empt biases that are often found in closed-ended questions (Powell et al. 2005). Open ended questions are usually constructed to elicit a free flowing response from subjects with a minimum of words in the questions that might be construed as prompts.

Also, the possibility of open ended questions minimising social desirability biases has been considered (Bloom and Van Reenen 2007). It has been previously remarked that if respondents were to reply according to scoring grids their responses may be biased as they maybe tempted to reply in a way that will impress the researcher as a good or correct response (Bloom and Van Reenen 2007). The use of open ended questions can help to increase the possibility that accurate responses are gathered. Qualitative comments there were gathered as replies to open ended questions were transformed into recurring themes. It is expected that the majority of the qualitative comments would be relevant to the discussion of preferences for CSER content as well as stakeholders' need for assurance.

### *Piloting the survey instrument*

The survey instrument was piloted in face-to-face interviews in three organisations, the first pilot interview was with a campaigning stakeholder (30 January 2008), the second one with an investing stakeholder (6 February 2008), and the third one with a procuring stakeholder (15 February 2008). The aim was to identify and resolve any issues of possible ambiguity but none was found. To ensure consistency, all the subjects were asked the same open ended questions and all the interviews were conducted in the same format as far as possible. A copy of the questions that were structured in the form of a research protocol is included at Appendix I.

### *Common method bias*

The potential effects of common method variance (CMV) in the data collected in the empirical studies of this thesis have been considered. Most of the variables in the empirical study were measured as perceptual variables by using closed ended questions in the survey instrument. It is believed that relationships between variables measured with the same method may be inflated owing to the potential effect of CMV (Spector 2006). Also, since the empirical studies in this thesis concern stakeholder perceptions of CSER, any response recorded might have entailed a degree of social desirability bias. The qualitative comments that were collected in the interviews were coded into themes to ameliorate any common method bias, consistent with suggestions in a previous study (Podsakoff et al. 2003). The coding was attained through blind scoring, which denotes that respondents were not informed that their comments or responses to open ended questions would be transformed into quantifiable scores by the researcher. Further, consistent with suggestions in a previous study (Doty and Glick 1998), forced choice formats for some of the questions in the survey instrument were developed to control for any possible social desirability bias.

### *Data Collection – Populations and Samples*

In this section the process of identifying potential respondents with whom contacts were made and from whom data was collected will be discussed. Data needed to be collected from respondents that are representative of the general population who use SER. Of the few extant studies that examine the perceived importance (materiality) of corporate social and environmental information, most of them studied the perceptions of financial stakeholders (Deegan and Rankin 1997, Harte et al. 1991, Teoh and Shiu 1990). There is an earlier Australian study on the potential influence of pressures groups on corporate social disclosures (Tilt 1994). Apart from that there seems to be very few studies that investigate the perceptions of non financial stakeholders and one of them is a 2005 study of campaigning stakeholders or NGO's perceptions of the importance of SER (O'Dwyer et al. 2005b). In contrast to the majority of the earlier user studies (O'Dwyer et al. 2005b, Solomon and Solomon 2006, Tilt 1994, Tilt 2004), this thesis seeks to identify stakeholders' preference for CSER from more than one stakeholder group. It has been remarked that the views of the less heard of stakeholder groups should be sought to identify potential ways of linking them into the SER process (Solomon and Darby 2005). Thus this research aims to gather the views of various stakeholder groups. Previous empirical studies seem to suggest that firms tend to consider institutional investors (investing), local authorities (procuring) and NGOs (campaigning) as stakeholder groups that are important to firms in terms of the reporting of company social and environmental information (Collison et al. 2003, Konrad et al. 2006, Stikker 1992, Tilt 2007).

To explore the possible differences between the different relevant user groups, it is necessary to have a sample of entities across the three different groups. Drawing samples from those different groups will help shed light on



the diversity of stakeholders. A judgmental sampling approach was used to attain that purpose. The sampling frame is divided into two non overlapping groups. A detailed discussion of the sampling framework follows.

The UK Social Investment Forum (UKSIF) as at December 2007 and the 2008 Yearbook of the Society of Procurement Officers (SOPO) in Local Government were used as two components of the sampling frame. UKSIF provides a listing of entities who have expressed an interest in corporate social performance related matters. Those entities are mainly investment related professionals who have an interest in social and ethical investment as well as campaigning organisations who have an interest in socially responsible investment. Entities in the Yearbook of SOPO represent major public sector procurers of goods and services. Those entities are under a broad mandate to incorporate sustainability in their procurements.

#### *Obtaining access*

Consistent with the aim of this thesis which is to examine the views of multiple stakeholders, every effort was made to encourage potential participants to take part in the empirical studies. Potential participants were assured that the length of the telephone interview would be kept to a minimum. It was previously observed that managers or stakeholders are more likely to consent to giving short structured interviews rather than lengthy unstructured observations and discussions (Easterby-Smith et al. 2002). Though it has been remarked that potential participants in research studies tend to agree to participate and meet with researchers only when there are some advantages for the participants to be gained, and therefore access for fieldwork can be potentially challenging (Easterby-Smith et al. 2002). Nonetheless all potential participants were invited to participate at their own free will and without monetary enticement because of both potential ethical issues and resource limitations. Bearing in mind that for this particular research, a small number of respondents may bear impact on the representativeness of the subjects, every effort was made to increase participation rate, mainly through repeated contacts. It is because the balanced views of key stakeholder groups should

be sought for stakeholder preferences to be thoroughly examined. Seeking balanced views involves inter alia ensuring that approximately similar numbers of stakeholders from different groups are to be included in the final analysis of data. The ways that contacts were made with potential participants will be discussed in detail in a section that follows.

### *Contacting potential and appropriate participants*

A target population of 494 entities were identified. They included entities from three discrete stakeholder groups that used CSER: investing, procuring and campaigning. For investing stakeholders and campaigning stakeholders, from the information provided on UKSIF for each organisation which included the name, a phone number and an email address of one contact person for each organisation, a phone call was made to the named person to try to establish initial contact. For procuring stakeholders a phone call was also made to a contact person, of whom details are provided in the SOPO Yearbook. However in the case of procuring stakeholders judgement was needed by the researcher regarding whom to call as contact information for more than one person was provided for each procuring organisation. Contacts were eventually made with a person whose job title convey the responsibility to exercise strategic control over the procurement process.

About half of the potential respondents declined at the first instance to take part in any research study for a variety of reasons. Upon further communication, a significant proportion of the potential participants who indicated willingness to take part proposed a time for a telephone interview at a future date. Many of the potential participants provided the contact details of people within their organisations whom they thought would be more relevant to this research. At the end a total of 147 subjects indicated willingness to participate and 147 people have been interviewed. I surveyed the views of those 147 stakeholders during the period from late January 2008 to early October 2008. A schedule of dates for the interviews with the respondents can be found at Appendix II. Table 11 that follows presents information on the number of entities identified for initiating initial contact and

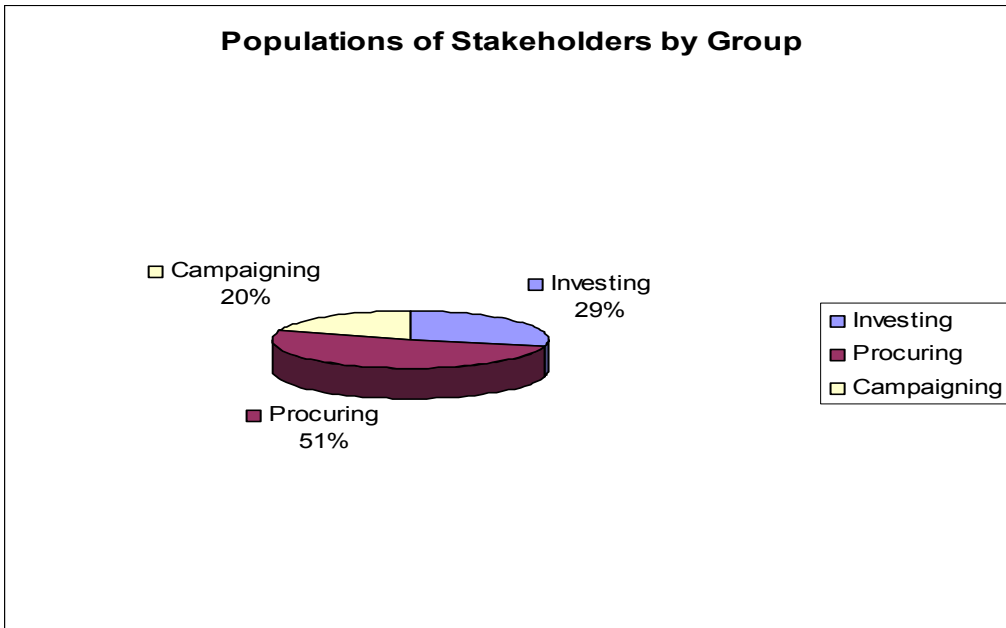
the number of entities who responded according to the three stakeholder groups. The information in Table 11 is also represented in the form of pie charts in Figure 6 and Figure 7 that follow. It has been previously remarked that in empirical studies of social and environmental reporting, the response rate has to be greater than 20 percent for valid inferences to be drawn from the sample to the population (Danastas and Gadenne 2006, Tilt 1994). The response rate in this study is considered acceptable since it has almost reached 30 percent.

In each case effort was made to ensure that any respondent who gave consent and indicated willingness to take part in the survey would be the appropriate person to participate. To that end questions were asked to ensure that all the participants were users of CSER for one of the three corporate functions that include procuring, investing and campaigning that were discussed in the previous section. Also respondents were requested to provide responses to the questions in the survey instrument from the viewpoint that is consistent with discharging their responsibilities in the respective organisation.

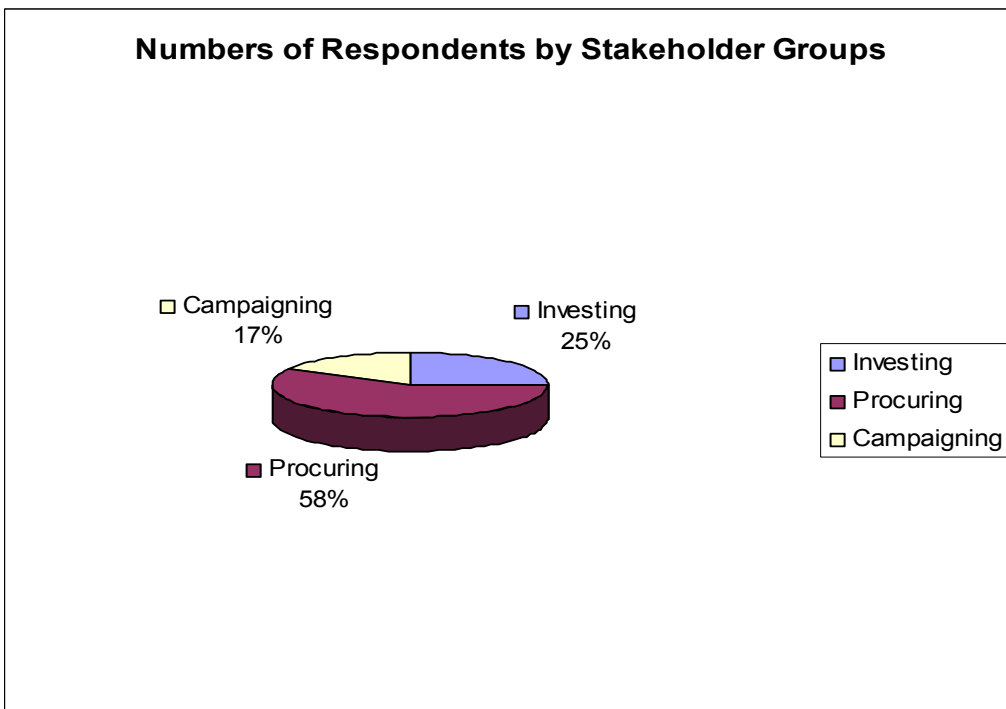
**Table 11 – Response Rates by User Group**

<b>User Group</b>	<b>No. of Entities Identified</b>	<b>No. of Entities Responded</b>	<b>Response Rate</b>
Procuring	252	85	33.73%
Investing	142	37	26.06%
Campaigning	100	25	25.00%
<b>TOTAL</b>	<b>494</b>	<b>147</b>	<b>29.76%</b>

**Figure 6 – Populations of Stakeholders by Group**



**Figure 7 – Number of Respondents by Stakeholder Groups**



### *Respondent characteristics*

This section discusses some of the characteristics of the respondents in the empirical studies. Mainly two issues will be discussed, including the size, represented by the number of employees, of the responding organisations and the primary job responsibilities of the respondents. Table 12 and Table 13 below present information on the size of the responding organisations and the primary job responsibilities of the respondents.

**Table 12 - Respondents by Size of the Responding Organisations**

	Size of Organisation	No. of Respondents	Percentage of Sample	Cumulative Percentage
1.	More than or equal to 1 but fewer than 51 employees	35	24.8	24.8
2.	More than or equal to 51 but fewer than 251 employees	10	7.1	31.9
3.	More than or equal to 251 but fewer than 3,001 employees	25	17.7	49.6
4.	More than or equal to 3,001 but fewer than 10,001 employees	37	26.3	75.9
5.	More than or equal to 10,001 employees and beyond	34	24.1	100
	Information not available	6		
	<b>Total</b>	<b>147</b>		

Table 12 above suggests that the number of employees of all the participants can be divided into four quartiles if group 2 and group 3 are amalgamated. At present group 2 and group 3 are represented separately to take into account the definition of businesses of different scales as suggested by Companies Act, 2006. Information in the table above suggests that organisations of different sizes are fairly represented in the studies.

**Table 13 - Primary Job Responsibilities of Respondents**

	<b>Primary Responsibility</b>	<b>Procuring</b>	<b>Investing</b>	<b>Campaigning</b>	<b>Total</b>
<b>J1</b>	Strategy/policy setting	7	17	22	46
<b>J2</b>	Managing investments	0	1	0	1
<b>J3</b>	Investment research & analysis	0	17	0	17
<b>J4</b>	Campaigning	0	0	2	2
<b>J5</b>	Monitoring corporate behaviour	0	0	0	0
<b>J6</b>	Procuring goods and services	78	0	0	78
<b>J7</b>	Others	0	2	1	3
		85	37	25	147

Information in the above table suggests that the majority of the respondents in the procuring stakeholder group had a job title that suggests a remit that directly involved the procurement of goods and services, with a minority whose job titles might not convey direct involvement in procurement, but whose primary roles had an impact on the respective organisation's procurement practices. For investing stakeholders, about half of the respondents had job titles that suggested direct involvement in investment activities and about half of the respondents had job titles that conveyed strategic direction setting responsibilities for investing activities. For campaigning stakeholders, the majority of respondents had job titles that convey strategic policy setting responsibilities for campaigning activities, with a minority having job titles of campaign managers.

Judgement was exercised by the research to ensure that irrespective of the job titles of the respondents, all participants in the survey were users of CSER in each of the three groups of stakeholders including procuring, investing and campaigning.

#### *Data Collection – The interviews*

The majority of the data was collected by conducting telephone interviews (see previous discussion). The interviews took place between January 2008 and October 2008. Prior to all interviews, each respondent was contacted either by phone or by email or both, and supplied with background information on CSER and general information about the study by email. A typical

interview lasted about 40 minutes, though the shortest one lasted only just over half an hour, and the longest one took about 85 minutes. All the data was recorded on a research protocol which comprised a form of the survey instrument with specific instructions to the subjects. To enhance the validity of the participants' response, I gave repeated reassurance about the anonymity of the information collected. In each case the subjects were asked to recall recent experience that involved considering using CSER. As suggested in a previous study (Brand and Slater 2003), the recall of recent experience enhances the research and improves the reliability and validity of interviewee responses.

### **Data Analysis**

The thesis contains four chapters of data analysis that have been designed to draw out stakeholders' preferences in using social and environmental reporting about companies. The research studies were carried out through the collection of data directly from stakeholders. The data collected will be analysed by adopting a mix of qualitative and quantitative research methods.

It is considered that the two broad approaches of methods for data analysis will complement each other and ensure that the research questions will be answered with rigour. Quantitative data is analysed by applying statistical techniques that are available from application packages. All data arising from the interviews has been coded either on Likert scales or documents as field notes as appropriate. In a study that gauges perceptual responses, it is suggested that parametric statistics can be applied to behaviourally anchored rating scales (Baggaley, and Hull, 1983). There does not seem to be any general agreement as to whether Likert scale data should be analysed using parametric techniques or non parametric techniques. It is observed that although Likert scale data can be analysed by non parametric procedures, (Agresti, 2002; Fleiss, 1981), applying parametric procedures to Likert scale data analysis is still conveniently adopted by researchers in social sciences (Wu, 2007). In applying parametric techniques one of the assumptions is that data is continuous and the Likert scales have equidistant intervals and thus

can be construed as interval data. It has become common practice to assume that Likert type scales constitute interval level measurement (Blaikie, 2003). However Likert scale data may be viewed as ordinal data by some researchers and as interval data by others. In any case there is support to analyzing ordinal data as interval data since parametric statistical tests (based on the central limit theorem) are seen to be more powerful than non parametric alternatives and conclusions and interpretations of parametric tests might be considered easier to interpret and provide more information than non parametric alternatives (Allen and Seaman, 2007). Even if Likert scale data is construed as ordinal data, it is remarked that parametric statistics are commonly used to analysing ordinal data (Nanna and Sawilowsky, 1998). It is stated that although most Likert scales may be ordinal, parametric techniques can be used as one can with considerable assurance assume equality of intervals (Grover et al., 1994). Nonetheless before treating Likert scale data as interval data, one should ascertain that the data does display attributes of interval data, otherwise the findings of a survey may be misrepresented and thus may be misleading (Allen and Seaman, 2007).

Likert scales designed with five points with equal intervals between those points are used to gauge stakeholder attitude, for example stakeholder perceptions of the value of information and qualitative characteristics of information. However there is a possibility that the points on the scales might not have been perceived as equidistant by the stakeholders when they responded to the questions. In that case it would not be appropriate to analyse the data using parametric techniques. To take into account that possibility it is decided that non parametric techniques will be used in this thesis to analyse data collected from Likert scales.

Qualitative analysis is used to uncover information that might not have been captured through measures like Likert scales. In this thesis for example qualitative analysis is used to explore stakeholder concerns of CSER as well as stakeholder preferences for the type of assurance and to provide further evidence on the decision to use assurance. For stakeholder concerns of



CSER qualitative responses were constructed through data combining and analysis. For stakeholder preferences for assurance respondents were asked to indicate the form of assurance they preferred. They were provided with prompts indicating the type of assurance providers that are most commonly used by companies who commission assurance on CSER, drawing on previous studies (O'Dwyer and Owen 2005, O'Dwyer and Owen 2007) and the respondents' explanation of their preference for one type of assurance provider over the other served to reveal their perceptions of different types of assurers. The respondents were also asked to indicate which type of CSER assurance report they preferred. This question of choice stemmed from a concern on the variability and ambiguity within the contents of CSER assurance statements (Deegan et al, 2006b). Prompts for this question were provided to subjects, drawing on findings in previous studies (O'Dwyer and Owen 2005, O'Dwyer and Owen 2007).

To uncover a pattern in the qualitative data collected an approach to analysing key themes is necessary. Data analysis was first conducted with reference to a prior understanding of the subject area, informed by a review of the key themes arising from extant literature. This has made possible the coding of interview materials into categories informed by the literature. In the manner of an approach typical of grounded theory (Strauss and Corbin 1990), the linkages and relationships of the various categories of data are explored through repeatedly combining and analysing the data so that the most important recurring themes and issues can be uncovered. It has been previously noted that researchers may attempt to employ a grounded theory approach in researching issues in accounting (Brennan and Solomon 2008). It should however be noted that key words identification and categorisation are judgemental activities. Analysis in this way is assisted by the definitions of concepts outlined in the conceptual framework, in particular information qualitative characteristics. Moreover issues that emerged from the literature review and the development of the conceptual framework will inform the analysis of qualitative data. In particular the decision usefulness of information and comments regarding the extent of perceived improvement

that will follow more standardisation or regulation of the corporate reporting of social and environmental information would be relevant.

### *Non response bias*

Non response bias refers to the differences in the responses between those who responded and provided answers in a research study and those who did not and the concern that such differences may cast doubt on the generalisability of the findings to a wider population (Armstrong and Overton 1977). In the context of this research, if there were any non response bias, the findings in this thesis would only represent the views of SER using stakeholders who responded to the survey but not those who did not respond. A way to identify any possible non response bias is to compare the responses of respondents who took part in a study relatively earlier with the responses of those respondents who took part relatively later (Carter and Jennings 2002, Lambert and Harrington 1990). The responses of a random selection of participants who took part during the first two months of data collection were compared against the responses of randomly selected respondents of the final three months. At the end, about ten percent of the respondents were selected for comparison. In particular the means of responses of the two groups of respondents on the perceived value of the five types of SER, the perceived information qualitative characteristics of the five types of SER and the time spent on the five types of SER were compared against each other. At the five percent significance level, there is no significant difference observed between the key variables of the two groups of early and late respondents that have been tested. Thus, there is no evidence of non response bias.

## Research Ethics

It was previously remarked that ethical issues in research usually arise from a clash between personal and professional interests (Easterby-Smith et al. 2002).

As outlined in the Framework for Research Ethics (FRE) published by the Economic & Social Research Council in 2010 (ESRC 2010), researchers need to address six key principles when conducting research. They are –

1. Research should be designed and carried out to the highest standards of integrity and quality.

The research design was formulated taking into account recommendations in previous studies on the best way to answer research questions regarding the decision usefulness of information is to explore users' perceptions (Booth et al. 1987) and to adopt an attitude survey approach (Brooks 1980). The questions in the survey instrument were formulated with reference to other researchers' attempts to explore the value of SER in terms of its value and information qualitative characteristics and the more detailed elements of the contents of reporting. The survey instrument was piloted in early 2008 to three respondents through face to face interviews. Any possible ambiguities in the questions were resolved before the survey instrument was administered to a wider group of respondents.

2. Researchers and participants should be fully informed about the purpose and intended uses of the research and the details and risks of participation in the research.

All the potential respondents were informed of the identity of the researcher and of the institution to which the researcher is associated and the purpose for which data was collected. In addition background

information of the research study together with an estimation of the respondents' time commitment was provided.

3. Researchers must respect the confidentiality of the information provided by the respondents and their anonymity.

Potential participants were informed that the identity of all the participants will be anonymised and all the information collected will be aggregated. Thus any attempt to identify the responses from one particular respondent will not be possible in any subsequent publications of the findings of the studies. Moreover, all contact and other personal information of the respondents is safely stored.

4. The participation of the respondents in the research must be voluntary and respondents should be free from any coercion.

All the participants took part in the research on their own free will and they were made aware of the option to withdraw their consent to participate at any point during the study without any recourse. The use of monetary reward to augment the response rate was pre-empted to avoid any possible biases. Careful record has been kept to prevent potential respondents who have clearly indicated their unwillingness to participate in research studies to be contacted again.

5. Researchers must take due care to ensure that participants are not harmed in the course of research.

This research studies only involved the administering of a survey instrument either through telephone interviews or face to face interviews. Thus the notion of the possibility of rendering any harm to the participants is considered irrelevant.

6. Researchers should be able to conduct the research independently and the independence should be made clear with any potential conflicts of interest or partiality made explicit.

This financial support for this research originates from a studentship conferred by the University of Bath. Thus the researcher works independently of any bodies external to the university. No conflict of interest between the stakeholders of this research can be identified.

## CHAPTER 5

## **Chapter 5 – The Value of Information**

### **Introduction**

The main aim of this chapter is to examine the relationship between perceptions of information attributes and perceptions of value of information. Statistical tests are carried out on data collected from the participants in the study. Specifically this chapter wishes to address the following research questions –

1. How valuable is social and environmental reporting in supporting stakeholder decision making?
2. How is the value of social and environmental reporting in stakeholder decision making determined?

Stakeholders need social and environmental reporting about companies to support decision making in various corporate capacities, including investment, procuring and campaigning functions. Such information can be obtained from different sources including corporate reporting, private meetings with companies, third party research information providers and the general media. This bears important implication on the value that users place on information from different sources when making decisions.

In this chapter a model which explores the relationship between qualitative characteristics of information and stakeholder perceptions of the value of social and environmental reporting will be tested. Information is decision useful if it makes a difference in a decision (Young 2006). As identified in Chapter 3, various frameworks for the reporting of company financial information stipulate that the fundamental objective of reporting corporate information is to provide information about the reporting entity that is useful to stakeholders in making decisions (for example see FASB, 2008). It has been emphasised that the role of accounting should evolve to become a salient part

of business decision making (Trueblood 1958), and that it is important for corporate reporting to meet stakeholder information needs (Bedford 1976, Renshall 1976) and for information to facilitate and support stakeholder decision making (Young 2006).

This study investigates the value of information, to be explained by information qualitative characteristics. The conceptual framework of this study is inspired by the corporate financial reporting framework that has been developed and applied by the various accounting standard setters as well as other institutional frameworks. For example CSER should entail characteristics such as clarity, reliability and comparability – information that displays more qualitative characteristics is considered to be more useful to stakeholders (GRI 2006). This is consistent with the assertion which is part of the framework of International Accounting Standards Board (IASB) that the more qualitative characteristics that information displays, the more valuable that information is, and it is expected that none of the information qualitative characteristics alone can provide a perfect indication of the value of the information. Some information qualitative characteristics may be more important than the others depending on the purpose for which information is being used.

## **Hypothesis Development**

Hypothesis 1: A positive relationship is expected between the perceived value of information and the perceived relevance of information.

Hypothesis 2: A positive relationship is expected between the perceived value of information and the perceived clarity of information.

Hypothesis 3: A positive relationship is expected between the perceived value of information and the perceived freedom from bias of information.



Hypothesis 4: A positive relationship is expected between the perceived value of information and the perceived comprehensiveness of information.

Hypothesis 5: A positive relationship is expected between the perceived value of information and the perceived timeliness of information.

Hypothesis 6: A positive relationship is expected between the perceived value of information and the perceived comparability of information.

The basic model of the influence of information qualitative characteristics on stakeholder perceptions of the value of social and environmental reporting is expressed as a regression model below –

Value of SER	=	$f$ (clarity, freedom from bias, relevance, comprehensiveness, timeliness, comparability)
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### Variable Measurement

#### *Dependent Variable – The Value of SER*

This dependent variable is a measurement of stakeholder perceptions of the value of SER. It is measured using a 5 point Likert scale, one for each of the five types of information as discussed in Chapter 3. The question is “*What do you think of each of the information type below in supporting your decision making?*” A value of 1 means it is not valuable at all, while a value of 5 means it is very valuable.

#### *Independent Variables – Qualitative Characteristics of Information*

The respondents’ perceptions of the extent of qualitative characteristics being present in different types of SER were measured by using 5 point Likert scales. The measurement of the six qualitative characteristics including

relevance, clarity, freedom from bias, comprehensiveness, timeliness and comparability, is based on users' responses to the question "*To what extent do you agree or disagree that each type of information below displays the following information characteristics?*" 1 being strongly disagree and 5 being strongly agree.

The above hypotheses will be tested in respect of the five types of information identified and discussed in Chapter 3.

### Model Specification

The full empirical model is –

$$\begin{aligned} \text{Value of SER} = & \alpha + \beta_1\text{CLEAR} + \beta_2\text{UNBIASED} + \beta_3\text{RELEVANT} + \\ & \beta_4\text{COMPREHENSIVE} + \beta_5\text{TIMELY} + \beta_6\text{COMPARABLE} + \\ & \beta_7 \text{ DUMMYProcuring} + \beta_8 \text{ DUMMYInvesting} + \\ & \beta_9\text{DUMMYCampaigning} + \varepsilon \end{aligned}$$

and it is estimated using ordered logistic regression. As explained in Chapter 3, data collected via Likert scales is deemed to be more appropriate if analysed with non parametric techniques as in this thesis. In studies that involve collecting data through employing Likert scales ordered logit is used in data analysis (Lu, 1999). In fact the use of ordinal logit in such a situation is seen to be an improvement over other methods (Snipes et al., 1998; Winship and Mare, 1984).

The dependent variable analysed is stakeholder's perceived value of different types of SER. As discussed in Chapter 3 there are five types of information that are considered salient to stakeholder decision making and as such this model will be run five times. It is considered possible that factors other than information qualitative characteristics may also be associated with the perceived value of information. To control for such effects and minimise any potential biases that are associated with the omission of variables, dummy variables have been included.

## Descriptive Statistics

**Table 14 - Means of Value of Information (Five Types) According to Stakeholder Types and All Stakeholders**

Value	Procuring	Investing	Campaigning	All Stakeholders	SD
CSER	2.68	3.92	3.48	3.13	1.24
Group Meeting	2.73	3.43	3.44	3.03	1.15
Private SER	4.29	4.22	4.20	4.26	0.92
Info Intermediaries	3.45	4.05	3.92	3.68	0.99
General Media	2.26	3.05	2.96	2.58	1.07

Overall private SER is seen as most valuable, followed by information intermediaries, while information from the general media is seen as the least valuable. This confirms an earlier finding that given different sources of information, private disclosures arising from personal contact is preferred to other sources such as announcements, analysts' meetings, annual reports and organised visits and presentations (Barker, 1998). Information that is sourced directly from companies is found to be "the most important information for both analysts and fund managers" in another study (Barker, 1999, p.203). In a more recent study it is once again confirmed that one to one meetings are ranked as the most important communication channel with analysts and investors (Marston, 2008). Private voluntary disclosure is seen to have a higher quality than public disclosure as there is very little qualitative information in the public domain and private disclosure is a "unique source of inside information" (Holland, 1998a, p.263). However this source of information is not only confined to investing stakeholders. It is observed in a recent study that major customers are in a position to demand for SER from suppliers (Unerman and O'Dywer, 2010), suggesting that private SER can take place as a result of supply chain considerations. Though much evidence suggests that private SER is investor driven (Miles et al., 2002; Solomon et al., 2011), it seems that other stakeholders also value that form of disclosure.

The high value placed on information intermediaries seems to confirm a previous finding that in their decision making, stakeholders consider reputable

indices such as FTSE4Good in which companies would like to be included (Knox et al., 2005; Marquez and Fombrun, 2005), as they are valuable to stakeholder decision making (Skorecki and Targett 2001). This echoes a more recent finding that information users will find SER from third party external organisations useful to support decision making, in contrast to CSER which may be biased (Doh et al. 2010). This provides support to a more general finding that information supplied by information intermediaries is valuable in supporting the decision making of stakeholders (Healy and Palepu 2001). In particular investing stakeholders see CSER as more valuable compared to the other two groups. This is consistent with earlier findings that annual reports are automatically sent to shareholders by companies which provide convenient access (Adams et al., 1998), and that it remains the main communication method used by firms to disclose social and environmental information (O'Dwyer 2003). CSER is valued in spite of claims that it has been captured by companies (Eden, 1994; O'Dwyer, 2003; Owen et al., 1997). Annual reports as a means of communication are valuable because it is seen as an informed first layer of understanding that sheds light on corporate behaviour and thus it complements private SER (Holland, 1998a). The finding that procuring stakeholders tend to find CSER not very valuable seems to confirm the view that annual reports may not be read by stakeholders other than shareholders or investing stakeholders (Campbell et al., 2003; O'Donovan, 2002).

The low value placed on information from the general media by all stakeholders confirms the observation that media reporting can be seen as biased (Lee and Solomon, 1990). In supporting decision making, biased media reporting may make it hard to use news as a guide to action as the disconnection may ultimately distort real events (Boykoff and Boykoff, 2004). This seems to support an extant finding that the media coverage about corporate social and environmental performance issues can be disappointing owing to limited explanations regarding specific issues in a wider context (Dickson and Eckman 2008). In addition it is stated that many media reports contain studies that are methodologically flawed and thus unreliable (Mauser and Kopel, 1992). This may explain why some stakeholders struggle to give a

proper assessment on companies that have been mentioned in the general media (Dickson and Eckman 2008), thus making such information less relevant to decision making.

**Table 15 – Means of Qualitative Characteristics (CSER) According to Stakeholder Types and All Stakeholders**

<b>CSER</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Clear	3.08	3.31	2.76	3.08	0.95
Free from Bias	1.92	2.42	1.72	2.01	0.95
Relevant	2.87	3.33	3.17	3.03	0.92
Comprehensive	2.62	2.97	2.46	2.68	0.91
Timely	2.92	3.22	3.04	3.01	0.97
Comparable	2.72	2.92	2.29	2.70	1.12

Overall investing stakeholders place the highest value on the various dimensions or information attributes of CSER. This confirms an early finding that investors rely rather heavily on company annual reports (Choi, 1973). Investing stakeholders find CSER to be most clear, most unbiased, most relevant, most comprehensive, most timely and most comparable, compared to the other two groups of stakeholders. Campaigning stakeholders seem to find CSER the least valuable. Compared to other subjects in this study, campaigning subjects find CSER the least clear, the least unbiased, the least comprehensive and the least comparable compared to other two groups. This seems to echo earlier findings that there is a perceived lack of completeness in CSER (Adams, 2004; Adams and Evans, 2004). In addition this may reflect NGO's distrust of corporations (Sinclair and Walton, 2003), in particular the distrust NGO have towards corporate reporting. Procuring stakeholders find CSER the least relevant. This can perhaps be explained in light of recent evidence that major customers seem to have much power to demand disclosures (Unerman and O'Dwyer, 2010), possibly from other means.

**Table 16 – Means of Qualitative Characteristics (Group Meetings)**

<b>Group Meetings</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Clear	3.09	3.08	3.04	3.08	0.85
Free from Bias	2.39	2.47	1.96	2.34	0.80
Relevant	3.28	3.39	3.25	3.30	0.89
Comprehensive	3.02	2.92	2.79	2.96	0.78
Timely	3.11	3.03	3.42	3.14	0.86
Comparable	2.85	2.44	2.54	2.70	0.92

**Table 17 – Means of Qualitative Characteristics (Private SER)**

<b>Private SER</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Clear	3.73	3.61	3.52	3.67	0.78
Free from Bias	2.84	2.83	3.00	2.86	1.01
Relevant	4.09	4.08	3.83	4.05	0.89
Comprehensive	3.72	3.47	3.22	3.58	0.85
Timely	4.09	3.44	3.78	3.88	0.89
Comparable	3.65	2.97	3.00	3.38	1.15

Consistent with the definitions used in an extant study regarding less public oriented disclosures (Holland, 1998a), group meetings are more public than private SER. Information in Table 16 and Table 17 suggests that in general both types of information are seen as moderately and highly relevant to decision making. Overall stakeholders seem to prefer private SER to group meeting information which is supported by an extant finding (Holland, 1998b). They also put a high value on almost all qualitative characteristics of private SER, in particular relevance and clarity. This is consistent with a previous finding that in private SER companies provide “concrete measures of financial performance and strategic achievement” (Holland, 2005, p.254). Procuring subjects seem to place a high value on most of the dimensions of both types of information. While this once again confirms the increasing power of customers, this also lends support to earlier findings that private SER is evolving very quickly (Owen et al., 2001). This also raises the question that apart from being captured by investors (Solomon et al., 2011), private SER is possibly being driven by other stakeholders as well. It is interesting to note that both types of information are not seen as very unbiased or neutral. This

is consistent with a finding that private SER can be mostly risk driven and economics focused (Solomon et al., 2011) even though it may to an extent espouse both economics and ethical concerns (Livesey and Kearins, 2002). Both sources of information are seen as quite timely which lends support to an earlier finding that private disclosure is timely and focused (Barker 1998).

**Table 18 – Means of Qualitative Characteristics (Information Intermediaries)**

<b>Information Intermediaries</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Clear	3.34	3.89	3.24	3.46	0.83
Free from Bias	3.21	3.28	3.28	3.24	0.99
Relevant	3.45	3.89	3.48	3.56	0.88
Comprehensive	3.35	3.62	2.96	3.35	0.82
Timely	3.08	3.57	3.32	3.24	0.93
Comparable	3.35	3.65	3.42	3.44	1.04

All stakeholders seem to place at least moderately high value on the various dimensions of information intermediary sources. In particular, investing stakeholders have the highest opinion of information originating from information intermediaries compared to the other two groups. Overall it seems that information stemming from indices and possibly assurance are not just demanded by investors but also by other stakeholders as well. This lends support to an extant finding that companies are mindful of the interests of shareholders as well as other groups in society (Porritt, 2005). It is suggested that on all accounts information from information intermediaries is valuable in supporting stakeholder decision making.

**Table 19 – Means of Qualitative Characteristics (General Media)**

<b>General Media</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Clear	2.88	3.19	2.80	2.95	0.98
Free from Bias	2.41	2.67	2.60	2.51	0.98
Relevant	2.69	3.17	2.92	2.85	0.77
Comprehensive	2.62	2.67	2.48	2.61	0.82
Timely	2.76	3.53	3.48	3.08	0.93
Comparable	2.51	2.64	2.21	2.49	1.04

Overall stakeholders do not seem to regard highly information from the general media. Of the three groups investing stakeholders tend to place a higher value on information stemming from this source. For this type of information the overriding quality here seems to be timeliness. This seems particularly important for unobtrusive issues such as environmental issues (Ader, 1995). As such reporting from the media can influence public opinion (Adler and Milne, 1997; Patten, 2002; Tregidga et al., 2007) and affect public actions (King 2008). The relatively low value in this study is consistent with the findings in a recent study regarding the decision usefulness of information from the news media in which particularly questions about the credibility of media information are raised (Kuruppu and Milne, 2010). In fact the credibility of information is such an important issue that the value of assurance for SER has become a topical issue. This particular aspect of information will be explored in another data analysis chapter.

### Correlations

**Table 20 – Correlations – Value and Qualitative Characteristics (CSER)**

	<b>CSER</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
(i)	Value	-						
(ii)	Clear	0.070	-					
(iii)	Free From Bias	0.388**	0.375**	-				
(iv)	Relevant	0.465**	0.291**	0.403**	-			
(v)	Comprehensive	0.350**	0.307**	0.415**	0.509**	-		
(vi)	Timely	0.224**	0.207*	0.199*	0.380**	0.230**	-	
(vii)	Comparable	0.195*	0.130	0.288**	0.318**	0.310**	0.157	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).



**Table 21 – Correlations – Value and Qualitative Characteristics (Group Meetings)**

	<b>Group Meetings</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
(i)	Value	-						
(ii)	Clear	0.193*	-					
(iii)	Free From Bias	0.173*	0.362**	-				
(iv)	Relevant	0.365**	0.360**	0.254**	-			
(v)	Comprehensive	0.187*	0.423**	0.270**	0.456**	-		
(vi)	Timely	0.322**	0.410**	0.229**	0.384**	0.415**	-	
(vii)	Comparable	0.267**	0.234**	0.275**	0.316**	0.445**	0.283**	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Table 22 – Correlations – Value and Qualitative Characteristics (Private SER)**

	<b>Private SER</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
(i)	Value	-						
(ii)	Clear	0.243**	-					
(iii)	Free From Bias	0.272**	0.333**	-				
(iv)	Relevant	0.343**	0.606**	0.427**	-			
(v)	Comprehensive	0.151	0.471**	0.406**	0.447**	-		
(vi)	Timely	0.293**	0.489**	0.231**	0.550**	0.498**	-	
(vii)	Comparable	0.171*	0.319**	0.191*	0.374**	0.307**	0.375**	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Table 23 – Correlations – Value and Qualitative Characteristics  
(Information Intermediaries)**

	<b>Information Intermediaries</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
(i)	Value	-						
(ii)	Clear	0.305**	-					
(iii)	Free From Bias	0.253**	0.346**	-				
(iv)	Relevant	0.381**	0.553**	0.402**	-			
(v)	Comprehensive	0.221**	0.484**	0.347**	0.591**	-		
(vi)	Timely	0.144	0.329**	0.059	0.291**	0.283**	-	
(vii)	Comparable	0.278**	0.482**	0.529**	0.474**	0.480**	0.280**	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Table 24 – Correlations – Value and Qualitative Characteristics (General Media)**

	<b>General Media</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
(i)	Value	-						
(ii)	Clear	0.339**	-					
(iii)	Free From Bias	0.275**	0.517**	-				
(iv)	Relevant	0.344**	0.493**	0.507**	-			
(v)	Comprehensive	0.344**	0.545**	0.455**	0.551**	-		
(vi)	Timely	0.277**	0.296**	0.242**	0.343**	0.203*	-	
(vii)	Comparable	0.227**	0.443**	0.487**	0.401**	0.544**	0.241**	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Information in the five tables (Table 20 to Table 24) above does not seem to suggest the presence of any significant and overwhelmingly strong correlations between any of the variables, with only one correlation exceeding 0.60 (relevance and clarity for private SER). This is consistent with a suggestion in a previous study in which correlations that are below 0.51 are seen as weak to modest (Osoba et al., 1998). There is some correlation between almost all the independent variables and the dependent variables and the signs seem to be consistent with the hypothesised relationships.

## **Regression Analysis**

The relationship between VALUE and the independent variables are explored in Table 25. The overall explanatory power of the model seems satisfactory within the context of a cross sectional study. The Chi Squared statistics are all highly significant ( $p < 0.01$ ). The results suggest that information attributes of social and environmental reporting contribute to explaining stakeholder perceptions of the value of information. Regression results are discussed in the next section.

**Table 25 – Regression Results – the Determinants of the Value of Social and Environmental Reporting**

	<b>CSER</b>		<b>Group Meetings</b>		<b>Private SER</b>		<b>Information Intermediaries</b>		<b>General Media</b>	
	Nagelkerke: 0.405		Nagelkerke: 0.341		Nagelkerke: 0.181		Nagelkerke: 0.218		Nagelkerke: 0.288	
	Chi Sq: 70.81***		Chi Sq: 56.81***		Chi Sq: 25.21***		Chi Sq: 32.91***		Chi Sq: 46.01***	
	<i>Est.</i>	<i>Std. Error</i>	<i>Est.</i>	<i>Std. Error</i>	<i>Est.</i>	<i>Std. Error</i>	<i>Est.</i>	<i>Std. Error</i>	<i>Est.</i>	<i>Std. Error</i>
Clear	-0.46**	0.19	-0.06	0.22	0.07	0.28	0.30	0.25	0.32	0.21
Free From Bias	0.52**	0.20	0.06	0.22	0.28	0.20	0.16	0.19	0.10	0.20
Relevant	0.71***	0.23	0.60**	0.21	0.51*	0.27	0.46*	0.25	0.16	0.28
Comprehensive	0.31	0.22	-0.26	0.26	-0.36	0.27	0.05	0.27	0.63**	0.27
Timely	0.07	0.18	0.52**	0.23	0.51*	0.26	-0.04	0.19	0.08	0.20
Comparable	0.05	0.15	0.70***	0.20	0.05	0.17	0.13	0.20	-0.02	0.18
Dummy-Investing	-1.55***	0.40	-1.57***	0.40	-0.14	0.42	-0.85**	0.40	-1.29***	0.41
Dummy-Campaigning	-1.43***	0.46	-1.49***	0.47	-0.70	0.51	-1.00**	0.46	-1.37***	0.47
	N=145		N=145		N=144		N=145		N=145	

Dependent variable: Value of Information

\*\*\* Significant at the 0.01 level

\*\* Significant at the 0.05 level

\* Significant at the 0.10 level

## Discussion

This model of value and information attributes seems to explain much of the variations in the value perceptions of CSER, compared to other types of information. In particular, in supporting stakeholder decision making, information being relevant seems to be a very important driver. Not only because relevance is a key information attribute in financial reporting (FASB 2008), relevance is also found to possess the same quality in social and environmental reporting. This is consistent with a previous finding that a salient attribute of information is its potential to make a difference in decision making (Chan and Milne, 1999; Milne and Chan, 1999; Rikhardsson and Holm, 2008) which is consistent with an earlier suggestion that the impact of CSER on decision making is the ultimate test for its usefulness (Dierkes and Antal, 1985). In fact information being relevant is found to be a statistically significant predictor for most information types, except for information from the general media. In addition, for CSER to be valuable it is important that it should be clear and free from bias. This provides support to earlier studies in which CSER is assessed in terms of understandability or ease of understanding (Tilt 1994), balanced reporting and neutrality of tone (Deegan and Gordon, 1996), and balanced and free from bias (O'Dwyer 2002). This suggests that CSER is still an important source of information that forms the foundation of corporate disclosures. Though private disclosures may be available to some stakeholders, CSER is still needed to inform private SER (Holland, 1998a; Solomon and Darby, 2005). For CSER there is support for the following hypotheses –

Hypothesis 1: A positive relationship is expected between the perceived value of information and the perceived relevance of information.

Hypothesis 2: A positive relationship is expected between the perceived value of information and the perceived clarity of information.

Hypothesis 3: A positive relationship is expected between the perceived value of information and the perceived freedom from bias of information.

According to the information in the above tables, for information arising from group meetings and private SER timeliness seems to be an important attribute. This provides support to the assertion that stakeholders value highly information in group meetings and private SER. This is also consistent with an earlier finding regarding the good qualities of less public information –

“For analysts, direct contact with the company provides timely, focused, forward-looking information that is perceived to offer a competitive advantage over rival analysts” (Barker, 1998a, p.16)

Thus results provide support to Hypothesis 5 which predicts a positive relationship between perceptions of information value and the timeliness of information. In this study it is also suggested that being able to compare information obtained from group meetings across meetings or companies will make information more valuable. This is consistent with an extant finding that suggests at least for institutional investors, comparability in the reporting of social and environmental information is an important qualitative characteristic (Solomon et al., 2011). Therefore support seems to be present for Hypothesis 6.

For information from the general media information being comprehensive is the only predictor that is found to be statistically significant. As discussed the general media is found to be instrumental in bridging the distance between information users and unobtrusive issues such as environmental issues (Ader, 1995). Stakeholders often make decisions drawing on information from the general media and as such firms may respond by altering CSER practices which may feed into other media reports. A recent finding suggests that to pre-empt negative reactions owing to media attention firms disclose more responsible business practices (Islam and Deegan, 2010). This suggests that information from the general media can be seen as valuable if it provides sufficient coverage in terms of breadth of events. Thus support is found for Hypothesis 4 as far as information from the general media is concerned.

In this model of the value of information in stakeholder decision making many of the stakeholder dummy variables are significant, all indicating that investing stakeholders and campaigning stakeholders are different from procuring stakeholders. Consistent with a general prediction of stakeholder theory that different stakeholders may indeed have their own information needs. However such differences as shown by the findings could perhaps be attributed to the numbers of each of the three groups of subjects in this study. More than half of the responses were provided by stakeholders in the procuring group. Of the 147 respondents, procuring stakeholders (85) account for 57.82 percent of the total respondents, whereas investing stakeholders (37) account for 25.17 percent and campaigning stakeholders (25) account for 17 percent.

Overall the strongest support is found for Hypothesis 1 which predicts a positive relationship between relevance and information value. This is consistent with the extant literature in CSER that highlight the decision usefulness of information (Edgley et al., 2010; Friedman and Miles, 2001; Kuruppu and Milne, 2010; O'Dwyer et al., 2005b). Comparability of social and environmental reporting seems to be an issue and it is a significant predictor of value only for one type of information (group meetings). This seems consistent with a previous finding that often public reporting being lacking in comparability and comprehensiveness prevents accurate assessments of companies by stakeholders (Miles et al., 2002). Such inadequacy has been driving the development of private SER.

Information in Table 14 suggests that private SER is seen as the most valuable type of information. However it is often seen to fulfil a more supplementary or complementary function –

“The perceived failure by the market to provide adequate public SEE information to investment institutions is being compensated for by developments in private SEE disclosure channels” (Solomon and Solomon, 2006, p.585)

Nonetheless, stakeholders seem to find private SER helpful as such information is seen as relevant and timely. This is consistent with previous findings –

“Investor relations have an on-going series of meetings with all of the City institutions at which they raise CSR issues” (Solomon and Darby, 2005, p.33)

“The institutional investors were developing greater expertise in the SEE area, as shown by the improvement in the quality and relevance of questions in private meetings” (Solomon and Darby, 2005, p.34)

Some stakeholders may find that private SER is not entirely perfect. It is remarked that private SER can seem “underdeveloped”, “uni-directional” and “uncritical” and thus may seem confused and frustrated which is echoed by a professional research report (Solomon and Darby, 2005, p.29).

And as CSER improves private SER as a costly type of reporting may diminish as eventually stakeholders may find that their information needs are met by more conventional or public forms of reporting as it becomes more formalised and standardised (Solomon and Darby, 2005). Private SER is never meant to replace CSER but to be viewed, and used, as a supplement.

For information from information intermediaries and the general media, this model of information attributes does not seem to explain much of the variation in value perceptions. However this does not necessarily mean stakeholders do not find such information sources valuable in supporting decision making. In particular stakeholders find information from infomediaries among the most valuable (see Table 14). On the other hand an extant finding suggests that some stakeholders find information from the general media more trustworthy than corporate reporting (Kuruppu and Milne, 2010). The value perceptions of information from these two sources could perhaps better be explained by factors other than information attributes that were originally schematised to underpin decision useful information in corporate reports.

The model in this empirical chapter seems to explain the variations in value perceptions for CSER the best, compared to the other types of information. It



is indicated in extant literature that a framework similar to the financial reporting framework could be used to model CSER (FEE, 2000; Solomon, 2000) but no similar suggestion has been put forward for other forms of social and environmental reporting. After all, CSER is still construed as the main source of information by many researchers (Magness 2006, Tilt 2001, Tilt 2008).

## CHAPTER 6

## **Chapter 6 – The Extent of Use of information**

### **Introduction**

The main aim of this chapter is to examine the relationship between the extent of use of information and the value perceptions of information and the perceived availability of information. Statistical tests are carried out on data that is collected from the participants in the study. Specifically this chapter wishes to address the following research questions –

1. To what extent is social and environmental reporting of various sources used in supporting stakeholder decision making?
2. How is the extent of use of social and environmental reporting in stakeholder decision making determined?

In the previous chapter many types of social and environmental reporting are found to be valuable in supporting stakeholder decision making and many information attributes are found to be useful predictors of value perceptions of information in SER. In this chapter in addressing the research questions it is envisaged that the drivers of value and the drivers of the extent of use of information are not identical.

In this chapter a model which explores the relationship between the extent of use of information (as measured in terms of the proportion of time spent) on the one hand and the value perceptions of information, the availability of information and stakeholder powerfulness characteristics on the other hand will be tested. As shown in the following table of correlations (Table 26), the drivers of value perceptions and the extent of information use should not be the same though value perceptions and the extent of use may show weak to modest correlations –

**Table 26 – Correlations Between Information Value and Time Spent**

		(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(Mills and Gardner)	(x)
(i)	CSER Value	-									
(ii)	Group Meeting Value	0.539**	-								
(iii)	Private SER Value	0.116	0.098	-							
(iv)	Infomediaries Value	0.124	0.250**	-0.037	-						
(v)	General Media Value	0.362**	0.321**	-0.07	0.481**	-					
(vi)	CSER Time	0.601**	0.205*	-0.019	0.021	0.179*	-				
(vii)	Group Meeting Time	0.236**	0.526**	0.022	0.014	0.041	0.045	-			
(viii)	Private SER Time	-0.510**	-0.406**	0.484**	-0.293**	-0.317**	-0.550**	-0.276**	-		
(ix)	Infomediaries Time	-0.053	0.036	-0.357**	0.365**	0.043	-0.178*	-0.161	-0.497**	-	
(x)	General Media Time	0.113	0.164*	-0.400**	0.128	0.485**	0.002	-0.051	-0.472**	0.214**	-

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

The (shaded) correlation coefficients show that there are some degrees of correlations between information value and the extent of use of information (proportion of time spent on information in SER) but they are by no means highly correlated, thus implying that their drivers are different. As explained in Chapter 3 stakeholders might wish to spend time on using information that they value the most to support decision making but the proportions of time spent on the desired types of information would have to depend upon information availability as well. In other words value perceptions may influence the extent of use of information but the latter is not affected by value perceptions alone but also by other factors as well, such as stakeholder powerfulness characteristics.

## Hypothesis Development

Hypothesis 1: A positive relationship is expected between the extent of use of information and the perceived value of information.

Hypothesis 2: A positive relationship is expected between the extent of use of information and the perceived availability of information.

Hypothesis 3: A positive relationship is expected between the extent of use of information and the power characteristic of stakeholders.

Hypothesis 4: A positive relationship is expected between the extent of use of information and the legitimacy characteristic of stakeholders.

Hypothesis 5: A positive relationship is expected between the extent of use of information and the urgency characteristic of stakeholders.

The basic model of the influence of information quality and availability perceptions and stakeholder powerfulness characteristics on the extent of use of social and environmental reporting is expressed as a regression model below –

Extent of Use of Information	=	$f$ (value of information, availability of information, powerfulness, legitimacy, urgency)
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### Variable Measurement

#### *Dependent Variable – The Extent of Use of SER*

This dependent variable is a measurement of stakeholders' extent of use of information in terms of the relative amount of time spent. It is measured using percentages spreading across all types of relevant information which will sum

up to 100 percent. Stakeholders provide information as a response to the question “*What is the percentage of time that you spend on the following types of SER?*” .

#### *Independent Variable – The Value of Information*

The respondents’ perceptions of the value of different types of information in SER are measured by using 5 point Likert scales. The measurement is based on users’ responses to the question “*What do you think of each of the following types of information in supporting your decision making?*” A value of 1 means it is not valuable at all while a value of 5 means it is very valuable.

#### *Independent Variable – The Availability of Information*

The respondents’ perceptions of the availability of different types of information in SER are measured by using 5 point Likert scales. The measurement is based on stakeholders’ responses to the question “*To what extent do you agree or disagree that each type of information below is generally available?*” 1 being strongly disagree and 5 being strongly agree.

#### *Independent Variable – Stakeholder Power Characteristics*

In order to explain stakeholder’s extent of use of information in SER stakeholders are requested to self-assess with regard to a set of nine statements that are developed to gauge stakeholder power attributes in respect of power, legitimacy and urgency. Stakeholders’ responses to the following question “*To what extent do you agree with the following statements*” are recorded on 5 point Likert scales. 1 being strongly disagree and 5 being strongly agree. The set of stakeholder power attribute statements are developed in a previous study (Mitchell et al. 1997). An extant study on stakeholder identification and prioritisation of managers suggests that though the Mitchell et al. (1997) framework might have been widely cited, only 15 articles are found to have used power, legitimacy and urgency as a

tool for empirical analysis (Parent and Deephouse, 2007). Notably only one study (Agle et al. 1999) attempted to test the fundamental proposition of the Mitchell et al. (1997) framework (Parent and Deephouse, 2007). The three attributes are again investigated in a more recent study (Magness, 2008) though the study does not specifically test on the set of nine statements.

### *Control Variable*

The size of an organisation may denote the economic clout of the organisation. Larger organisations can be expected to spend more time and other resources on SER. In this study in examining the extent of use of information the number of employees of a responding organisation is controlled for. Generally speaking, a positive correlation is expected between the time spent on using social and environmental reporting (in particular private SER) and the number of employees of an organisation.

The above hypotheses will be tested in respect of the five types of information identified and discussed in Chapter 3.

### Model Specification

The full empirical model is –

$$\begin{aligned} \text{Extent of Use} &= \alpha + \beta_1 \text{Value} + \beta_2 \text{Availability} + \beta_3 \text{Legitimacy} + \beta_4 \text{Urgency} + \\ \text{of Information} &\quad \beta_5 \text{Power} + \beta_6 \text{Size} + \varepsilon \end{aligned}$$

This is estimated using seemingly unrelated regression (SUREG). Part of the discussions in Chapter 3 highlights that it would be more appropriate to analyse data generated as responses to Likert scales with non parametric techniques. Here seemingly unrelated regressions will be run to investigate what determines the percentages of time spent on the five types of information. Though the dependent variable (percentage) is continuous some of the independent variables are derived from Likert scale responses.

More importantly there are five types of information and instead of running five regressions using SUREG is seen to be more efficient than repeated single equation least squares (Zellner and Huang, 1962). In addition fewer observations are needed to produce reliable estimates than if each regression is estimated separately and ignoring the possible correlations (Smith and Kohn, 2000).

The model has also included stakeholder dummy variables. It is considered possible that factors other than information value and availability perceptions may also be associated with the extent of use of information. To control for such effects and minimise any potential biases that are associated with the omission of variables, dummy variables have been included.

## Descriptive Statistics

**Table 27 – Means of Extent of Use of Information (Time Percentage)**

Time	Procuring	Investing	Campaigning	All Stakeholders	SD
CSER	11.09	35.07	23.53	19.26	18.34
Group Meeting	11.13	10.27	11.91	11.04	9.51
Private SER	49.97	16.50	25.49	37.38	26.75
Info Intermediaries	17.51	24.98	21.92	20.14	17.01
General Media	8.27	13.18	13.55	10.40	9.80

Overall stakeholders spend most time on private SER, followed by information intermediaries and the least time on information from the general media. This confirms previous findings that private information from companies is much sought after. In particular, it is stated that for investing stakeholders and companies to build a close relationship, much effort and time needs to be spent (Hung, 2003). At first glance this also seems to support the general perception that private SER is found by stakeholders to exhibit more useful information qualitative characteristics (Clatworthy and Jones 2008, Solomon and Solomon 2006), and that CSER is highly qualitative and incomparable (Solomon and Darby 2005). It is claimed that private disclosure developed as



a response to a failure of companies to provide adequate information for decision making in the public information market (Holland, 1998b) and private SER has since become a “unique source of insider information” (Holland, 1998b, p.49). It is found in a more recent study that “assessment of management quality is a key reason for attending meetings” (Marston, 2008, p.35). It is stated that investing stakeholders’ reliance on annual reports has been “displaced by meetings with senior management and company visits” as discussion in meetings becomes most influential (Clatworthy and Jones, 2008, p.339). One of the interesting findings here suggests that it is procuring subjects not investing stakeholder who spend most time on private SER. This provides support to a previous discussion that investing stakeholders still rely on public reporting to a great extent. It is stated in a 2006 Canadian study that corporate report is a primary information source for investors and environmental groups and CSR discussion is considered to have “greater credibility” when it is “included in the annual report than in other media” (Magness, 2006, p.549). In addition findings here suggest that procuring stakeholders are now in a powerful enough position to request time for private meetings. It makes business sense that suppliers would like to increase the loyalty of important customers to their brands (Sweeney and Coughlan, 2008). It lends support to a recent finding that major customers may meet with suppliers regarding corporate social responsibility issues. In a recent case study of BT it is stated that managers of the procuring organisation tend to –

“discuss assessment findings with suppliers and are monitoring their progress through follow-up reports, review meetings and, in some cases, return visits.” (Unerman and O’Dwyer, 2010, p.165)

It does suggest that major buyers of goods and services have the clout to demand private disclosures from suppliers. The finding that campaigning subjects spend more time on private SER than CSER is an intriguing one. While this on the one hand seems contrary to public perceptions that campaigning organisations are marginalised it also indicates perhaps increasing clout of some of the NGO and confirms a general distrust and disregard of public reporting at the same time. After all CSER is often seen to

have very little decision usefulness because it is self laudatory (Deegan and Gordon, 1996; Deegan and Rankin, 1996) if not “woeful” (Gray, 2010a, p.15).

Stakeholders also seem to spend considerable time on information intermediaries. This lends support to a recent finding that this type of information helps keep stakeholders informed of matters that may be remote (Deephouse and Heugens 2009). It is mentioned that –

“infomediaries tell us what we do not experience directly and have the potential to render otherwise remote happenings observable and meaningful” (Deephouse and Heugens, 2009, p.542)

Indeed information intermediaries seem useful to support stakeholder decision making. This is also consistent with another finding that if a company is included in a responsible investment index the company will benefit from a positive reputational effect and the inclusion is a strong signal about a firm’s commitment to managing social and environmental risks (Harding 2006). Since stakeholders consider information intermediaries when making decisions (Marquez and Fombrun, 2005), they in turn encourage firms to engage in reporting to fulfil ranking and screening requirements (Waring and Edwards, 2008).

Overall stakeholders seem to spend little time on the general media. This seems contrary to a previous finding that the general media is useful in channelling information about companies to stakeholders (Capriotti, 2009). However this is in fact consistent with a finding in the previous empirical chapter of this thesis that stakeholders in this study tend not to find information from the general media very decision useful. This can perhaps be explained by some extant findings that information from the general media may seem biased (Lee and Solomon, 1990), unreliable (Mauser and Kopel, 1992), and thus rendering it not very valuable in supporting decision making.

**Table 28 – Means of Value of Information (Five Types)**

<b>Value</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
CSER	2.68	3.92	3.48	3.13	1.24
Group Meeting	2.73	3.43	3.44	3.03	1.15
Private SER	4.29	4.22	4.20	4.26	0.92
Info Intermediaries	3.45	4.05	3.92	3.68	0.99
General Media	2.26	3.05	2.96	2.58	1.07

**Table 29 – Means of Perceptions of Availability of Information (Five Types)**

<b>Availability</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
CSER	3.98	4.24	3.92	4.03	1.07
Group Meeting	3.16	2.61	2.64	2.94	1.03
Private SER	3.89	2.72	2.78	3.42	1.26
Info Intermediaries	3.21	3.70	3.24	3.34	1.05
General Media	3.60	3.94	3.80	3.72	1.16

Discussion of factors that affect the extent of use of information in this section will draw on the discussion of value perceptions of information in SER in the previous empirical chapter (means of value perceptions are reproduced in Table 28 above). Overall stakeholders find CSER most widely available, in particular investing stakeholders. This is echoed by earlier findings that annual reports are automatically sent to shareholders by all companies (Adams et al., 1998) and thus annual report is the main communication method used by firms to disclose corporate social responsibility information (O'Dwyer 2003). It is rather intriguing that investing stakeholders find SER that is less public (group meetings and private SER) highly valuable but not widely available. This confirms the prediction that stakeholders may not always use valuable information to the extent that is proportionate to its perceived value. As discussed earlier, private SER is developing to compensate for inadequate public reporting (Solomon and Solomon, 2006) but probably not to replace public reporting as the two are “not substitutes but complementary” sources of information (Solomon and Darby, 2005, p.39). Thus public reporting will likely remain the main source of information (O'Dwyer 2003).

It is noteworthy that investing stakeholders see group meetings and private SER only as moderately available, considering a previous finding that private SER seems to be driven by the need of investors for more information (Miles et al, 2002; Solomon et al, 2011). Such sources of information are important for both analysts and fund managers as information is “sourced directly from companies” (Barker, 1999, p.203). It is stated that analyst meetings are ranked highly because they represent “timely updates on a company’s performance” (Barker, 1998, p.12). Furthermore –

“for fund managers, formal meetings offer an opportunity to assess the company's strategy and the ability of management, in the light of information from previous meetings as well as the performance record in the report and accounts” (Barker, 1998, p.16).

Private voluntary disclosure is seen to display a higher quality than public disclosure as there is very little qualitative information in the public domain and private voluntary disclosure is a “unique source of inside information” (Holland, 1998a, p.263). However the central cost of meetings is “senior management time” (Holland, 1998a, p.259) and the same is said for private one to one meetings (Marston, 2008). It is stated that the choice of the core contact group as the only group allowed to speak to the closed corporate group is based on a “cost benefit calculation concerning top management time and eventual stock price impact” (Holland, 2005, p.264). Findings in this study perhaps attest to the growing importance of non investing stakeholders and as such companies need to allocate time for private disclosures prudently and more evenly across all stakeholder groups. Findings here confirm that procuring stakeholders do see the less public types of SER as most available, compared to the other two groups. This provides further evidence to the growing power of consumers. It is mention in a recent study (Grubnic and Owen, 2010) that major customers will actively demand social and environmental reporting –

“most of the big procurement contracts go through my portfolio...allows me to ask green questions” (Grubnic and Owen, 2010, p.100)

Following on from an earlier finding that investing stakeholders in this study do spend considerable time on information intermediaries as a type of SER, they also see information intermediaries as the most available type of information, compared to the other two stakeholder groups. Drawing on a previous discussion regarding investing subjects' perceptions of the value of information intermediaries relative to the other two subject groups, there is no question about the significance of information intermediaries such as responsible investment indices. Such indices are previously found to be valuable to stakeholder decision making (Skorecki and Targett 2001). In this connection companies are driven to engage in the reporting of social and environmental information so as to be included in those indices which have a significant effect on firm reputation and on relationships with some if not most stakeholders (Collison et al., 2009).

The finding that stakeholders are not inclined to spend time on information from the general media though it is seen as widely available is another testament that confirms the assertion that stakeholders only spend time on information that they see as valuable regardless of availability. If indeed information from the general media is seen as unreliable (Mauser and Kopel, 1992) and not very decision useful (Dickson and Eckman 2008) it would only make sense if stakeholders were not inclined to spend too much time on it. This is supported by an earlier finding in this study that information from the general media is seen by all the subjects as the least valuable compared to other types of information.

**Table 30 – Factor Loadings and Reliabilities for Stakeholder Attributes**

Item	Power	Legitimacy	Urgency
a. Your organization has the power to apply economic reward or punishment, and/or positive or negative social influence on the general public's view of the companies that it is interested in.	0.74		
d. Your organization has access to, influence on, or the ability to impact the companies that it is interested in.	0.70		
g. Your organization has the power to enforce its claims.	0.66		
$\alpha$	0.58		
b. The claims of your organization are viewed by the companies that it is interested in as legitimate (proper or appropriate).		0.73	
e. The companies that your organization is interested in believe that the claims of your organization are not proper or appropriate*.		0.83	
h. The claims of your organization are legitimate in the eyes of the management team of the companies that it is interested in.		0.78	
$\alpha$		0.75	
c. Your organization exhibits urgency in the relationship with the companies that it is interested in (i.e. active in pursuing claims that the companies feel important).			0.71
f. Your organization actively seeks the attention of the companies that it is interested in.			0.76
i. Your organization urgently communicates its claims to the companies that it is interested in.			0.80
$\alpha$			0.67
* Reverse coded.			

This study includes three items for each of the stakeholder attributes: power legitimacy and urgency. Each item is rated on a 5 point Likert scale ranging from (1) strongly disagree to (5) strongly agree. The table above presents the results of a factor analysis (using “varimax” rotation) of the three stakeholder attributes. As can be seen in the above table the items load rather explicitly on each of the three factors as discussed.

Correlations

**Table 31 – Correlations – Extent of Use of Information and Predictors (CSER)**

	<b>CSER</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
(i)	Time	-							
(ii)	Value	.601**	-						
(iii)	Availability	.007	-.024	-					
(iv)	Legitimacy	.080	.028	.158	-				
(v)	Urgency	.057	.159	-.007	.000	-			
(vi)	Power	.058	.063	.147	.000	.000	-		
(vii)	Size	-.345**	-.251**	.068	.025	-.016	.264**	-	
(viii)	User	.353**	.339**	.017	-.030	.048	-.141	-.821**	-

**Table 32 – Correlations – Extent of Use of Information and Predictors (Group Meetings)**

	<b>Group Meetings</b>	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
(i)	Time	-							
(ii)	Value	.526**	-						
(iii)	Availability	.169*	.043	-					
(iv)	Legitimacy	-.168*	-.053	-.116	-				
(v)	Urgency	.047	.085	.013	.000	-			
(vi)	Power	.198*	.074	.174*	.000	.000	-		
(vii)	Size	-.067	-.183*	.188*	.025	-.016	.264**	-	
(viii)	User	.099	.278**	-.233**	-.030	.048	-.141	-.821**	-

**Table 33 – Correlations – Extent of Use of Information and Predictors (Private SER)**

	Private SER	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
(i)	Time	-							
(ii)	Value	.484**	-						
(iii)	Availability	.348**	.202*	-					
(iv)	Legitimacy	.084	.236**	-.067	-				
(v)	Urgency	.008	.097	-.031	.000	-			
(vi)	Power	.142	.113	.137	.000	.000	-		
(vii)	Size	.401**	.131	.368**	.025	-.016	.264**	-	
(viii)	User	-.403**	-.044	-.405**	-.030	.048	-.141	-.821**	-

**Table 34 – Correlations – Extent of Use of Information and Predictors (Information Intermediaries)**

	Infomediaries	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
(i)	Time	-							
(ii)	Value	.365**	-						
(iii)	Availability	.352**	.238**	-					
(iv)	Legitimacy	.053	-.047	-.016	-				
(v)	Urgency	-.077	.030	.083	.000	-			
(vi)	Power	.014	.235**	.093	.000	.000	-		
(vii)	Size	-.151	-.186*	.006	.025	-.016	.264**	-	
(viii)	User	.182*	.234**	.072	-.030	.048	-.141	-.821**	-

**Table 35 – Correlations – Extent of Use of Information and Predictors (General Media)**

	General Media	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
(i)	Time	-							
(ii)	Value	.485**	-						
(iii)	Availability	.082	.149	-					
(iv)	Legitimacy	-.139	-.064	.006	-				
(v)	Urgency	.004	.061	-.006	.000	-			
(vi)	Power	-.067	.144	.079	.000	.000	-		
(vii)	Size	-.228**	-.184*	-.028	.025	-.016	.264**	-	
(viii)	User	.258**	.306**	.095	-.030	.048	-.141	-.821**	-



Information in the tables above suggests that most correlations are below 0.50. Correlations between USER and SIZE (control variable) are the only correlations that are significant that have exceeded 0.80. In this connection particular attention will be given to the behaviour of the control variable and consideration will be given to omitting it in the regressions due to the high correlations. Otherwise there does not seem to be any significant and overwhelmingly strong correlations between any of the variables. In a previous study it is suggested that correlations that are below 0.51 are weak to modest (Osoba et al., 1998). There is some correlation between almost all the independent variables and the dependent variables and the signs seem to be consistent with the hypothesised relationships. The majority of the correlation coefficients between VALUE and TIME for the five types of information are below 0.50, once again confirming the prediction that part of the variations in time spent may be explained by value perceptions of information but the drivers for both are not the same.

**Table 36 – Regression Results – The Determinants of the Extent of Use of Information in SER**

	<b>CSER</b>		<b>Group Meetings</b>		<b>Private SER</b>		<b>Information Intermediaries</b>		<b>General Media</b>	
	R-Sq: 0.45		R-Sq: 0.41		R-Sq: 0.43		R-Sq: 0.26		R-Sq: 0.32	
	Chi Sq: 129.38***		Chi Sq: 127.72***		Chi Sq: 98.51***		Chi Sq: 60.85***		Chi Sq: 83.72***	
	<i>Coef.</i>	<i>Std. Error</i>	<i>Coef.</i>	<i>Std. Error</i>	<i>Coef.</i>	<i>Std. Error</i>	<i>Coef.</i>	<i>Std. Error</i>	<i>Coef.</i>	<i>Std. Error</i>
Value of Information	0.20***	0.03	0.22***	0.02	0.17***	0.03	0.14***	0.03	0.23***	0.03
Availability	-0.02	0.03	0.05**	0.03	0.02	0.02	0.12***	0.03	0.01	0.02
Legitimacy	0.02	0.03	-0.08***	0.03	-0.01	0.03	0.04	0.03	-0.04	0.03
Urgency	-0.02	0.03	-0.01	0.03	-0.02	0.03	-0.04	0.03	-0.02	0.03
Power	0.04	0.03	0.07**	0.03	0.02	0.03	-0.03	0.03	-0.06*	0.03
Dummy-Investing	0.33***	0.08	-0.06	0.07	-0.47***	0.07	0.11	0.08	0.09	0.08
Dummy-Campaigning	0.18*	0.09	0.04	0.09	-0.26***	0.09	0.09	0.09	0.10	0.09
Constant	0.38***	0.13	0.07	0.10	0.80***	0.15	0.18	0.13	0.16	0.11
	N = 140		N = 140		N = 140		N = 140		N = 140	

Dependent variable: The Extent of Use of Information (Proportion of Time Spent)

\*\*\* Significant at the 0.01 level

\*\* Significant at the 0.05 level

\* Significant at the 0.10 level

## **Regression Analysis**

The relationship between “the Extent of Use” (Time Proportion Spent) and the independent variables are explored in the above table. The overall explanatory power of the model seems satisfactory within the context of a cross sectional study. The Chi Squared statistics are all highly significant ( $p < 0.01$ ). The results suggest varying explanatory power of the independent variables. The control variable SIZE was included but it had very little effect on the explanatory power of the model and it reduced the number of observations due to missing data. Taking this issue as well as the high correlations between SIZE and USER into consideration SIZE has been omitted in the final regressions. Almost all the standard errors of the independent variables are below 0.10 which is consistent with the general outcomes of applying SUREG. Regression results are discussed in the next section.

## **Discussion**

The value perception of information seems to be a highly significant predictor for the extent of use of all types of information in SER in particular for CSER, group meetings and private SER (R Squared results are 0.45, 0.41 and 0.43 respectively), providing strong support for Hypothesis 1. This is consistent with the general prediction that stakeholders will only spend time on information that can support decision making. This can be related to the discussion of value perceptions (as a dependent variable in the previous empirical chapter) in which the relatively low value of some types of information is highlighted. Whether information is highly valued (Private SER) or not so highly valued (General Media), value perceptions as a predictor seems useful in explaining the extent of use of information. It is interesting to note that compared to procuring stakeholders investing stakeholders spend significantly more time on CSER ( $p < 0.01$ ) and significantly less so on private SER ( $p < 0.01$ ). This is consistent with an earlier discussion that investing

subjects still rely heavily on corporate reports that are public available. Though it is found that –

“meetings are viewed by fund managers as their most important source of information on companies. The information exchanged at these meetings is also seen as higher-quality than that made available publicly” (Pendleton, 2005, p.116).

Such information is supplementary to what is available in public (Pendleton, 2005). There is no doubt that the clout of procuring subjects has increased over the years (Unerman and O’Dwyer, 2010). It is not surprising that compared to procuring subjects campaigning stakeholders spend significantly less time on private SER as most campaigning stakeholders or NGO tend to occupy a marginalised position in society. However it is possible that different types of information may meet the needs of different stakeholders better. Extending FEE’s (2000) suggestion that different stakeholders may have different perceptions on the materiality of different issues, information needs are most likely different across stakeholder groups.

In examining the extent of use of information, availability of information as a predictor seems highly significant in explaining the time spent on group meetings and information intermediaries. Thus some support is provided to Hypothesis 2. As discussed earlier group meetings are seen as semi private communication (Holland, 2005) and attendance would be restricted. It is suggested that –

“tight control was exercised by small, closed, top management team with sole responsibility for ... disclosure.... these individuals received training and advice from consultants on how to manage their disclosure output and behaviour” (Holland, 2005, p.262)

And as expected companies will be discreet about rationing time for the release of information through less public forms of communication (Al-Hawamdeh and Snaith 2005). Perceptions of information availability also

seem to explain the amount of time stakeholders spend on information intermediaries. Many researchers view this as a decision useful source of information (for example Marquez and Fombrun, 2005) since it can confer reputational benefits onto companies (Rindova and Fombrun 1999). Availability in this case may be constrained by stakeholders' willingness and ability to pay for certain information, for example research reports from specialist report providers such as EIRIS or Innovest.

Stakeholders' POWER characteristic seems to explain the extent of use of information from group meetings ( $p < 0.05$ ) and the general media ( $p < 0.10$ ). This provides some support to Hypothesis 3. As discussed since semi private communication is time consuming and thus costly to provide, access to such meeting opportunities will be given out by companies discretionarily to stakeholders who are powerful. This is consistent with previous findings that engagements with companies are driven by economically powerful stakeholders (Miles et al., 2002; Solomon et al., 2011). Powerful stakeholders will not only have this safely guarded avenue to company disclosures but also public corporate reports. As a result they do not need to spend time on information from the general media which may be biased (Lee and Solomon, 1990) and unreliable (Mauser and Kopel, 1992).

The stakeholder characteristic URGENCY is not found to be a significant explanatory variable for any information types. Therefore no support is found for Hypothesis 5. The stakeholder characteristic LEGITIMACY seems to be a significant predictor ( $P < 0.01$ ) and has a negative sign for the time spent on group meetings so there appears to be some support for Hypothesis 4. However this finding should be interpreted with caution because the estimated coefficient of POWER for group meetings is significant and positive. The finding for LEGITIMACY seems most unusual since the three stakeholder characteristics should operate as a whole and in the same direction. Consistent with the way that the concept of stakeholder power has been operationalised, by possessing a claim that requires immediate attention alone cannot make a stakeholder truly powerful (Mitchell et al. 1997). The need and the tendency for the three characteristics to function as a whole and

at the same direction are supported by findings in a more recent study (Magness, 2008).

There exist several possible explanations as to why POWER and LEGITIMACY do not seem to operate in the same direction and why there is no overwhelming support for Hypotheses 3 to 5. First, responses for the stakeholder characteristics were captured through participants providing responses on 5 point Likert scales to a set of nine statements that are developed by Mitchell et al (1997). While there has been some empirical application of the dimensions of power, legitimacy and urgency, there seems to be limited empirical application in using the set of nine statements for assessing stakeholder power to date (Agle et al. 1999), though the Mitchell et al. (1997) framework has been widely cited (Parent and Deephouse, 2007). Thus the validity of the responses may have been affected. Second, unusual findings may be attributed to the weight of the evidence brought about by the number of procuring stakeholders in the sample compared to investing stakeholders and campaigning stakeholders. The imbalance of the numbers of subjects in the three stakeholder groups has already been identified and it will be further discussed in the Limitations Section in the final chapter of this thesis.

In general, results lend modest support to the extent of use of information in SER by stakeholders, to be explained by information value and availability. Increasing stakeholder concerns over the impact of companies on the environment and society at large have drawn more attention to social and environmental reporting. However there are relatively few studies that specifically look at the determination of the extent of use of information in SER from a stakeholder perspective. This is one of the first studies that focus on stakeholders' extent of use of information in relation to the value perceptions of information, the availability of information and other possible variables.



## CHAPTER 7



# Chapter 7 – What Do Stakeholders Want in CSER?

## Introduction

Although there is a growing area of research building on CSER and a growing concern over the value of publicly available CSER (Gray, 2006a; Huang and Kung, 2010; Milne and Gray, 2008; O'Dwyer and Owen, 2005), little is known about users' preferences for the content of the reporting. Researchers examining the value of CSER work on the assumption that adequate CSER creates value and such disclosures are seen by decision-makers as sufficiently significant to be included as decision criteria (Holm and Rikhardsson, 2008). There has been a relative absence of studies examining CSER from a stakeholder perspective. The few studies that examine stakeholders' views mainly study the needs of the investment community (Fowler and Hope, 2007), though there are isolated studies that involve consumers (Dawkins and Lewis, 2003) and campaigning organisations (Tilt, 2004). Little is known about the content in CSER that will make such reporting valuable to stakeholders.

A recent study has highlighted the need to centre CSER on the needs of all stakeholders upon whom the accounting organisation has an impact (O'Dwyer et al. 2005b). Information will be valuable only if it focuses on stakeholder needs and supports their decision making. It is suggested that companies rarely proactively sought the information requirements of their report users (Azzone et al, 1997). In a previous empirical study, a mock environmental report is created and companies in Australia and New Zealand are surveyed on what information in the mock report they think stakeholders will be interested in (Milne et al. 2000). Findings suggest inter alia companies consider information on targets and achievements will be most useful to stakeholders. It is suggested in a previous study that from a reporting company's perspective, the extent and the content of CSER can most successfully be explained by legitimacy theory and stakeholder theory (Reverte, 2009). In other words it is to the companies' interest to provide information that supports stakeholders on which the companies depend in

making decisions. There is very little consensus among companies as to whether information should be reported in the format of a particular set of indicators, and whether information in both social and environmental areas should be reported. An extant finding from an expert's point of view suggests that stakeholders find CSER lacking in completeness and credibility (Adams and Evans, 2004). It is suggested that the views of multiple stakeholder groups on the decision usefulness of CSER have not been systematically investigated.

Given that companies in the UK have been reporting social and environmental information in a largely unregulated environment, the content and the extent of CSER is characterised by much variation (Hackston and Milne, 1996; Reverte, 2009). The analysis in this chapter is based on structured interviews in 147 organisations drawn from three key stakeholder groups, each of them representing one key corporate function. This chapter gauges the elements of preferred content in CSER among different stakeholder groups and addresses the following research questions –

- What information content do stakeholders find useful in CSER?
- In what format do stakeholders prefer CSER to be presented?
- Is there a difference across different stakeholder groups in information preferences?

Two contributions to the literature are presented. First, this is one of the first studies that focuses on multiple stakeholder groups' preference for CSER content, specifically what users want to see in CSER, rather than the preference of practitioners or reporting entities of CSER. Most studies on CSER are motivated from an expert's or a practitioners' point of view in terms of what information should be reported and how information should be reported (Gray, 2006a). Though there are normative frameworks like GRI's framework that purport to represent stakeholder preferences based on outcomes of stakeholder consultations, there is little evidence of systematic academic studies that investigate stakeholder needs for content. Previous studies suggest that initiatives relating to reining in corporate environmental

impact or climate can be considered as a result of media frenzy or populist governmental intervention (Howes, 2009; RSE, n.d.). Better understanding of stakeholder preferences will better inform companies and hopefully help companies attain more stakeholder centred reporting.

Second, the approach of this study is not only based on stakeholder demand for and perceptions of CSER but also on a multiple stakeholder perspective which includes not only institutional investors but also local authorities and campaigning organisations. Previous research of stakeholder perspectives on CSER tends to focus on more economically powerful groups. Two previous studies suggest that the CSER expectations gap could possibly be narrowed if there were more stakeholder involvement (Adams and Evans, 2004; Deegan and Rankin, 1999). Examining the preferences of stakeholders will allow an exploration of whether different stakeholder groups have different needs and complement the existing literature which is both limited and has focussed largely on a single stakeholder group. This has significant implication for policymakers as well as company managers as to what companies should report.

The findings also have significant implications for companies, accounting institutions and regulators. While CSER is becoming increasingly prevalent, regulatory requirements on that remain limited. The Companies Act 2006 (HMSO, 2006a) only stipulates areas on which a company should provide information, if and when necessary, and while European companies have been recommended by European Commission to join the Eco Management & Audit Scheme (EMAS), it has remained voluntary. Better understanding of stakeholder preferences for CSER content will help inform regulators, accounting institutions and enable companies to better discharge accountability to stakeholders through disclosures on their social and environmental performance.

## Key Findings of Extant Studies and Implication for Further Research

### Current Stakeholder Requirements

**Table 37 – An overview of stakeholder requirement as expressed in legal and voluntary guidelines**

	<u>Comp Act (2006)</u>	<u>CRC</u>	<u>DEFRA</u>	<u>GRI</u>	<u>AA1000</u>
<u>Defining principle</u> <sup>9</sup>					
Materiality	X	x	x	√	√
Credibility	X	x	√	√	√
Comparability	X	x	√	√	x
<u>Content</u>					
Environment	√	√	√	√	√
Employee	√	x	x	√	√
Community	√	x	x	√	√
Assured information <sup>10</sup>	X	√	√	√	√
<u>Presentation</u>					
Quantitative targets	X	√	√ <sup>11</sup>	√	x
Qualitative targets	X	x	x	√	x
Policy statement	X	x	x	√	x

Table 37 shows a diversity of stipulations and requirements on CSER. Companies Act 2006 has stipulated explicitly the areas of information or disclosures that would be of general interest to stakeholders, namely

<sup>9</sup> Only defining principles for reporting social and environmental information that are explicitly stated are considered. There are cases where a desirable quality is implied. For example, in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme User Guide, the comparability of information reported by companies appears to be important but comparability per se is not stated as a principle for reporting corporate information.

<sup>10</sup> This refers to if a preference for report content that has been reviewed or assured by an external party has been indicated.

<sup>11</sup> DEFRA considers that being quantitative is probably the most important KPI specific principle (HMSO, 2006b).

information on environmental, community and employee matters, information that company directors should see to be disclosed in the enhanced business review, but only to the extent necessary (HMSO 2006a). Previous studies on triple bottom line (TBL) reporting seem to agree with the suggestion that companies should be providing a balanced account of their environmental, social and financial performance (Deegan et al., 2006a). However the legislation does not provide further details as to the exact ways that a balanced account can be provided by companies.

Drawing from the information above and taking together the findings after reviewing the relevant previous studies in Chapter 2, it can be concluded that

—

1. CSER seems to be decision useful, at least for stakeholders including investors, procurers of goods and services and campaigning organisations.
2. The use of CSER by stakeholders is subject to resource constraints as time is a finite resource. Furthermore, decision usefulness is a user defined concept. Different stakeholders will operate with a view to attaining different organisational goals. Thus it is important to study the information preference of more than one stakeholder group.
3. Existing legislative requirement and voluntary guidance present varying requirements on CSER, representing information needs of stakeholders across different groups. Existing requirements cover both social and environmental areas and both quantitative and qualitative measures.
4. Various previous studies on discrete stakeholder groups suggest that stakeholders' preference for CSER content seem to vary across studies. Also, CSER is often construed as low in credibility.
5. Companies often report information related to objectives, targets and general policies but seldom explanation on variances between targets and actual performance or actions needed to eliminate those variances.

6. The contribution of this study on investigating the content preference of multiple stakeholder groups, which will inform policymakers and companies, will hopefully lead to more stakeholder centred CSER.

Research questions of interest in this chapter are reproduced below –

- What information content do stakeholders find useful in CSER?
- In what format do stakeholders prefer CSER to be presented?
- Is there a difference between what information stakeholders prefer across different stakeholder groups?

### Variable Measurement

The three research questions will be addressed through the analysis of empirical evidence that is collected by using a rank order method and a points allocation method and by analysing responses to an open ended question. Ten content elements such as companies' use of broad statement of policy on environmental matters and use of standardised metrics to manage and present information and three broad CSER content areas including environmental, employee related, and general society related areas have been identified. Stakeholders were asked to rank order the ten elements and to allocate points (percentages) to the sub-elements that underpin the three broad areas of reporting. All data arising from the interviews has been coded either on a rank order scale or a points allocation grid. Findings thereafter provided a context within which stakeholder preferences for the format of CSER and content could be better understood.

The research questions are further explored by using an open ended question to capture the richness of responses from subjects who would like to comment on areas that are not covered in the earlier part of the interview. An open ended question towards the end of the interview also provided respondents the opportunity to express their views on the present state and future development of CSER. Field notes were taken as required. Data was

analysed with reference to a prior understanding of CSER and informed by the key themes arising from extant literature already reviewed. Themes from previous studies have made possible the coding of data from interviews into categories.

## **Research Findings**

This section reports the means and their differences on content elements of CSER by total sample and by stakeholder groups. Two tests are conducted on all the overall means and the means of the three stakeholder groups, using Compare Means Test and One Way ANOVA. The following tables present the means as well as the results of the ANOVA. None of the Compare Means Tests generate any significant results.

**Table 38 – Means – Preferred Content Element**

CSER Content Element	Procur-ing N=84	Invest-ing N=36	Campaign-ing N=24	Total Mean^ N=144	ANOVA Between Groups F - Statistic	Stakeholder Group	
						Campaigning N=24 Mean Difference	Investing N=36 Mean Difference
Most Significant Social & Environmental Issues	3.77	2.89	2.79	3.39	2.078	0.982 (0.622)	0.885 (0.535)
Performance Against Quantitative Target	3.87	2.94	2.67	3.44	3.679**	1.202* (0.531)	0.925 (0.457)
Performance Against Qualitative Target	4.04	4.17	3.75	4.02	0.216	0.286 (0.562)	-0.131 (0.484)
Detailed Treatment of All Company Impacts	3.93	5.28	4.88	4.42	2.672*	-0.946 (0.720)	-1.349* (0.620)
Quantitative Target	5.58	2.61	3.50	4.49	25.836***	2.083*** (0.510)	2.972*** (0.439)
Reporting Has Been Assured	4.27	5.53	5.17	4.74	2.253	-0.893 (0.731)	-1.254 (0.629)
Qualitative Target	5.67	4.28	4.54	5.13	5.195***	1.125 (0.550)	1.389** (0.473)
Using Standardised Metrics	5.31	5.36	4.54	5.19	0.680	0.768 (0.697)	-0.052 (0.600)
Broad Statement of Company Policy	5.98	6.44	6.25	6.14	0.255	-0.274 (0.786)	-0.468 (0.676)
Using Company Specific Metrics	6.58	5.42	6.13	6.22	1.942	0.458 (0.690)	1.167 (0.594)

Note: Procuring stakeholders is the base group for comparison in the ANOVA test.  
 Note: The above items were all rank-ordered by respondents in the various groups. **1 being most important and 10 being the least important.**  
 ^ A Compare Means Test (One Sample T Test) has been run on each response against the mean response of the whole sample for each item. None of the test statistics is statistically significant. Standard errors are shown in brackets. Significance levels: \*p<0.10, \*\*p<0.05, \*\*\*p<0.01.

Results in Table 38 suggest that overall most stakeholders prefer to see CSER covering the most significant issues, more so than a detailed coverage of all the issues. At the same time, subjects on average show strong preference for information on a company’s performance against quantitative targets, with campaigning subjects’ preference being slightly different to procuring subjects but only at a ten percent significance level. Investing stakeholders consider both quantitative targets and qualitative targets and performance data against quantitative targets among the most important, compared to the other two groups. This seems consistent with an extant



finding that institutional investors are concerned about targets (Solomon et al, 2011) and the finding in turn supports a similar observation in practitioner research (EIRIS, 2009).

It is highlighted in a practitioner publication that many companies seem to provide data on targets and comment on performance trends (ACCA, 2007). The study explored the current state of climate change reporting by leading companies and suggested that about half of the companies that have been shortlisted as leading reporters disclosed short or medium term targets, and less than half provided long term targets (ACCA, 2007). It is also mentioned that non disclosure did not necessarily mean that companies do not have targets as it may just be a case of non reporting (ACCA, 2007). In any case non disclosure will likely impede the information's decision usefulness. 89 percent of the companies analysed by ACCA (2007) were found to be disclosing some form of quantitative data, and of the 79 percent who gave some descriptions of their impact on the environment, only two thirds stated and explained performance trends (ACCA, 2007). The reporting of new initiatives such as renewables and product innovation was found to be generally qualitative rather than quantitative in content; however it may not be possible at present to provide concrete data on new and developing initiatives (ACCA, 2007). Overall these findings may seem encouraging but the companies examined are supposedly top reporters in environmentally sensitive industries (Solomon et al., 2011). In this research investing subjects found a detailed treatment of all company impacts in CSER the least important compared to the procuring subjects ( $p < 0.10$ ). It is interesting to note that according to the 2007 study by ACCA about 80 percent of the top reporters included some form of policy statement in their reports (ACCA, 2007). In this study it is found that most stakeholders give a very low priority to broad statements of company policy. In short a sensible balance of quantitative information and qualitative information for stakeholders is yet to emerge in CSER. In any case the following may sum up the gist of what stakeholders consider important in reporting –

“The results ... suggest that quality of environmental disclosure rather than mere quantity has a stronger effect on the creation of environmental reputation amongst ... investor stakeholder groups” (Hasseldine et al., 2005, p.231):

**Table 39 – Means – Preferred Broad Content Area**

Broad CSER Content Area	Procur-ing N=85	Invest-ing N=36	Campaign-ing N=25	Total Mean <sup>^</sup> N=146	ANOVA Between Groups F - Statistic	Stakeholder Group	
						Campaigning N=25 Mean Difference	Investing N=36 Mean Difference
Environment	38.64	41.11	39.86	39.46	0.401	-1.21619 (3.20474)	-2.46937 (2.80097)
Employee Well Being	30.82	27.61	25.46	29.11	2.825	5.35993* (2.46337)	3.20675 (2.15300)
Human Rights and Society	30.40	31.25	34.66	31.34	1.560	-4.26360 (2.41515)	-0.85567 (2.11086)

Note: Procuring stakeholders is the base group for comparison in the ANOVA test.  
Note: Each respondent indicated a preference for any of the three areas of CSER content by allocating **100 points** among those areas.  
<sup>^</sup> A Compare Means Test has been run on each response against the mean response of the whole sample for each item. None of the test statistics is statistically significant.  
Standard errors are shown in brackets. Significance levels: \*p<0.10, \*\*p<0.05, \*\*\*p<0.01.

**Table 40 – Means – Preferred Environmental Content**

Environment	Procur-ing N=146 N=85	Invest-ing N=36	Campaign-ing N=25	Total Mean <sup>^</sup> N=146	ANOVA Between Groups F - Statistic	Stakeholder Group	
						Campaigning N=25 Mean Difference	Investing N=36 Mean Difference
Emissions to Air	23.97	25.11	29.60	25.22	2.009	-5.62588 (2.80802)	-1.13838 (2.45423)
Emissions to Water	19.50	20.71	19.93	19.88	0.433	-0.42967 (1.49033)	-1.21092 (1.30256)
Emissions to Land	19.56	17.52	18.73	18.92	1.639	0.82915 (1.29704)	2.04235 (1.13362)
Biodiversity	18.02	16.11	15.93	17.19	1.314	2.09033 (1.66446)	1.91464 (1.45475)
Eco-Efficiency Indicator	18.94	20.26	15.80	18.73	1.387	3.13529 (2.37754)	-1.32859 (2.07799)

Note: Procuring stakeholders is the base group for comparison in the ANOVA test.  
Note: Each respondent indicated a preference for any of the areas of CSER content by allocating **100 points** among those areas.  
<sup>^</sup> A Compare Means Test has been run on each response against the mean response of the whole sample for each item. None of the test statistics is statistically significant.  
Standard errors are shown in brackets. Significance levels: \*p<0.10, \*\*p<0.05, \*\*\*p<0.01.

Results in Table 39 suggest that all respondents have a clear preference for information on companies' environmental impact in CSER and information on employee well being the least important (overall, environmental information scored 39.5 percent of the points and employee wellbeing information scored 29 percent of the points), with campaigning subjects showing the least interest in employee wellbeing matters, at a ten percent significance level. Results in Table 40 suggest that all respondents prefer to see information on emissions to air over other areas (information on air emissions scored 25 percent of all the points whereas each of the other four categories scored fewer than 20 percent of all the points). There is no significant difference among the three respondent groups on this issue. These results are not surprising given institutional development seems to have drawn much attention to corporate impacts on the natural environment, either by issuing voluntary reporting guidelines and KPI (for example DEFRA) (HMSO, 2006b) or by creating legislation (for example the Climate Change Act) (HMSO, 2008a) and the resulting Carbon Reduction Commitment.

**Table 41 – Means – Preferred Employee Related Content**

Employee Related	Procur-ing N=85	Invest-ing N=36	Campaign-ing N=25	Total Mean <sup>^</sup> N=146	ANOVA Between Groups F - Statistic	Stakeholder Group	
						Campaigning N=25 Mean Difference	Investing N=36 Mean Difference
Turnover	15.71	17.90	18.33	16.70	1.357	-2.61729 (1.95572)	-2.18113 (1.70932)
Work Injuries and Fatalities	21.33	22.74	23.20	22.00	0.451	-1.86576 (2.31313)	-1.40410 (2.02170)
Health and Safety	34.98	25.52	20.00	30.08	12.221***	14.98424*** (3.36116)	9.46812** * (2.93768)
Diversity	16.62	16.06	18.33	16.77	0.599	-1.71141 (1.87323)	0.56503 (1.63721)
Collective Bargaining	11.23	17.80	20.13	14.37	13.764***	-8.90365*** (1.98291)	- 6.56554** * (1.73308)

Note: Procuring stakeholders is the base group for comparison in the ANOVA test.  
Note: Each respondent indicated a preference for any of the areas of CSER content by allocating **100 points** among those areas.  
<sup>^</sup> A Compare Means Test has been run on each response against the mean response of the whole sample for each item. None of the test statistics is statistically significant.  
Standard errors are shown in brackets. Significance levels: \*p<0.10, \*\*p<0.05, \*\*\*p<0.01.

Results in Table 41 suggest that subjects prefer to see CSER on health and safety provisions over other areas, with procuring subjects significantly more so than the other two groups ( $p < 0.01$ ). Overall respondents show the least interest in collective bargaining, with procuring respondents showing the least interest ( $p < 0.01$ ) and campaigning subjects showing the most interest ( $p < 0.01$ ) compared to other groups.

**Table 42 – Means – Preferred Community Related Content**

Community Related	Procur-ing N=85	Invest-ing N=36	Campaign-ing N=25	Total Mean <sup>^</sup> N=146	ANOVA Between Groups F - Statistic	Stakeholder Group	
						Campaigning N=25 Mean Difference	Investing N=36 Mean Difference
Investment Screening	24.35	23.89	25.20	24.38	0.092	-0.84741 (2.67468)	-0.46370 (2.33769)
Community Impact	30.12	28.15	28.00	29.27	0.460	2.11729 (2.87270)	1.96924 (2.51076)
International Labour	17.63	21.76	24.20	19.77	5.097***	-6.57247** (2.27935)	-4.13164 (1.99217)
Corruption	27.90	26.20	22.60	26.58	1.089	5.30153 (3.61433)	1.69792 (3.15895)

Note: Procuring stakeholders is the base group for comparison in the ANOVA test.  
 Note: Each respondent indicated a preference for any of the areas of CSER content by allocating **100 points** among those areas.  
<sup>^</sup> A Compare Means Test has been run on each response against the mean response of the whole sample for each item. None of the test statistics is statistically significant.  
 Standard errors are shown in brackets. Significance levels: \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

Results in Table 42 indicate that respondents prefer to see information on companies' community impacts over other areas with no significant difference across different respondent groups. International labour issues seem to be the area that subjects are least interested in, with procuring subjects showing the least interest and campaigning subjects showing the most interest ( $p < 0.05$ ). Though one procuring respondent remarked that he would like to see more reporting on international labour issues (Respondent P38), overall this seems in stark contrast to recent findings that multinational companies may be concerned regarding questionable labour practices along the supply chain –

“multinationals ... responsible for the activities of direct suppliers and other companies in the whole supply chain, and for supplementing governments in case of insufficient regulatory and enforcement capabilities” (Kolk and Van Tulder, 2004, p.54)

To better understand the variety of the responses gathered, respondents were asked to provide comment on their perceptions of CSER in general. Findings presented in the table below will be discussed together with findings as outlined in the preceding tables in the following section.

**Table 43 – Respondent Types and Areas of Concern in CSER**

Respondent type	Further standardisation and regulatory requirement	Assurance is valuable but can be improved, though not necessarily through regulation	Specific efforts needed on information reliability, comparability and consistency
	N	%	%
Investing	37 (28)	5 (7)	30 (39)
Procuring	85 (56)	20 (30)	12 (18)
Campaigning	25 (23)	32 (35)	20 (22)
All respondents	147 (107)	17 (23)	18 (24)

Note: The numbers in brackets have **excluded** the non-respondents.

Data shown in the various columns in the above table was constructed from qualitative responses through data combining and analysis. Responses in the various columns represent explicit mention of the above issues as labelled. Forty participants declined to provide a response.

***Stakeholder Centred Content in CSER***

This section discusses the themes arising from responses to the open ended question, drawing support from the rank ordered and points-allocated findings above. Findings from Table 43 suggest that CSER is decision useful but CSER is not overwhelmingly valuable in supporting decision making at

present. Though companies are encouraged to discharge their accountability for sustainability issues to stakeholder through reporting (Solomon et al, 2011), at present many respondents of this study see CSER as of low or varying quality. For example the quality of reporting is seen as “inconsistent” (Respondents P12, i27) and the standard of reporting is variable (Respondents P28, P81). The above findings seem consistent with suggestions of some of the normative reporting frameworks (HMSO, 2006b; Mansley, 2002) and some extant studies (Al-Tuwaijri et al. 2004, Dawkins and Lewis 2003). They are also consistent with an extant finding that CSER at present is highly qualitative and incomparable (Solomon and Darby, 2005). Such a view is confirmed by a more recent study in which the lack of comparable data is identified as an impediment to incorporating environmental factors into decision making by stakeholders (WWF/Trucost/Mercer, 2009). Also CSER does not seem to be very understandable to some respondents. One of them remarked –

“[we] want to see company social and environmental reports that are more easily understandable” (Respondent P26)

Some respondents seem not sure how to interpret the information in CSER (Respondent P48) and such information is seen as “not easy to interpret by lay people” (Respondent P68). Overall the quality of reporting needs improvement (Respondent i30). This is supported by a finding in practitioner literature that companies would need to improve accounting of greenhouse gas emissions and carbon costs to help investors assess risks (Trucost, 2009). Some respondents “want to see information that is more reliable (Respondent P7) and more comparable and consistent (Respondent C17, P81) with “universal measurements” (Respondent P70). It is because consistence can “enhance comparability” (Respondent P39). In particular one respondent remarked that –

“[we] want to see more than a broad statement...wider coverage and more reliability” (Respondent P28).

A wider coverage would often imply a more balanced and unbiased approach in reporting. Indeed “more balanced reports” (Respondent C10) that have both “strengths and weaknesses” are seen as desirable (Respondent P40). All these stakeholder preferences are supported by a previous study that CSER should exhibit certain basic qualities such as comparability, completeness and ultimately relevance to decision making (Rawlins 2009). At present CSER does not seem to be painting a balanced picture of companies’ impacts on the environment and society. This is supported by an extant finding that CSR disclosure will be avoided in areas where a firm has a poor track record (Cormier and Gordon, 2001). A lack of consistency in disclosure making comparison of information difficult has also been noted in a practitioner publication (ACCA, 2007). Information in the table above suggests that according to the respondents there are three ways of improving the quality of CSER. The first way is to have more legislation on CSER in place. The second way is for companies to report information that is more centred on the needs of stakeholders. The third way is to make better use of assurance as a mechanism to enhance information credibility and stakeholder confidence. The first two ways are actually closely related – stakeholder needs should inform and they may need to be reflected in future legislation that affects CSER, with regulators also assuming the role of stakeholders.

Stakeholders need reliable and quality CSER to support decision making, subject to the constraint of time. This is reflected in the findings of Table 38 that all the three groups attach a high value to corporate reporting that reports on the most significant social and environmental issues. Investing stakeholders are the least in favour of companies reporting on the details of all impacts in CSER ( $p < 0.10$ ). In particular one respondent commented that –

“[we] would like to see more targeted reporting because of information overload” (Respondent i36).

This is consistent with extant findings that investing stakeholders may not rely exclusively and overwhelmingly on CSER but may use information about corporate social and environmental performance from other media of

disclosure as well. It is indicated in extant studies that in supporting stakeholder decision making, public information is used as an important “information base” (Holland, 1998b, p.46) and supplemented by private information (Pendleton, 2005). Information that arises from private meeting between stakeholders and companies is often construed to be most valuable in supporting decision making (Solomon and Solomon, 2006). Investing stakeholders are often considered as powerful stakeholders to whom valuable company time will be made available for private meetings.

At the same time companies should report on areas of information which is considered important by stakeholders and report such information in a way that stakeholders desire. A way to attain more stakeholder centred CSER is to follow a voluntary guideline in existence, such as GRI's, and report information that is clearly indicated as stakeholders' desired content. Referring to information in Table 38, overall stakeholders consider that information on quantitative targets and performance against quantitative targets is important. One respondent remarked that –

“[we] want to see companies using metrics, then set specific measurement targets against metrics and then measure progress” (Respondent C12).

In particular the setting of concrete targets and the report of verifiable numbers will show companies' willingness to be forthcoming; at present the reporting “is not honest enough” (Respondent C15). The same opinion seems shared by some respondents from the other two groups as well given that they expressed a desire to see more quantitative targets and data (Respondents C9, C14 and P83). In particular –

“more in depth reporting, especially more weighing on environmental performance would be helpful” (Respondent P10).

The fact that of the three groups, investing subjects consider quantitative targets as most important, which is significantly different from the procuring



group ( $p < 0.01$ ), reflects the trend of quantification of risk from information relating to companies in the investment profession. However there does not appear to be any consensus as to whether quantifiable information in CSER is valuable to investing stakeholders. While some extant findings suggest that CSER is not valuable due to disclosures being self laudatory and containing little quantitative information (Deegan and Gordon, 1996; Deegan and Rankin, 1996), it is also observed that investors show a significant preference for “qualitative, discursive disclosure” of social and environmental issues rather than reporting of quantitative information (Solomon and Solomon, 2006, p.575). This seems in contrast to previous findings that most users require quantitative, not qualitative social responsibility information (Teoh and Shiu, 1990) and a finding that subjects in decision experiments largely “ignore narrative social disclosures” (Milne and Chan, 1999, p.452).

Procuring subjects as a group attach the least importance to both qualitative and quantitative targets, compared to the other two subject groups. A possible explanation is that when major users of goods and services make a purchase less specific or quantifiable information is needed, as potential suppliers will be shortlisted subsequent to the completion of a pre qualification questionnaire for the procuring organisations in this study. Of the three stakeholder groups, campaigning subjects treat information on performance against quantitative targets as the most important, which is significantly different from procuring subjects ( $p < 0.10$ ). This is consistent with previous findings that campaigning organisation often have a self perception of occupying a marginalised position in society and most CSER is not valuable in supporting their decision making (Tilt, 1994; 2004). This may also be influenced by a general distrust of corporations and corporate communication (Sinclair and Walton, 2003).

Findings of Tables 39 to 42 suggest that overall there seems to be much agreement on the desired content of CSER in terms of broad content areas. Information in Table 39 and Table 40 suggest that there is no significant difference among the three groups’ preferences on broad CSER content. All respondents seem to prefer seeing information on companies’ environmental

impact or performance reported, with a particular emphasis on emissions to air. This preference seems mirrored by corporate reporting practice. In a review study and in a practitioner report it is suggested that non financial reporting has re-emerged with a particular focus on environmental issues (Berthelot et al., 2003; KPMG, 1993). This is also consistent with another extant finding that companies are more inclined to report on environmental matters over other issues (Gill et al. 2008). This particular trend in corporate reporting behaviour also seems to be reflected in academic research. It is found in a review of academic papers from 1988 to 2003 that 66 percent of the papers were focused on environmental issues and 25 percent on social issues (Parker 2005). It is important to note that while companies may appear to report on the environment, they tend to give a low priority to providing environmental information to external parties (Tilt 2001). Also it is observed in a practitioner report that even leading sustainability reporters are not reporting evenly across all key environmental or climate change related issues (ACCA, 2007).

Stakeholders also find information on health and safety issues valuable in supporting decision making. In Table 41, the overall strong emphasis on health and safety (H&S) provision information is reflective of general societal attention to that area (Anon, 2008). Procuring subjects show the strongest preference for H&S information, compared to the other two groups ( $p < 0.01$ ). This is consistent and reflective of the UK government's recent express concern on H&S issues instead of other areas such as workforce diversity or collective bargaining. For the latter issue, campaigning subjects is the group that shows the strongest support to such concern which is significantly different from the other two groups ( $p < 0.01$ ). This is consistent with the general perception of campaigning organisations as champions for the underprivileged.

Findings in Table 42 suggest that for community related issues there is no significant difference across subject groups in the strongest preference for reporting on corporate community impact. It is however interesting to note

that while all subject groups attach low importance to international labour issues, procuring subjects seem to have the least regard for that and campaigning subjects showing the most interest ( $p < 0.05$ ). This seems to stay as an important area that campaigning organisations will champion for as part of the human right campaigns agenda. However an extant finding about the attitude of multinational companies on international labour issues suggests otherwise –

“multinational companies, when exposed to negative global news coverage pertaining to suppliers’ labour practices, appear to exert pressure on suppliers to conform with the expectations that have been placed upon them by the community” (Islam and Deegan, 2010, p.132).

Such an issue does not seem to be important to the procuring subjects in this study who are all public sector organisations.

### ***Need for Higher Quality Information***

Another way to deliver more stakeholder centred CSER is to provide CSER at a quality level that stakeholders desire. As summarised in Table 43 and as discussed above, some stakeholders feel that CSER should be improved in terms of reliability and comparability. Such improvements may likely lead to more stakeholder centred reporting. Initiatives on attaining better CSER may come from the companies voluntarily as per non mandatory standards or may be imposed on them as regulatory requirements. This seems consistent with the observation that existing legislative requirement on CSER, which mainly stems from Companies Act 2006, is not adequate. It also suggests that there may be a need to formalise the current practice of voluntary adoption of reporting frameworks. There appears to be different opinions regarding the desirability of increasing regulations for CSER. Some respondents acknowledged that though –

“no one single or comprehensive approach [to reporting] is possible” (Respondent P51).

Some form of standardisation is perceived as necessary (Respondent C8, P12). Respondents in particular called for “a more standardised approach on format and content “ (Respondent P78) and a “standardisation of reporting metrics” (Respondents C3, P29) and they saw increased comparability as an obvious advantage of standardised reporting (Respondents C5, i10, i17, i25). Some respondents preferred to begin with a voluntary approach of reporting. One of them remarked –

“[we] want to see more consistency and standardised format...code of practice should be voluntary as a start” (Respondent P66).

This is consistent with an extant finding that publicly available corporate reporting on environmental issues seems inadequate for users’ needs and thus requires standardised approaches to measurement, disclosure and assurance (FEE, 2009). It may seem desirable to have companies report with more standardised format and presentation but some respondents considered “more legislation may be too over bearing” (Respondent P45) and that “any tinkering won’t do any good” (Respondent C12). This view is supported by an extant finding –

“Some attempt at standardisation was deemed necessary. The majority called for standardisation in the form of guidelines rather than mandatory reporting, as it was seen as “too early to lock in” to a standard, prescriptive format ... This would avoid problems of “cherry picking” which can arise in a completely voluntary, non-standardised environment...However, the majority of interviewees were opposed to mandatory SEE disclosure, as they wanted to avoid SEE disclosure turning into a “box ticking;” exercise or a “quagmire of compliance”” (Solomon and Solomon, 2006, p.574).

Other respondents held the view that due to the “huge differences and discrepancies [between reporting and performance]” (Respondent C22) a legal mandate for reporting is necessary (Respondents C25, P28, P33). One

of them even remarked that “changes in the Companies Act are not far enough (Respondent i11). One campaigning respondent remarked –

“[I] want to see CSER go down the road of financial reporting...change in Companies Act is weak” (Respondent C1).

One of the reasons presented was that many companies saw CSER as “greenwash or spin” (Respondent i34) and “voluntary PR behaviour” and therefore information in such reports might not be taken seriously by stakeholders (Respondent C25). “Strict norms for reporting could be enforced through legislation” (Respondent C19) which would improve the quality of reporting (Respondent P68). One respondent remarked –

“legislative requirement [is useful] to bring up the standards and consistency [of reporting] might increase if there are more laws” (Respondent P42).

Increased standardisation that can be achieved through legislation will “help [increase] comparability of the reporting (Respondents C24, i8, i31, i35). It is also acknowledged that it will be “difficult to get nationally agreed standards” (Respondent P12) so more consistent metric for reporting can perhaps be attained within individual sectors (Respondent i6). However subjecting CSER to more state regulation does not appeal to all stakeholders as the panacea –

“[I] only want to see part of it become mandatory but not all of it...since standard will slip and no more incentive if made mandatory” (Respondent C11).

The above discussion suggests that stakeholders tend to prefer a standardised approach in CSER using standardised metrics from a common framework to company specific metrics (also see Table 38). Overall these findings are consistent with an extant finding that social and environmental disclosures should be regulated to “ensure consistency and comparability” of information (Holder-Webb et al., 2009, p.520).

### ***The Need for Assurance and the Credibility of Information***

Findings in this study have given mixed views on the value of independent CSER assurance in enhancing the credibility of information. The value of assurance will be fully explored in the next chapter of data analysis. An overview on the diverging views of the value of assurance is given here as a preamble for the following chapter. In extant studies opinion on CSER assurance is divided in that some believe that external assurance may enhance information credibility and some do not because assurance may just become another managerial tool (Jones and Solomon 2010). In this study the opinion is also divided. For example a respondent remarked that assurance for CSER would not be necessary (Respondent C5). Even if assurance might be useful, companies should be able to exercise discretion as to whether the CSER should be subject to audit depending on the company size (Respondent P80). Further, while many respondents saw CSER assurance having some potential value (Respondents i9, P40, P48), at present assurance might not be too valuable in supporting decision making because the quality of verification seemed poor in general (Respondent C14) and it was felt that the auditing of companies' qualitative CSR reports should be more robust (Respondent P33). This particular sentiment towards CSER assurance is supported by an extant finding that assurance statement at present is deficient as a communication mechanism and "every effort has to be made... to enhance the clarity of the statements" (Deegan et al., 2006b, p.334). Even if a need for assurance exists for stakeholders (Respondent P73), respondents tend to hold different views as regards whether assurance should be voluntary or mandatory. One respondent commented –

"[I would] like to see audit standards for social issues and benchmark of good practice" (Respondent P63).

It is felt that being legally mandated will drive companies to commission assurance and engage in good practices (Respondents C14, i14). In

particular one respondent stated that if assurance is not mandated then it would not mean much (Respondent i23). However one respondent had a different view –

“[I] want to see more assurance statements but legal mandate may be a step too far” (Respondent i2).

Other respondents also felt that legal mandates might not be necessarily useful (Respondents C21, i15). One respondent said –

“more regulations on auditing are not necessarily good...just look at all the financial auditing scandals” (Respondent i3).

An extant finding also considers the cost implications for companies if CSER assurance is legally mandated. A legal mandate in this case is seen to incur substantial costs for companies and is compared to using a sledge hammer to crack a nut (Jones and Solomon, 2011). Though there is no doubt that some respondents are being sceptical about the credibility of CSER at present, there is not yet a consensus as to the value of mandatory independent assurance which is similar to financial auditing in augmenting the credibility of CSER. The uncertainty regarding the effectiveness of regulation on CSER may be a reason why CSER assurance is not more prevalent than what it is at present. This is consistent with previous finding that independent assurance on CSER is not an unqualified panacea in that much assurance practice has been of questionable robustness, reliability and consistency (Dando and Swift, 2003).

Views of many respondents seem to suggest that it is unlikely that valuable CSER that supports stakeholders in decision making will come about as a result of companies complying with regulations. Trust of companies being accountable through the statutory reporting of information seems to have been eroded. Honest and reliable reporting may come about only at the initiative of companies.

This study has focused on user perceptions of CSER within a model which acknowledges that companies face diverse stakeholder groups. Results suggest that CSER though being decision useful is not of the highest quality possible. The issue is further complicated by multiple stakeholders having different information requirements. CSER assurance may seem an obvious solution to enhancing stakeholder confidence in CSER but initial findings suggest that assurance has questionable value. In the next chapter of data analysis stakeholder demand and preferences for CSER assurance will be fully explored.





## CHAPTER 8

## Chapter 8 – User Perspectives on CSER Assurance<sup>12</sup>

### Introduction

CSER assurance has the potential to fulfil an important function in supporting stakeholder decision making which is to validate CSER and enhance its credibility and stakeholder confidence. Recent work has emphasised the developing importance of assurance on CSER as institutional bodies such as Accountability and The Global Reporting Initiative have recommended that assurance be commissioned on CSER (Kolk and Perego 2010, GRI 2006, Willis 2003) amid concerns over the credibility of CSER (ACCA 2004, Milne and Gray 2008). However, while the institutional and academic salience of CSER assurance has increased significantly it remains a relatively under researched area (Kolk and Perego 2010, Kuruppu and Milne 2010). The decision for firms to supply assurance on corporate reporting and stakeholders to use such information forms an integral part of many firms' corporate reporting strategies.

Having examined what determines the value and the extent of use of information in CSER and stakeholder preferences on the content of CSER, this chapter investigates stakeholder demand and preferences for CSER assurance through analysing data using both quantitative and qualitative methods. The determinants of user demands for third party assurance of CSER will be examined within a quantitative model which emphasises user perceptions of CSER and their use of alternative data sources, before exploring both the decision to use third party assurance and the type of preferred assurance using qualitative analysis. Specifically this chapter aims to address the following research questions –

1. What determines the use of CSER assurance?

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<sup>12</sup> A version of this empirical chapter has been submitted to a peer-reviewed journal as a paper co-authored by Renfred Wong, Andrew Millington and Philip Cooper.

2. What type of assurance provider do stakeholders prefer?

Given the questionable quality of CSER (Milne and Gray 2008), effective third party assurance may be expected to play a key role in the validation of CSER.

## Hypothesis Development

Hypothesis 1: *There is a positive relationship between the perceived value of CSER and stakeholder demands for CSER assurance.*

Hypothesis 2: *There is a negative relationship between the demand for third party CSER assurance and stakeholder perceptions that CSER data is accurate or unbiased*

Hypothesis 3: *There is a negative relationship between stakeholder access to private corporate disclosures and stakeholder demand for third party CSER assurance.*

Hypothesis 4: *There is a positive relationship between stakeholder's use of responsible investment index and stakeholder demand for third party CSER assurance.*

The basic model of the influences on CSER assurance is expressed as a logistic regression model below –

Demand for CSER Assurance	=	$f$ (Value of CSER to Users, CSER Accuracy, User Access to Private SER, Use of Infomediaries)
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### Variable Measurement

*Dependent Variable – the Demand for Assurance*

The dependent variable is measured using a dummy dependent variable. This takes a value of one (1) if the respondents reply positively to the question “*Do you check whether reported corporate social and environmental information has been verified by an independent third party?*” and zero (0) otherwise.

### *Independent Variables*

The value of CSER to users is measured in two ways. The first measure (Value) is based on user responses to the question ‘*How valuable is CSER to your work?*’ User responses are measured on a five point Likert scale, 1 being not very valuable, 5 being very valuable. The second measure (Time) is based on the percentage of the user’s total time spent on using SER in any form which is allocated to publicly available CSER in particular. CSER accuracy is estimated using a five point Likert scale based on the question ‘*To what extent do you agree or disagree that CSER is free from bias?*’ This takes a value of one (1) for strongly disagree and five (5) for strongly agree (Unbiased). User access to private SER is estimated as the percentage of the user’s total time spent on using SER arising from private meetings with companies (Private). In order to measure the importance of information intermediaries or infomediaries, the respondents were asked to identify ‘*how important is inclusion in the FTSE4Good Index as an indicator of environmental and social performance*’ on a five point Likert scale where one is not important and five is very important (FTSE4Good) [1].

### Controls

Stakeholder resources are expected to be negatively related to the demand for third party assurance of CSER. Organisations with larger CSE performance departments are more likely to have the resources and capacity to carry out independent research and validation of publicly available CSER. Stakeholder size is measured by the logged value of the percentage of time spent by employees on using CSER (LNStaff). Stakeholder type is also controlled for, but there is no prior expectation about significance or causality.

Stakeholder type is measured by a set of dummy variables which take the value one for investing stakeholders, procuring stakeholders and campaigning stakeholders respectively.

### Model Specification

The full empirical model is –

Assurance	=	$\alpha + \beta_1 \text{Value or } \beta_1 \text{Time} - \beta_2 \text{Unbiased} - \beta_3 \text{Private} + \beta_4 \text{Use of FTSE4Good} - \beta_5 \text{LNStaff} + \beta_6 \text{DUMMYCampaigning} + \beta_7 \text{DUMMYInvesting} + \beta_8 \text{DUMMYProcuring} + \varepsilon$
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This is estimated using logistic regression. The dependent variable analysed is stakeholder’s demand for CSER assurance.

## **Descriptive Statistics**

**Table 44 – Means of Stakeholder Use of Assurance**

<b>Assurance</b>	Procuring	Investing	Campaigning	All Stakeholders	SD
Use	0.42	0.76	0.72	0.56	0.50
Do Not use	0.58	0.24	0.28	0.44	0.50

Note: Assurance is the dependent variable that takes either the value one (Use) or zero (Do not use).

Overall slightly more than half of the stakeholders use assurance. It is stated that CSER has been accompanied by a growing market for its independent assurance (Kuruppu and Milne, 2010). Results suggest that the majority of investing stakeholders use CSER assurance. This is supported by extant evidence that investors in general are found to be risk adverse and therefore “needing very high levels of assurance” (Edgley et al, 2010, p.552). Most campaigning stakeholders also use CSER assurance. This is consistent with

the observation that campaigning stakeholders in general may not trust corporations (Sinclair and Walton, 2003), including corporate communication and thus they look for information that validates corporate reports. Not many procuring stakeholders use CSER assurance. This seems inconsistent with previous findings that procuring organisations tend to closely monitor the CSR activities and discuss assessment findings with suppliers (Unerman and O’Dwyer, 2010) and that major customers actively demand social and environmental reporting (Grubnic and Owen, 2010). It is possible that assurance may not be the information of choice for procuring stakeholders.

**Table 45 – Means of Independent Variables**

	Procuring	Investing	Campaigning	All Stakeholders	SD
CSER Value (Value)	2.68	3.92	3.48	3.13	1.24
CSER Accuracy (Unbiased)	1.92	2.42	1.72	2.01	0.95
Use of FTSE4Good	1.74	2.11	2.20	1.91	1.16
Access to Private SER (Private)	49.97	16.50	25.49	37.38	26.75

“Value”, “Unbiased” and “Use of FTSE4Good” are all estimated using five point Likert scales. They take a value of one (1) for strongly disagree / not important and five (5) for strongly agree / very important. “Private” is estimated as the percentage of the user’s total time spent on using SER from private meetings. As discussed in a previous empirical chapter, among all stakeholder groups investing stakeholders tend to find CSER the most valuable and more unbiased than the other two groups. Both investing and campaigning stakeholders tend to find FTSE4Good more important than procuring stakeholders. This confirms the value of FTSE4Good in validating the quality of CSER. This seems particularly important for campaigning stakeholders who require external validation of corporate reporting. A previous study suggests that CSER is not seen as credible by NGO (Tilt, 1994) and CSER assurance may help enhance the credibility of CSER.

### Correlations

Information in the Table 46 suggests that the correlation coefficients between Assurance and Value [2], Private and FTSE4Good are all significant and have the expected sign. The correlation coefficients also indicate that stakeholder type has a significant impact on the demand for third party assurance with a positive and significant relationship between Assurance and Investing and a negative and significant relationship between Assurance and Procuring. Although the variance inflation factors (VIFs) do not exceed four, suggesting that multicollinearity is unlikely to prove a significant problem, the coefficients do display relatively high and significant levels of correlation between Value and Private (-0.510\*\*) and between stakeholder type, Value and Private. The relationship between Investing and Value is positive ( $r=0.372^{**}$ ) and the relationship between Investing and Private is negative ( $r= -0.458^{**}$ ). In contrast Procuring stakeholders place a positive value on private SER ( $r=0.554^{**}$ ) and a negative value on CSER ( $r= -0.425^{**}$ ).



**Table 46 – Correlations of the determinants of stakeholders’ demand for CSER assurance**

		Mean	VIF	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)
(i)	Assurance	0.56	-	1.000								
(ii)	Value	3.13	1.659	.238(**)	1.000							
(iii)	Private	37.3786	1.745	-.267(**)	-.510(**)	1.000						
(iv)	Unbiased	2.01	1.206	-0.008	.374(**)	-.213(*)	1.000					
(v)	FTSE4Good	1.91	1.102	.310(**)	.227(**)	-.215(**)	0.112	1.000				
(vi)	LNStaff	0.3765	1.042	0.071	0.076	-0.040	0.152	-0.003	1.000			
(vii)	Campaigning	0.1701	1.352	0.148	0.129	-.199(*)	-0.138	0.113	-.230(*)	1.000		
(viii)	Investing	0.2517	1.705	.232(**)	.372(**)	-.458(**)	.245(**)	0.098	0.067	-.263(**)	1.000	
(ix)	Procuring	0.5782	2.280	-.317(**)	-.425(**)	.554(**)	-0.111	-.172(*)	0.114	-.530(**)	-.679(**)	1.000

Notes: \*\* Correlation is significant at the 0.01 level (2-tailed); \* Correlation is significant at the 0.05 level (2-tailed).

## Regression Analysis

In light of the pattern of collinearity between Value, Private and stakeholder type disclosed in Table 46 the relationship between Assurance and the independent variables is explored in three stages. The first model includes Unbiased, Value, FTSE4Good and LNStaff. The effect of including Private is then explored in model 2. The full model including stakeholder type is then presented in model 3. The overall explanatory power of the models is satisfactory within the context of a cross section study; Nagelkerke's  $R^2$  varies between 0.27 and 0.32 in the three models and the Chi-square statistic is highly significant in each case ( $p < 0.01$ ). The models predict between 69 and 74 per cent of the cases correctly. Taken together, the results suggest that Value, Unbiased and FTSE4Good contributes significantly to the explanation of stakeholder preferences for third party assurance and provide substantial support for the hypothesised relationships. Each model will be discussed in turn.

**Table 47 – Determinants of Stakeholder Demand for CSER Assurance**

<b>Variable Names</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Unbiased	-0.559 (0.247)*	-0.579 (0.251)**	-0.552 (0.253)**
Value	0.596 (0.205)***	0.472 (0.224)*	0.405 (0.232)*
FTSE4Good	0.653 (0.213)***	0.637 (0.221)***	0.641 (0.225)***
LNStaff	0.122 (0.136)	0.154 (0.141)	0.199 (0.150)
Private	-	-0.015 (0.010)	-0.009 (0.011)
Campaigning	-	-	0.815 (0.747)
Investing	-	-	0.771 (0.666)
Procuring	-	-	-
Constant	-1.500 (0.699)**	-0.479 (1.031)	-0.859 (1.080)
Percentage of Cases Correctly Predicted	70.8	73.9	68.9
Nagelkerke R Square	0.27	0.30	0.32
Chi-square	26.39***	29.89***	31.91***
n	120	119	119

Significance levels: \*p<0.10, \*\*p<0.05, \*\*\*p<0.01.

Standard errors are shown in brackets.

In model 1 a positive and significant relationship was found between stakeholder perceptions of the Value of CSER and ASSURANCE ( $p < 0.01$ ) providing support for hypothesis 1. UNBIASED which reflects user perceptions of the degree to which CSER faithfully represents corporate social and environmental performance was negatively and significantly related to ASSURANCE ( $p < 0.10$ ) providing support for hypothesis 2. As expected, users who question the representational faithfulness of CSER are more likely to use third party assurance and thus hypothesis 4 is also supported. FTSE4Good is positively and significantly related to Assurance ( $p < 0.01$ ). Infomediaries such as FTSE4Good appear to act as a complementary source of information on corporate social performance. Finally the relationship between LNSTAFF and ASSURANCE is insignificant, providing no support for the hypothesised relationship between user resources and demand for third party assurance.

The inclusion of PRIVATE in model 2 which measures the extent to which stakeholders use private corporate disclosures results in a significant increase in the explanatory (Nagelkerke  $R^2 = 0.30$ ) and predictive (pred = 74%) power of the model. The results provide tentative support for hypothesis 3. While the relationship between PRIVATE and ASSURANCE in model 2 is negative but not significant ( $p < 0.10$ ), the correlation coefficient between PRIVATE and ASSURANCE is significant and negative ( $-0.267^{**}$ ). Given the relatively high correlation between PRIVATE and VALUE ( $-0.510^{**}$ ), the significance of the relationship between PRIVATE and ASSURANCE in model 2 may reflect multicollinearity. While the coefficients on Unbiased ( $p < 0.05$ ) and FTSE4Good ( $p < 0.01$ ) remain relatively stable and significant, inclusion of PRIVATE has a marked effect on VALUE which remains significant though at the ten per cent level. Inclusion of the stakeholder dummies in model 3 results in an increase in explanatory power (Nagelkerke  $R^2 = 0.32$ ) but a decline in the predictive power of the model (pred = 69%). Neither of the stakeholder dummies (Investing, Campaigning) are significantly different to the omitted variable Procuring; VALUE ( $p < 0.10$ ), UNBIASED ( $p < 0.05$ ) and FTSE4Good ( $p < 0.01$ ) are all significant with the expected signs. This suggests that differences in user preferences for third party assurance are

reflected in underlying perceptions of the value of CSER and different access to private corporate disclosures.

## **Discussion and Qualitative Analysis**

The results of this study provide consistent support for a model of user demand for third party assurance which emphasises user perceptions of the value and quality of CSER. The more a stakeholder values publicly available company information, the more the stakeholder is inclined to use CSER assurance, whose primary function is to enhance the credibility of CSER and thus stakeholder confidence. It is observed in an extant study that –

“the point of assurance is to increase the confidence users can have in a particular statement” (IAASB, 2004, p.150, cited in Deegan et al., 2006b).

Similarly, the more free from bias CSER is perceived to be, the less inclined a stakeholder will be in using CSER assurance. However, only 56 percent of the respondents use CSER assurance despite all the potential benefits they can derive from such an information intermediary. This may be consistent with previous findings about the scepticism that is associated with the value of CSER assurance (Ball et al., 2000; Deegan et al., 2006a; 2006b; Gray, 2000). However in this study the majority of investing stakeholders as a group claim to use CSER assurance. The results also suggest that infomediaries, such as FTSE4Good complement rather than substitute for third party assurance. In contrast the results suggest that private corporate disclosures may act as a substitute for third party assurance. This is consistent with earlier work which has emphasised the quality of corporate private disclosures relative to corporate public disclosures (Pendleton 2005, Solomon and Solomon 2006). It is important to stress however that this effect is motivated by access rather than the perceived value of the information. Private corporate disclosures are considered to be more valuable for decision making than CSER both for the sample as a whole and for each stakeholder group. However, access to

private corporate disclosures varies significantly across the sample with the proportion of time spent using private corporate disclosures varying between 50 percent for procuring stakeholders and 17 percent for investing stakeholders.

The quantitative results suggest that the different demand for assurance reflects differences in the value placed on CSER and access to private corporate disclosures. The raw data suggests that different stakeholder groups have different preferences for third party assurance. Almost 75 percent of investing and campaigning stakeholders check whether corporate social and environmental information has been audited by a third party. The positive effect of CSER assurance in encouraging the use of CSER is supported by an extant finding that in general CSER is more heavily used by investing parties outside the US where CSER is more prevalent (Holder-Webb et al., 2009). On the other hand only 42 percent of respondents in procuring organisations check whether corporate social and environmental information has been audited by a third party. The lack of an overwhelming demand for CSER assurance can be attributed to its quality. It is stated by Deegan et al., (2006b) that often assurance is seen as worthless as it is not an independent inquiry but conducted under a strict management brief. Another explanation for a lack of demand is the absence of a need for CSER assurance. In this research it is found that 13 respondents (i22, i32, P7, P9, P26, P32, P44, P73, P74, P75, P81, P82, P83) did not see assurance as necessary as they trusted companies' reporting. One respondent in particular remarked that company reports were "expected to be truthful" (P73). This finding seems resonated by an extant finding that some companies do not see CSER assurance as necessary at the moment (Jones and Solomon, 2010)

In order to further explore the factors which underpin the decision not to use assurance, respondents who did not use third party assurance were asked to identify the reasons. Almost 31 percent of the respondents questioned the relevance of CSER assurance to their decision making at this point in time – but most of these respondents were located in procuring organizations who might be expected to have better access to private corporate disclosures.

However, trust is both an important factor and a key differentiator between stakeholder groups. Among campaigning and investing stakeholders who did not use third party assurance, almost half suggested that they did not trust third party assurance; none of the procuring stakeholders suggested that this was an issue. The concerns of investing and campaigning stakeholders are reflected in their responses.

### The Quality of Assurance Statements

CSER assurance has the potential to be a process that delivers sustainability (Lewis and Ferguson, 2010) and it is a key factor in reinforcing the importance of non financial data by a number of organisations (Hopwood et al., 2010). It is suggested that the reliability of CSER can be enhanced by attestation by an objective third party (Holder-Webb et al., 2009). However findings in this research suggest that many stakeholders do not use CSER assurance. This is consistent with a recent finding that the value of CSER assurance has been questioned despite its rapid growth (Edgley et al., 2010). The decision not to use CSER assurance can be attributed to the quality of the assurance statements. A respondent remarked that “assurance is not necessarily adding value to the ground” (Respondent i34). Others also commented –

“We just don't use third party assurance - look at Enron and Arthur Anderson” (Respondent C9)

“Third party auditing has caused problem, particularly in the clothing sector. At present it fails more than succeeds in identifying issues and specialist auditors' quality varies dramatically” (Respondent C14)

Deegan et al. (2006b) suggests that the variability in the content of assurance statements undermines their contribution and the inconsistent approach to verification has adversely affected the overall credibility of verification with stakeholders. It is also suggested that in assurance engagements formal procedure is privileged over transparent communication (O'Dwyer et al., 2011). Further, in a case study of HSBC's CSER assurance process, it is

found that only selected areas are formally assured by a third party (Bhimani, and Soonawalla, 2010), thus rendering such assurance biased. Therefore CSER assurance statements may be seen as deficient as a communication mechanism and there is a need to increase their clarity. In fact CSER assurance has been labelled by researchers as a dead end in the chain of accountability previously (O'Dwyer and Owen, 2005). However it is also recognised and perhaps generally accepted that the level of assurance provided to TBL reports is not at the same level of assurance (or audit) as provided in a financial statement audit (Deegan et al., 2006b). This view is supported by another extant finding which sees CSER assurance by nature as “less quantified, more elusive and less easy to assure” than more traditional financial data and thus CSER assurance is far more difficult to achieve (Jones and Solomon, 2010, p.29). It seems that there will still be some time before the mission of GRI to elevate the practices of CSER to a level equivalent to that of financial reporting in auditability can be attained.

The potential value of CSER assurance in supporting stakeholder decision making may also be influenced by stakeholder perceptions of the extent of any audit expectations gap. A recent research has highlighted the possibility of users of assurance information “overestimating the strength of assurance” (Kells, 2011, p.386). This seems to be an additional factor that affects the perceived usefulness of CSER assurance, apart from the variability of assurance statements and the assurance process. Moreover, judging from the first respondent's comment above (C9), it seems that perceived independence between the reporting companies and the assurance providers would be a key concern for stakeholders. Perceptions of independence affect the extent that stakeholders can trust assurance statements. The trust issue will be explored in the following section.

### Trust of Assurance

In a recent empirical study it is suggested that CSER assurance should make CSER more trustworthy and credible (Edgley et al., 2010). However any value of CSER assurance in this respect can be undermined if stakeholders



feel that assurance providers cannot be trusted. In this research some respondents were not inclined to trust assurance providers. The general value of assurance is questioned as one remarked “assurance may not mean a lot” (Respondent i35) because –

“We don’t trust auditors, they have close relationships with companies and the reports are often biased” (Respondent C25)

“CSER assurance is not a main priority because third party verification can be a joke” (Respondents i16, i27).

With the growth of CSER assurance and its role of increasing stakeholders’ confidence in CSER (Simnett et al., 2009), assurance providers have the potential to act as conduits between companies and stakeholders (Edgley et al., 2010). However such a role seems yet to be fulfilled. It was found in a study that examines the CSER assurance statements of 28 UK and 13 European companies in 2002 only about half the companies refer to assurance providers’ independence (O’Dwyer and Owen, 2005). The questionable independence of the assurance work undertaken and the issue of company management controlling the assurance process have also been highlighted (O’Dwyer and Owen, 2005). It is mentioned in extant studies, for example Smith et al (2011), that the CSER assurance process has been captured by corporate management. In particular, O’Dwyer and Owen (2005) suggest that the assessor is subservient to the interests of the “paymaster” (O’Dwyer and Owen, 2005, p.227). Also Jones and Solomon (2010) state that –

“[management of the reportees] are arguably the prime movers in the process. They set the agenda, collect and process the data and prepare the reports [they] also decide the level of assurance and pay the assessors” (Jones and Solomon, 2010, p.21).

Under such circumstances no doubt CSER assurance is seen as a tool used by company management to build trust among its stakeholders to reduce risk

and anxiety (Jones and Solomon, 2010). In this research, in particular, one respondent (C25) did not trust auditors and did not see assurance statements as unbiased since he did not believe that the assurance provider assumed much independence from the client company in the assurance process. Another respondent (C9) highlighted a high profile corporate scandal which was related to a major auditing failure. Such a sentiment is also found in previous studies in which the independence of assurance providers of CSER is questioned (Ball et al., 2000; Deegan et al., 2006a; 2006b). In a recent study it is noted that though there is still managerial capture of CSER assurance, stakeholders are becoming “increasingly included in the process as it matures” (Edgley et al., 2010, p.532).

In fact including and involving stakeholders in the CSER assurance process seem to be beneficial to both companies and stakeholders. Engaging stakeholders in a dialogue in this context will increase the legitimacy of the CSER assurance process (O’Dwyer et al., 2011). In particular this will increase stakeholder perceptions of the independence of the assurance process, resulting in increased stakeholder confidence and credibility in CSER assurance statements (Edgley et al., 2010). By engaging stakeholders in a dialogue throughout the assurance process assurance providers have become agitators for stakeholders as they “engender change in corporate attitudes and behaviour” (Edgley et al., 2010, p.554). However it should be noted that any such change would happen gradually which is typical of any dialogic processes (Bebbington et al., 2007). Thus it would be a while until companies could become truly stakeholder inclusive.

Another benefit of involving stakeholders in CSER assurance is to ultimately eliminate stakeholder ignorance in this area through an educative process driven by assurance providers (Edgley et al., 2010). In this research a few respondents (Respondents C7, P65, P67 and P72) justified their non usage of CSER assurance with their own lack of knowledge in this particular area. In particular one respondent said he was not using information from CSER assurance statements because he was not a sophisticated user (Respondent P72). However a recent finding suggests that greater efforts by assurance

providers may not be able to convince potential users or increase their understanding of assurance statements (O’Dwyer et al., 2011).

In this research the findings suggest at least some respondents are more inclined to trust assurance performed by consultant assurers as opposed to accountant assurers, a distinction drawn by O’Dwyer and Owen (2005). In a recent study of the professional services division of a Big 4 accounting firm which provides CSER assurance services, the issue of a perceived lack of trust in the professional judgement of accountant assurers is again highlighted (O’Dwyer et al., 2011). Findings regarding stakeholder preferences for the type of CSER assurance are explored in the following section.

### Type of CSER Assurance

In view of the two different groups of assurance providers stakeholder preferences for the type of third party assurance are investigated. Respondents were asked whether they preferred financial auditors (accountant assurers) or specialist environmental auditors (consultant assurers) and were then asked to explain their preferences through an open ended question which were then analysed and coded. The results are presented in Table 48 and 49 below.

**Table 48 – Respondent Type and Preference for the Type of CSER Assuror**

Respondent type		Financial auditors	Specialist environmental auditors	No preference	Others – user hired specialist	Others – any independent parties
	N	%	%	%	%	%
Investing	28	10.70	53.60	32.10	-	3.60
Procuring	36	-	63.90	27.80	8.30	-
Campaigning	18	5.60	66.70	22.20	-	11.10

Note: Data shown in the last two columns under “Others” was constructed from qualitative responses through data combining and analysis. Responses

in the various columns represent explicit mention of the above issues as labelled.

**Table 49 – Respondent Type and Reason for Preference of the Type of CSER Assuror**

Respondent type		Competence in subject matter	Competence in auditing practices	Knowledgeable of the company's business	Others – both types and competence	Others – independence and credibility
	N	%	%	%	%	%
Investing	28	50	14.30	-	17.90	17.90
Procuring	36	80.60	8.30	-	11.10	2.80
Campaigning	18	61.10	11.10	-	5.60	5.60

Note: Data shown in the last two columns under “Others” was constructed from qualitative responses through data combining and analysis. Responses in the various columns represent explicit mention of the above issues as labelled. 13 participants declined to provide a response.

The results in Table 48 suggest that specialist environmental auditors are overwhelmingly preferred to financial auditors as providers of CSER assurance. One respondent remarked –

“the Big 4 usually take a boiler plate approach [in assurance] whereas specialists [assurors] will take a more involved approach” (Respondent C15).

Another respondent remarked –

“discrete, non-financial related entity needed [to provide assurance] to increase credibility” (Respondent P22).

This is consistent with a recent finding that suggests stakeholders may not necessarily trust the professional judgement of accountant assurers (O'Dwyer et al., 2011). However this seems contrary to another finding that CSER assurance can be a logical extension of financial audit in view of the logic of cost effectiveness, coordination and time pressures (Jones and Solomon, 2010). Auditing professionals are known for their competence in auditing practices and their established history of professional services in audit engagement (Simnett et al., 2009). In addition consultant assurers may be disadvantaged as they often do not have the traditions of independence which financial auditors or accountant assurers have acquired through their history of financial audit (Jones and Solomon, 2010). It is remarked that especially among large European companies the market for CSER assurance is dominated by professional service firms such as the sustainability assurance divisions of Big 4 professional services firms (Jones and Solomon, 2010; O'Dwyer et al., 2011). However the qualities of accountant assurers do not seem to have appealed to the respondents of this study. The results in Table 49 emphasise the importance of subject matter competence to the respondents in an area which is both specialised and complex. Independent specialist environmental auditors appear to be much preferred to a group that represents general competence in auditing procedures. This is consistent with previous findings that "Big N" auditors do not necessarily provide better assurance on social and environmental information (Perego 2009, Simnett et al. 2009), especially in terms of the quality of the recommendations and opinions in a CSER assurance statement (Perego 2009).

In addition, comments from the participants in this empirical study emphasise the importance of stakeholder perceptions of independence in the selection of and preference for assurers in CSER. A respondent indicated that "anyone...less conflict of interest would be preferred to provide [CSER] assurance" (Respondent i11). Another respondent commented "[in CSER assurance] independence is key" (Respondent i10). The importance of assessor independence is also reiterated in a recent empirical study in which a finding suggests that accountant assurers consider the ability to claim an element of independence very important as it will help them "assert some

authority” which in turn makes their opinions more credible (O’Dwyer et al., 2011, p.45).

## **Concluding Comments**

Increasing concern over climate change and the environmental and social impact of companies has heightened the importance of corporate social and environmental accountability and concurrently the ways in which companies can be held accountable. Most earlier research on CSER has focussed on disclosure in the annual reports (Harte and Owen 1992, Roberts 1992) and the annual report is considered to be the most common medium (Magness 2006, Tilt 2008). This is the first study to focus on user perceptions of third party CSER assurance within a model which acknowledges that companies face diverse stakeholder groups.

The quantitative results emphasise the perceived value and quality of public CSER as drivers of user demand for third party assurance but also acknowledge the role of private corporate disclosures and infomediaries such as FTSE4Good. The impact of stakeholders on the demand for assurance was mediated through the value that stakeholders placed on CSER and their access to private disclosures. The qualitative results emphasise stakeholder preferences for specialist environmental rather than financial auditors and highlight underlying user distrust in the assurance process by investing stakeholders and campaigning stakeholders. These results are consistent with earlier studies which have questioned the overall credibility of CSER assurance with stakeholders (Deegan et al., 2006b) and the value of non-specialist accounting assurors for CSER performance evaluation (O’Dwyer and Owen 2007), supporting the clear differences between the CSER assurance service that the two groups of assurance providers, namely consultant assurors and accountant assurors, are providing.

Climate change and emerging pressures from a diverse set of stakeholders have emphasised the importance of CSER and the complex stakeholder

environment that companies face. Almost 75 percent of campaigning and investing stakeholders use assurance while less than 50 percent of procuring stakeholders do so. Similar differences are present in the qualitative results where trust is a central issue for campaigning and investing users but not for procuring stakeholders. This suggests that companies need to have a clear view on the target stakeholders for CSER and its resultant implications for CSER assurance. A better understanding of the information needs of stakeholders will help companies attain more user-focused reporting and commission more stakeholder focused assurance. The results also have significant implications for the form of assurance which should be of interest to policymakers in companies and institutional bodies: Users have a clear preference for specialist environmental rather than financial auditors. A perception of independence and subject expertise, rather than competence in auditing procedures or an established history in the auditing practice, is considered key to the trustworthiness of assurance providers.

Notes:

[1] Respondents were asked about a set of intermediaries including: other sustainability indices, rating by BITC and rating by AccountAbility. FTSE4Good provided the best fit.

[2] The alternative measure to users' perceptions of the VALUE of CSER (TIME) was highly correlated with VALUE and PRIVATE. Substitution of VALUE by TIME has little effect on the explanatory power of the model but results in a small reduction in the significance of the explanatory variables. This probably reflects increased levels of multicollinearity.

## CHAPTER 9



## **Chapter 9 - Conclusion**

This thesis sets out to investigate stakeholder perceptions of social and environmental reporting about companies' impact on society and the natural environment from various sources, such as corporate reporting, private SER and information intermediaries. This chapter reviews the major findings and contributions as well as the limitations of this thesis. It draws attention to the gaps identified in the review of literature in the CSER area in Chapter 2 and to the conceptual framework developed in Chapter 3. This chapter also discusses the major findings with respect to the hypotheses that have been developed and tested. Attention will also be drawn to the limitations of the research approach adopted in this thesis. Finally the implications of the findings in this thesis for academics, policy makers and corporate managers as well as suggestions for future research will be highlighted.

### **Discussion and Summary of Major Findings**

One of the objectives of this thesis is to fill the gaps that have been identified in the existing body of literature in the social and environmental reporting area. A review of the relevant literature suggests that social and environmental reporting has been attracting much attention academically and institutionally. As a result, many studies in this area have been conducted over the past decades. Also, in the UK legislations pertaining to the reporting of social and environmental information by companies have been passed since 2006 (HMSO, 2006a; 2008a). Though the importance of social and environmental reporting has been emphasised, it is stated that no one theoretical framework can be utilised to explain all facets of corporate social reporting (Campbell et al, 2003, p.575). Further, there seems to be little empirical research that surveys the views of multiple stakeholder groups on the perceptions of value of information. Most empirical work in the social and environmental reporting area tends to focus on examining the possible benefits associated with CSER through analysing the contents of company

annual reports. The relative lack of understanding of the information needs of key stakeholder groups warrants an empirical study that is dedicated to surveying the perceptions of multiple stakeholder groups on the value and the extent of use of information. The gaps in the literature identified are –

1. In CSER many studies are focused on content analysing company annual reports, there are relatively few studies that investigate the views and information needs of users from a stakeholder perspective.
2. There are very few studies that examine the views and perceptions of stakeholders beyond investing stakeholders.
3. There are very few studies that investigate stakeholder perceptions of information from multiple sources.
4. There are very few studies that examine stakeholder perceptions of the value of information with reference to a set of information attributes that goes beyond a few isolated qualitative characteristics.
5. There are very few studies that examine stakeholders' extent of use of information in SER with reference to the perceived availability of information as well as stakeholder perceptions of information value.
6. There are very few studies that examine stakeholder demand for CSER assurance with reference to stakeholder perceptions of the value of CSER as well as stakeholder use of representational measures (for example responsible investment indices) from information intermediaries.

In Chapter 3 two models have been developed to explain the value and the extent of use of information. The first model predicts stakeholder perceptions of the value of SER, to be explained by stakeholder perceptions of qualitative characteristics. The second model predicts the extent of use of information from various sources of social and environmental reporting, to be explained by stakeholder perceptions of the value and the availability of information, among other factors. Some of the findings of the empirical chapters are discussed below.

1. stakeholder perceptions of information value can be explained by stakeholder perceptions of the qualitative characteristics of information

Empirical results of the relevant empirical chapter in this thesis provide strong support to the hypothesised relationship between most of the qualitative characteristics of information and the value perceptions of information. This research is one of the first attempts to examine the value perceptions of multiple stakeholder groups on information of various sources in social and environmental reporting, which goes beyond corporate reporting. The above finding is consistent with suggestions in previous research that CSER can shadow financial reporting by borrowing elements in the reporting framework, for example, the explanation of the value of information by qualitative characteristics (Solomon, 2000). The finding is also consistent with previous research that examine the value of information in terms of qualitative characteristics of information, including relevance (Cormier et al., 2005) and comprehensiveness (Adams, 2004).

2. the relevance of information is found to be the qualitative characteristic that can predict the value of most types of information in SER

This research is one of the very few studies that examines the determination of the value of information explicitly with a model of information qualitative characteristics. The above finding is consistent with the assertion of FASB and IASB that the relevance of information is the most important qualitative characteristic in influencing stakeholders' perceptions of the value of information (FASB, 2008). This is also consistent with previous research in which the materiality of information is examined (Deegan and Rankin, 1997) and with findings supporting the importance of information being relevant in decision making (Teoh and Shiu, 1990).

3. stakeholders perceive different types of information to have different qualitative characteristics

Specifically there is a finding that suggests that information arising from private meetings between stakeholders and companies exhibits much higher levels of qualitative characteristics of information, in particular information being clear, relevant, comprehensive and timely. The finding is consistent with previous research findings that suggest private information from companies is much sought after by stakeholders because of its higher perceived value (Barker, 1998).

4. the amount of time stakeholders spend on using information can be explained by the value perceptions and the perceived availability of information by stakeholders

This research represents one of the first attempts to examine the extent of use of information in SER by multiple stakeholder groups in relation to information value and availability. This is consistent with the prediction that stakeholder perceptions of information value affect the amount of time stakeholders are willing to spend on information. This is because time is finite and stakeholders allocate time and by implication other resources wisely. In this context the more valuable a type of information is perceived to be, the more likely stakeholders will allocate time to that type of information. The predicted relationship between the amount of time stakeholders are willing to spend and the perceived availability of information also holds. Stakeholders tend to spend time on information that is perceived to be available.

5. stakeholders in general have expressed a preference to spending time on private SER over public SER (CSER) information

Results from one of the first studies that examine multiple sources of information in SER suggest that stakeholders tend to prefer to spend time on private SER over public SER (CSER) information. This finding seems consistent with suggestions from previous research that information arising from private meetings between stakeholders and companies is often regarded as of high quality and valuable in supporting decision making (Pendleton, 2005; Solomon and Solomon, 2006). Because of its high perceived quality, it is

no surprise that private SER is subject to great demand, to the point that the capacity of companies to supplying such meeting opportunities is exceeded and thus the availability of private meeting opportunities is often restricted (Al-Hawamdeh and Snaith, 2005).

6. stakeholders' demand for assurance on CSER is influenced by stakeholder perceptions of the value of CSER

This is one of the first studies to focus on third party assurance of CSER, complementing an existing and extensive literature on corporate social and environmental disclosure. CSER assurance is a recent phenomenon and the market is still in its formative stages; there is therefore limited understanding of the nature and the extent of the demand and supply of such assurance services (Perego 2009). So far little attention has been given in this literature to what users of CSER assurance consider important, yet it is these users at whom CSER and its assurance is targeted. The finding here is consistent with the prediction that given the growing attention on corporate social environmental performance, stakeholders who value CSER will be more inclined to use assurance on CSER. CSER has formed part of the company annual reports for many organisations. Company annual reports have been the first layer of understanding and a key means to investigate and understand companies (Holland, 1998a). Stakeholders' demand for assurance on CSER is a means to obtain validation on the credibility of CSER, information to which they have already shown interest. This finding is consistent with a previous finding that the incidence of assurance for CSER tends to be higher for companies looking to augment the credibility of its social and environmental reporting (Simnett et al., 2009). A related finding in this research, which provides support to a previous observation, is that stakeholders who are users of assurance for CSER may not necessarily prefer an assurator from the financial auditing profession over assurance providers from a non auditing background (Simnett et al., 2009).

7. stakeholders' demand for assurance on CSER is affected by stakeholders' use of information from information intermediaries

This research is one of the first attempts that examines demand for CSER assurance in relation to stakeholders' use of information relating to companies in the form of representational measures. One of the findings therein is consistent with the prediction that stakeholders who use information from information intermediaries such as responsible investment indices are more inclined to use CSER assurance, which is a form of representational measure of corporate social and environmental performance. Information originating from assurance providers who are engaged to express an opinion on CSER can be construed as providing a source of information that validates the quality of CSER.

8. stakeholders prefer to see information on companies' impact on the natural environment the most, among various areas of concern

The finding is consistent with suggestions from existing research that over the past years, environmental issues seems to have caught the attention of most stakeholders. It was found previously that stakeholders tend to place attention on companies reporting on environmental matters, followed by financial and then social matters (Gill, et al., 2008). Also a review of literature from 1988 to 2003 in CSER in selected journals shows that the majority of studies had a focus on environmental issues. The sentiments of stakeholders regarding their concern with the natural environmental also seems to have been aptly represented at the institutional level, given that the Climate Change Act was made into law in 2008.

9. stakeholders prefer to see CSER on companies' performance against quantifiable targets

This finding is consistent with suggestions in existing empirical studies that many stakeholders have a preference for quantifiable information to support decision making (Dawkins and Lewis, 2003; Gray, et al., 1988; O'Dwyer and Gray, 1998; Teoh and Shiu, 1990; Tilt, 1994; 2007). This is also consistent with the suggestion embodied in the set of key performance indicators published

by DEFRA in 2006 that all environmental information reported by companies should be quantifiable for it to be of any value or usefulness (HMSO, 2006b). However one should also be mindful of the assumed close relationship between accounting and quantification and be aware of issues that may not be adequately represented through quantification. It has been previously remarked that numbers can be very useful as common yardstick for comparison but numbers may not be able to faithfully represent the complexity of events in the natural environment (Jones, 2010).

## **Contributions to Existing Literature**

This research has made significant contributions to the existing body of literature in several ways. The area of social and environmental reporting and accounting is a relatively new area of research. Though the views and perspectives of stakeholders who use information in SER to support decision making has been emphasised (O'Dwyer, et al., 2005b; Solomon and Solomon, 2006), many previous researchers are found to be inclined towards examining the CSER practices of companies by examining the motivations of reporting through analysing the contents of corporate reports. Through adopting a different methodology to examine stakeholder perspectives, this research has contributed to existing social and environmental reporting literature in the following ways.

First of all, it is one of the first empirical studies that examine the views of multiple stakeholder groups who represent key stakeholders of companies. Many of the previous empirical studies have a focus on examining the views of stakeholders who are in professions that are related to investment or financial services. This is one of the first studies that directly survey the views of stakeholder groups that are critical to companies, the views of stakeholder groups that are beyond just investing stakeholders. This research is also one of the few studies that attempt to survey the views of more than one stakeholder groups in a single empirical study.

Second, it is one of the first empirical studies that systematically investigate the value perceptions of information with respect to a comprehensive set of qualitative characteristics of information that is consistent with the reporting frameworks for social and environmental information put forward by institutions like the GRI and AccountAbility. Some existing studies have examined the perceptions of some stakeholders on the value or the decision usefulness of CSER, but only limited to at most a few qualitative characteristics of information (Kuruppu and Milne, 2010).

Third, this research is one of the first empirical studies that systematically investigate stakeholders' perceptions of the value of various types of social and environmental reporting. Most previous studies tend to focus on corporate reporting. In this thesis particular attention is drawn to the use of information arising from private meetings between stakeholders and companies and the use of information in the form of representational measures such as information from assurance providers.

Fourth, this research has included one of the first studies on stakeholders' extent of use of information with respect to the proportion of time that stakeholders are willing to spend on various types of social and environmental reporting. Previously researchers have examined the perceived materiality or usefulness of social and environmental reporting (Deegan and Rankin, 1997; Harte, et al., 1991; Milne and Chan, 1999; O'Dwyer, et al., 2005b; Teoh and Shiu, 1990). The determination of the extent of use of information according to the time proportions spent on information is a rather neglected area of research.

Fifth, this research is one of the first studies that is dedicated to examining factors that determine stakeholders' decisions to use information that is originated from assurance providers who are engaged by a company to give an opinion on the company's CSER. This is one of the first empirical studies that surveys the views of multiple stakeholder groups and their needs for assurance. This is also one of the first studies that attempts to examine the need for assurance, which is to be explained by stakeholders' preferences on



using information from information intermediaries such as responsible investment indices, which is another form of representational measures.

## **Significance of the Findings for Policy Makers**

Findings in this research bear a few implications for policymakers. Given that many stakeholders prefer to see information that shows company performance against quantifiable targets in CSER, in particular in the area that concerns the natural environment, one possible way forward is to legally require companies to provide quantifiable information on targets and actual performance in CSER. The legislature may wish to take into consideration the information needs of stakeholder when relevant legislations are being revised or formulated in the future. At present, there are two main legislations that involve the reporting of social and environmental information by companies, including Companies Act 2006 (HMSO, 2006a) and Climate Change Act 2008 (HMSO, 2008a). Companies Act 2006 stipulates that inter alia companies should include in the annual reports and accounts a section on Enhanced Business Reporting (EBR). EBR requires companies to inter alia provide information on matters pertaining to employees, the community and the environment, but only to the extent that the operations of the companies would be duly affected. There is no specific requirement as to how companies should provide such information. The Climate Change Act 2008 requires companies to inter alia provide information on the emissions of CO<sub>2</sub> and its requirements are considered to be relatively more specific. However it is only related to the emissions to the atmosphere.

Taking into consideration the relevant findings here, in the future, legislators may wish to consider stipulating requirements on companies providing quantifiable social and environmental information that is relevant to the setting of targets and the comparisons of actual performance against previously set targets. However, it is generally acknowledged that it is unlikely that a one size fits all approach will work in CSER (GRI, 2006), any requirements for companies to report quantifiable information should be set with reference to

the conditions that are specific to the various industry sectors. Though increased quantification of CSER may enhance the comparability of information, any such comparison should be made with reference to industry specific contexts. Also, if most stakeholders are only found to be interested in companies reporting information that is related to the natural environment, there may be a need to reconsider issues that are related to the potential costs and benefits of mandatorily requiring companies to report on matters pertaining to the environment, as well as to the community and society in general.

Empirical findings also suggest that overall, stakeholder perceptions of the value of social and environmental reporting can indeed be explained by stakeholder perceptions of the qualitative characteristics of information. Accounting standard setters may wish to consider promulgating a conceptual framework for the presentation and preparation of social and environmental information for the use of stakeholders who are external to the reporting organisations. At present accounting conceptual frameworks are mainly focused on the information need of investors, who are considered to be the primary user groups of financial information since they are the providers of risk capital to companies (FASB, 2008). This relationship between information value and information qualitative characteristics is not dissimilar to relationship between financial information value and the qualitative characteristics of financial information. To date, the most commonly used reporting framework for CSER is the framework that was put forward by the GRI. GRI's framework asserts inter alia the value of social and environmental reporting is subject to the influence of information qualitative characteristics as perceived by users. National and international accounting standard setters may wish to consider further refining and developing guidance on CSER.

Further, legislators may wish to take account of the views of stakeholders with respect to companies commissioning external assurance providers to provide an opinion on CSER. At present there is no clear consensus on whether assurance is needed and whether it should be more subject to state regulation. Various state legislatures have considered and enacted

legislations on CSER but to date there is no legislated mandate on CSER assurance. Perhaps, as suggested by the empirical findings in this thesis, it is uncertain as to what extent externally assured CSER will render additional value to stakeholders who use CSER to support decision making. Further, unlike auditing for financial information, there is no clear guidance on CSER assurance, for example the choice of the levels of assurance, the suitable criteria that can be used in the assurance engagement. It seems that CSER assurance is still at a very early stage of development.

### **Significance of the Findings for Corporate Managers**

There are several findings in this research that are relevant to the work of corporate managers. First, managers may want to take account of stakeholder preferences by reporting on information pertaining to key issues, such as the natural environment. At present, the overall quality of CSER is found to be questionable (Milne and Gray, 2008) and it is suggested that CSER is generally found to be incomplete (Adams, 2004). If CSER can be more focused on the information needs of stakeholders, its perceived quality may improve.

Second, reporting quantifiable information on actual performance and comparing that against previously set targets will most likely make CSER more relevant to the needs of stakeholders. If CSER becomes more relevant to stakeholders' information needs, the pressure on companies to providing opportunities for private meetings with stakeholders may be ameliorated. After all, corporate reporting is usually considered to be first layer of understanding and a key means to investigate and understand companies (Holland, 1998a).

Corporate managers may also want to carefully assess the value of engaging external assurance providers to give an opinion on CSER. Findings in this thesis suggest that at present it is unclear as to whether externally assured CSER will provide additional value to stakeholders in decision making.

Considering the uncertainty of benefits of external assurance from which stakeholders will derive, companies may want to be prudent about incurring such expenditures. However if a company does decide to engage external assurance on CSER, it seems advisable to engage non Big 4 assurance providers. It is because findings indicate that stakeholders do not necessarily consider Big 4 assurers to be providing better assurance, which is consistent with findings in existing research (Perego, 2009; Simnett, et al., 2009).

## **Research Limitations**

This research has demonstrated a significant contribution to academic literature and is of practical significance for policy makers and corporate managers. However, there are a number of limitations that are associated with the research approach adopted in this research. While limitations are almost inevitable in any research undertaking, a researcher should be aware of the limitations therein. First, there is a possibility that the population frame might have been incomplete, and that some respondents were less informed than average. The population for the groups were identified mainly by referring to a directory, namely the Society of Procurement Officers in Local Government 2008 Yearbook and by using the UK Social Investment Forum website with referrals from individual respondents. Other websites, results from search engines, and a data disk from the UK Charities Commission were used for cross referencing to compile the population frame. All the stakeholders were invited to participate in the study by email or by phone. To the extent it is more likely that stakeholders who have a keen interest in social and environmental reporting or who are keen to get their voices heard were more willing to participate in the study, findings could have been affected by self selection biases. If such biases did exist in the study, by drawing the samples more widely could help ameliorate such a problem and thus strengthen the support for the conclusions drawn.

Also, resource constraints only permitted a study of the views and perspectives of stakeholder groups that are considered to be the most

important to companies. Accordingly, only three stakeholder groups, including investing stakeholders, procuring stakeholders and campaigning stakeholders have been included in the empirical studies. The three groups of respondents have slightly different sample sizes; a more similar sample size across the three groups would have been preferred. Responses from procuring stakeholders have informed the majority of the findings. Though every attempt has been made to ensure that respondents from the group of procuring stakeholders had a comparable level of seniority across the group, such respondents seem to have come from a variety of seniority levels and backgrounds. The sheer size of the respondents from the group of procuring stakeholders might have had an effect on the finding regarding the use of assurance. At the same time, the relatively smaller sample size of campaigning organisations may have biased the findings. Every effort has been made to invite more participation from that group but the response rate from that particular group was not among the highest at 25 percent.

Second, since all the data were collected from a single source (that is, from one individual representing each responding organisation), there exist possibly problems of common method variance and halo effects (Peterson, 2004). Thus the generalisability of the responses to represent the views of the entire organisation of each respondent may be questionable. There is no knowing if a particular respondent is in fact the most suitable subject in representing his/her organisation for this study. However, given that this is the case for the entire sample, it can be expected that such drawbacks should be averaged out across all the participating organisations. Moreover, the job titles of the respondents have been examined carefully and they have served to provide reasonable assurance that the respondents were to a great extent the best respondents in the questionnaire survey.

Third, it is reasonable to expect that any survey that concerns corporate social responsibility is bound to entail a degree of social desirability and affirmation biases in the responses. There is no knowing if the respondents have been completely truthful in providing the responses, without prejudice and pressure to conform to what they perceived as socially desirable norms. One of the

ways to ameliorate this problem is through employing mixed methods in data collection, for example by collecting data quantitatively and qualitatively. Through contrasting quantitative and qualitative responses, it is envisaged that a reasonable degree of objectivity can be achieved through such methods of triangulation. In this research, the use of open-ended questions and Likert-scales in inviting responses allowed subjects to respond with a degree of choice and free will. Furthermore, respondents were assured of their anonymity in participating in this survey and the confidentiality of the information collected as a result. Nevertheless, it is inevitable that a degree of bias may still exist.

Also, an individual's views on corporate social responsibility related matters may vary over time, perhaps depending on the respondent's economic situation (Peterson, 2004). However, there is also a view that individual values are found to be relatively stable over time (Tajfel and Turner, 1985), it would be unlikely that changes in individual economic situations would significantly affect the views of respondents on CSR related matters, including their views on CSER. Nonetheless an awareness of this particular limitation may help inform future empirical research studies that draw on views from stakeholders regarding social and environmental reporting.

## **Suggestions for Future Research**

An Anglo American study on the perceptions of stakeholders of the value and the qualitative characteristics of information will contribute to the social and environmental reporting literature. To date many of the US studies on social and environmental reporting are focused on examining the possible effects of CSER on share price movements. Given the few elements of similarities in the accounting frameworks in the US and in the UK, a study that draws on subjects from both countries will serve to inform both standard setters and policymakers the information needs of stakeholders in both countries. Further, in the US there is a tradition of corporate philanthropy, a concept that is relatively less prominent in the UK. Taking account of that, the

perspectives of stakeholders in the US on social and environmental reporting may serve to provide an interesting contrast to the views of stakeholders in the UK.

Future research that investigates the views of multiple stakeholder groups will expand extant knowledge about stakeholders' views on social and environmental reporting. Resources permitting, empirical studies that examine the information needs of multiple stakeholder groups with relatively similar numbers across the various groups should be commissioned. Only in this way can a better informed picture of stakeholder preferences be painted. Also, given adequate resources, the views of more than one respondent from each participating organisation should be gauged. Interviewing more than one respondent in a given organisation can help minimise any individual respondent's biases and increase the generalisability of findings.

An empirical study that examines the behaviour of stakeholders over time may also add to the existing literature. Since it is suggested that an individual's views on corporate social responsibility related matters may vary over time, perhaps depending on the respondent's economic situation (Peterson, 2004), a longitudinal study covering several years may enhance the understanding of stakeholders' views and preferences. The downturn of the economy since 2008 may serve as a shock that potentially alters the views of some of the stakeholders. Also, longitudinal data will help to reveal trends and possibly patterns of behaviour of stakeholders. However the area of social and environmental reporting is a growing area of research that is still being developed.

## **Final Words**

By and large findings in this research support the view that social and environmental reporting does seem to be valuable in supporting stakeholder decision making. The declared mission of GRI is to elevate the practices of reporting social and environmental information to a level equivalent to that of

financial reporting in rigor, comparability, auditability and general acceptance. It is reassuring to know that stakeholders draw on information about companies' social and environmental performance to support decision making and firms seem to be keen on supplying the required information. Findings in this research can be used to inform policy makers and corporate managers of the information needs of stakeholders in social and environmental reporting.



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## Appendices

## Appendix I – Survey Instrument

[For telephone interview: The respondent would have been contacted by me previously via telephone and/or email as regards the agreement to participate in this research study, specifically with a view to completing a questionnaire with me over the telephone. Depending on the respondent's preference, a URL would have been sent to him/her. He/she could have access to the show-cards put up on a website by me, although the show cards would not be visible until the interview starts. Alternatively, if he/she prefers, a hard copy of the show-cards would have been sent to him/her by post. On the day of the interview, at a mutually agreed time, I will contact him/her by telephone.]

[For face-to-face interview: The respondent would have been contacted by me previously via telephone and/or email as regards the agreement to participate in this research study, specifically with a view to completing a questionnaire with me in person. We will be meeting at a place at a mutually agreed time. I will bring along a lap-top for showing the show-cards to him/her, and/or bring along with me a paper copy of the show-cards.]

### START OF INTERVIEW

[For telephone interview] Hi good \_\_\_\_\_ [depends on the time of the day]. This is Renfred Wong from the University of Bath. I am calling as arranged about the survey I'm doing on corporate social and environmental information, I will call that CSE information from now on if that's ok with you? One of the aims of this study is to find out what would make a report of CSE information useful according to users. I would like to assure that you can talk completely freely and the responses will be anonymised.

[For face-to-face interview] Hi good \_\_\_\_\_ [depends on the time of the day]. Thanks again for seeing me \_\_\_\_\_ (name of respondent). Your time will be very much appreciated.

[Depending on the response and the situation, for telephone interview]  
[Either] Ok great let's start now [Or, if the respondent would rather not do the interview at that point]. Oh I see. But it won't take long at all and your time will be greatly appreciated. [If the respondent really doesn't want to do the survey at that point] That's ok. So when would be a good time for me to give you a call back? I have my diary here with me so can we perhaps arrange another time now?

[Assuming the interview can be continued] Right I understand that you have already received [depending on the respondent's preference] [either] the email about how to access the show cards on the web [or, if the respondent prefers to look at a paper copy of the show cards rather than dealing with one electronically] the show cards that I have sent to you by post. So if it's alright with you, should we make a start now?

[Assuming that a start can be made]

Q.1 First of all, can you tell me your job title and give me a brief description of what you do?

Codes for my use – [circle all that applies]

- a. Strategy/policy setter
- b. Investment manager
- c. Investment analyst
- d. Campaign manager
- e. Regulator and “watcher” of companies
- f. Purchasing manager
- g. Others (please specify \_\_\_\_\_)

Q.2 Can you tell me specifically what you use company social and environmental information, in all its form, for?

Codes for my use – [circle all that applies]

- a. Evaluate the user organization’s policy and/or strategic direction
- b. Choose what companies to invest in
- c. Put together a repository of information for others’ use
- d. Identify areas of concern to initiate campaigns
- e. Monitor progress of campaigns and/or performance of companies
- f. Choose suppliers and make purchase decisions
- g. Others (please specify \_\_\_\_\_)

Q.3 In your work, approximately what proportion of your time is spent on tasks that involve using corporate social and environmental information in a typical week?

Time proportion:	_____ %
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Q.4 [The following question is only asked where there is more than one person in the respondent's organization.]

As far as you are aware, roughly how many other people in your organization use CSE information as part of their work?

[The respondent may reply that he/she is not very sure of other people's work behaviour. At that point he/she will be reassured that what is important is what he/she thinks. So an estimate would suffice.]

No. of people:	
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Q.5 And what proportion of their time on average do you think is spent on tasks involving the use of CSE information?

[Again, the respondent may reply that he/she is not very sure of other people's work behaviour. At that point he/she will be reassured that what is important is what he/she thinks. So an estimate would suffice.]

Time proportion:	
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Q.6 I see, ok. Right moving on...next I'd like to ask you about your own use of different types of corporate social and environmental information when completing tasks.

In **show card 1** there are five types of information. The first type is information that companies generally provide to the public [add the following, but only if the respondent is uncertain what this type of information is] for example company annual reports, standalone reports on CSE matters, company web-based information, and other information on the company's website.

The second type is information that companies provide to specific groups [add the following, but only if the respondent is uncertain what this type of information is] for example groups of analysts and NGO, or non-governmental organizations.

The third one is information provided privately to you; that is information you ask for and obtain from contacts in the company that is not readily available to others.

The fourth one is information from specialist reporters. [Add the following, but only if the respondent is uncertain what this type of information is]. Specialist reporters may include an industry body, an NGO, a news service such as ENDS or a research organization like EIRIS.

The final one is information from the general media. [Add the following, but only if the respondent is uncertain what this type of information is]. General media may include broadcasts and print publications. Now I'd like you to score on the scale that goes from 1 to 5 to indicate how valuable you think each type of information is to your work, with "1" meaning not valuable and "5" meaning information is very valuable to your work. Information is valuable if it helps you achieve work objectives.

[Show-card 1 ready for use]

**Show-card 1**

<b>Types of Information</b>	<b>Value of information</b> 1 – Not valuable 5 – Very valuable
a. Information provided by companies to the public	1 2 3 4 5
b. Information provided by companies voluntarily to specified group	1 2 3 4 5
c. Information provided by companies privately to you	1 2 3 4 5
d. Information provided by third parties - specialist reporters	1 2 3 4 5
e. Information provided by third parties - general media	1 2 3 4 5

Q. 6(\*) Are there any other types of information that I have not mentioned?

[To avoid types of information being inadvertently classified as “others”, I would attempt to confirm with the subject on information types that I feel should fall under any of the five types previously mentioned. If the type of information suggested by the subject indeed warrants to be classified as “others”, then it should be rated for its value as well.]

<b>Types of Information</b>	<b>Value of information</b> 1 – Not valuable 5 – Very valuable
f. Others (Specify _____)	1 2 3 4 5
g. Others (Specify _____)	1 2 3 4 5



[Show card 2 ready for use]

Q.7 Right, moving on to **show card 2**. Having looked at value, now let's look at frequency. Again we have the same five types of information. Look at them again and think about how often you use different types of information and score on the scale. "1" meaning never and "5" meaning every time working on tasks that involve CSE information. [Use "f" only when applicable. See previous.]

**Show-card 2**

Types of Information	Frequency of use 1 – Never 5 – Every time working on tasks
a. Information provided by companies to the public	1 2 3 4 5
b. Information provided by companies voluntarily to specified group	1 2 3 4 5
c. Information provided by companies privately to you	1 2 3 4 5
d. Information provided by third parties - specialist reporters	1 2 3 4 5
e. Information provided by third parties - general media	1 2 3 4 5
f. Others (Specify _____ _____)	1 2 3 4 5
g. Others (Specify _____ _____)	1 2 3 4 5

[Show card 3 ready for use]

Q.8 I've noticed that you spend approximately \_\_\_\_% (quoting answer to Q.3) of your time on tasks that involve using CSE information. I'd like you to look at the five types of information again on **show-card 3** and think about when you're using CSE information, what proportion of your time is spent on each type of information. [Use "f" only when applicable. See previous.]

**Show card 3**

Types of Information	In carrying out tasks, the proportion of time spent on using different types of CSE information (100% in total)
a. Information provided by companies to the public	
b. Information provided by companies voluntarily to specified group	
c. Information provided by companies privately to you	
d. Information provided by third parties - specialist reporters	
e. Information provided by third parties - general media	
f. Others (Specify _____ _____)	
g. Others (Specify _____ _____)	





[For respondents who have indicated that private company information is obtained from someone in the company they personally know]

Q.12 How were the personal contacts established?

Codes for my use [circle all that applies] – (ref. Palmer & Barber, 2001)

- a. As students at school / university (or through a network of friends from there)
- b. As colleagues at workplace (or through a network of friends from there)
- c. As members of a professional body
- d. Other social settings (please specify \_\_\_\_\_)

[Show-card 6 ready for use]

Q.13 Thank you. Now I'd like to go back to the information that companies make widely available, for example their annual reports, standalone reports on CSE matters or other web-based information and I'd like to ask you to think about the types of information you would like to see, given that it is generally up to the companies to decide on what they'll report. On **show-card 6** there are 10 items. Please could you read them through and let me know if any of them are unclear, and then rank each of them. Give "1" to the attribute that you think is most important and "10" to the one that you think is the least important.

[Leave two minutes.] OK. Have you had a look through? Is there anything unclear? [If there is, clarify and when the respondent is happy with his/her understanding]. Right, now please could you tell me how you would rank them?

**Show-card 6**

	<b>Attributes</b>	<b>Rank</b>
1.	A detailed treatment of all social and environmental effects of the company's activities.	
2.	The report should focus on the most significant social and environmental issues.	
3.	Broad statements of policy towards social and environmental matters.	
4.	Standardized metrics recommended by authoritative bodies (e.g. GRI, DEFRA etc) to present CSE information.	
5.	Metrics that are specific to the company.	
6.	Qualitative targets that the company has planned to achieve.	
7.	Quantitative targets that the company has planned to achieve.	
8.	Performance against qualitative targets.	
9.	Performance against quantitative targets.	
10.	Evidence that the report of CSE information has been independently reviewed.	

Q.14 Thank you. Now I'd like to look at the CSE information that companies make available, in terms of the issues that they report on, given that it is generally up to them to decide on what they'll report. On **show-card 7** there are three main areas that companies tend to report on. Please tell me how you would allocate 100 points to indicate how important each area is to your organization.

**Show-card 7**

	<b>Area</b>	<b>Importance (100 Points in total)</b>
1.	Environment	
2.	Employee well-being	
3.	Human rights & society	
	<b>TOTAL</b>	

Q.15 OK thank you. Now in **show-card 8** there are five types of environmental issues companies can report on. Please could you read them through and let me know if any of them are unclear, and then allocate 100 points between the various issues to indicate how important each issue is to you. For example if you thought all the five issue are equally important that would be 20 points each.

**Show-card 8**

	<b>Origin</b>	<b>Type of Issues - Environmental</b>	<b>Importance (100 Points in total)</b>
1.	DEFRA	Emissions to air.	
2.	DEFRA	Emissions to water.	
3.	DEFRA	Emissions to land.	
4.	GRI	Effect on biodiversity.	
5.	WBCSD	Eco-efficiency indicator (Product or service value against environmental influence)	
		<b>TOTAL</b>	

[Leave two minutes.] OK. Have you had a look through? Is there anything unclear? [If there is, clarify and when the respondent is happy with his/her understanding]. Right, now please could you tell me how you would allocate those 100 points?

Q.16 On **show-card 9** there are five issues related to employee well-being, please give them a read through and then decide on how you would allocate the points.

**Show-card 9**

	Origin	Type of Issues – Employee well-being	Importance (100 Points in total)
1.	GRI	Employee turnover by age group, gender and region.	
2.	GRI	Injury, occupational diseases, lost days, and absenteeism, and work-related fatalities.	
3.	GRI	Health and safety provisions.	
4.	GRI	Composition of governance bodies and indicators of diversity.	
5.	GRI	Percentage of employees covered by collective bargaining agreements.	

Q.17 Moving on, please give the four issues in **show-card 10** a read through and then allocate 100 points between them.

**Show-card 10**

	Origin	Type of Issues – Human rights and society	Importance (100 Points in total)
1.	GRI	Significant investment agreements that include human rights clauses or that have undergone human rights screening.	
2.	GRI	Programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	
3.	GRI	International labour issues.	
4.	GRI	Corruption issues.	

Q.18 Do you check whether reported corporate social and environmental information has been verified by an independent third party, such as financial auditor or specialist environmental auditors?

[Tick the one that applies.]

1.	Yes	
2.	No	

[The following question is asked only if the answer to Q.18 is YES; otherwise skip to Q.24]





Q.22 Why do you prefer one type of auditor’s report to the other one’s?

[Codes for my use – Tick the one that applies.]

1.	The auditor’s competence in the subject matter.	
2.	The auditor’s competence in auditing practices.	
3.	The auditor’s knowledge of the reporting company’s business.	
4.	Others (specify _____)	

[Show-card 12 ready for use]

Q.23 Please look at **show-card 12** and tell me what kind of audit report for reports of CSE information do you prefer?

**Show-card 12**

[Tick the one that applies.]

1.	An audit report that considers the underlying processes for preparing the CSE report.	
2.	An audit report that provides information of activities designed to assess or validate the quality or level of performance of an organization.	
3.	Both of the above.	
4.	Others (specify _____)	

Q.24 I’ve asked you quite a lot of questions already. Is there any area of the reporting of CSE information and its auditing in UK that needs improvement?

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[Show-card 13 ready for use]

Thank you for all that. Just to close the interview I'd like to get some information about you and your general views on companies and their responsibilities. On **show-card 13** you'll see four alternative endings to a statement. To indicate how strongly you feel that each of those alternatives is appropriate as a representation of your own views, please allocate 100 points in the same way as before – the more you agree with the alternative, the more points you should allocate to it. This is to place your organization among others with reference to your organization's views.

OK, if that's clear, please could you tell me how you would allocate the points for the first question.

Q.25 It is important for a company to perform in a manner that is consistent with -

**Show-card 13**

<b>Alternatives</b>	<b>Point(s) (100 in total)</b>
a. expectations of shareholders	
b. expectations of government and the law	
c. the philanthropic and charitable expectations of society	
d. expectation of societal and ethical norms	

[Show-card 14 ready for use]

Q.26 Alright we have talked quite a lot about information and direct contacts. Now I'd like to find out how you think companies that you are interested in view your organization. Please indicate how much you agree with the following statements on **show-card 14** by scoring on the scale. "1" meaning strongly disagree and "5" meaning strongly agree.

**Show-card 14**

<b>Factors</b>	<b>1 – Strongly disagree 5 – Strongly agree</b>				
a. Your organization has the power to apply economic reward or punishment, and/or positive or negative social influence on the general public's view of the companies that it is interested in.	1	2	3	4	5
b. The claims of your organization are viewed by the companies that it is interested in as legitimate (proper or appropriate).	1	2	3	4	5
c. Your organization exhibits urgency in the relationship with the companies that it is interested in (i.e. active in pursuing claims that the companies feel important).	1	2	3	4	5
d. Your organization has access to, influence on, or the ability to impact the companies that it is interested in.	1	2	3	4	5
e. The companies that your organization is interested in believe that the claims of your organization are <i>not</i> proper or appropriate.	1	2	3	4	5
f. Your organization actively seeks the attention of the companies that it is interested in.	1	2	3	4	5
g. Your organization has the power to enforce its claims.	1	2	3	4	5
h. The claims of your organization are legitimate in the eyes of the management team of the companies that it is interested in.	1	2	3	4	5
i. Your organization urgently communicates its claims to the companies that it is interested in.	1	2	3	4	5

[Show-card 15 ready for use]

Now the same thing for the statement on **show-card 15**.

**Show-card 15**

Q.27 It is important for a company to –

<b>Alternatives</b>	<b>Point(s) (100 in total)</b>
a. provide assistance to educational institutions	
b. pursue investments solely on their ability to enhance profitability	
c. provide goods and services that comply with the law	
d. advertise goods and services in an ethically fair and responsible manner	

[Show-card 16 ready for use]

And finally the statement on **show-card 16**.

**Show-card 16**

Q.28 It is important that good corporate citizenship be defined as –

<b>Alternatives</b>	<b>Point(s) (100 in total)</b>
a. doing what the law expects	
b. providing voluntary assistance to charities and community organizations	
c. doing what is expected morally and ethically	
d. being as profitable as possible	

[Show-card 17 ready for use]

Q.29 Now finally, I would need some personal information about you. Using the scales on **show-card 17** please would you indicate your age range, the category of your highest level of education. [For any answer that is not “1”, also ask which field of study the first degree was in] Do you have any professional qualification? How many years have you been with this same organization? How many years in the current role? [If answer is “1”, also ask the following] What was your previous role and how many years working in that role? [If rough agency size is not available publicly, also ask about that]

**Show-card 17**

a. Age Range	1 - 21-30	2 - 31-40	3 - 41-50	4 - 51-60	5 - 61-70
b. Highest Level of Education:	1 - Secondary	2 - First degree	3 - Postgraduate		
c. Field of study (for first/ undergraduate degree)	1 - Arts & humanities	2 - Natural science	3 - Social science	4 - Others (specify _____)	
d. Professional Qualifications (if any)	1 – Accounting	2 – Others	3 – No		
e. No. of Years with the Current Organization	1 - Less than one	2 - One to five	3 - Six to ten	4 - 11 to 20	5 - 21 to 30 6 - More than 30
f. No. of Years Working in the Current Role	1 - Less than one	2 - One to five	3 - Six to ten	4 - 11 to 20	5 - 21 to 30 6 - More than 30
g. What was the previous role?					
h. No. of Years Working in the Previous Role	1 - Less than one	2 - One to five	3 - Six to ten	4 - 11 to 20	5 - 21 to 30 6 - More than 30
i. Agency Size (Rough Number of Employees)					

Thank you very much for your time again. Your help is much appreciated. I will send you a summary report of my findings when it's ready.



## Appendix II – Schedule of Interviews

### Procuring Stakeholders

Organisation	Job Role/Title	Job Code	Date of Interview
P1	Procurement	J6	4 March 2008
P2	Procurement	J6	19 March 2008
P3	Procurement	J6	26 March 2008
P4	Procurement	J6	19 March 2008
P5	Procurement	J6	27 March 2008
P6	Procurement	J6	11 March 2008
P7	Procurement	J6	7 March 2008
P8	Procurement	J6	5 March 2008
P9	Procurement	J6	18 March 2008
P10	Procurement	J6	14 April 2008
P11	Procurement	J6	6 March 2008
P12	Procurement	J6	6 May 2008
P13	Procurement	J6	11 April 2008
P14	Procurement	J6	3 March 2008
P15	Asst Director, Strategic Procurement	J1	17 March 2008
P16	Procurement	J6	29 February 2008
P17	Procurement	J6	6 June 2008
P18	Procurement	J6	6 June 2008
P19	Procurement	J6	25 March 2008
P20	Procurement	J6	18 March 2008
P21	Procurement	J6	15 April 2008
P22	Procurement	J6	15 April 2008
P23	Procurement	J6	9 May 2008
P24	Procurement	J6	10 March 2008
P25	Procurement	J6	25 March 2008
P26	Procurement	J6	11 March 2008
P27	Procurement	J6	17 April 2008
P28	Procurement	J6	25 April 2008
P29	Procurement	J6	2 May 2008
P30	Environmental Projects & Policy Manager	J1	16 June 2008
P31	Procurement	J6	20 March 2008
P32	Procurement	J6	21 April 2008
P33	Procurement	J6	17 July 2008
P34	Consultant & Procurement Advisor	J1	25 March 2008
P35	Policy Officer (Procurement)	J1	17 March 2008
P36	Procurement	J6	17 July 2008
P37	Procurement	J6	23 April 2008
P38	Procurement	J6	28 April 2008
P39	Procurement	J6	20 May 2008
P40	Procurement	J6	25 March 2008
P41	Procurement	J6	28 February 2008
P42	Procurement	J6	27 March 2008
P43	Procurement	J6	8 April 2008
P44	Procurement	J6	21 April 2008
P45	Procurement	J6	10 April 2008
P46	Procurement	J6	26 March 2008
P47	Procurement	J6	17 March 2008
P48	Procurement	J6	26 March 2008



P49	Procurement	J6	12 March 2008
P50	Procurement	J6	8 April 2008
P51	Procurement	J6	3 June 2008
P52	Procurement	J6	17 June 2008
P53	Procurement	J6	17 June 2008
P54	Procurement	J6	15 February 2008
P55	Sustainability Manager (Policy)	J1	9 April 2008
P56	Procurement	J6	13 March 2008
P57	Procurement	J6	12 June 2008
P58	Procurement	J6	21 May 2008
P59	Sustainable Development Manager	J1	18 March 2008
P60	Procurement	J6	4 July 2008
P61	Procurement	J6	10 April 2008
P62	Procurement	J6	7 March 2008
P63	Procurement	J6	15 April 2008
P64	Procurement	J6	18 April 2008
P65	Procurement	J6	23 April 2008
P66	Procurement	J6	10 April 2008
P67	Procurement	J6	17 March 2008
P68	Procurement	J6	19 March 2008
P69	Procurement	J6	7 May 2008
P70	Procurement	J6	5 June 2008
P71	Procurement	J6	17 June 2008
P72	Procurement	J6	16 June 2008
P73	Procurement	J6	16 June 2008
P74	Procurement	J6	18 June 2008
P75	Procurement	J6	4 July 2008
P76	Procurement	J6	23 May 2008
P77	Procurement	J6	19 June 2008
P78	Procurement	J6	18 June 2008
P79	Procurement	J6	9 June 2008
P80	Procurement	J6	20 June 2008
P81	Procurement	J6	25 April 2008
P82	Procurement	J6	22 April 2008
P83	Procurement	J6	5 March 2008
P84	Sustainability Officer	J1	4 April 2008
P85	Procurement	J6	7 April 2008

Note:

J1	Strategy/policy setting
J2	Managing investments
J3	Research on and analyse information for the investment related purposes
J4	Campaigning
J5	Monitoring corporate behaviour
J6	Procuring or purchasing goods and services for company
J7	Others

## Investing Stakeholders

<b>Organisation</b>	<b>Job Title/Role</b>	<b>Job Code</b>	<b>Date of Interview</b>
I1	Head, SRI Research	J3	10 July 2008
I2	Head of CG & SRI	J1	28 July 2008
I3	Principal of consultancy	J1	1 August 2008
I4	Chief Executive	J1	5 August 2008
I5	Sr CG & SRI analyst	J3	29 July 2008
I6	Head of Public Policy & Research	J1	15 September 2008
I7	Head of SRI Research	J3	28 February 2008
I8	Marketing Executive	J1	19 September 2008
I9	Responsible Shareholding Analyst	J3	30 September 2008
I10	SRI Analyst	J3	20 August 2008
I11	Managing Director	J1	23 July 2008
I12	Senior Associate (Research)	J3	9 September 2008
I13	Investment Analyst	J3	6 August 2008
I14	Chief Executive	J1	8 August 2008
I15	Head of Research	J3	13 August 2008
I16	Director of Financial Advisors	J1	16 July 2008
I17	Analyst	J3	28 February 2008
I18	Compliance Manager	J7	6 August 2008
I19	Executive, Responsible Investment	J1	1 August 2008
I20	ESG Analyst	J3	31 July 2008
I21	Investment & Climate Change Advisor	J1	16 September 2008
I22	Head of UK Sales	J1	28 July 2008
I23	Director of Research (Europe)	J3	23 July 2008
I24	SRI Analyst	J3	5 August 2008
I25	Director & Manager	J1	19 February 2008
I26	Investment Analyst	J3	17 June 2008
I27	Head, SRI Research	J3	11 September 2008
I28	Senior Researcher	J3	22 September 2008
I29	Head of CG	J1	6 February 2008
I30	Ethical Responsibility & Corporate Engagement	J1	24 July 2008
I31	Senior Manager (SRI)	J2	9 September 2008
I32	Analyst	J3	29 July 2008
I33	Head, Governance & Responsible Investment	J1	18 July 2008
I34	Deputy Head, Business Banking	J1	10 September 2008
I35	Sales & Marketing Director	J7	29 July 2008
I36	Co Head of Responsible Investment	J1	5 March 2008
I37	SRI Analyst	J3	19 August 2008

Note:

J1	Strategy/policy setting
J2	Managing investments
J3	Research on and analyse information for the investment related purposes
J4	Campaigning
J5	Monitoring corporate behaviour
J6	Procuring or purchasing goods and services for company
J7	Others

## Campaigning Stakeholders

<b>Organisation</b>	<b>Job Role/Title</b>	<b>Job Code</b>	<b>Date of Interview</b>
C1	CEO	J1	6 August 2008
C2	Director, Applied Knowledge	J1	21 July 2008
C3	Director	J1	8 October 2008
C4	Account Manager	J7	30 July 2008
C5	Consultancy & Installation Manager	J1	22 July 2008
C6	Senior Lawyer, Corporate Responsibility Manager	J1	17 July 2008
C7	Senior Programme Manager	J1	15 September 2008
C8	Coordinator	J1	21 February 2008
C9	Assistant Director	J1	4 August 2008
C10	Campaigner & Researcher	J4	30 January 2008
C11	Managing Director	J1	23 July 2008
C12	Director	J1	30 July 2008
C13	Coordinator (Research)	J1	15 August 2008
C14	Editor	J1	31 July 2008
C15	Editor	J1	9 September 2008
C16	Sustainable Financial Market	J1	30 July 2008
C17	Head of Finance	J1	11 August 2008
C18	Campaign Manager	J1	23 August 2008
C19	Policy Advisor	J1	19 September 2008
C20	Founder & Editor in Chief	J1	29 August 2008
C21	Senior Policy Officer	J1	30 July 2008
C22	Business Development & Management	J1	25 July 2008
C23	Consultant	J1	24 July 2008
C24	Director of Programmes	J1	12 September 2008
C25	Sustainable Business Manager (Finance)	J4	30 July 2008

### Note:

J1	Strategy/policy setting
J2	Managing investments
J3	Research on and analyse information for the investment related purposes
J4	Campaigning
J5	Monitoring corporate behaviour
J6	Procuring or purchasing goods and services for company
J7	Others